

TAXATION AND INEQUALITY



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for Asian and Pacific Countries

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The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

- Fairness in taxation (and spending) a perennial issue—but especially to the fore now
 - Discontent with elites, consolidation pressures...
- Topic of recent ITD conference hosted by Ministry of Finance in Delhi
 - Presentations at: <http://www.itdweb.org/TaxInequalityConference/Pages/Home.aspx>

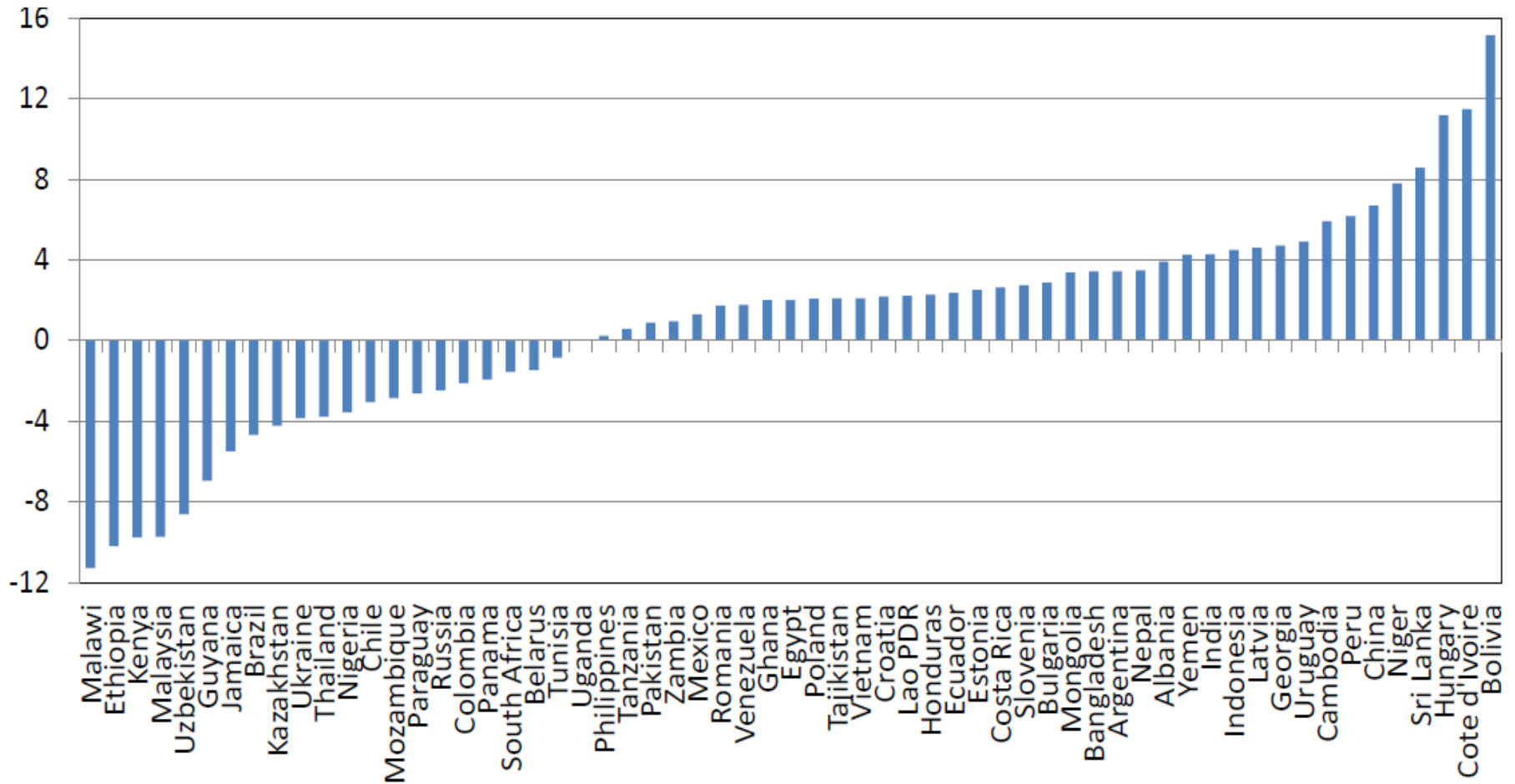


Outline

- Context
- Challenges (and options?) in dealing with high income/wealth individuals
- Need to consider all taxes...
- ...And spending too
- Incidence (and unintended effects)
- Inequality has many dimensions
- Concluding remarks

