Discussion on:

The effects of the tax mix on inequality and growth (Akgun *et al.*)

Size and distributional pattern of pension-related tax expenditures in European countries (Barrios *et al.*)

Marco Savegnago

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Overall view   Tax mix, inequality and growth   Pensions-related tax expenditures

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Overall view

- Similar focus on taxes as tool to achieve distributive and efficiency goals

- Both empirical, but very different approaches (panel estimation, microsimulation techniques)

- Both *optimistic* (my view) in their policy implications
  - on what can be done (Akgun *et al.*)
  - on what has been done (Barrios *et al.*)

- Can this *optimism* be challenged?

Tax mix, inequality and growth (1/4)

- Research question: how does the tax mix influence the distribution and level of income, holding government size fixed?

- Panel regression for OECD countries. Panel length depends on variables being analysed

- Results broadly confirm expectations. For example:
  - Inequality ↓ if top marginal rates ↑ and/or inheritance/wealth taxes ↑
  - Possible win-win reforms, for example ↓ tax wedge on low income

Tax mix, inequality and growth (2/4)

- Relevant topic, comprehensive view on the economic effects of taxation

- Extremely rich analysis (22 estimation tables!) with a great work to assemble relevant data

- I will offer some comments on

  - Inequality definition & growth regression

  - Interpretation of tax indicators

  - The past of the personal income tax

  - The future of household saving taxation

Tax mix, inequality and growth (3/4)

On inequality definition & growth regression...

- Doubts on how inequality is measured: why not *proper* indices?
- What role for inequality on market income?
- Why not take the structure of the tax system as *given* and focus on *actual reform* (OECD 2006), maybe with a Synthetic Control Method?

Tax mix, inequality and growth (3/4)

On inequality definition & growth regression. . .

- Doubts on how inequality is measured: why not *proper* indices?
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On the tax indicators heterogeneity. . .

- Policy parameters, synthetic indicators, revenues/GDP, etc.
- Their evolution hardly captures "policy changes"
- Why not consider a narrative approach?

Tax mix, inequality and growth (4/4)

The past of personal income tax (PIT). . .

- Decline of PIT progressivity over the last three decades (IMF, 2017)
- Difficult to rationalize with optimal taxation theory or concerns about growth
- Scope for ↑ redistribution without ↓ growth, acting on top rates

Tax mix, inequality and growth (4/4)

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The future of household saving taxation. . .

- Generally capital income taxed less than labour income, mostly based on efficiency grounds (capital mobility)
- But bilateral and multilateral cooperation for fighting international tax evasion/erosion has steadily increased over time
- Time to partially rethink the taxation of household savings?

Pensions–related tax expenditures (PRTE) (1/4)

- Research question: assess the relevance of PRTE in terms of total revenues and income redistribution

- PRTE definition: any deviation from the "Exemption-Taxation benchmark", where contributions are exempted and pensions benefits are fully taxed
  - e.g. partial deductibility of contributions (Germany, Ireland)
  - e.g. tax credits for pensioners (Italy, with many other countries)

- For most countries, PRTE are found to be substantial (in terms of foregone revenues) and progressive

- Results appear robust when accounting for lifetime perspective (but what about Pillar III?)

Pensions–related tax expenditures (PRTE) (2/4)

- State–of–the–art survey on PRTE in EU

- (PR)TE overlooked in the policy debate $\Rightarrow$ (re)get PRTE in the spotlight

- Most striking results are PRTE progressivity for most countries, so I will comment on this!
  - benchmark definition
  - necessity (?) to "forego" revenues
  - differential mortality

Pensions–related tax expenditures (PRTE) (3/4)

On benchmark definition. . .

- As correctly said in the paper, benchmark matters
- Benchmark here is a pure model (valid *erga omnes*) ⇒ results vis-à-vis this pure model
- Alternative benchmark: an "impure" model (country specific) where pension benefits (≈ deferred compensation) are taxed like labour income ⇒ PRTE as departure from this alternative benchmark

Pensions–related tax expenditures (PRTE) (3/4)

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- Benchmark here is a pure model (valid *erga omnes*) $\Rightarrow$ results vis-à-vis this pure model
- Alternative benchmark: an "impure" model (country specific) where pension benefits ($\approx$ deferred compensation) are taxed like labour income $\Rightarrow$ PRTE as departure from this alternative benchmark

On foregone revenues. . .

- Why necessarily giving up extra revenues if PRTE are abolished?
- One could imagine revenue-neutral scenarios (i.e. using extra revenues to lower general PIT) and assess redistribution in this way

Pensions–related tax expenditures (PRTE) (4/4)

On differential mortality and fairness of pension systems...

- A fact: very unequal life expectancy by sex (well known) and by socio-economic status (less obvious)
  - e.g., for Italy, at 67 years: 21.1 (W, high educ), 19.9 (W, low educ.), 18.3 (M, high educ), 16.3 (M, low educ)

- The more one lives, the longer (s)he enjoys pension benefits ⇒ pension benefits TE enjoyed longer and more by richer individuals ⇒ if differential life tables where integrated in the generational accounting exercise, would PRTE still be progressive?!?

- More generally, should pension rules take (at least in part) into account differential mortality?

Thank you!