

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

Elham Bakhshayesh

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The article discusses the issue of optimal taxation, specifically focusing on ad valorem taxes on consumption. It criticizes the existing literature for only considering efficiency losses between pre-tax and post-tax market equilibriums, without taking into account the efficiency losses during the adjustment process. The author argues that the adjustment process, where the supply and demand of the taxed commodity adapt to the new post-tax market equilibrium, should be considered when computing optimal ad valorem taxes.

The introduction provides an overview of consumption taxes, including value-added taxes (VAT), sales taxes, excise taxes, and income taxes that exempt savings. It explains that consumption taxes can be indirect or direct, and they can be regressive or progressive depending on the tax base and rates. The author also mentions different contributions to the theory of optimal taxation, highlighting the work of Ramsey, Diamond and Mirrlees, Atkinson and Stiglitz, and others.

The article states that an optimal tax minimizes efficiency losses and market distortions resulting from the deviation from the pre-policy efficient market equilibrium. It mentions various studies on optimal taxation, including those focused on commodity taxes, income taxes, capital income taxes, carbon taxes, and quantity taxes. The author argues that the existing literature fails to consider the efficiency losses during the adjustment process when deriving optimal consumption taxes.

The remainder of the paper is structured as follows: Section 2 explains the dynamic market model, Section 3 provides the solution of the model with a consumption tax, Section 4 derives the optimal consumption tax by minimizing the efficiency losses during the market adjustment and in the post-tax equilibrium, Section 5 summarizes the findings and concludes, and Section 6 constitutes the appendix.

Overall, without going into the specific details of the analysis presented in the article, it seems to highlight an important aspect that has been overlooked in the literature on optimal taxation. Taking into account the efficiency losses during the adjustment process can provide a more comprehensive understanding of the impact of consumption taxes and lead to improved optimal tax policies.