

Review of: "A Dynamic Model for an Optimal Consumption Tax Rate"

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A Dynamic Model for an Optimal Consumption Tax Rate

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Report by Friedrich L. Sell

Introduction

The authors' problem/challenge: Existing literature ignores efficiency losses on the adjustment path of the market to the final equilibrium after the imposition of a consumption tax. (p. 3)

Comment: The authors should, in my view, dedicate much more text in the introduction to the issue of dynamic adjustment paths (outside equilibrium) than to exhaustively reporting literature/country studies on consumption taxing.

The model

Is it really indispensable to consider three different types of agents: producer, consumer, and middleman? For example, is the producer himself not capable of handling inventories (as a shock absorber)? But if so, the authors should make it clear right from the beginning why this is important for their exposition (p. 4/5).

How important/relevant are middlemen in times of B2C transactions?

Is "just-in-time production," which minimizes inventories, considered in the paper at all?

Consumption tax/ad valorem tax

The intuition of the problem is easy. There exist - beyond the comparison of initial (before the consumption tax) and final equilibrium (after the introduction of the new consumption tax) – adjustment paths of consumption in between associated with disequilibrium and efficiency costs. They could be minimized by gradually decreasing the consumption tax vis-à-vis to its initial (newly introduced) value. This sounds nice, but I know not a single contribution in the political economy of taxation literature that would recommend such a strategy. You may either announce this procedure as a government, then consumers will postpone initial purchases with logical negative consequences for the economic cycle, or you do not, and then the government pays the bill in terms of severe reputation losses.

Conclusions

Apparently, the authors have not the slightest interest in the question of the political practicability of their proposal.