Session 3: Can Taxation determine our behavior?

Taxes are omnipresent, potent tools. They are used throughout the developed world to raise revenues redistribute income, and also to correct what are considered to be harmful behaviors or, conversely, to stimulate what are deemed beneficial behaviors.

When thinking about the effects of taxes on our behavior, two broad questions come to mind: First, does the general tax system (income taxes, corporate taxes, sales taxes) have (perhaps unintended) consequences for our behaviors and how strong are these? Second, do taxes that are designed specifically to correct our bad behaviors or foster beneficial behaviors actually fulfill their role?

On the first question, it is important to discuss a wide array of effects, some of which are not that often discussed or studied by researchers. For instance, commonly accepted and studied effects of taxes on behavior are labor supply effects, labor market participation effects or evasion and avoidance effects. Less analyzed, but perhaps as important are the effects of taxes on he migration of people and factors of production; on innovation; on education and human capital acquisition; on savings. Recent academic work, based on ever improving data and empirical methods, has made progress in quantifying these effects. What are the main effects on behaviors of firms or individuals that we should worry about (or welcome)? Can we address and remedy them?

On the second question, countries have developed a multitude of policy proposals or actual policies to punish bad behaviors (e.g.: soda taxes, cigarette taxes, carbon taxes) and to encourage good behaviors (e.g.: green energy tax credits or subsidies; charitable giving tax deductions). To what extent are people sensitive to these taxes when deciding how to act? Economists distinguish between internalities (actions taken by oneself without fully internalizing the consequences of that action, perhaps on oneself in the future) and externalities (actions that have a negative impact on others). Should governments try and act against these two types of externalities in the same way or should these be addressed differently? In addition, economists often point to a conflict here between the wish to redistribute or raise revenues fairly and the need to correct bad behaviors. For instance, taxing fuel may be good for the environment, but it will hit especially hard households with low income that spend a large share of their budget on fuel. What actions can be taken to mitigate the adverse redistributive impact of corrective taxes?

Bringing together economic theory, empirical analysis, and practical experience from practitioners and policy makers will be key in addressing these questions and devising better fiscal policies that minimize undesirable consequences and maximize desirable ones.