Séminaire d'intégration du LIEPP
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The Political Economy of Tax Incentives

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LABORATOIRE INTERDISCIPLINAIRE D'ÉVALUATION DES POLITIQUES PUBLIQUES

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Motivation of the paper

An exemple of method interaction in social science

Tax incentives: main issue of the ``socio-fiscal policies'' axis
Political discourse & economic theory: efficiency of policies
Deep changes in the way of regulating capitalism
Quantitative impact evaluation: low efficiency

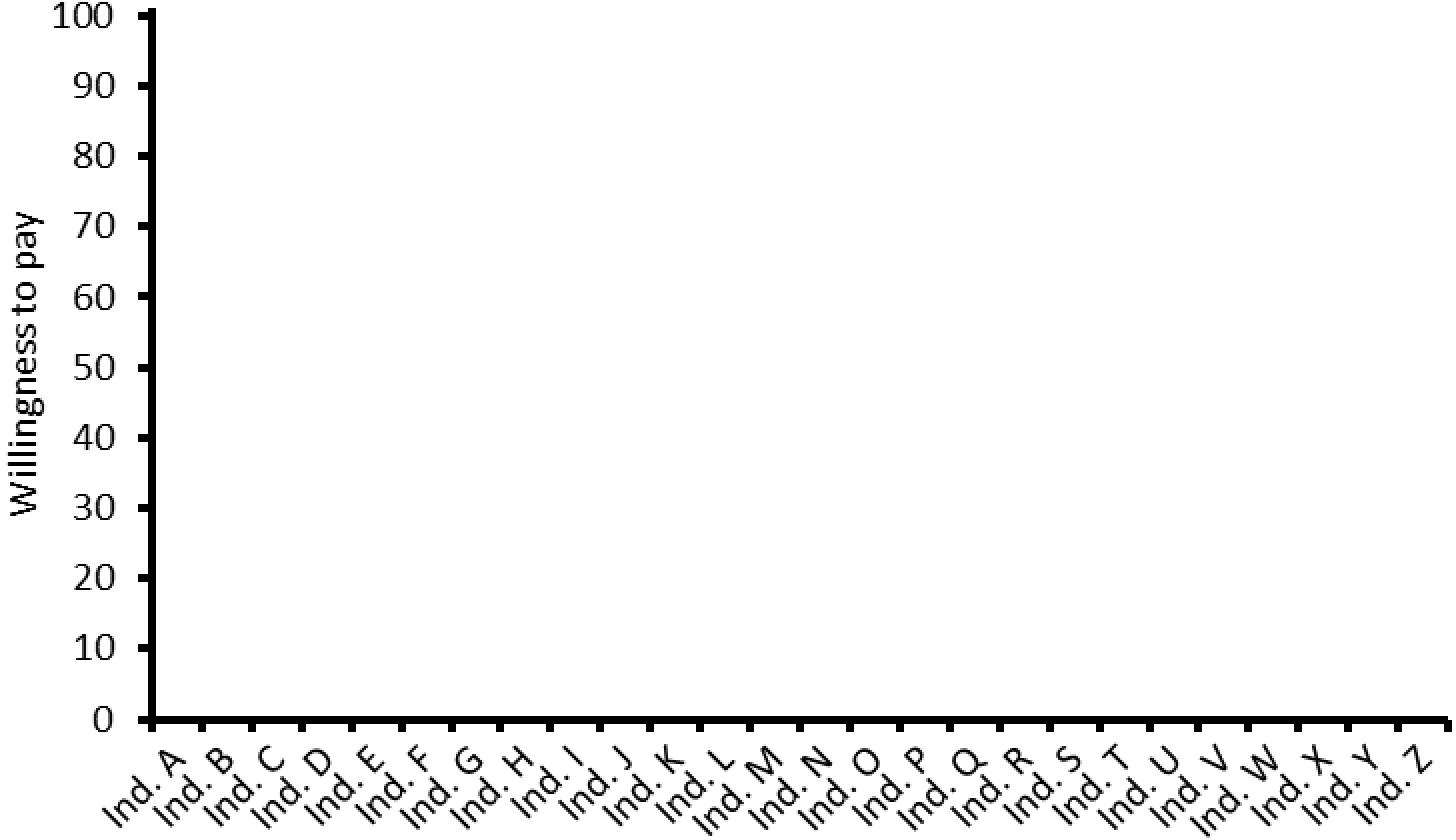
Explanations

True motivation relies in the welfare state changes
Mistakes about anticipation of actual efficiency

→ ***alternative of political economy***

Links btw. political support (intensive & extensive margins) and actual efficiency/redistribution of the policies

Principle of incentives



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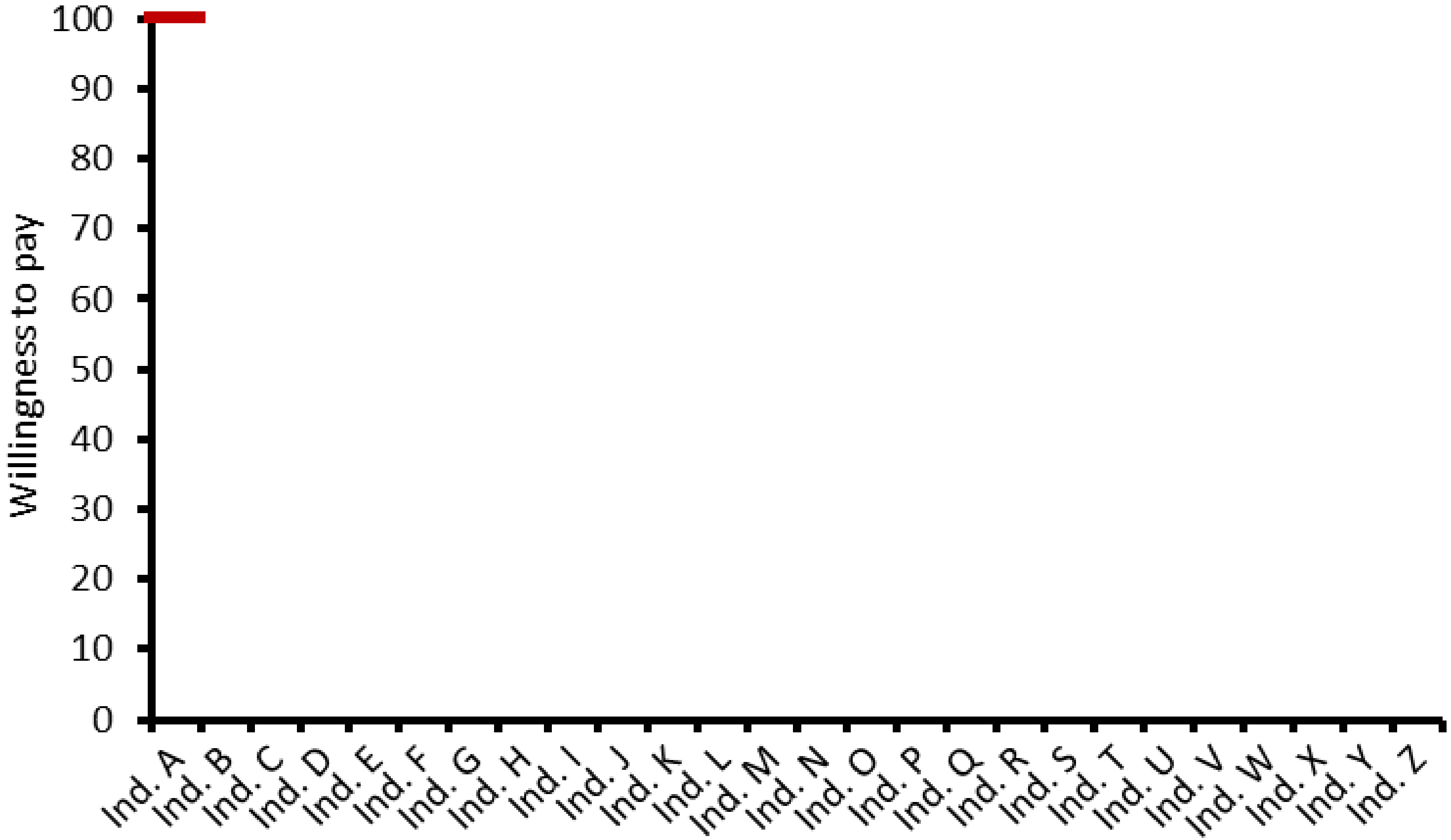

