



Eco 10350 Principles of Macro

Lecture 12

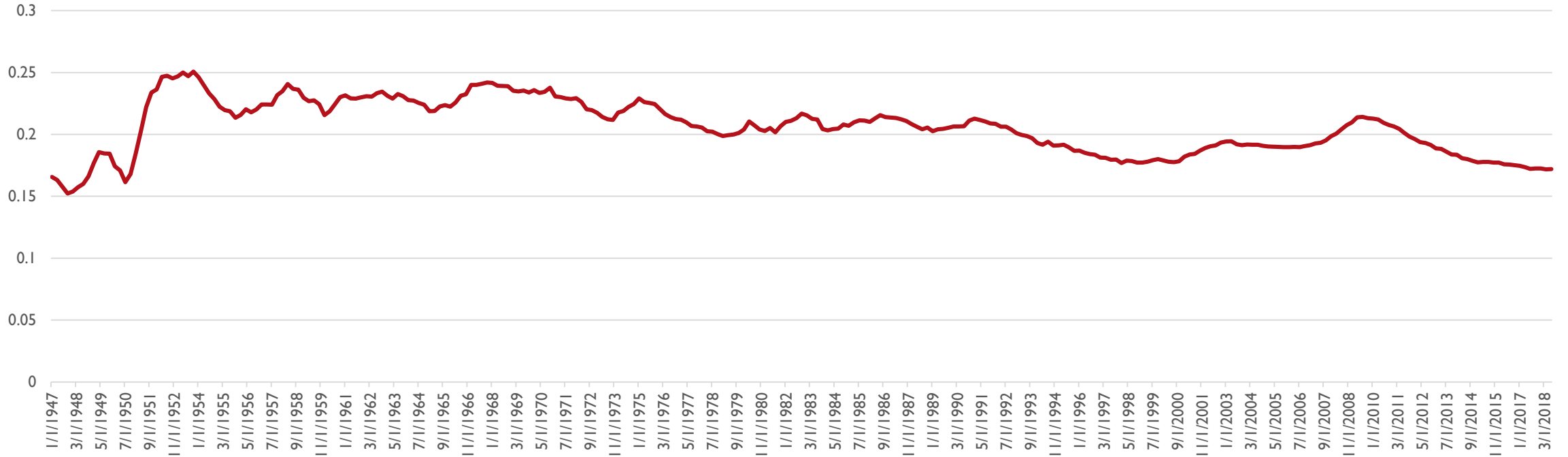


Fiscal Policy

- Government spending includes all levels; in US that's Federal, State & Local
- Nominal government spending grows because of inflation, more population, bigger economy, plus choices
- Federal spending is mostly defense, healthcare & Social Security, and interest payments
- Much spending is mandatory not discretionary
- State & Local spending is education, roads, etc
- NY is odd since NYC & NYS not so different in size, NYC was about \$90bn while NYS was about \$170bn
- Recall data from Lecture 4

G / Y

G/GDP



Taxes

- Again Federal, State & Local
- Federal receipts are income tax, payroll tax, corporate tax, & excise taxes
- Payroll taxes are said to be split so employees pay 6.2% and employers pay 6.2% but most of employer part is passed along to employees
- As discussed in previous lecture, income taxes are progressive so higher income households pay a larger %
- States often fund with sales tax; local often with property tax
- States often have balanced budget requirement and sales tax generally less fluctuation than income tax
- In general a tax on a thing means people do it less; elasticity varies
- There is a fairytale that this elasticity could be large enough that lower taxes raise revenue, no evidence
- Maybe consider taxing bad things eg carbon emissions?

