Consolidation on the revenue side and its macroeconomic impact

Discussion of Keen and Burgert/Wieland

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Burgert-Wieland main conclusions

- Austerity/transfer-based reform with lower income tax and lower debt levels: No short-term vs. long-term trade off
- Income tax reduction > consumption, capital tax reduction
- Robustness check: Burgert-Wieland model vs. Quest III and consistent with empirical studies
Keen main results

• A Hierarchy of Taxes?
• Analysis is complicated!
  • 3 broad tax categories
  • Equity (regressive/progressive)
  • Implementation and social acceptance
• Most debated are shifts towards
  • Green Taxation (cfr. climate and energy policies)
  • VAT and Consumption
The distortionary effect of tax increases do not only differ across taxes but also across countries. The cost of raising one extra Euro of tax revenues in EU countries varies significantly across different types of taxes and countries.

**Labour taxes ▲   Energy taxes ●**

Source: European Commission (2012), Tax Reforms in EU Member States, ECFIN, TAXUD. Simulation results based on GEM-E3 model (European Commission, Joint Research Centre).
Comments II

- Economies of Member States are closely integrated
- Cross-border effects of (Tax) policies:
  - Cross-border shopping (e.g. VAT in Benelux)
  - Intra-EU competitiveness:
    - Labour cost reduction (Fiscal Devaluation)
  - Energy and Green Taxation:
    - Export-exposed Energy Intensive Sectors: Need for EU/Global coordination
- National MCPF vs. European MCPF?
Comments III

- Structural reforms should be given equal importance in order to increase the effectiveness of tax policy strategies

Table 2: The Marginal cost of public funds and labour market flexibility in the EU

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<thead>
<tr>
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<th>Labour tax</th>
<th>Energy tax</th>
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<tbody>
<tr>
<td>Low flexibility of labour market</td>
<td>2.54</td>
<td>1.13</td>
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<tr>
<td>High flexibility of labour market</td>
<td>1.64</td>
<td>1.04</td>
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<tr>
<td>Benchmark case</td>
<td>1.9</td>
<td>1.08</td>
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Source: European Commission (2012), Tax Reforms in EU Member States, ECFIN, TAXUD. Simulation results based on GEM-E3 model (European Commission, Joint Research Centre)
Finally...

- The devil is in the detail (Keen/De Mooij, 2012): Need for more types of quantitative analysis. Not only for robustness checks but for complementary dimensions: “Modelling Toolbox”

- DSGE/ Macromodel (Quest, CMS): short-term long-term trade off

- CGE (GEM-E3, GTAP): more tax detail, multi-country, tax revenue estimation

- Micro-simulation (Euromod): equity

- Econometrics/Empirics: Ex-post lessons, narrative