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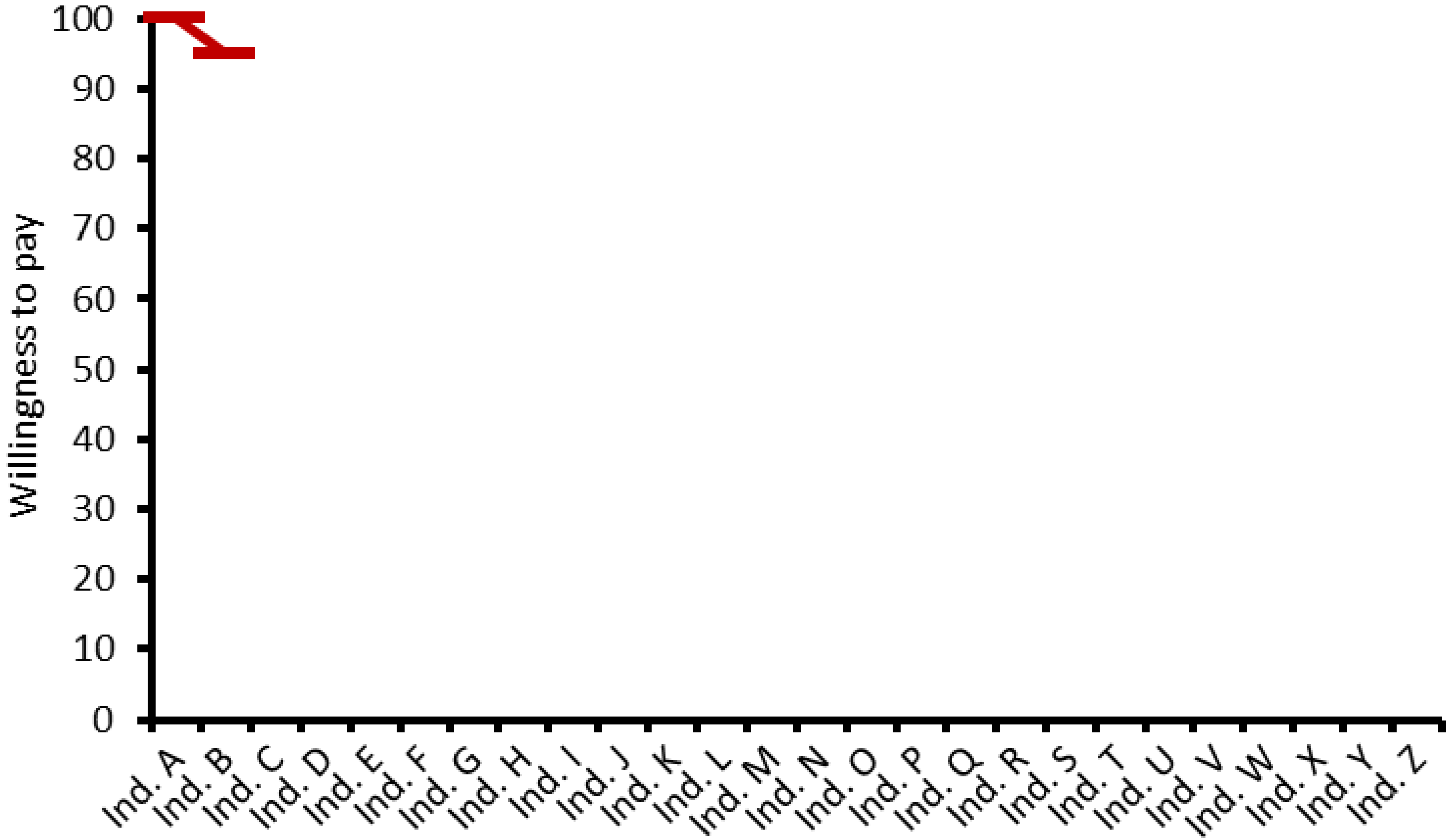

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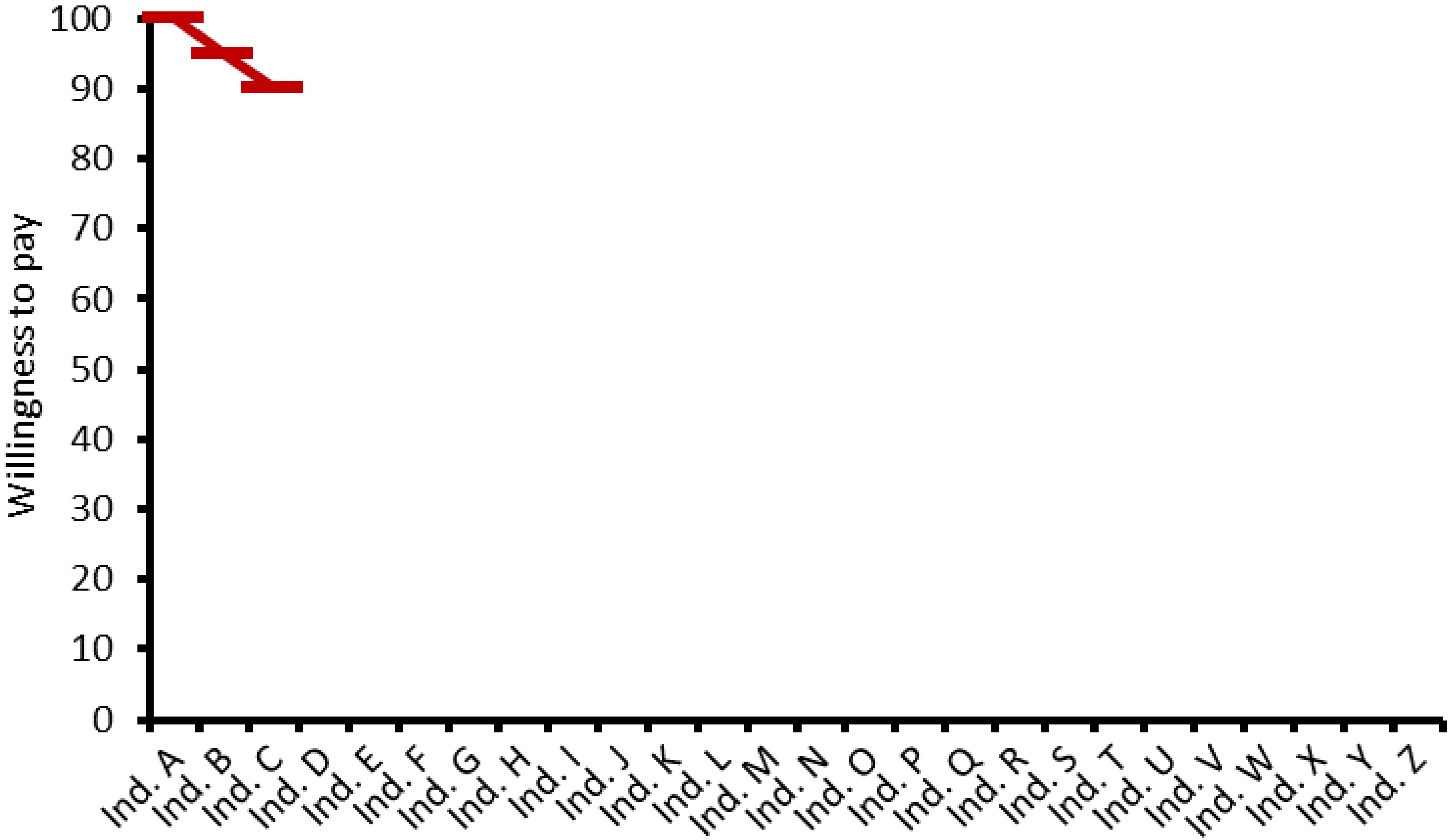

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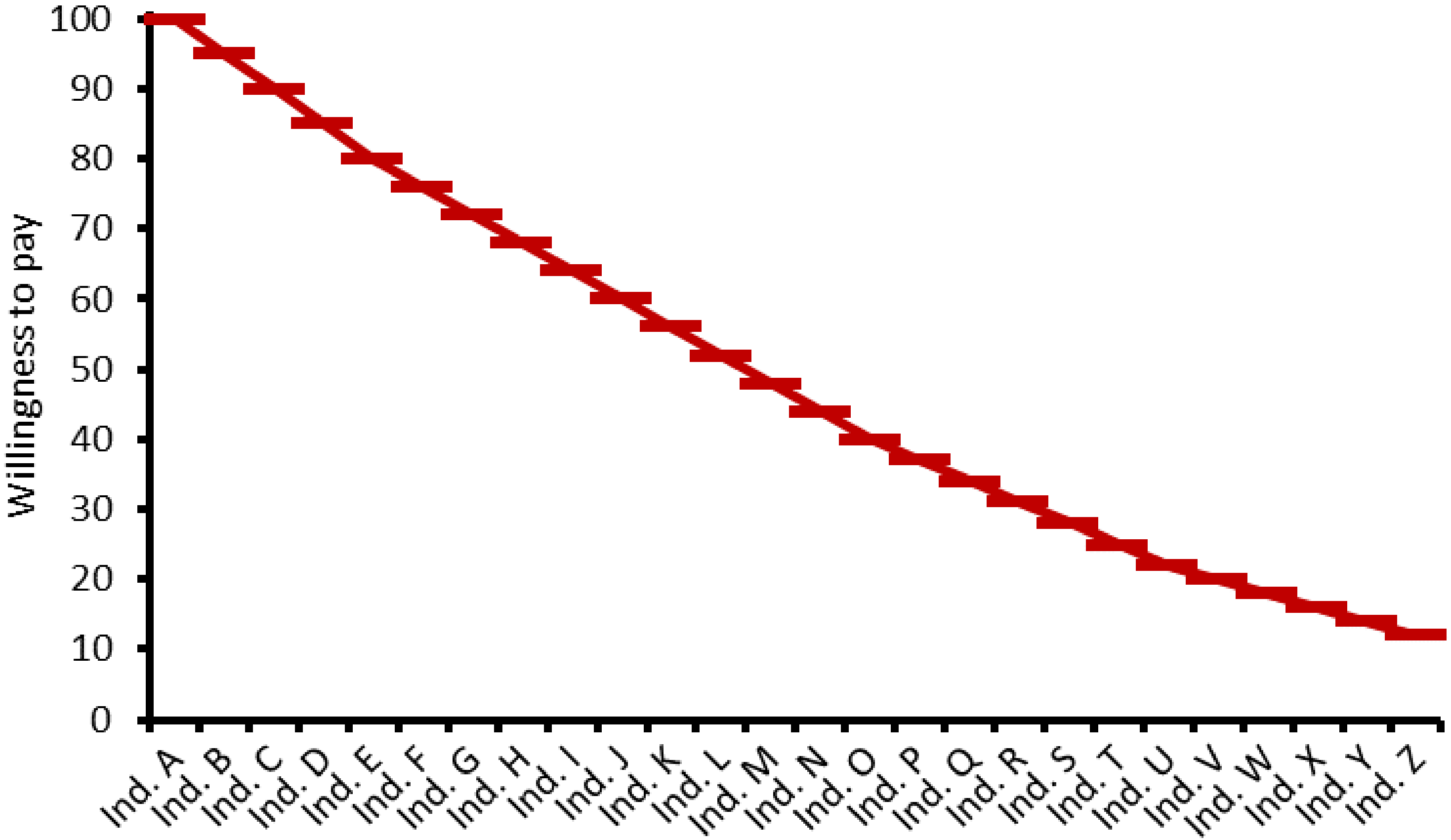