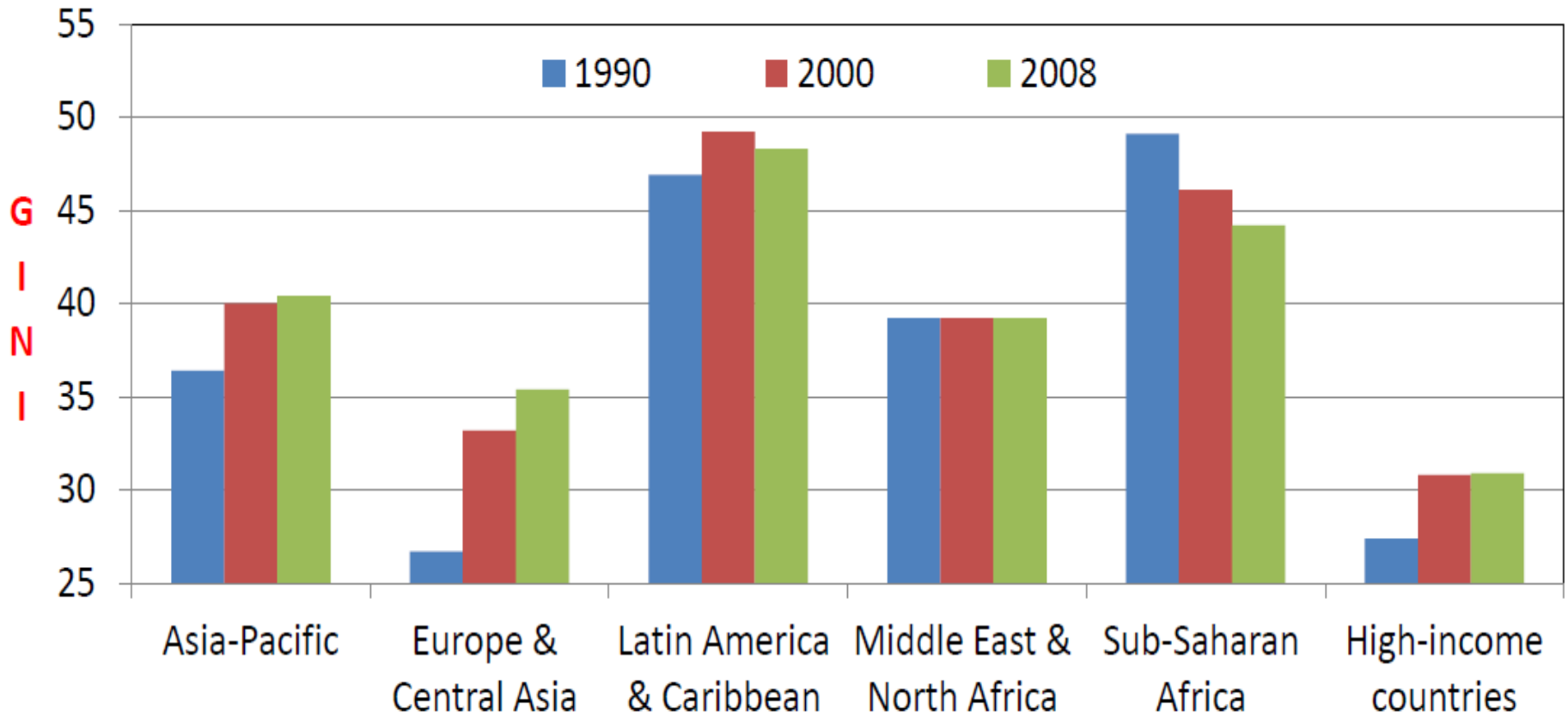
Context

Experience has varied across countries...



Source: Ajay Chhibber (UN), presentation to 4th Global ITD conference, December 2011

