

COMMENTS ON “ON POLICY RELEVANCE OF RAMSEY TAX RULES”

General Comments

This paper discusses two interesting topics: whether Ramsey-style tax rules are relevant for actual policy making, and whether actual tax reforms have been influenced by optimal tax research in the Ramsey tradition. Unfortunately, I ultimately found the paper unconvincing.

The paper attempts to draw a sharp distinction between optimal tax research in the Ramsey tradition and that in the Mirrlees tradition. To me, this seems like a false distinction. Mirrlees wrote much later than Ramsey, and his work can be viewed as an extension of the research program started by Ramsey. Subsequent work that has extended the design of tax systems to incorporate such considerations as the costs of administration and compliance can also be viewed as work in this tradition. This brings up the question of why one would want to draw a sharp line separating optimal tax research in the Ramsey tradition from other optimal tax work. An alternative is to selectively choose among the normative goals and features of a tax system to model as appropriate to any particular application, regardless of the branch of the optimal tax literature in which they were first introduced. The author seems to recognize that it would not be appropriate for a real world policy maker to restrict herself to the policy lessons derived from the Ramsey tradition, and exclude insights from other work. So, why is it useful for this paper to draw such a distinction?

In addition to giving a more compelling explanation of why it is useful to separate work in the Ramsey tradition from other optimal tax research, I would like to see the author more clearly and explicitly define exactly what falls within the Ramsey tradition, and what lies outside of it. Distributional considerations and analysis of the costs of administration and compliance were not considered in Ramsey’s work, and so are deemed to be outside of the Ramsey tradition. However, extensions of Ramsey’s work to tackle inter-temporal issues and model non-competitive environments and open economies are deemed to be in the Ramsey tradition. I think the author is defining the Ramsey tradition to be the set of optimal tax research papers that neglect distributional, compliance, and administrative issues, although I am not entirely sure. It would be helpful for the author to be more explicit about this. More generally, I think that the terms “Ramsey tradition” and “Mirrless tradition” lead to needless confusion. If the author’s intent is to argue for the usefulness of optimal tax analysis that excludes distributional issues and consideration of costs of administration and compliance, it would be simpler to just say so.

I found that the author’s examples of actual tax reforms that are guided by Ramsey principles generally failed to convince me that it was useful to consider Ramsey-type rules apart from other optimal tax considerations. For example, the description of the 2006 UK tax changes that the author deems to be “...consistent with Ramsey principles.” (p. 18) are also clearly influenced by distributional considerations and issues of compliance and administration.

More specific comments

1. Although most of the paper is very informal in its mode of analysis, there are two mathematical sections (section 3, and part of section 7) that do not add much to the substantive message of the paper, but detract from its readability. They seem out of place in this paper.
2. Section 4 uses an unusual definition of vertical equity, and is likely to confuse many readers. The author also fails to explicitly distinguish between compensated and uncompensated price effects, adding to the confusion.
3. Section 7, on capital income tax policy, mentions that the central result of the long run capital tax rate being zero can be extended to human capital, and that this result is also consistent with high taxes on initial capital, but then largely ignores these caveats in discussing the practical implications of optimal tax rules for actual tax reforms. Later on, this section covers a wide range of models without giving the reader enough detail to judge whether the work is of immediate policy relevance.