Comments on

Taxation and unemployment:

An AGE approach

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Background

- dynamic AGE models with OlG
- applied to ageing problems
- academic research, next to policy advice for Dutch ministries

Ballard et al. (1985, p. 237)

“We emphasize that these results are not specific forecasts of the US economy under alternative policy regimes. … We use the numerical equilibrium model to provide the same kind of economic insight that a theoretical model would provide for a simpler problem that could be solved analytically. We do not use it to predict actual responses”

Topics

- Dynamics
- Uncertainty
- Closure rules
- Household heterogeneity
- Simulations

Dynamics

- Intrinsic dynamic decisions in a static framework ?? (savings, investment, HC…)
- Full dynamic model with transition path (welfare effects!) $\Rightarrow$ too heavy model
- Alternative: consider the steady state of a fully dynamic model (cfr. approach used for the labour market)

Uncertainties

- Household faces uncertainty: probability of losing his job & probability of not finding a job $\Rightarrow$ ex post budget differs between employed/unemployed
- Possible interpretation (Sorensen,EUTAX model):
- Union max. expected utility of member $\Rightarrow$w
- Firm chooses employment $\Rightarrow$ unemploym.
- Worker/Unemployed $\Rightarrow$ consumption

Closure rules

- Savings = Investment
  ("capital is internationally immobile")
- exogenous deficit on BoP $\Rightarrow$ TB$\neq$0
- BUT: $FA_{t+1}=(1+r)\ FA_t+TB_t$ implies FA $\neq$0 $\Rightarrow$ S $\neq$I ??
- exogenous deficit on BoP also occurs in government budget: what is implicit ass. on government deficit??
- Small open eco BUT r is not fixed??

Household Heterogeneity

- only distinction between low/high skilled
- distinction between males/females
  (see other version)
- distinction between young/old persons
- different marginal tax rates

Simulations

- Sectoral results?
- Effect on exchange rate x (Armington ass.)?
- Alternative simulations:
  - finance a rise in the tax allowance A by an increase in the marginal tax rate t_m
  - reduction of the replacement rate