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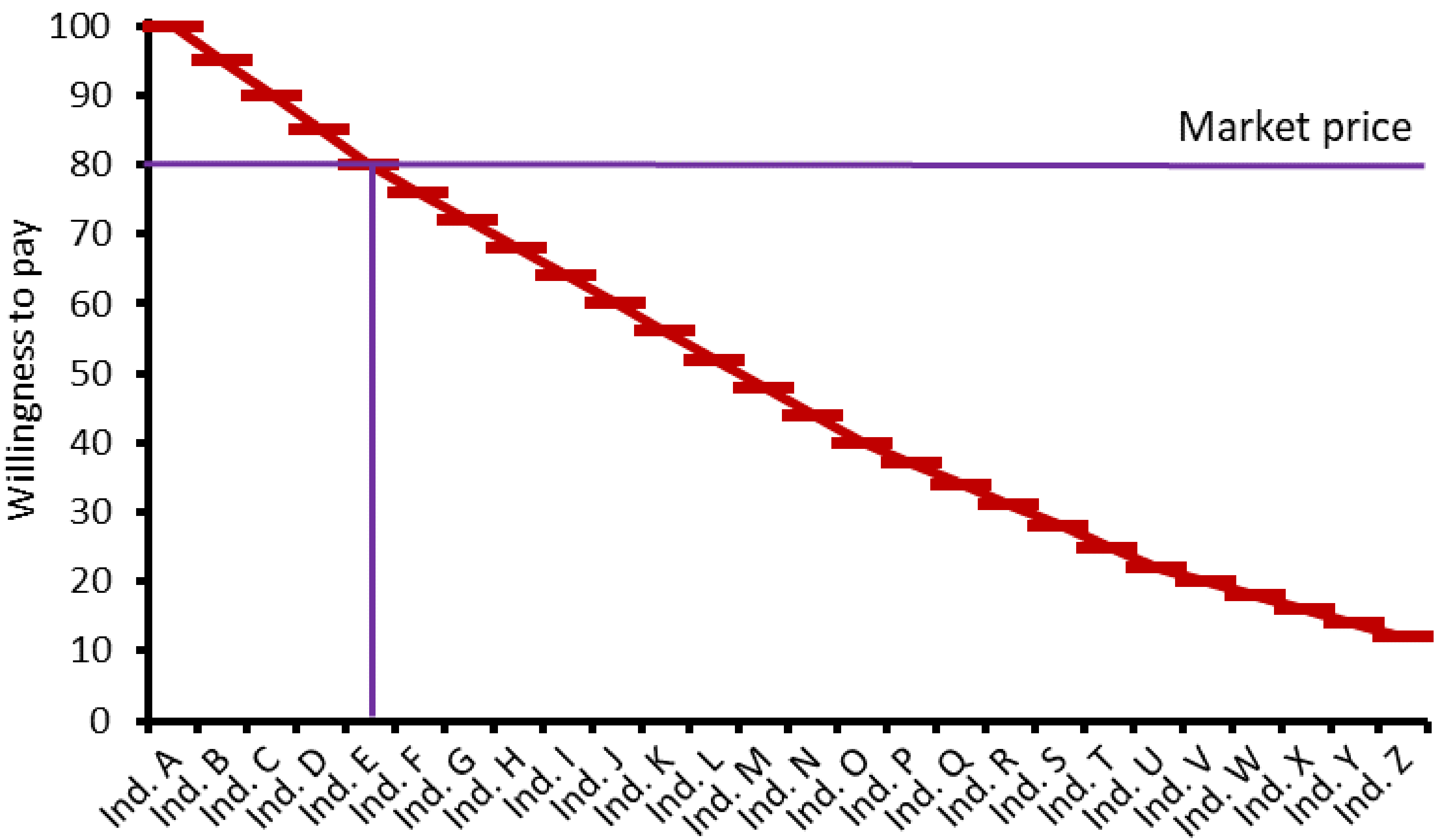

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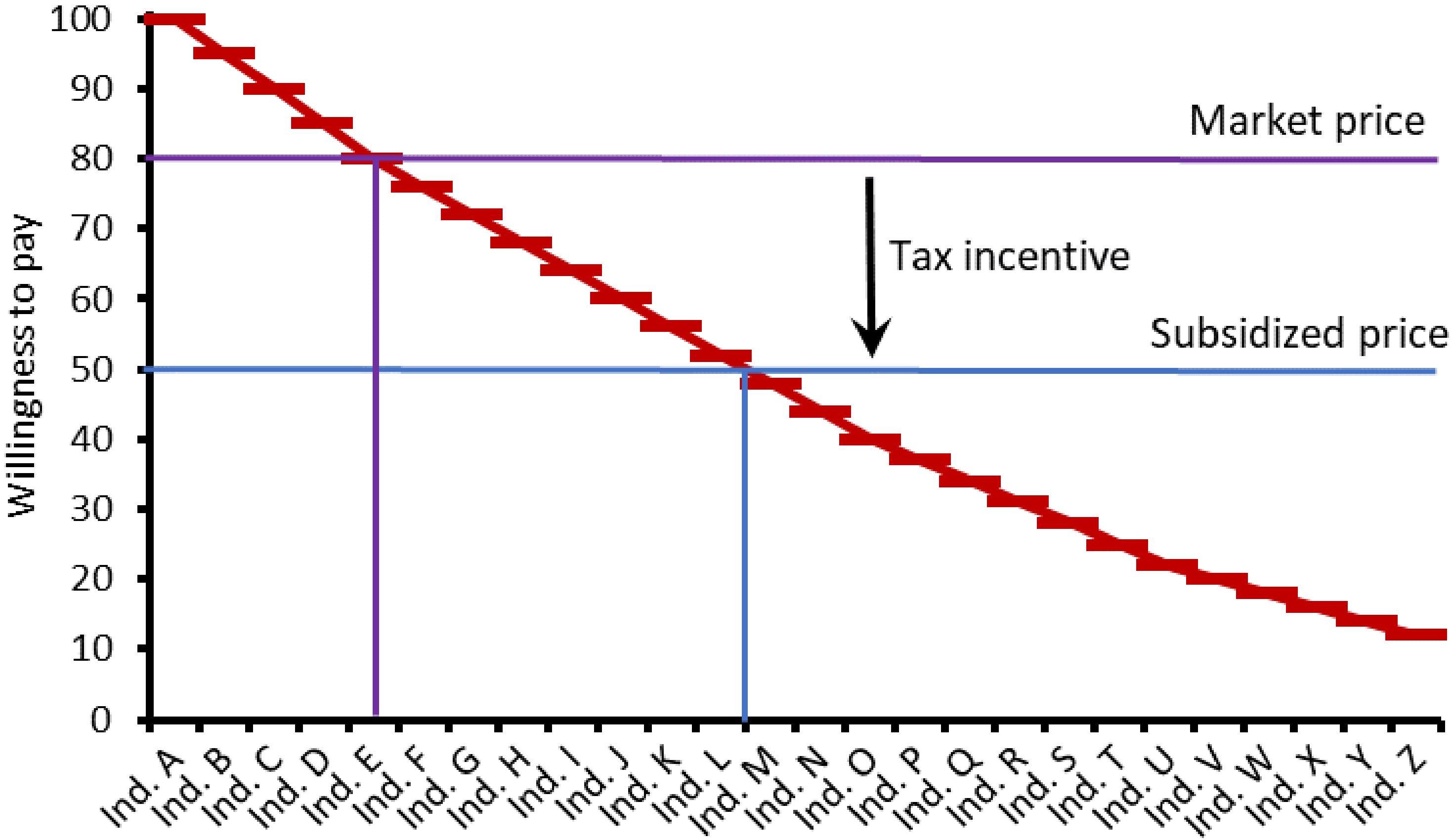

