Discussion of "Corporate Taxation and Firm Productivity" by Holtmann et al.

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Overview

Question
Do corporate tax incentives affect (residual) firm TF productivity?

Contribution
Despite plethora of theoretical mechanisms.
Empirical work is scant.

Data
Orbis sample with 4M firms in 200 countries between 2010-18.

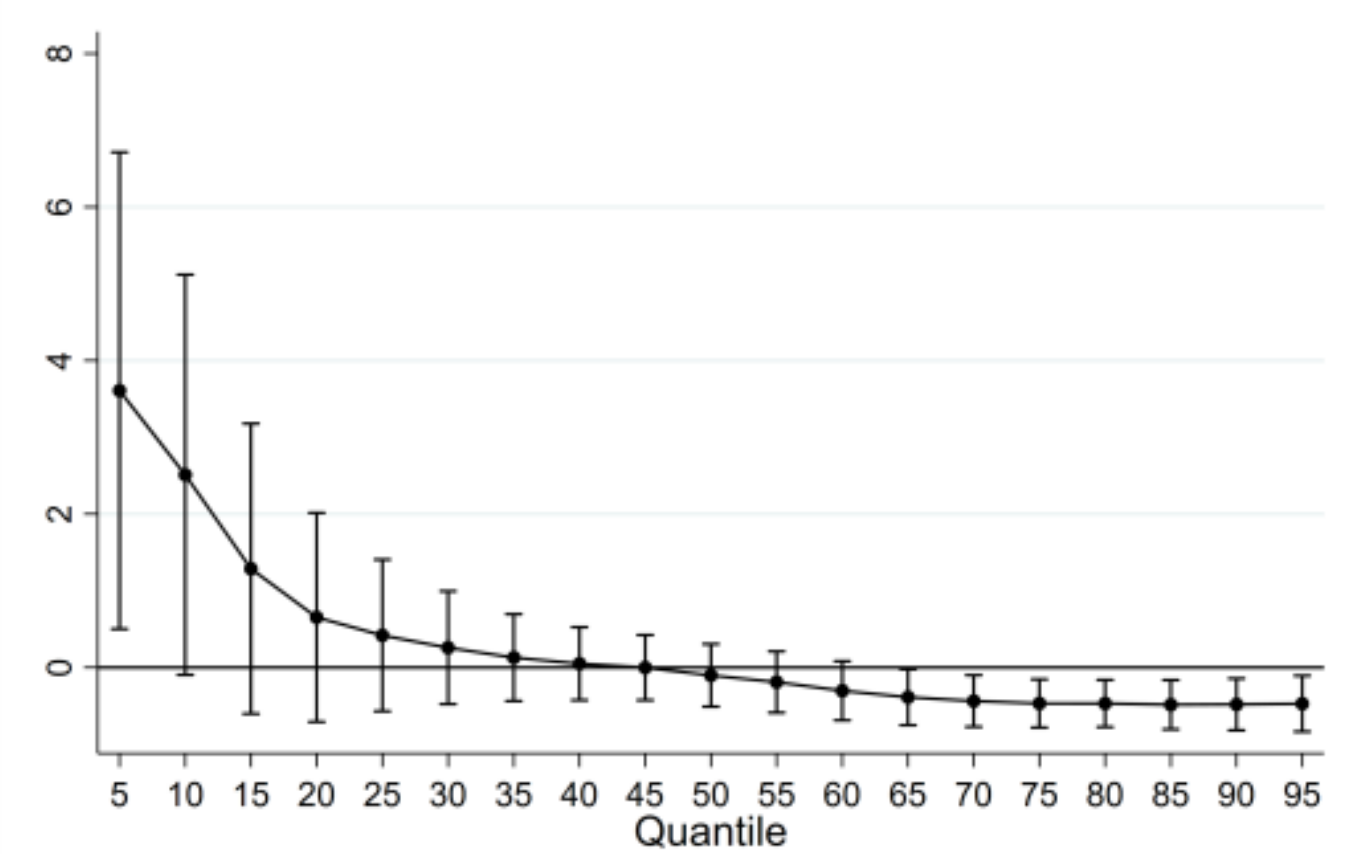
Research Design
Estimate TFP using Ackerberg et al. (2015)
Unconditional quantile regression – Effect along TFP distribution

Main Results
(1) $\uparrow$ C-tax $\implies$ $\uparrow$ 3.61pts. of TFP at 5th-pctile of TFP dist. related to firm exit.
(2) $\uparrow$ C-tax $\implies$ $\downarrow$ 0.48pts. of TFP at 90th-pctile of TFP dist. related to reduction in productivity-enhancing investment.
(3) C-tax reduces firm mobility over distribution of TFP.