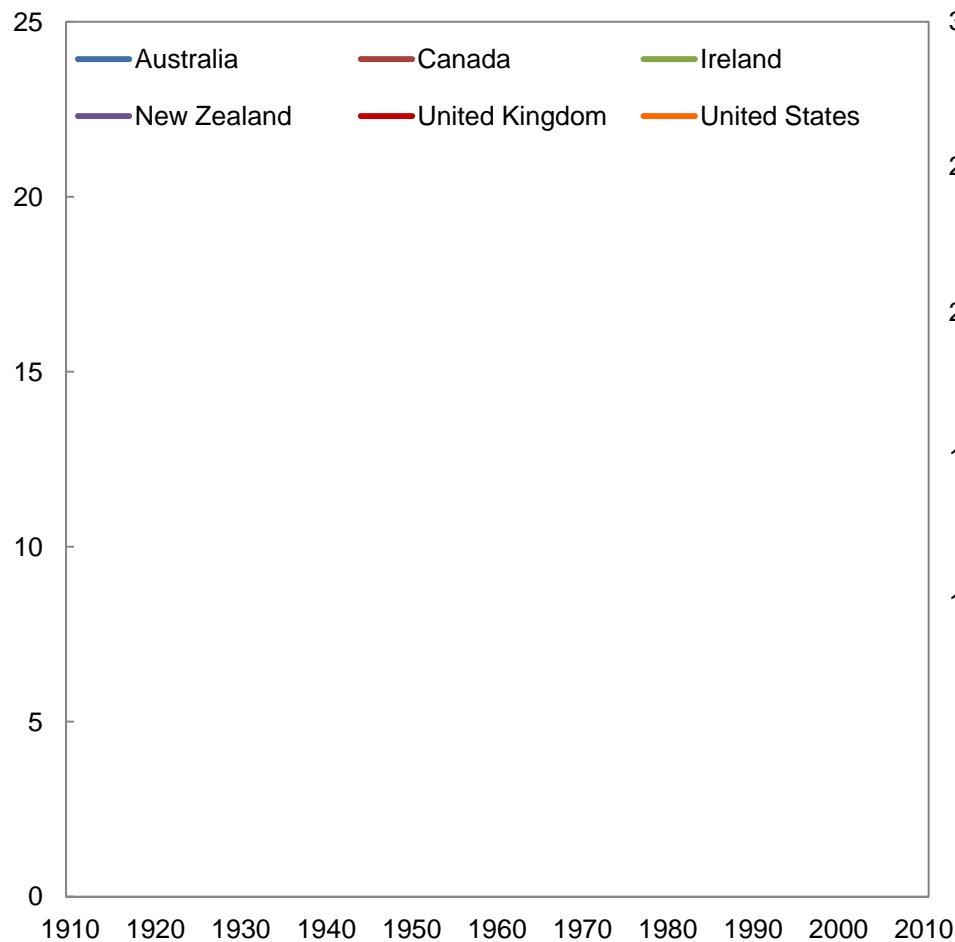
...and regions



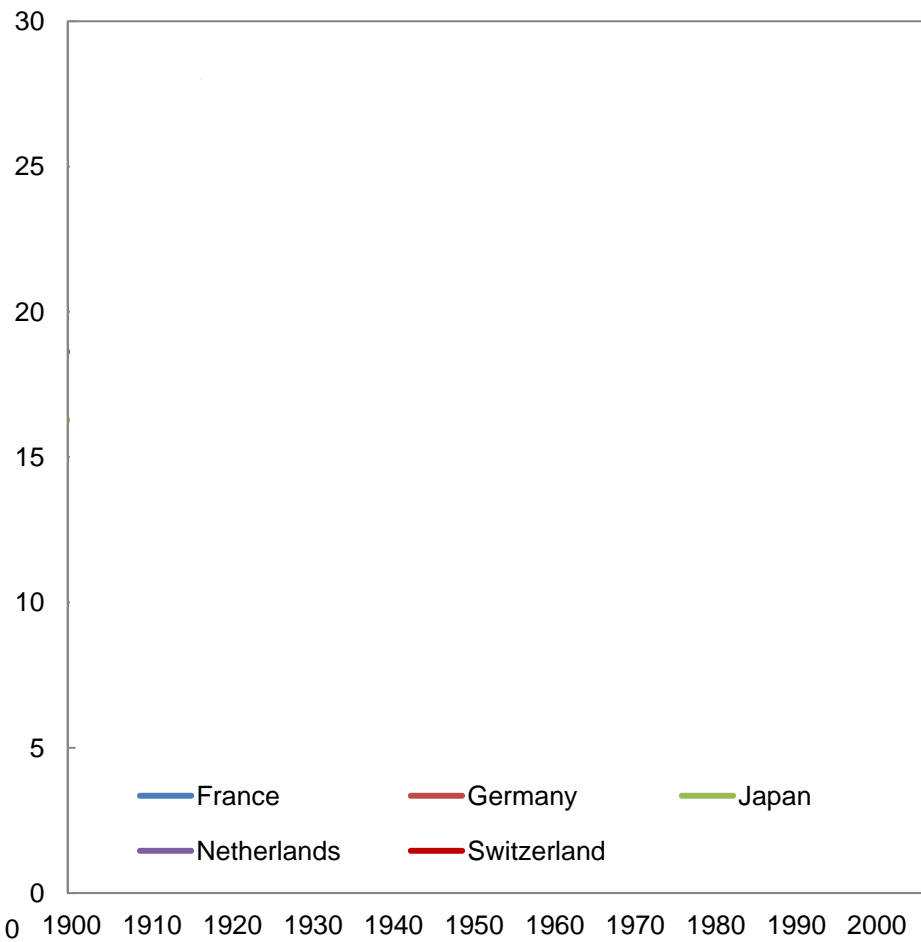
Source: Ajay Chhibber (UN), presentation to 4th Global ITD conference, December 2011