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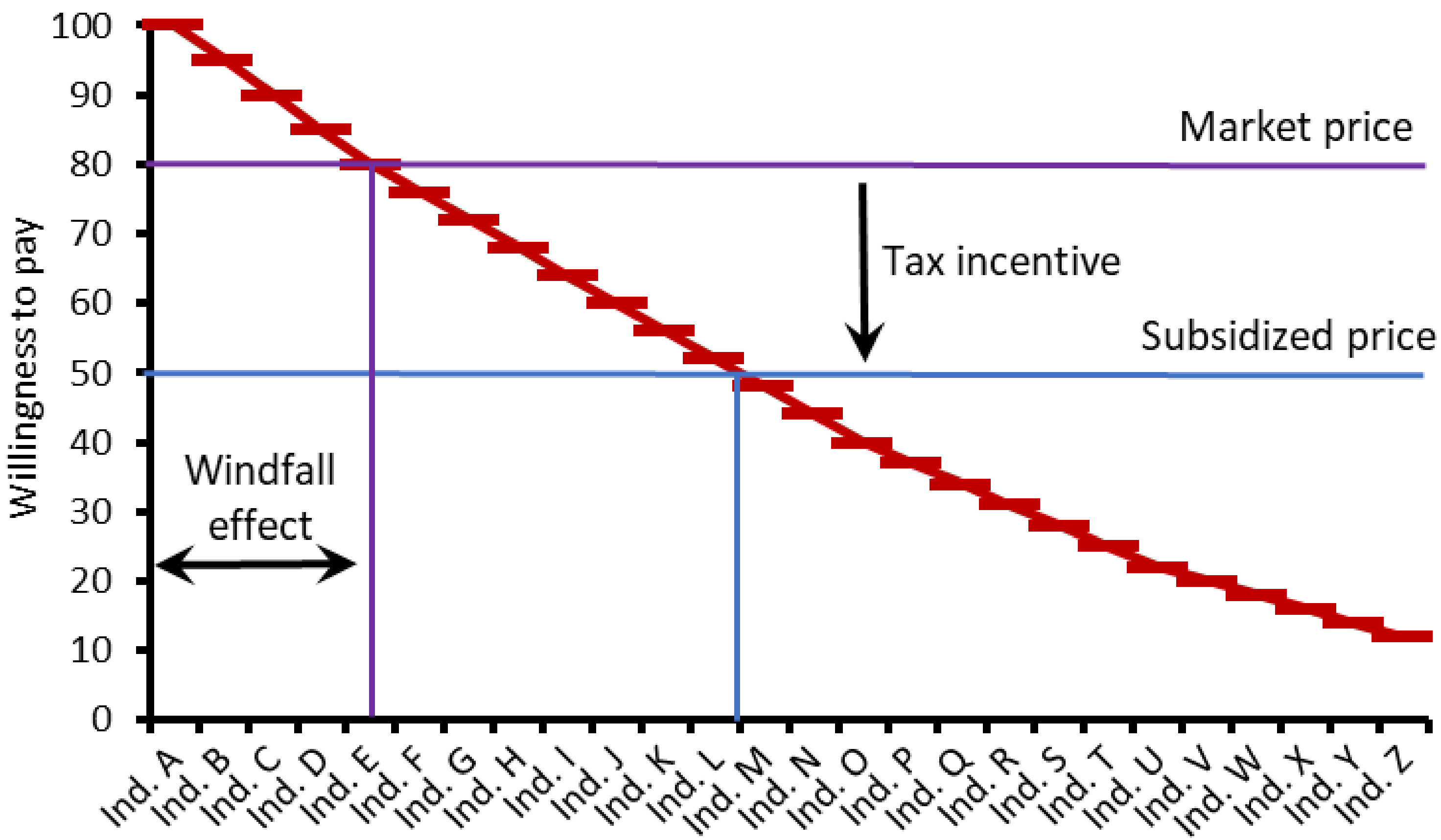

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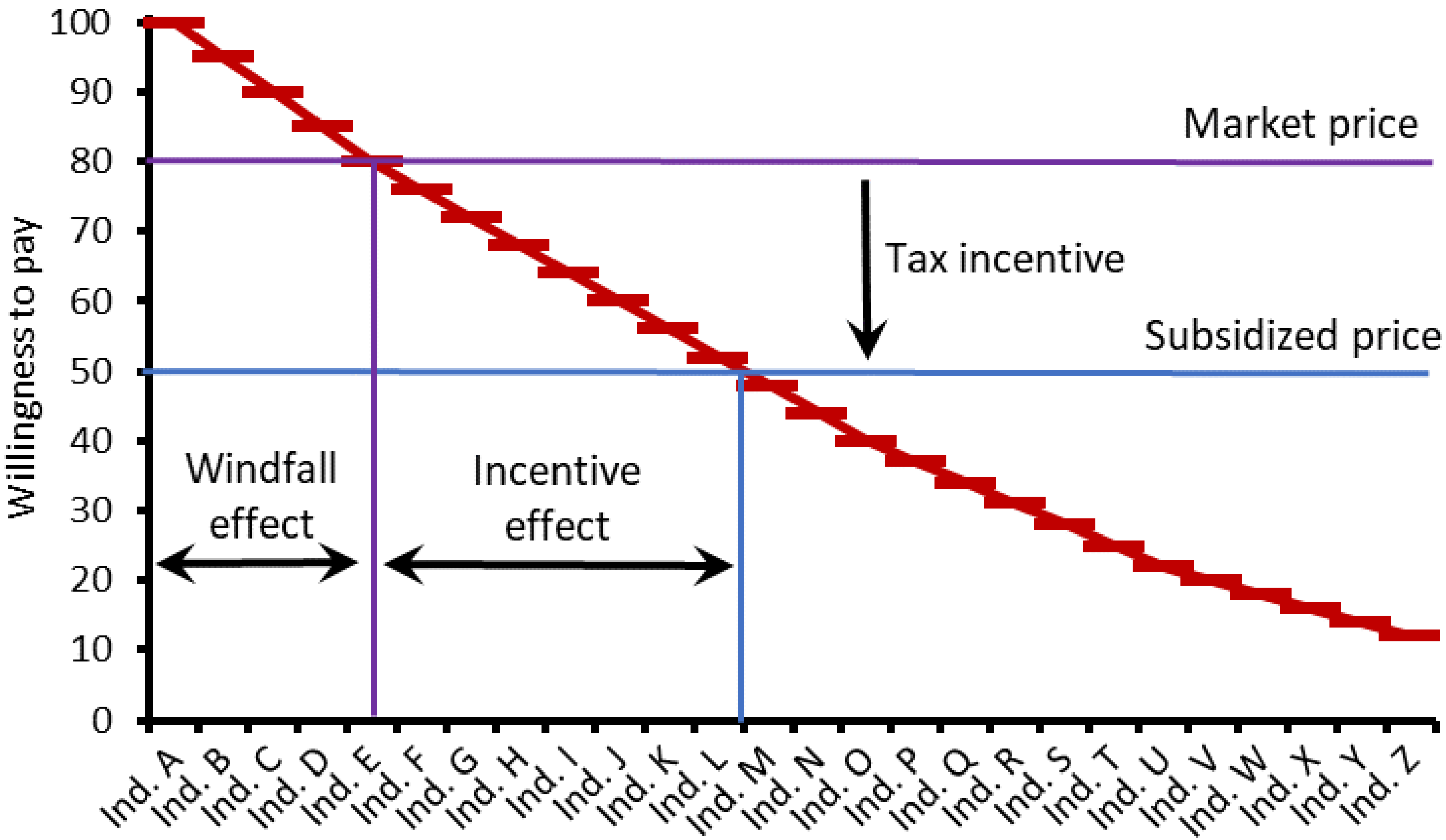

