REFEREE REPORT ON: “ON POLICY RELEVANCE OF RAMSEY TAX RULES”
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This paper provides a summary of some work in optimal tax theory, with particular reference to the Ramsey Tax Rules. It covers an important topic in tax theory, namely what are some concerns of a policy maker when she reforms a tax structure and how does theory inform her. Unfortunately the treatment is sufficiently abstract that I gained little that would help me if I were the policy maker.

I think the author could include the Corlett-Hague tax rule (W.J. Corlett and D.C. Hague, “Complementarity and the excess burden of taxation”, *Review of Economic Studies* (1953), 21, 21-30) which can be considered as a direct extension of the Ramsey Tax Rule (see Chapter 12 of A.B. Atkinson and J.E. Stiglitz, *Lectures on Public Economics*, McGraw-Hill (1980)). In addition P.A. Diamond, “A many-person Ramsey tax rule”, *Journal of Public Economics*, 4, 335-342 (1975) seems relevant.

MINOR POINTS

On Page 5, the author writes: “The uniform commodity tax policy has been implemented through the introduction of VAT or GST type commodity taxation schemes...this reform agenda often uses a reinterpretation of the Ramsey principle in favor of uniform taxation.” I do not understand this point. Firstly, the Ramsey Principle is generally considered to stress that different products should be taxed at different rates - the author needs to explain how he can reinterpret the Principle as favoring uniform rates. Second, I consider the widespread use of VAT or GST to follow from the prescription of P.A. Diamond and J.A. Mirrlees, “Optimal taxation and public production,” *American Economic Review*, 61, 8-27 and 261-278, (1971) that the tax wedge should be placed between the firm and the consumer, and no tax should be levied on intermediate products.

On Page 10, the author writes: “A tax policy is fair in terms of vertical equity if the tax burden is consistent across taxpayers of different means.” I do not understand this point. Vertical equity is normally associated with the “Ability to Pay” Principle that wealthier households should pay more tax.

On Page 12 the author’s analysis seems to assume that the wage elasticity of labor supply is positive.

On Page 22 the author writes: “...some countries have reduced their corporate tax rate. The essential idea is that lower corporation tax rates provide lesser incentives for corporations to hide profits or evade taxes.” Another possible explanation, which is not discussed by the author, is that tax competition between European countries has become more intense.

On Page 25 the author writes: “The welfare maximizing labor tax and capital tax rates depend crucially on how the government uses the tax revenue, which may be simple redistribution or investment in infrastructure.” I agree with the statement but this is not the Ramsey Problem. As

the author explained earlier, the Ramsey Problem is to minimize the excess burden subject to the collection of a predetermined government spending.