Big increase in income share of top 1%—in some countries

1910-2008



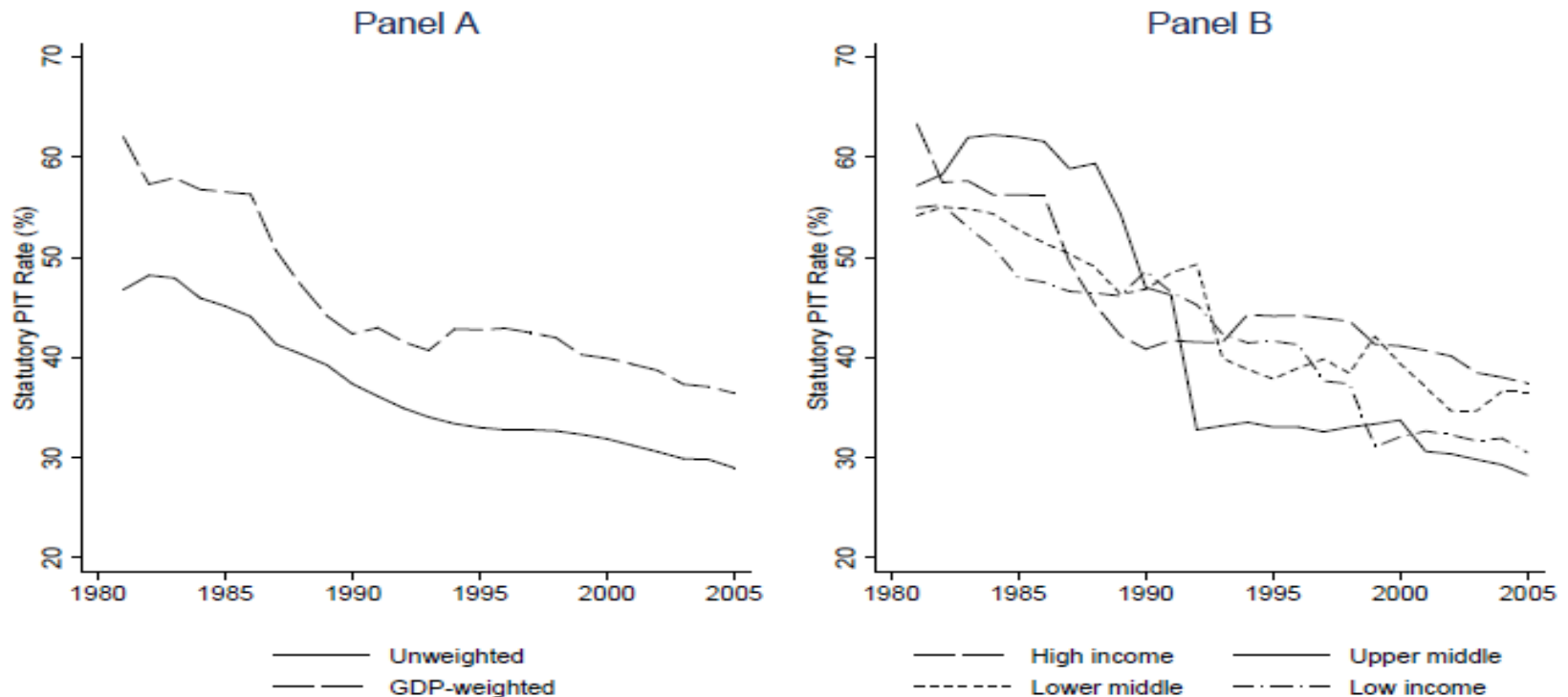
1900-2006



Source: Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, The World Top Incomes Database, <http://gmond.parisschoolofeconomics.eu/topincomes>, 01/12/2011.

