Essays on Economic Policy (ESPE in Spanish) - Tax Policy and the Macroeconomy: Measurement, Identification, and Non-Linearities

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AUTHOR OR EDITOR Daniel Riera Carlos A. Vegh Guillermo Vuletin AUTHORS AND/OR EDITORS Daniel Riera Carlos A. Vegh Guillermo Vuletin Publication Date: Sunday, 30 of April 2017 Abstract
This paper examines the measurement and identification of tax policy shocks using novel multi-country databases on tax rates. On the measurement front, we argue that there is no substitute for using tax rates, a true policy instrument, as opposed to the much more popular revenue-based measures, such as cyclically adjusted revenues.

On the identification front, we argue that the narrative approach (whereby changes in tax rates are classified into exogenous or endogenous to the business cycle based on contemporaneous economic records) is the most accurate method. When properly measured and identified, tax multipliers for both industrial and developing countries are, on average, about -2. Further, we find important non-linearities with multipliers becoming bigger (in absolute value) as both the level of initial taxes and the size of tax changes become larger.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/tax-policy-and-the-macroeconomy