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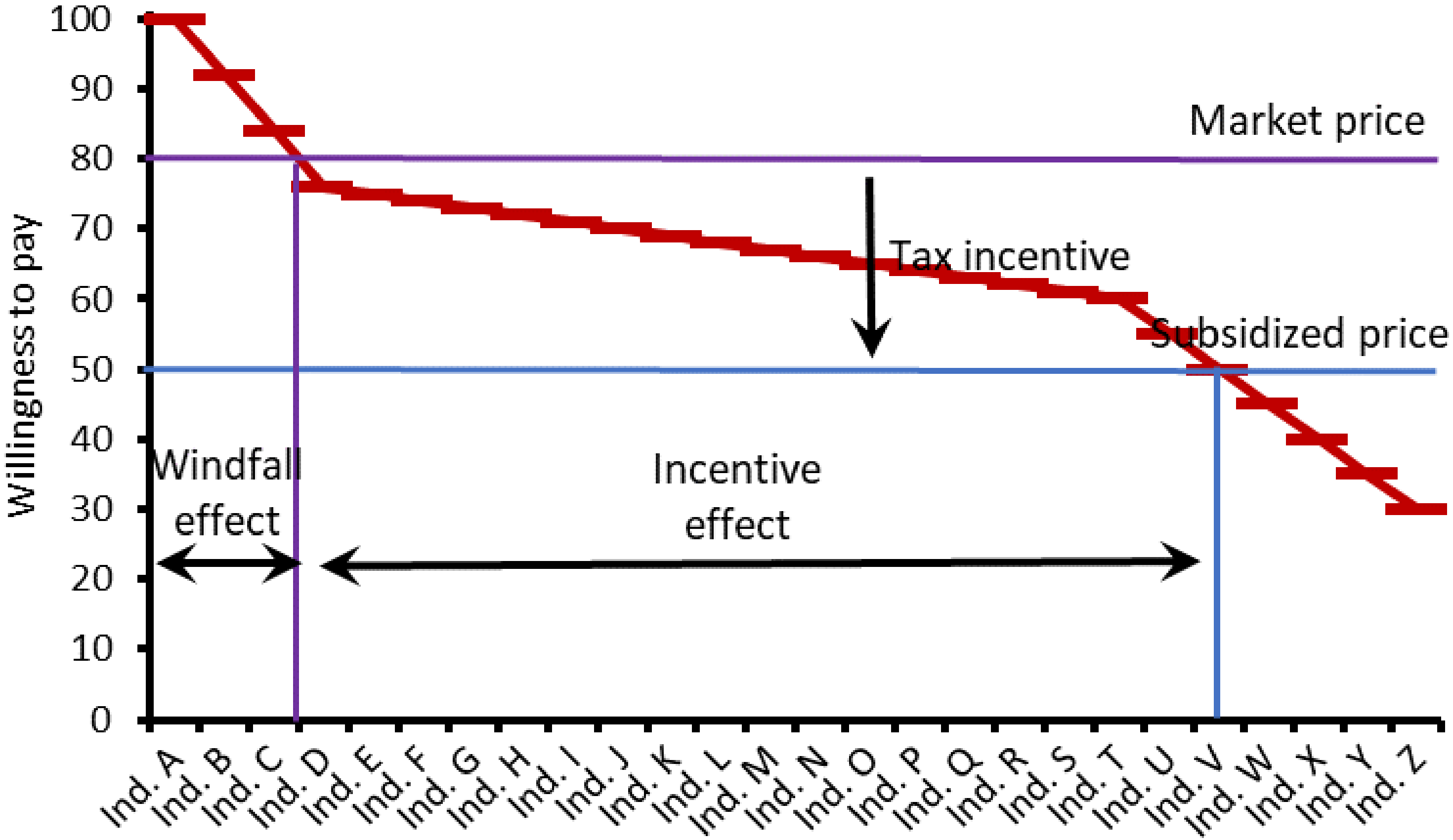

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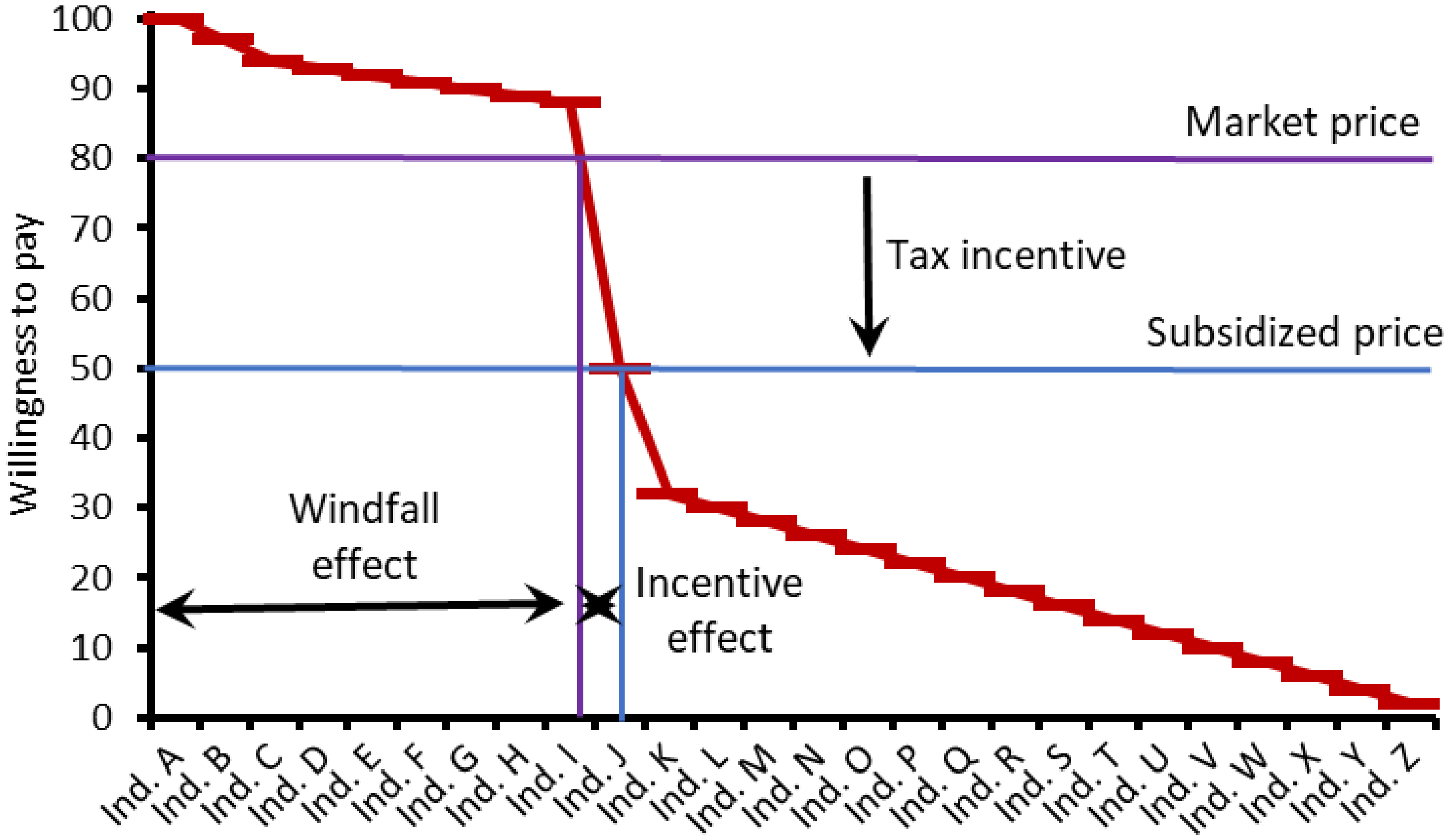


The principle of the model

Defining gains from a reform setting tax incentive

Based on preference (given distribution of preference)
Based on income (given distribution of income)
With potential positive externality of consumption