At the same time...Top PIT rates have fallen

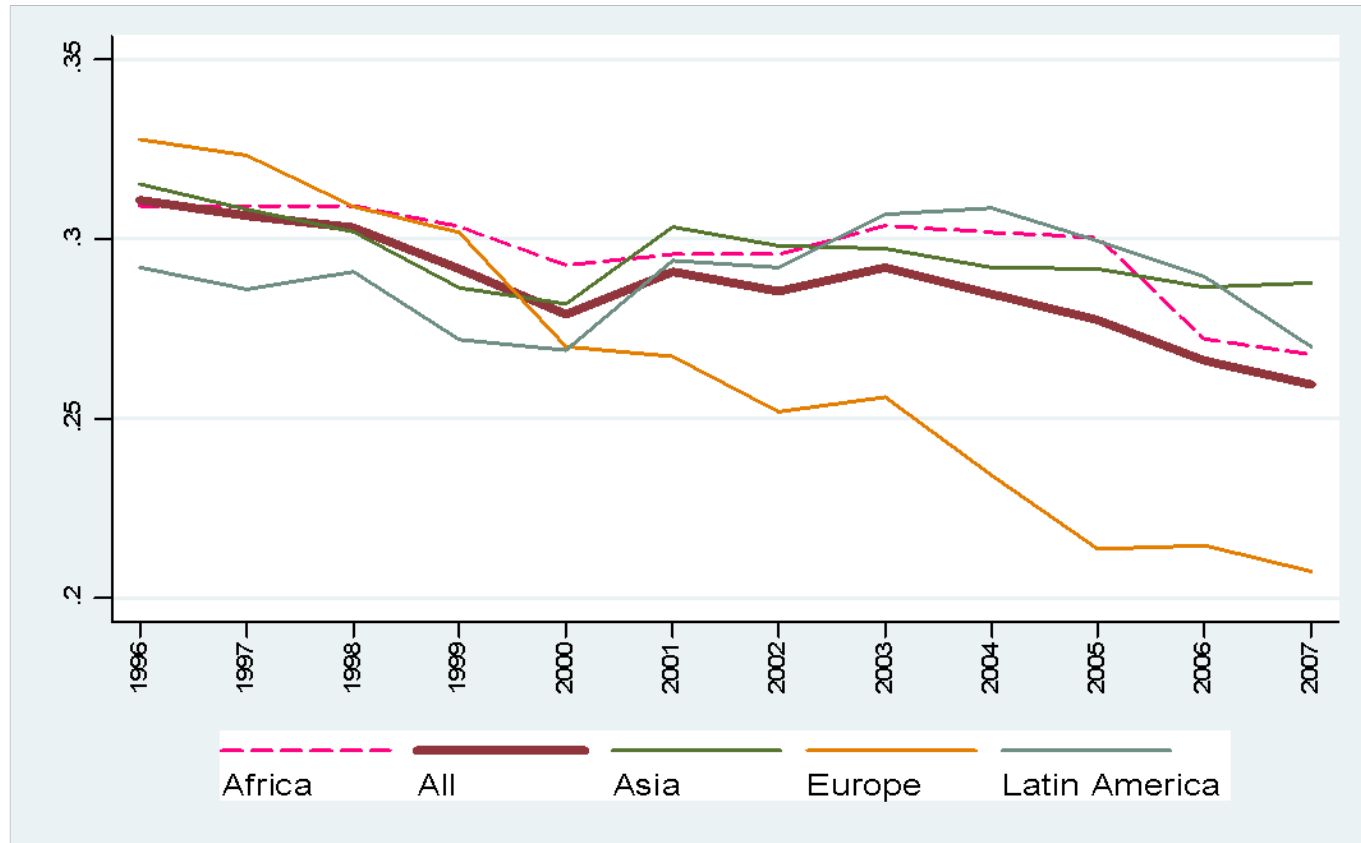
Top Statutory PIT Rate, 1981-2005



Notes: GDP-weighted top PIT rates are reported in Panel B.

—though developments in base etc also matter for effective progressivity

...and so have statutory rates of corporate tax



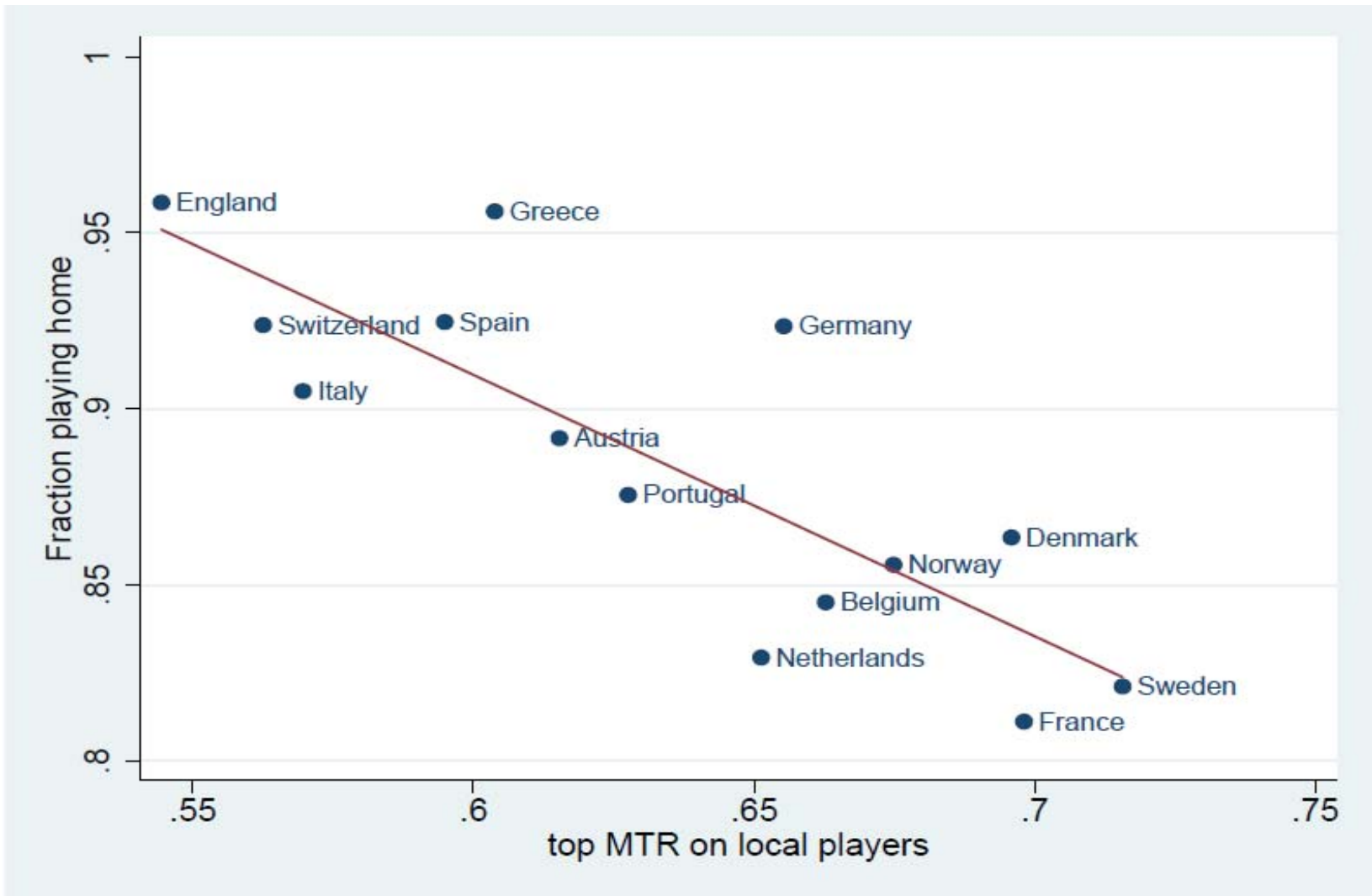
- though bases have widened (except in much of Africa)
- and incidence issue (see below)

Challenges (and options?) in dealing
with high income/wealth individuals

Plenty of challenges!