Impact of C-tax

Figure 5: Unconditional Quantile Regression Coefficients

(a) EATR



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P: uses Orbis' value added following Gal (2013)
$\Longrightarrow$ might introduce input pricing estimation concerns unless we believe m_{it} is separable + deflate series separately using output & input indices.

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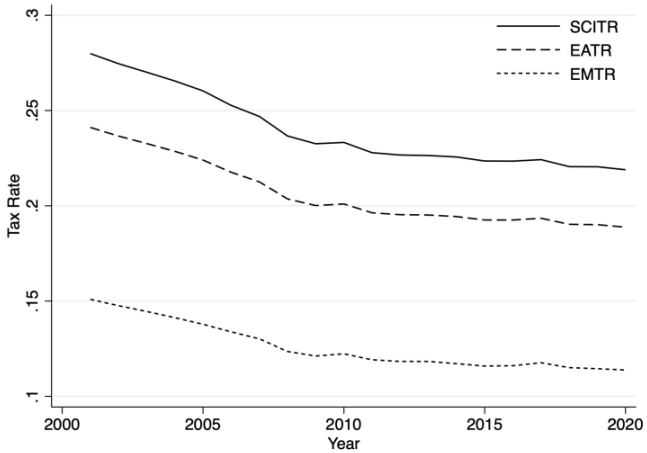
* Actual assumption is first-order Markov process

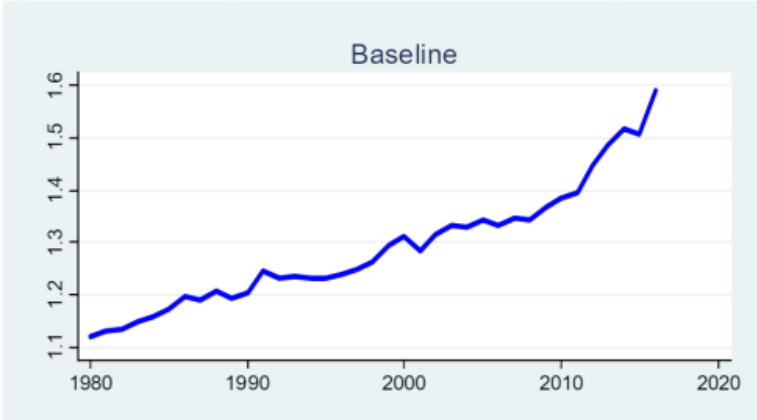
Market Power & Misallocation

Figure 1: Tax Rate Developments



This paper: Falling C-tax

Figure 5. Estimated Markups for U.S. Firms: Baseline and Alternative Approach



Diez et al. '23: Rising markups

C-tax affects TFP through exit & productivity-enhancing investment OR through market competition?

C-tax may also affect misallocation a la Hsieh & Klenow (2009) for example through loss provisions.

Both implying less TFP.

Other Thoughts

- Theoretical exercise perhaps too restrictive given empirical nature
  - S: Either remove it or allow a more complex environment.
- Serial correlation in residual productivity?
  - S: Model as an AR(1)?
- Reverse causality? statutory corporate tax reacts to low productivity shocks.
  - S: unlikely in developed economies where tax policy is acyclical (Vegh & Vuletin 2015); focus on a sample of developed economies.
  - S: look at dynamics in a staggered DiD model.
- Account for multiple simultaneous changes in tax code
- More details on estimation method for TFP.

Direction of travel

- Explore robustness w.r.t. the estimation of TFP.
  1. estimate TFP using Bond-Blundell GMM methods.
  2. calculate using parametric methods assuming industry-level input shares.
  3. if using VA as dep. var., deflate output using output price index & flex. inputs using inputs price indices
  4. Regardless, estimate Prod. func. using sales data too.
- Study more directly market power/misallocation mechanism within this framework. Do higher taxes imply less investment or more misallocation/market power?
- Account for other changes in the tax system: dividends, capital gains.
- I would want more evidence on why multinationals are less affected. Can we study the avoidance mechanism directly using anti-avoidance recent reforms?