Taxes

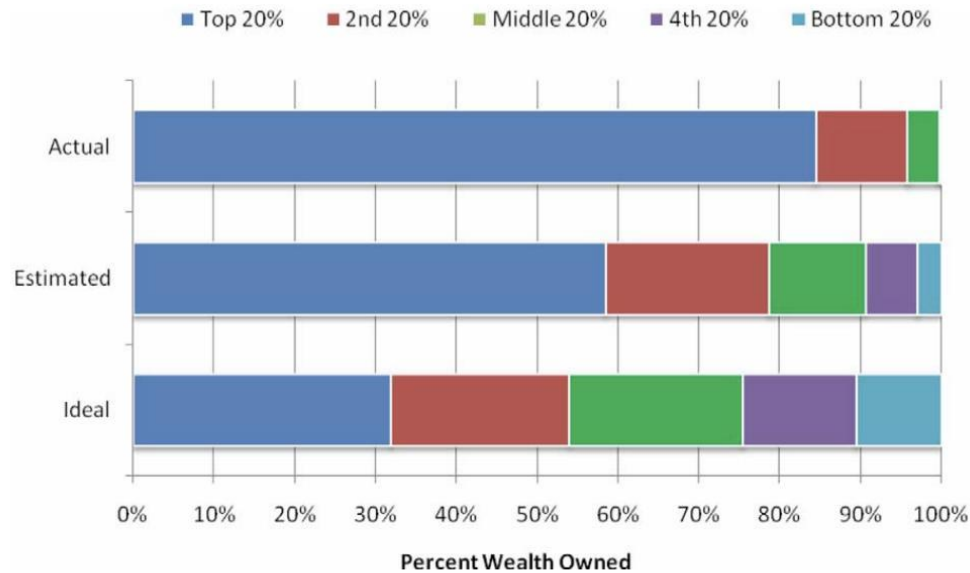
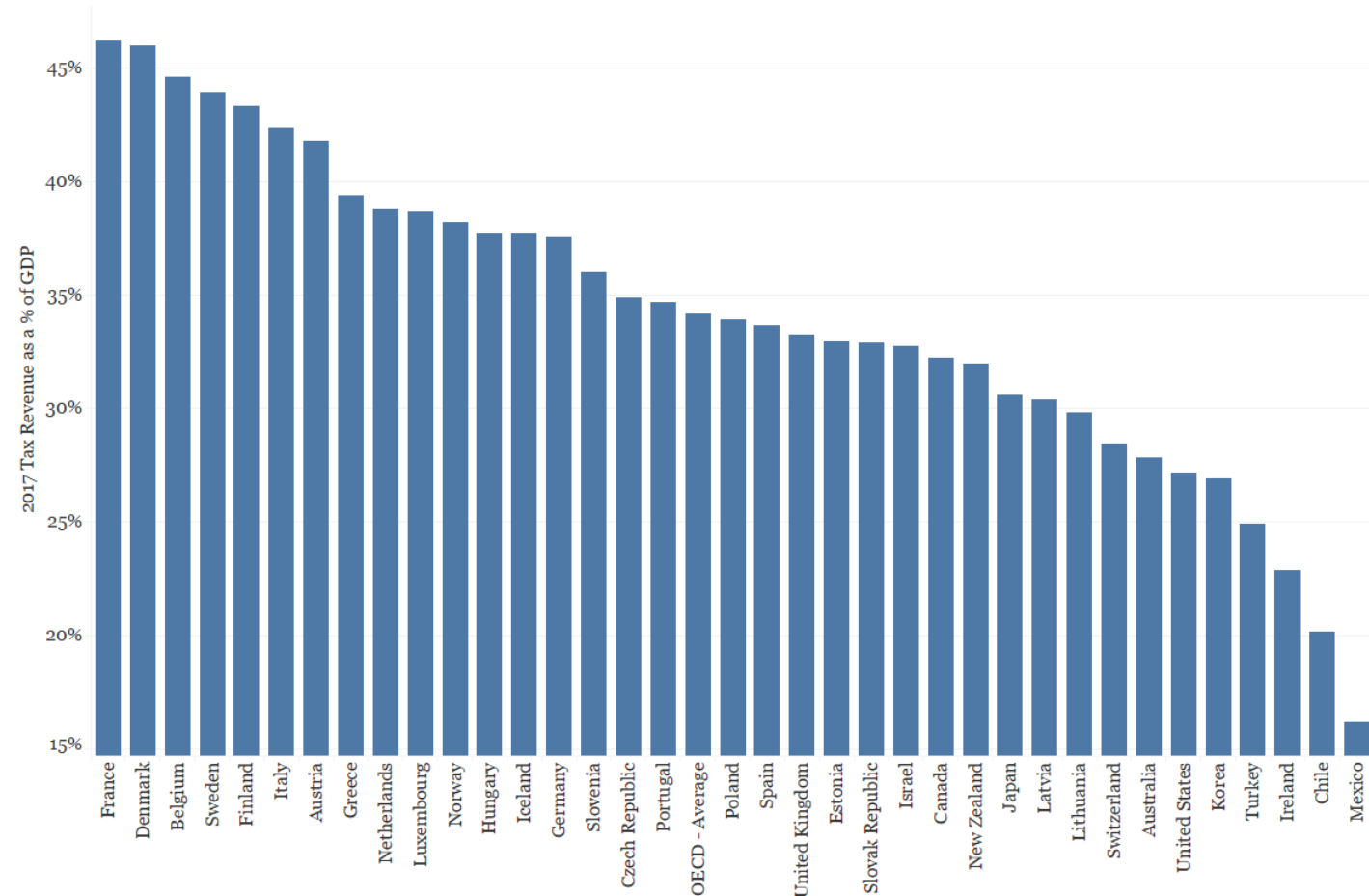


