Journal of Public Economics 95 (2011) 1237–1238

Contents lists available at ScienceDirect

Journal of Public Economics

journal homepage: www.elsevier.com/locate/jpube

Editorial

Introduction

In June 2009, the Department of Economics at Queen's University, Canada, organized a workshop on *Normative tax theory*.[1] The purpose was to honor Robin Boadway who was reaching the canonical age of 65, and stepping down as editor of the Journal of Public Economics.[2] A number of friends and colleagues of Robin, all members of his family of theoretical public economists, presented and discussed their work. This special issue brings together a selection of those papers that have been screened through the usual refereeing process. It covers three themes reflecting the lifelong interests of Robin: optimal income taxation, optimal tax-transfer policy, and fiscal decentralization.

The first theme, optimal income taxation, contains two papers. "*How Optimal Nonlinear Income Taxes Change When the Distribution of the Population Changes*" by Craig Brett and John A. Weymark, investigates the relevance of the size of the groups with different skill levels, for the properties of the solution to the optimal nonlinear income tax problem. When preferences are quasilinear in leisure, it is possible to determine in what direction everyone's optimal consumption and optimal marginal tax rate change. When preferences are quasilinear in consumption, it is possible to determine in what direction everyone's optimal before-tax income and optimal marginal tax rate change. The second paper is "*A comparison of optimal tax policies when compensation or responsibility matter*" by Laurence Jacquet and Dirk Van de gaer. It examines optimal redistribution in a model with high- and low-skilled individuals having heterogeneous tastes for labor. The paper also compares the extent to which optimal policies based on different normative criteria obey the principles of compensation (for differential skills) and responsibility (for preferences for labor) when labor supply is along the extensive margin. The authors argue that traditional welfarist criteria lead to unappealing policy recommendations as they fail to take compensation and responsibility issues into account. Criteria from the social choice literature perform better in this regard, with the implication that the Earned Income Tax Credit is deemed less desirable than the Negative Income Tax.

The theme of optimal tax and transfer policy consists of three papers. "*Two-Tier Public Provision: Comparing Public Systems*," by Gordon Myers and Christoph Lulfesmann, considers a two-tier institution in which the government provides public services, but individuals can opt out of public provision (but not taxes). Funding for the public service is chosen endogenously by majority vote. The equilibrium tax rate is never above and likely below the one found in a one-tier system in which opting out of public consumption is prohibited. This is because the public system loses the political support of the rich who exit. A majority in the society always welcomes a transition to a two-tier system; it is the only system that is stable in an evolutionary sense. This is followed by Helmuth Cremer, Firouz Gahvari and Pierre Pestieau's paper titled "*Fertility, human capital accumulation, and the pension system.*" The paper provides a unified treatment of externalities associated with fertility and human capital accumulation within pay-as-you-go pension systems. It considers an overlapping-generations model in which every generation consists of high earners and low earners with the proportion of types being determined endogenously. The number of children is deterministically chosen but the children's future ability is in part stochastic, in part determined by the family background, and in part through education. In addition to the customary externality source associated with a change in average fertility rate, this setup highlights another externality source. This is due to the effect of a parent's choice of number and educational attainment of his children on the proportion of high-ability individuals in the steady state. The third paper is "*Optimal Policies and the Informal Sector*" by Katherine Cuff, Nicolas Marceau, Steeve Mongrain, and Joanne Roberts. This paper characterizes optimal policies in the presence of tax evasion and undocumented workers in a model where the government policy consists of a tax on firms, a level of public good, and a level of enforcement. Equilibrium is characterized as segmented or non-segmented, depending on whether domestic workers work exclusively in the formal sector (segmented) or in the informal sector as well (non-segmented). Surprisingly, in equilibrium, wages are always equalized between domestic and undocumented workers, even if they do not work in the same sectors of the economy. This is driven by the interaction between decisions by the firm and optimal government policy.

The third theme of the Conference, fiscal federalism, also consists of three papers. "*Incentive Equivalence with Fixed Migration Costs*," by Sam Bucovetsky, starts with the well-known proposition that decentralization is efficient if migration between communities is costless, and if policy makers in each community anticipate the migration response to policy changes. The contribution of this paper is that this proposition requires certain convexity assumptions regarding technology or tastes. This formulation differs from the more common "attachment to home" assumption of heterogeneous migration costs. Conditional on the direction of migration, interests of different communities are still perfectly aligned. But natives of different communities may prefer different directions of migration, weakening incentive equivalence if local policy makers have the power to induce large changes in migration flows. However, incentive equivalence fails only if economies of scale in population are important, so that communities may be "under-populated". Next,

[1] Kate Cuff, Mick Keen, Nicolas Marceau, and Pierre Pestieau were the scientific organizers; Sumon Majumdar was a very efficient local organizer. The ISPE (International Seminar for Public Economics) is acknowledged for its support.

[2] Robin acted as a co-editor from January 1999 to December 2002 and as an editor from January 2003 to December 2008.

doi:10.1016/j.jpubeco.2011.01.001

"*Optimal Fiscal Federalism In The Presence Of Tax Competition*" by John D. Wilson and Eckhard Janeba, models the optimal division of public goods provision between central and regional governments in an economy with interregional tax competition. Regional provision is inefficient because governments compete for scarce capital by lowering their capital taxes and public good levels to inefficiently low levels. Central provision is inefficient because it is determined by the minimum winning coalition within a legislature. The optimal degree to which public good provision should be decentralized depends on a tradeoff between these inefficiencies. This is followed by David Wildasin's "*Fiscal Competition for Imperfectly-Mobile Labor and Capital: A Comparative Dynamic Analysis.*" This paper investigates the comparative dynamics of adjustment to changes in local fiscal policy with two imperfectly mobile productive resources. The intertemporal adjustments for both resources depend on complementarity/substitutability in production and the adjustment cost technologies for each, implying that the evaluation of the fiscal treatment of one resource must account for the simultaneous adjustment of both.

Wojciech Kopczuk
Pierre Pestieau*
*Corresponding author. Tel.: +32 4 3663109;
fax: +32 4 3662981.
E-mail address: p.pestieau@ulg.ac.be (P. Pestieau).