

Institution: University of Kent
Unit of Assessment: 18 - Economics and Econometrics
Title of case study: The Design of Tax Policy for Economic Recovery and Growth
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>This case study describes how an economic and statistical analysis of tax policy undertaken by Chris Heady has been used to inform fiscal policy decisions, both in the UK and overseas.</p> <p>The research has had a direct impact on public policy, informing HM Treasury's decision in 2011 to increase the main rate of value added tax and accelerate the reduction in the rate of corporation tax. It has also had a broader impact through contributing to the government's understanding of the role of tax policy in promoting growth, and through informing public understanding of the issue.</p> <p>In addition to its significance to UK public policy, the research has had international reach as it has been presented for discussion by the international tax community and international organisations.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The purpose of the research undertaken by Professor Heady and his co-authors was to analyse how tax policy could simultaneously aid short-term economic recovery and increase the longer-term rate of growth. The first part of this research consisted of detailed statistical analysis of the effects of tax structure on investment, productivity growth and overall economic growth in OECD countries over a period of more than 30 years. The second part of the research combined these statistical growth results with an analysis of how tax policy would affect short-term recovery and inequality, based on theoretical reasoning and analysis of published empirical research. The research was particularly influential because it was the most detailed research on this topic that had been undertaken.</p> <p>The main research findings were that a shift of taxation away from income taxes (particularly corporate income tax) towards consumption taxes and property taxes could increase growth, as could reductions in the top rate of personal income tax and the taxation of low-skilled workers. On the other hand, tax changes to promote short-term economic recovery at the lowest budgetary cost were likely to be cuts in the taxation of those on low incomes. Therefore, a reduction in the taxation (both personal income tax and social security contributions) of low-skilled workers would contribute to both the short-term goal of aiding recovery and the long-term goal of securing growth.</p> <p>The research was started while Professor Heady was at the OECD and involved a number of OECD staff. Professor Heady was one of the two leaders of the project and he was responsible for the tax policy analysis. The other project leader was responsible for the statistical work. Following Professor Heady's appointment to the University in 2009 he developed the research contained in an OECD report to which he had contributed (reference 1) into academically publishable research outputs (reference 2 to reference 3).</p> <p>In his new role he recognised the academic and impact potential of the research, and worked on combining the longer-term statistical results that had been obtained at the OECD with the new short-run concerns of economic recovery. In view of the innovative nature of the research, combining long-run supply-side analysis with short-run demand side considerations, he worked towards publication in a high quality journal. His work was initially published as a University of Kent discussion paper (reference 2) before being submitted to the Economic Journal. A revised version was accepted and published in 2011 (reference 3).</p> <p>In order to engage more widely with the policy community and to inform debate on the issues, a media briefing was prepared and issued by the Royal Economic Society (source 3), and Heady also wrote an article for VoxEU, a website set up by the Centre for Economic Policy Research</p>

specialising in economic policy issues and widely read by economists with a policy interest, particularly in the European Union (reference 4).

3. References to the research (indicative maximum of six references)

1. Chapter 5 of OECD's *Economic Policy Reforms: Going for Growth 2009*, outline available at: http://www.oecd.org/document/33/0,3746,en_2649_37443_41935009_1_1_1_37443,00.html#How_to
2. 'Tax Policy for Economic Recovery and Growth', Christopher Heady, Åsa Johansson, Jens Arnold, Bert Brys and Laura Vartia, Discussion paper 9/25, School of Economics, University of Kent, December 2009.
3. Arnold, JM, B Brys, C Heady, A Johansson, C Schwellnus, and L Vartia (2011), "Tax policy for economic recovery and growth", *Economic Journal*, 121:F59-F80.
4. 'Tax policy to aid recovery and growth' by Christopher Heady on Vox website, <http://www.voxeu.org/index.php?q=node/6205>, published 14th March 2011.

4. Details of the impact (indicative maximum 750 words)

Heady's research was **used and cited by HM Treasury in its 'Plan for Growth' report, published at the time of the March 2011 budget statement** (source 1). Specifically, HM Treasury made reference to the research result about the growth impacts of moving from income taxes towards consumption and property taxes. In this way the research **contributed to government's understanding of the issues and shaped the policy approach to economic recovery**.

The impact of Heady's work has reach and significance beyond government. He has **informed and stimulated expert debate**, for example through presenting his findings of the link between tax policy and growth at a conference of the International Tax Dialogue, an organisation that includes most of the **major tax authorities in the world** (source 7). The ITD is a collaborative arrangement between the EC, IDB, IMF, OECD, World Bank Group and CIAT to encourage and facilitate discussion of tax matters among national tax officials, international organisations, and a range of other key stakeholders.