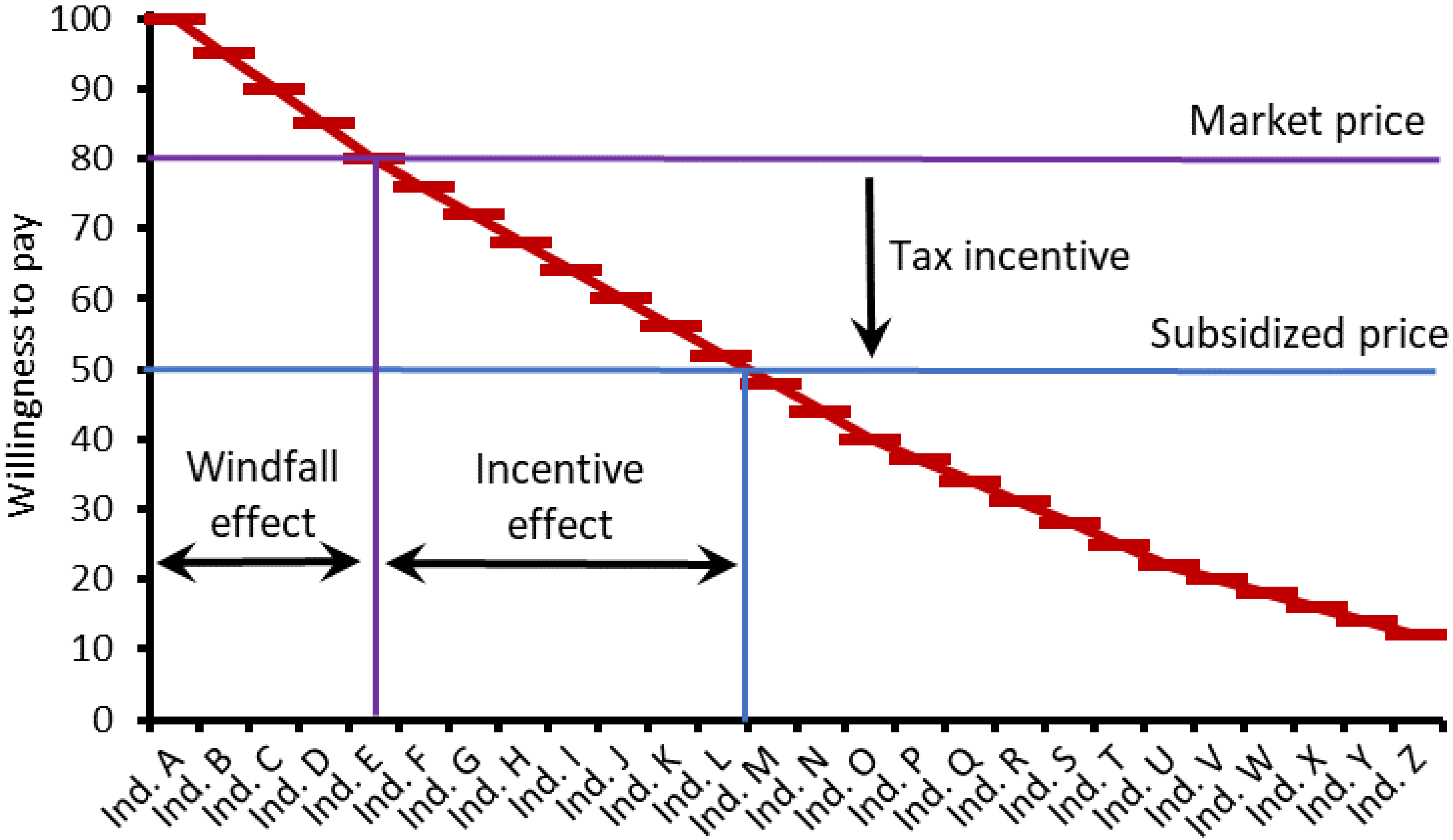
Analyse in comparative statics

What would be the relative political support
With a marginal change in preference/income distribution

Marginal distribution changes

Less windfall (aristocratic distribution change)
More incentivized (democratic distribution change)
Lego composition of aristocratic/democratic (monotonous)

Principle of incentives



Political support

Not the main issue of coalition creation

More marginal support, or clientelist proposals
Share of benefiters (extensive); utility gain (intensive)

Windfall benefiters

Always benefiters (except with very progressive tax)
Benefit less when consumers are more numerous

Non-incentivized households

Always loosers (except with very high externality)
Loose more when consumers are more numerous

Incentivized households

May be benefiters or looser
Loose more or benefit less when consumers more numerous

The case of incentivized households

A prisoner's dilemma mechanism

Individual decision of consumption based of net price

Given the public founding of incentive (added tax)

But gain depend on full payment: price + tax

The extreme case of 100% incentivized

0% households consume without incentive: *price > utility*

100% households consume with incentive

Given the tax paid whatever the choice: *price – subsidy < utility*

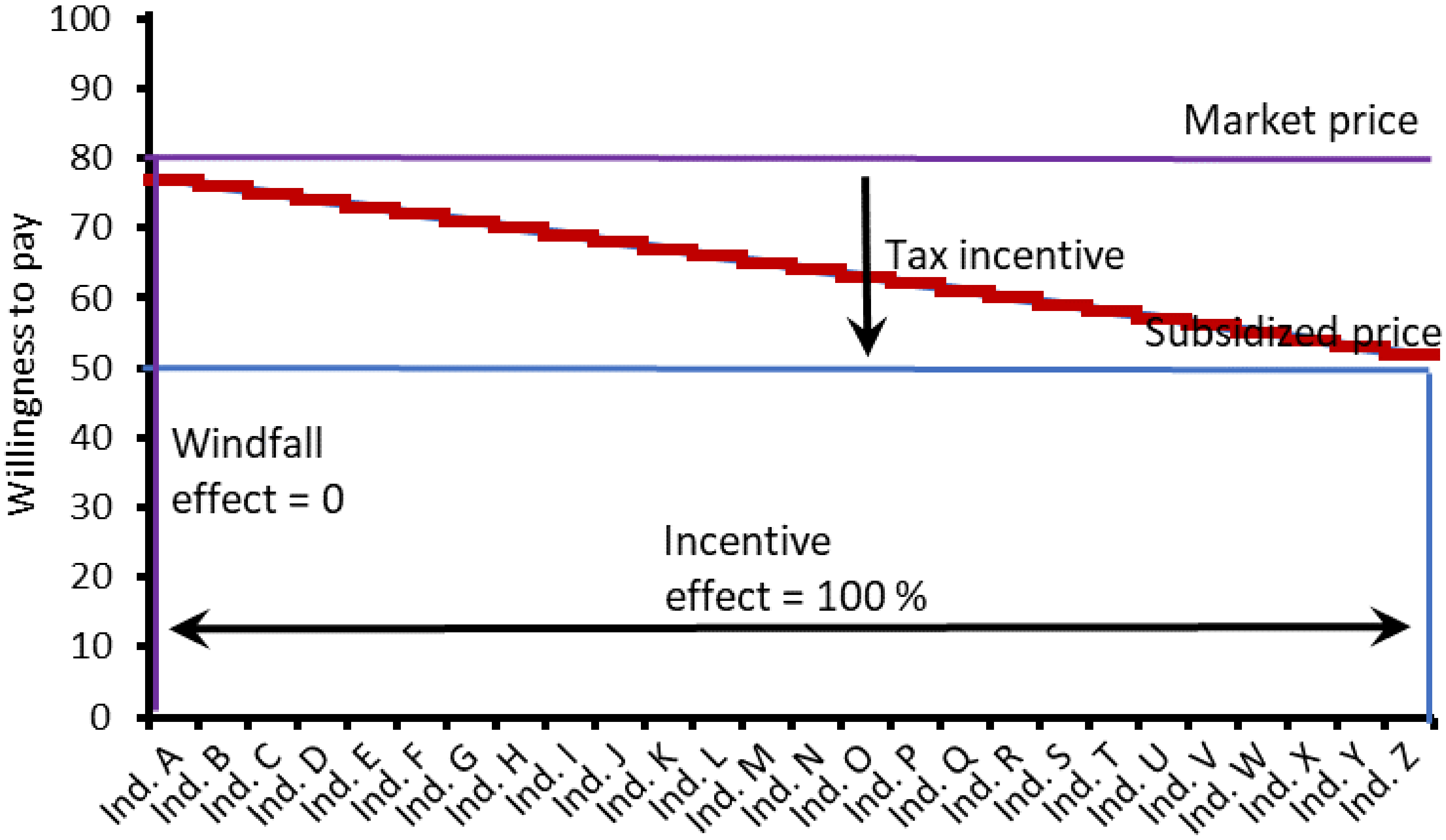
Final situation: actual *payment = price – subsidy + tax*

tax = consumer*subsidy/tax payers

Here *tax = subsidy*

→ ***payment = price > utility***

The case of incentivized households



The case of incentivized households

A prisoner's dilemma mechanism

- Individual decision of consumption based of net price
- Given the public founding of incentive (added tax)
- But gain depend on full payment: price + tax

The extreme case of 100% incentivized

- 0% households consume without incentive: *price > utility*
- 100% households consume with incentive
  - Given the tax paid whatever the choice: *price – subsidy < utility*
- Final situation: actual *payment = price – subsidy + tax*
  - *tax* = consumer*subsidy/tax payers
  - Here *tax = subsidy*