Fig. 2. The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents. Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.

Building a Better America--One Wealth Quintile at a Time

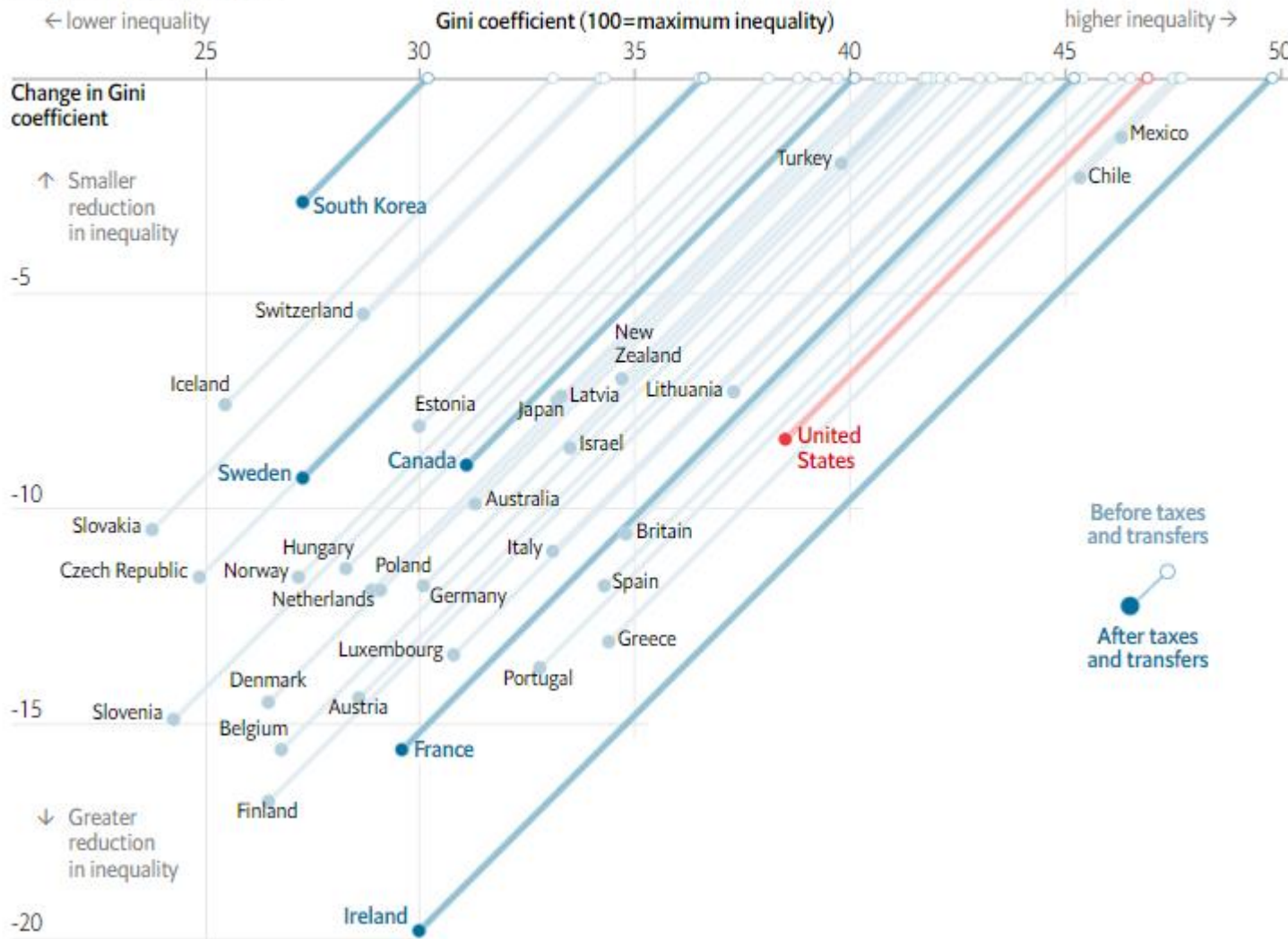
Michael I. Norton and Dan Ariely
Perspectives on Psychological Science