- What matters is responsive of tax base to tax changes: “elasticity of taxable income”
- HI/WIs have both means and (through high MTRs) incentive to avoid/evade
- Especially through mobility of capital income
 - Importance of information exchange (though ultimately not enough alone)
 - Importance of international cooperation

..and perhaps (e.g. soccer players), mobility of labor



Source: "Taxation and International Mobility of Superstars: Evidence from the European Football Market", Kleven, Landais and Saez, December 2009

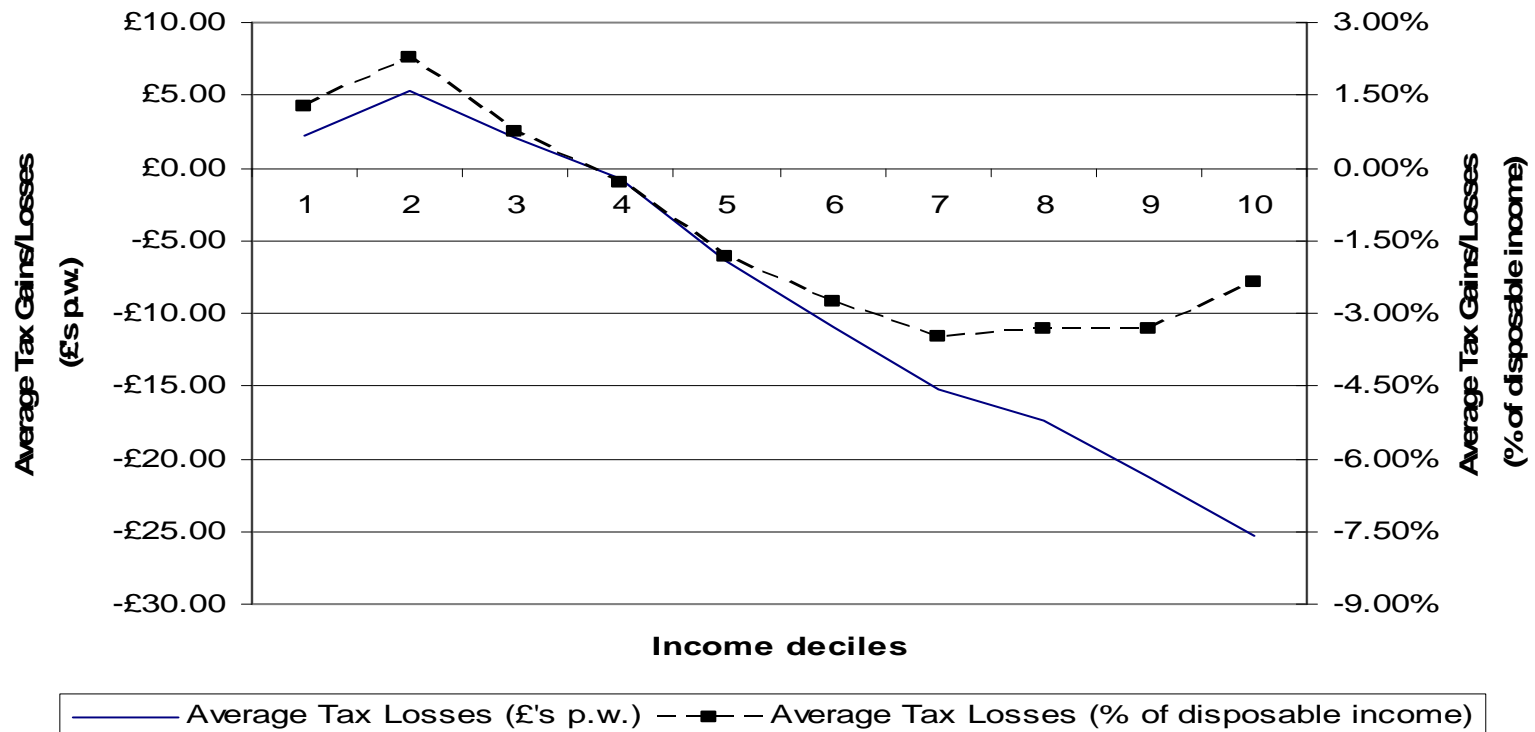
Options?

- Estimates of taxable income elasticities suggest top MTR in many cases below revenue-maximizing
- Reverse demise of inheritance/wealth taxes?
 - Feasible in practice?
 - Desirable in principle? Depends on motive:
 - “Accidental bequests” can be taxed at up to 100%
 - “Warm glow” bequests should be subsidized!
- More effective property taxation?
 - A longer-term challenge

Need to consider all taxes...

