Just what this downturn demands:
A consumption tax

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Recession

- The deepest economic crisis since the Great Depression
- For the new government: crisis is also an opportunity for change (危機)
- It is imperative to increase spending over the short run, regardless how we pay for it
Government spending and tax

- Martin Feldstein (adviser to the campaign of John McCain): “The only way to prevent a deepening recession will be a temporary program of increased government spending”
- How to finance the spending?
Most federal revenue now comes from the income tax, ..., we are effectively taxing savings

\[ Y = C + S + \text{tax} \]

\[ \text{tax} = \tau Y, \quad \tau \text{ is tax rate.} \]

Hence

\[ Y = \frac{1}{1 - \tau} C + \frac{1}{1 - \tau} S. \]

課稅使價格上升。\( C \) 與 \( S \) 之價格原為 1, 課稅之後上升為 \( 1/(1 - \tau) \)。財富效果: 課稅使 \( C \) 與 \( S \) 都減少。
收入和消费税

政策建议：

- Replacing the progressive income tax with a progressive tax on consumption tax
- Example: A family that earns $60,000, saves $10,000, has a standard deduction $30,000 (免税额), would have taxable consumption of $20,000
Consumption tax

\[ Y = C + S + \text{tax} \]
\[ \text{tax} = \tau(Y - S - D), \quad D \text{ is deduction.} \]

Hence

\[ Y = \frac{1}{1 - \tau}C + S - \frac{\tau}{1 - \tau}D. \]

- \( C \) is more expensive than \( S \)。
  替代效果: \( C \) 減少, \( S \) 增加 (鼓勵儲蓄)。
- As \( \tau \) is higher (progressive tax), \( C \) will be lower
Effects of consumption tax

- Encourages saving
- High-income consumers might consume less and save more (substitution effect)
- **Comment**: it is not clear that why this is “one of the most effective ways” to raise tax revenue
Other changes

- Taxes on carbon
  Taxes on carbon have positive side effects: resulting in reductions in pollution and congestion

- Save More Tomorrow: workers can allocate a portion of future salary increases to retirement savings accounts [skip this part]