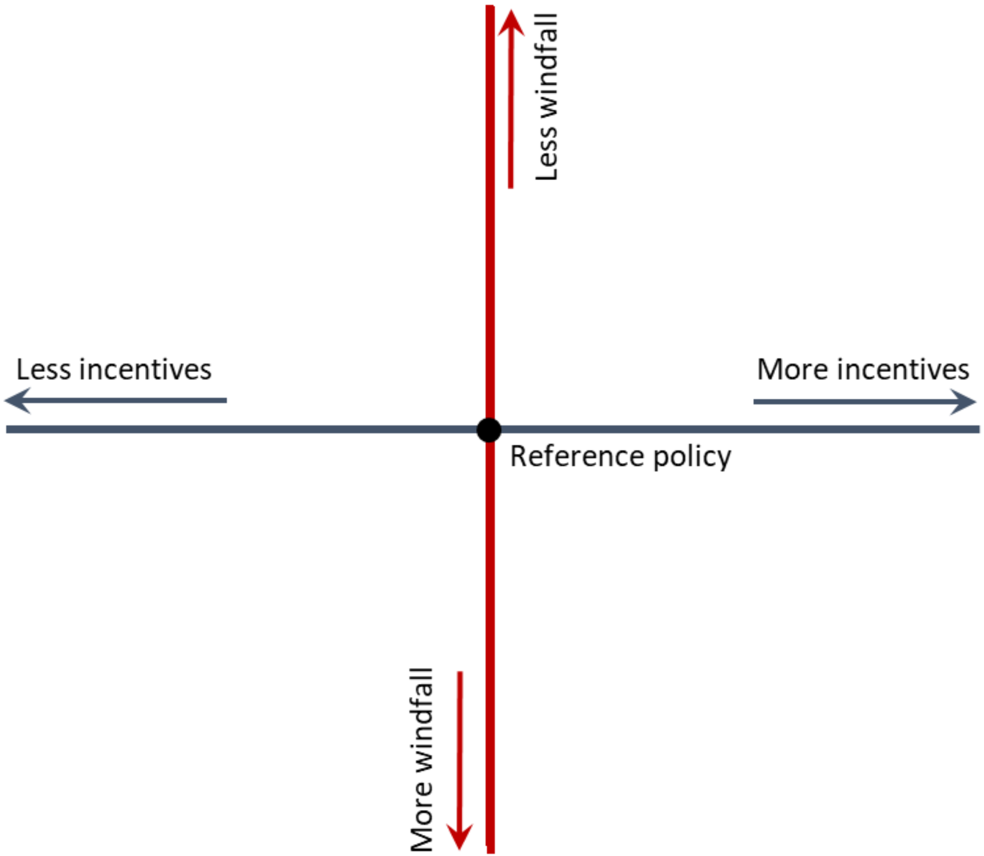
→ ***payment = price > utility***

Results in a graph

Start for reference situation:
Given market/population
Given windfall/incentive

Reference policy

Results in a graph



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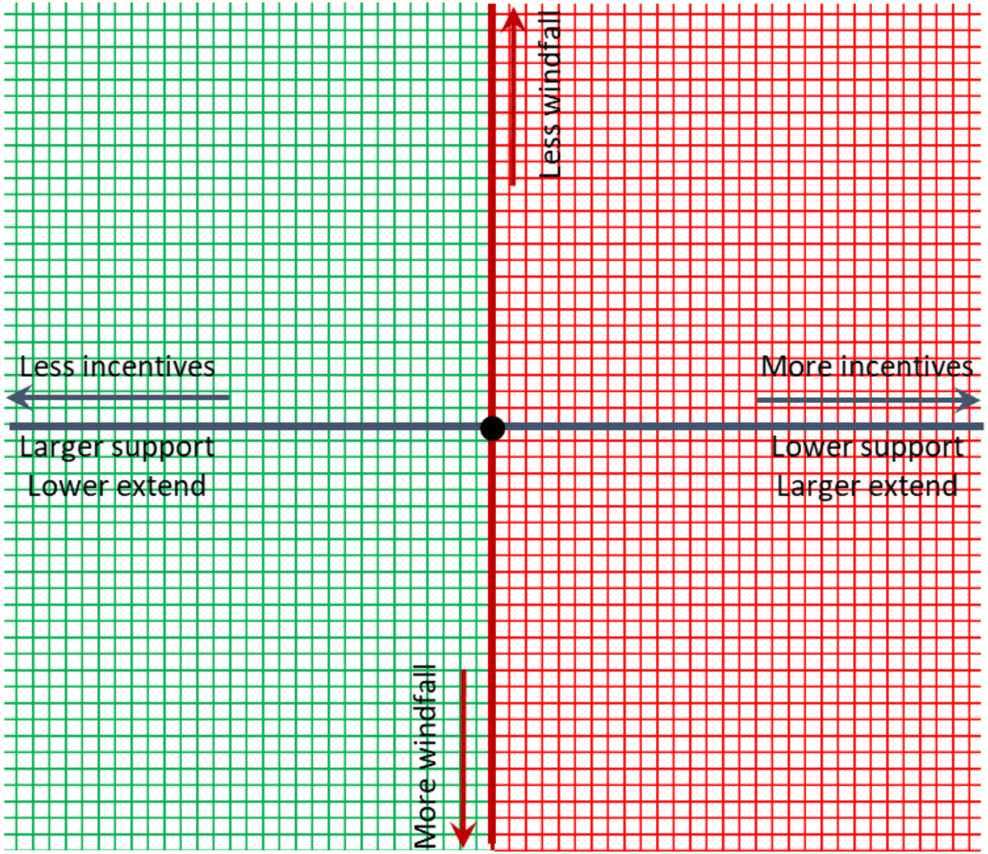
Given windfall/incentive

Lego of efficiency changes

Results in a graph



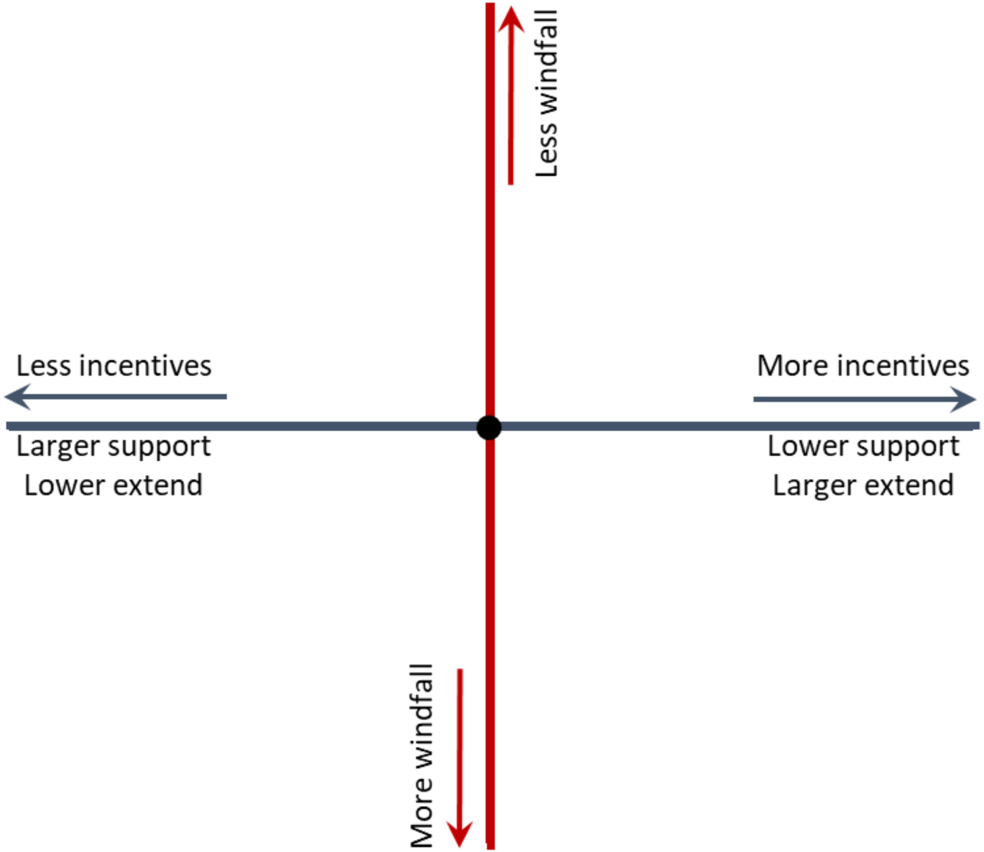
Start for reference situation:

- Given market/population
- Given windfall/incentive

Lego of efficiency changes

- Support depends only on x-axis
- Extend depends only on x-axis

Results in a graph



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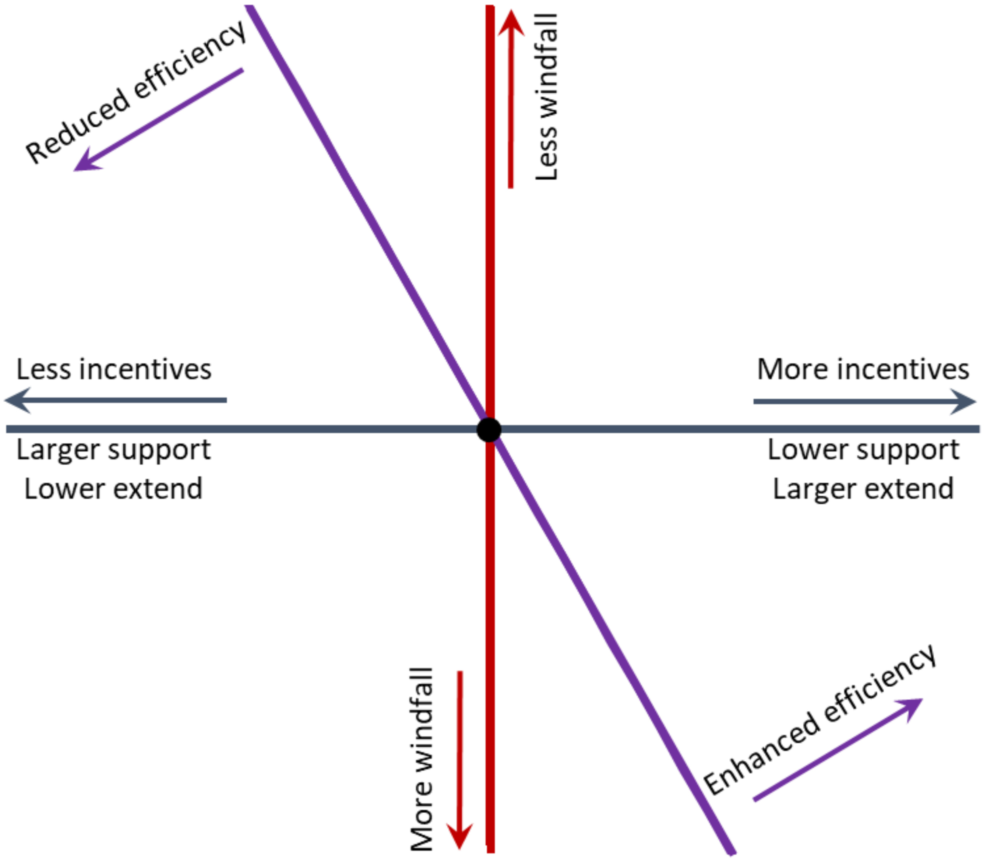
Which efficient composition?

