Introduction to the special issue

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This special issue of *International Tax and Public Finance* consists of selected contributions from the 364 papers presented at the 74th Annual Congress of the International Institute of Public Finance (IIPF). The IIPF Congress was held on August 21–23, 2018, in Tampere, Finland. It was co-hosted by the Universities of Tampere and Turku, the VATT Institute for Economic Research and the Labour Institute for Economic Research.

The theme of the conference was Impact of Public Policies on Labor Markets and Income Distribution. Four excellent plenary speakers discussed a variety of topics on this theme: Uta Schönberg (Professor, Department of Economics, University College London) on “The Impact of Immigration on Regions and Workers,” Henrik Kleven (Professor, Department of Economics & Woodrow Wilson School, Princeton University) on “Taxation and the Extensive Margin Reconsidered,” Petra Todd (Edward J. and Louise W. Kahn Term Professor of Economics, University of Pennsylvania) on “Incorporating Personality Traits Into Economic Models of Labor Supply, Education, and Occupational Choice,” and Gordon Dahl (Professor, Department of Economics, University of California, San Diego) on “Intergenerational Spillovers in Disability Insurance.” In addition, EconPol organized a special session on “Implications of US Tax Reform for Europe” with Michael Devereux (Oxford University Centre for Business Taxation), Clemens Fuest (ifo Institute and University of Munich), Michelle Hanlon (MIT, Sloan School of Management) and Victoria Perry (International Monetary Fund) on the podium, and Bank of Finland organized a special session on “Misallocation and Public Policy.” The ITAX award for best paper presented by a current PhD student was awarded to Juliana Londono-Velez of UC-Berkeley for her work on wealth taxation in Colombia.

Many of the papers presented at the conference fell under the theme of Impact of Public Policies on Labor Markets and Income Distribution, but—reflecting

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diverse research interests of the members of the IIPF—a great number of the papers also dealt with other research areas in public economics. This diversity of presented topics is reflected in the selection of the eight papers in this special issue.

The article by Stefan Bach, Andreas Thiemann and Aline Zucco is about the empirical measurement of inequality. Many countries have to rely on survey data when measuring the degree of wealth inequality in society, but face the problem that the very wealthy are underrepresented in household surveys. The authors provide new evidence on the top tail of the wealth distribution in France, Germany and Spain by combining survey information with information about wealth of the very rich from the Forbes list and national rich lists. The share of wealth owned by the top one percent is considerably higher when including this additional information.

Since 2013, the European Union has mandated EU Financial Institutions to disclose a so-called CbCR, which contains tax-related information of a firm on a per-country basis. The aim of the policy is to increase transparency and limit profit-shifting activities of multinational firms. Verena Dutt, Christopher Ludwig, Katharina Nicolay, Heiko Vay and Johannes Voget use an event-study design to analyze how investors react to the enactment of a CbCR requirement for EU financial institutions. The results suggest no response, which goes against the received perception of a negative effect.

Also focusing on potential tax avoidance, Annette Alstadsæter, Wojciech Kopczuk and Kjetil Telle investigate how tax minimizing efforts spread within family networks. In 2005, a Norwegian tax reform made it beneficial for individual shareholders to transfer all their shares in a company to a newly founded corporation, given that this new holding company holds at least 10% of the shares of the transferred company. Utilizing the discontinuity at 10% together with detailed individual-level administrative data, the authors show that eligibility to set up a tax shelter within the family network increases the likelihood that an individual will himself transfer his shares to a new holding company. The paper thus provides concrete evidence of optimization frictions in the context of behavioral responses to taxation.

Nicole Bosch, Egbert Jongen, Wouter Leenders and Jan Möhlmann study behavioral responses to kinks and notches in the Dutch cash transfer system. The existing studies of bunching focus mainly on kinks and notches in the tax system, while this paper focuses on kinks and notches in the budget set arising because of the phasing out of cash transfers with income and wealth. The authors find no significant evidence of bunching at these kinks and notches. The empirical findings indicate that the no bunching results are due to inattention and lack of salience.

Policy makers may react to the inattention and lack of salience of potential benefit recipients by sending out information letters. Per Engström, Eskil Forsell, Johannes Hagen and Arnaldur Stefansson report results from a randomized field experiment where letters inform pensioners about the possibility of receiving housing allowance. The information letters had a large effect on the application rate and subsequent take-up rate of the pensioners. However, the rejection rate on the applications was also much higher among those receiving the information letter, emphasizing the need for careful design of information campaigns in situations with imprecise targeting.

An effective way to stimulate the economy in a downturn is to give individuals financial incentives to advance purchases of durables. For example, Thailand offered a first-car tax rebate during 2011–12 with the aim of advancing car purchases. However, as shown by Athiphat Muthitacharoen, Krislert Samphantharak and Sommarat Chantararat such a policy may have adverse effects in the longer run because a significant share of those induced to buy durables get into financial trouble afterward.

Direct elections might be one way to incentivize politicians to provide high-quality services for their constituency. In the German state of Brandenburg, the heads of local governments are elected in direct elections, but only if the candidate reaches a majority and is supported by at least 15% of all eligible voters. Stefanie Gäbler and Felix Roesel show that direct elected heads of the county administration do not attract more business or expedite more administrative acts. However, the Jobcenters, that are jointly administrated by the counties and the federal public employment agency, seem to become more effective under direct elected heads implying that long-term unemployment decreases. The paper thus provides further evidence on how political institutions shape economic outcomes.

Federico Revelli and Roberto Zotti investigate the existence of political budget cycles where politicians time fiscal decisions in order to increase their reelection chances. The novelty of the analysis is that they have access to the exact timing of when Italian local governments make decisions about, potentially unpopular, tax increases and can time the decisions to the exogenously set election dates. They find that politicians are indeed more likely to increase taxes after the election than before. Furthermore, these decisions are more likely to be scheduled far from the celebration of the local Patron Saint's day during which the local connectedness can be expected to be higher. Thus, local politicians seem to avoid potentially disruptive fiscal decisions at these sensitive occasions. Together, the findings in the paper strengthen the evidence that politicians time important financial decisions strategically.

We are grateful to the various authors for allowing us to consider their papers for the IIPF special issue. We had a high number of submissions and therefore had to reject many good papers. We are furthermore indebted to the numerous referees for their valuable and prompt reports that greatly improved the articles in this issue. We are also grateful to the editors and professional staff of *International Tax and Public Finance*. Needless to say, this issue would never have existed if it had not been for the help of the 31 members of the scientific committee at the 74th Annual Congress of the International Institute of Public Finance who initially reviewed hundreds of submissions for the congress. Furthermore, we offer our humble thanks to the keynote speakers, the numerous presenters and discussants, Barbara Hebele at IIPF, and last but certainly not least, to the chair of the local organizing committee Kaisa Kotakorpi and the rest of the local organizing committee, for all their time and effort in making the IIPF Congress in Tampere a great success!