For instance, in the UK...

Removing zero-rating of food makes poor worse off —but they can be protected, and substantial net revenue raised, by adjusting social benefits



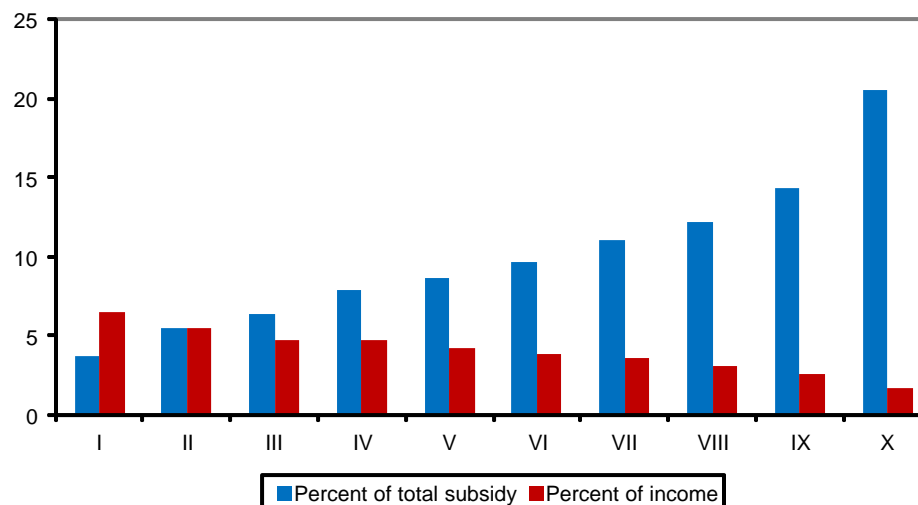
...and spending too

Much redistribution best done on the spending side

- Developing safety nets (from basic support, to EITCs...) a priority
- But much can be done even where spending not tightly targeted:

E.g. In this example of reduced VAT rate:

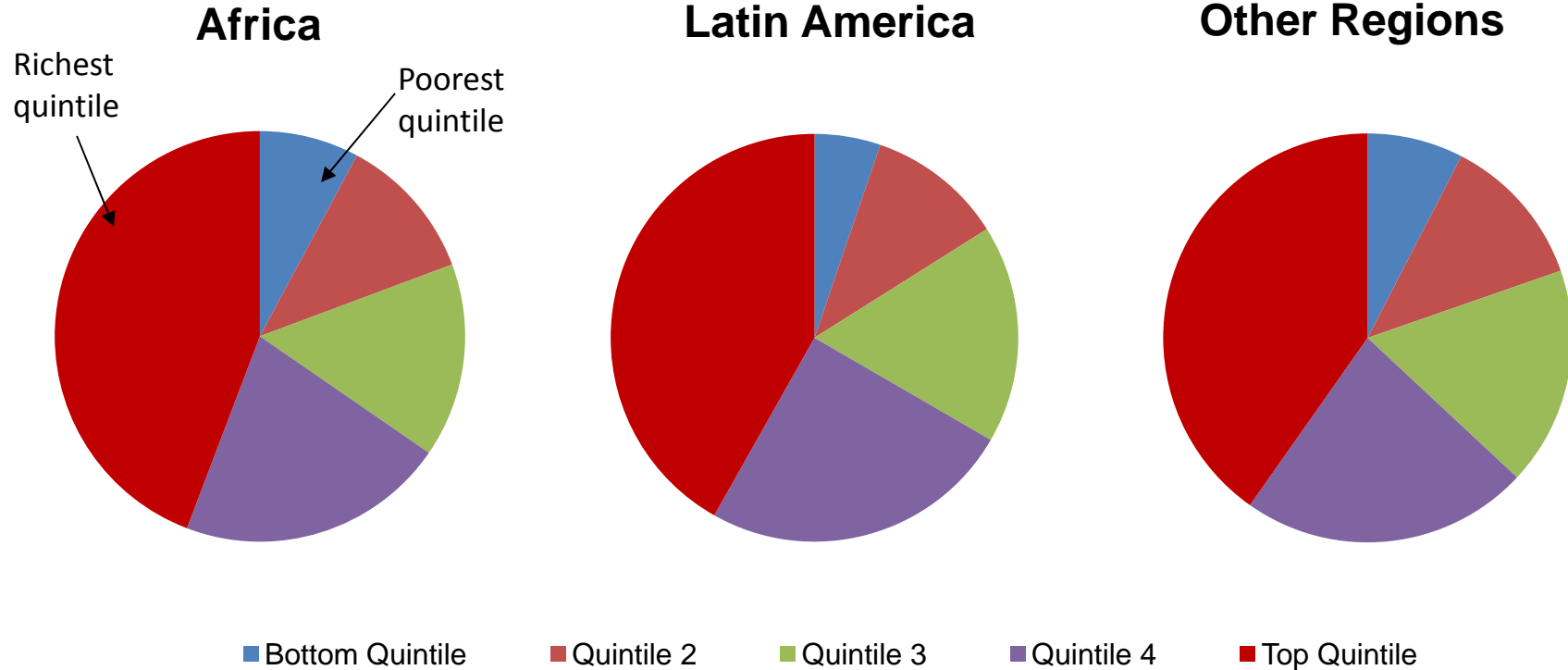
Couldn't \$100 be spent so that more than \$4 reaches the lowest decile?



