Estonia

Taxation and consolidation – distributional issues

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Estonia

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Menu

- Economic background
- Fiscal measures implemented
- Impact assessment
- Political economy of distribution
- Conclusion
GDP

2005=100

-19%

Eurostat
GDP & C & Budget Balance


GDP
Private consumption
Budget balance (rhs)

2005=100

% of GDP

CApB +2,7% 2010

Eurostat
Unemployment & UIF balance

Unemployment rate, %

UIF balance, mln € (rhs)

%  Mln €

25  60
20  50
15  40
10  30
5   20
0   10
-5  0
-10 -10
-20 -20
-30 -30
-40 -40


SE
Crisis measures – background

• Perception of “balanced budget” principle
• Fulfil Maastricht criteria and join €

• But ... “we would have done it anyway”

• Distributional consequences – generally not analyzed or discussed while making fiscal changes
Crisis measures

- 1,5 bln € 2009–2010; >10% of GDP
- Cuts in operational expenditure
- Additional dividends from SOE & sell of land
- Pension growth 14% > 5% (300€); elections!
- Extensive use of EU funds

- Tax measures ...
Tax measures 2009–2010 (% of GDP)

- VAT 18 > 20%  
  +1,2% r
- Increase of min. level of SSC  
  +1,0% r
- Alco & tobacco excise  
  +0,6% r
- Electricity & fuel excise  
  +0,3% n
- Unempl. insurance tax (+2,2pp)
- Suspension of contrib. to II p. pillar
EC Research Note 2/2011

“The distributional effects of austerity measures: a comparison of six EU countries”

(EUROMOD)
Figure 6 Percentage change in household disposable income due to austerity measures: by type of household

no VAT!
OECD: incomes at bottom hit hardest

Real change of HH disposable income 2008–2010 (%)
OECD (2007 > 2010):

- Share of pop in abs poverty: 6,5% > 11,7%
- ... among HH w/children: 9,4% > 18,1%

- “Social policy stance is focused on self-responsibility and work incentives, and *deemphasizes the role of redistribution*.

Although these principles may result from *social choice*, the low level of short-term income support means that the poverty among those without work is among the highest in the European Union.”
Political economy of taxation

- COM, IMF, OECD – high labor taxation of low earners, ...
- Corporate profits, cap gains, cars, bequests, gifts, (property) ...
- (Marginal) income tax rate 21 > 20% (2015)
- Ceiling on social tax at 4x average wage
- Tax policy not a subject of free discussion
Quantitative text analysis

- Ministry of Finance of Estonia
  “Strategic objectives - 2012–2015”

- HM Treasury
  “Strategic objectives - 2008–2011”
Text analysis results

<table>
<thead>
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<th>Category</th>
<th>HMT</th>
<th>EE MoF</th>
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<tbody>
<tr>
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