Tax Revenue as a Percentage of GDP
OECD Countries



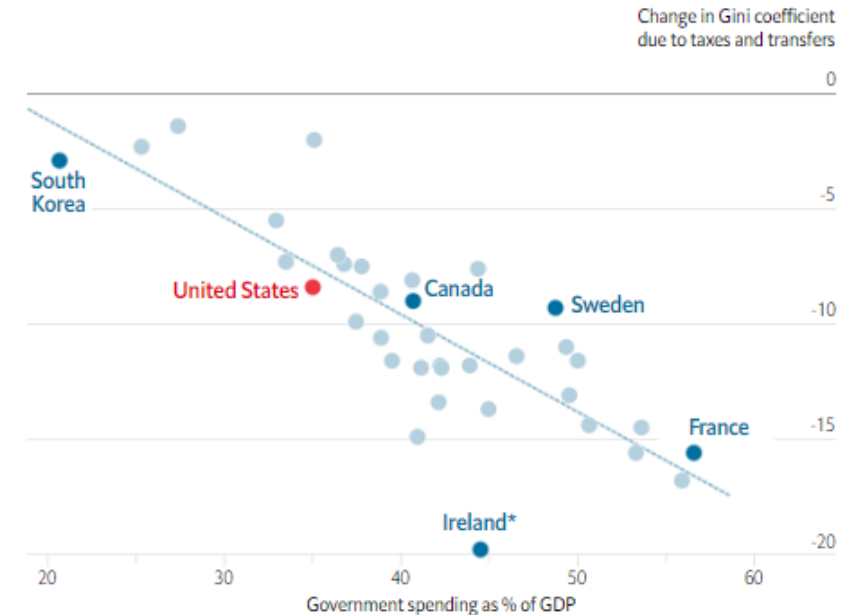
Effect of taxes and transfers on income Gini coefficient

OECD countries, 2016 or latest



Government spending v change in inequality

2016 or latest



*Tax revenue as a share of modified GNI