Though spending can be regressive too

Two-thirds of fuel subsidies accrue to the top 40%

Distribution of Petroleum Product Subsidies by Income Group



Source: Arze del Granado, Coady, and Gillingham (forthcoming).

Note: The countries covered are Bangladesh, Bolivia, Burkina Faso, Cameroon, Central African Republic, El Salvador, Gabon, Ghana, Jordan, Mali, Peru, Republic of Congo, and Senegal. Welfare quintiles are based on per capita household consumption.

Incidence (and unintended effects)

Things can be more complex than they seem

- Does labor bear the real burden on the CIT?
 - If capital is mobile, it can move to escape any tax
 - Which must then be borne by immobile factors, like labor
- Wage subsidies can benefit employers
- Well-intended exemptions can be exploited by better-off
 - E.g. exemptions for agricultural land, mortgage relief,....

Inequality has many dimensions

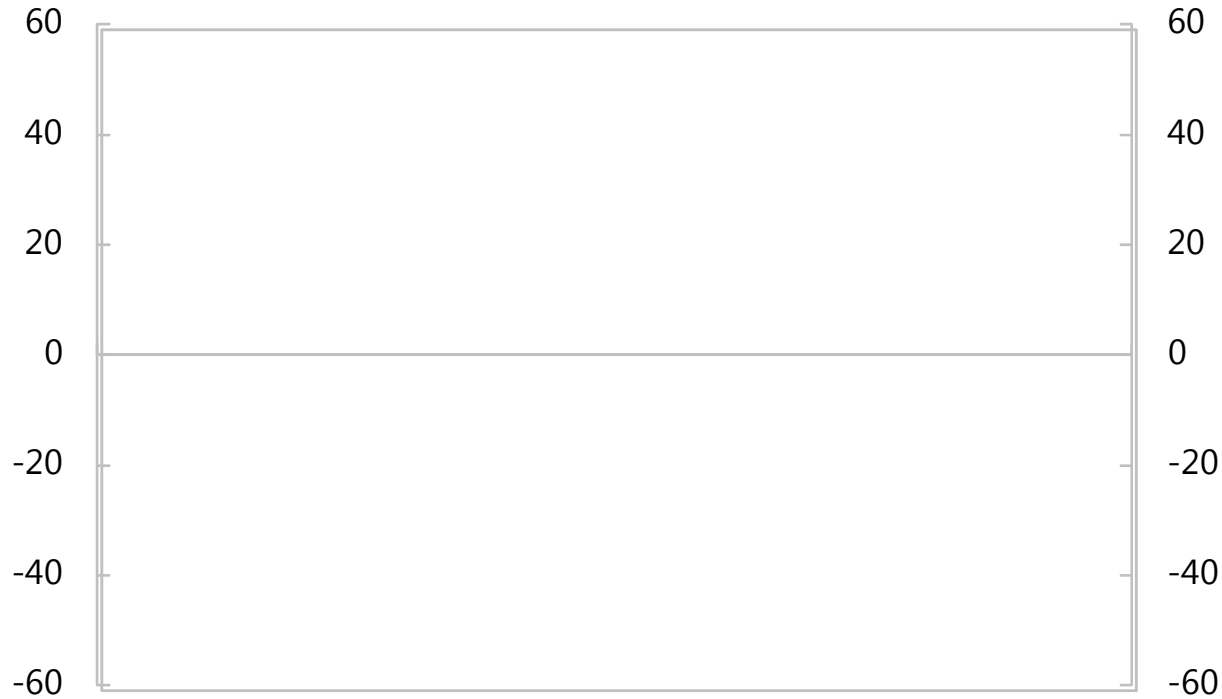
Not just income inequality...

There can be significant inequalities between:

- Urban and rural areas
 - VAT, for instance, will affect former more
- Formal and informal sectors
 - Differing payments of PIT, social contributions (and benefit entitlement)
- Ethnic/political groups? Little studied
- Genders?
 - Some sense at ITD that explicit discrimination now rare; and men are hit more by sin taxes!

...and between generations (including thru' govt. debt)

E.g. For Japan, net transfers by age group (¥ mn):



Source: Cabinet Office (Japanese Government)

Redressing /avoiding intergenerational inequities?

- Beyond pension reform, health changes, should consolidation burden tilt towards the older?
- Higher VAT bears largely on older generations—effect mitigated by uprating benefits
- Greater age-differentiation of income tax?
- Where pensions/health systems being developed, can/should problems from ‘first generation’ effect be avoided?

Concluding remarks

Problems, practical and (even more?) political

- Practical problems abound—which further international cooperation could help address
- But in many cases ways to improve fairness and efficiency are clear—yet still don't happen
- Can ways be found to smooth the political path?
 - Communication: Tax expenditure analysis etc
 - Experiences with earmarking?
 - Other?