Results in a graph



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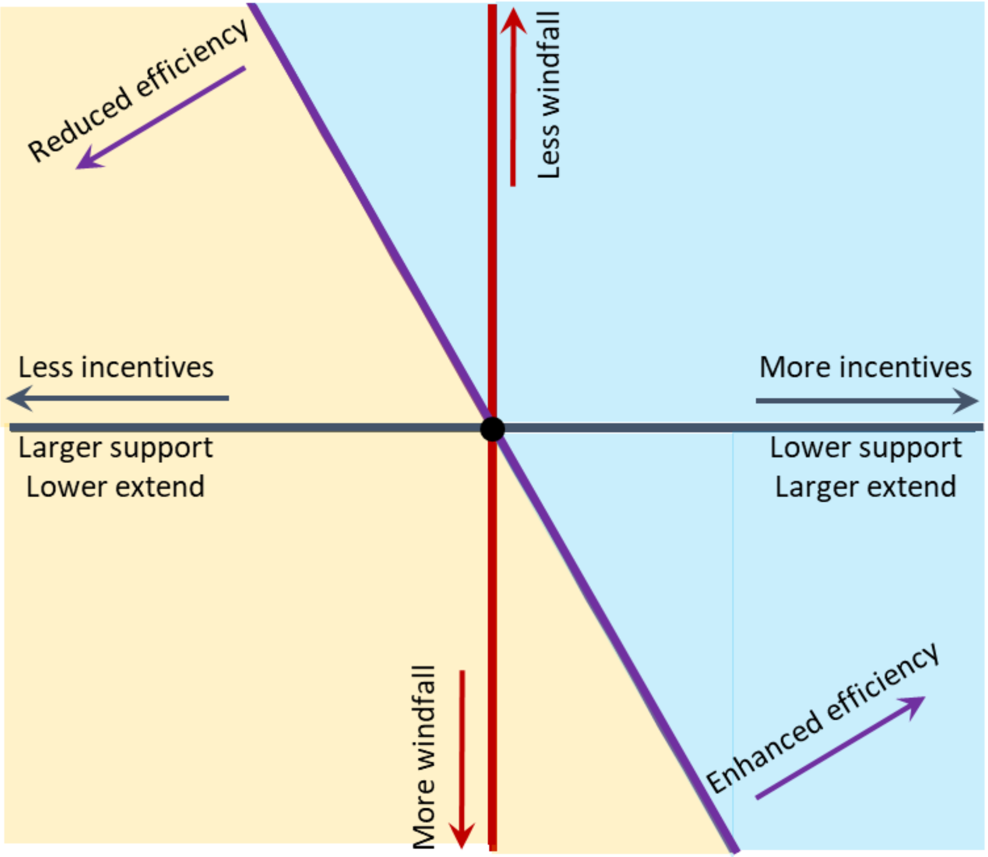
Which efficient composition?
- Less windfall, more incentives
- And partial compensation

Results in a graph



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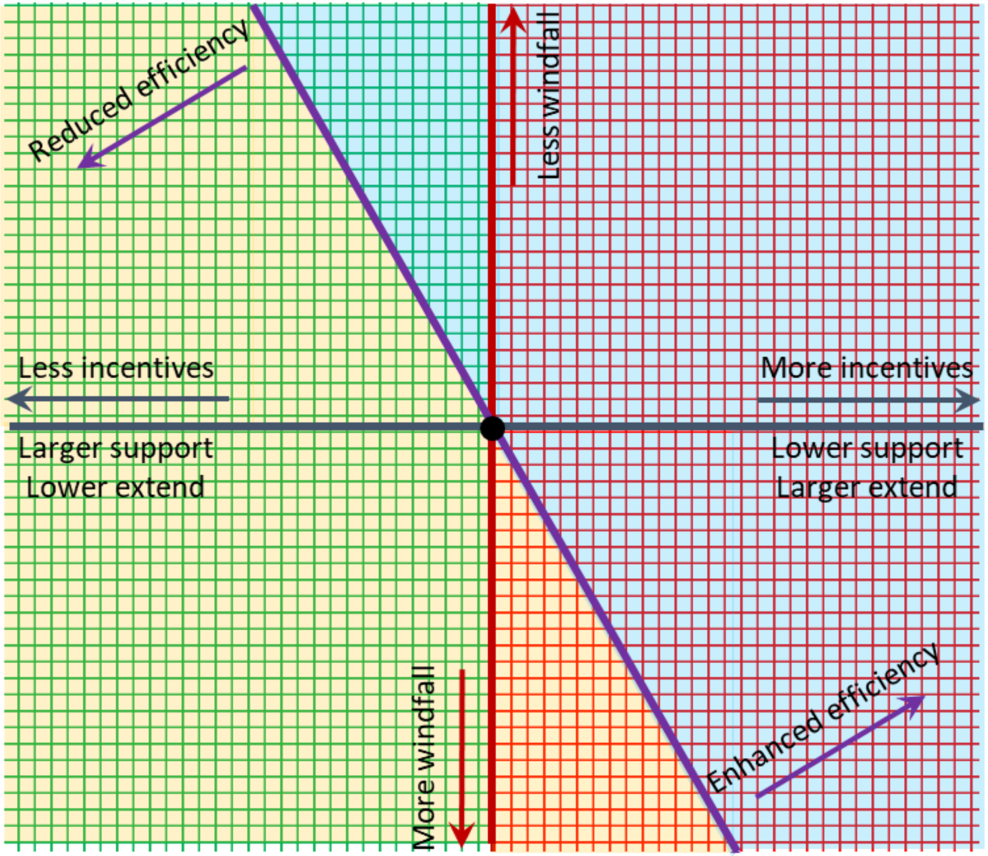

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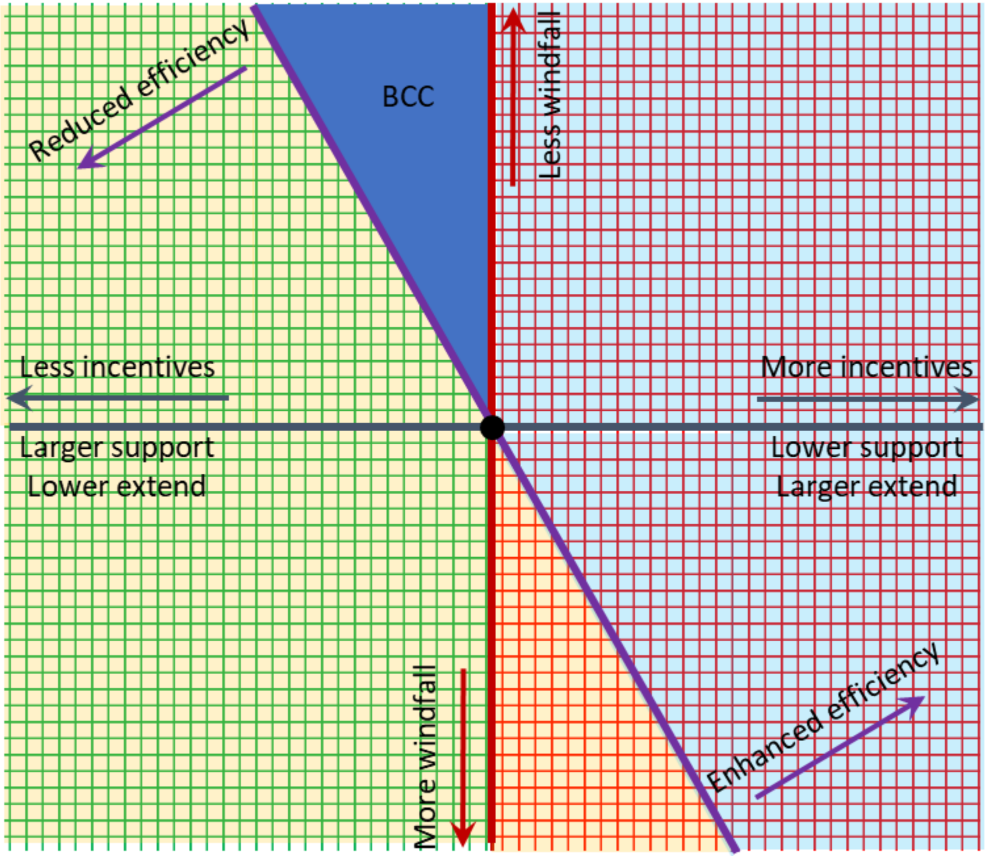
Efficiency and support
- Mainly negative relation

Results in a graph



Start for reference situation:

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Lego of efficiency changes

- Support depends only on x-axis
- Extend depends only on x-axis

Wich composition improve?

- Less windfall, more incentives
- And partial compensation

Efficiency and support

- Mainly negative relation
- Only positive → lower extend

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