He has also contributed to **public understanding of the issues** via his media work, including a major press briefing organised by the Royal Economic Society which was used to disseminate his findings to key national and international economics correspondents. The briefing led to **significant international media coverage**, including articles in the Wall Street Journal (source 4) and the BBC (source 5). His article for Vox (reference 4) has been accessed nearly 9000 times and has also been picked up and reproduced on the US-based website, Global Economic Intersection (source 2). This site features original economic commentary, debate, and economic analysis of the economic effects on finance, investing, social interactions, and politics / public policy.

The research has **impact on international organisations**. It has been cited by the OECD as a basis for policy reform to increase employment (source 6) and the IMF as the basis for its analysis of tax composition and growth in a wider range of countries (source 8). A further example of the work's international impact is provided by a paper on 'Tax Policy and Economic Growth' in Jamaica from the Bank of Jamaica (source 9), which cites the methodology and analysis of reference 3.

Heady's research **continues to influence government policy on taxation**. Recent evidence of this continuing Treasury interest is contained in source 10.

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. H.M. Treasury (March, 2011), *The Plan for Growth*. Available at: http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf (page 15, footnote 18, refers to reference 1)
2. Reference 4 reproduced on Global Economic Intersection website, <http://econintersect.com/wordpress/?p=17312>, posted 25 December 2011 is a summary of some of the key research including a table of econometric results.
3. Media briefing from Royal Economic Society January 2011 for reference 3: <http://www.res.org.uk/details/mediabrief/4228751/TAX-POLICY-FOR-ECONOMIC-RECOVERY-AND-GROWTH.html>
4. Reference 3 subject of Wall Street Journal article, 10 February 2011, <http://online.wsj.com/article/SB10001424052748704858404576134070817365828.html#articleTabs%3Darticle> which says "Property taxes are the best way for governments to raise the extra revenue they need to reduce their debts without hurting growth" and discusses the research in more detail.
5. Reference 3 subject of BBC website item, 10 February 2011, http://www.bbc.co.uk/blogs/thereporters/douglasfraser/2011/02/tax_changes_for_growth.html which says "How best to use the tax system to boost growth, particularly through a downturn? It's an economic question that really matters, while taxes and benefits are being altered significantly in a big gamble that deficit-cutting will somehow lead to growth. And there's an answer today from the Economic Journal"
6. Reference 3 cited on page 280 of OECD's Economic Outlook, Volume 2011, Issue 1, and picks up the argument of shifting the tax base to consumption or property taxes. Available at: <http://books.google.co.uk/books?hl=en&lr=&id=dCR6S-QubBYC&oi=fnd&pg=PA253&ots=KHBkv31iLb&sig=88HT30ixBE-TfpGmpeKsYKag2CQ#v=onepage&q&f=false>
7. Invited talk on 'A More Detailed Look at Taxes and Growth' at the 4th International Tax Dialogue Global Conference on 'Tax and Inequality' in India, 7-9 December 2011, attended by a wide ranging audience of academics and policy makers. Conference agenda at: <http://www.itdweb.org/TaxInequalityConference/Pages/Agenda.aspx>
 Paper at: http://www.itdweb.org/taxinequalityconference/documents/background/A_More_Detailed_Look_at_Taxes_and_Growth.pdf
8. Reference 3 cited in IMF Working Paper WP/12/57 'Tax Composition and Growth: A Broad Cross-Country Perspective'. Available at: <http://www.imf.org/external/pubs/ft/wp/2012/wp12257.pdf>
9. Reference 3 cited in Bank of Jamaica research paper 'Tax Policy and Economic Growth in Jamaica', focuses on the role of tax structure and economic growth to see what lessons can be learned for policy in Jamaica. Available at: http://www.boj.org.jm/uploads/pdf/papers_pamphlets/papers_pamphlets_Tax_Policy_and_Economic_Growth_in_Jamaica.pdf.
10. From: Whitaker, David - HMT
 Sent: 11 July 2013 17:42
 To: Chris Heady
 Subject: [UNCLASSIFIED] Analysis query

Dear Professor Heady,

Impact case study (REF3b)

My name is David Whitaker, and I currently work within the Economics Branch of the Strategy, Planning and Budget team in HM Treasury.

As part of our longer term analysis work of the UK tax system, my colleague Elizabeth Aitken (cc'd in) and I are interested in replicating and building on the findings from the following paper which you co-wrote: Arnold, Brys, Heady, Johansson, Schweltnus and Vartia, "*Tax Policy For Economic Recovery And Growth*", The Economic Journal, 121 (February 2011).

The results of this paper- particularly the findings for the relative efficiency of different taxes- were of great interest to us. We have gathered the OECD National Accounts and taxation data used in the pooled mean group regressions, but we are facing some difficulty in replicating the results through Stata. I would be grateful if you could let me know if either yourself or one of your co-authors would be willing to share your data source and Stata methodology, if it is available.

I am very happy to discuss this further over the phone, and thank you for your consideration.

Yours sincerely,
David

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