Estimating the Effects of a Temporary VAT Rate Cut on Prices and Sales Employing Scanner Data on Nondurable and Durable Goods

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Summary

Research Question: What is the impact of the VAT reduction and its subsequent increase on consumer prices?

Setting

▶ VAT cut as 'unconventional fiscal policy': implemented in Germany between 1 July and 31 December 2020 to stimulate consumption

Empirical analysis

▶ Use scanner data on prices and quantities of fast and slow moving consumer goods in Germany and Netherlands
▶ Estimate tax pass-through via difference-in-differences

Empirical results

▶ Substantial and fast, but incomplete pass-through
  ▶ symmetric (SMCG) across tax decrease & increase
  ▶ similar for lower-income households & across different product categories

Comment 1: Heterogeneities in pass-through

Heterogeneities explored

- ▶ FMCG vs. SMCG
- ▶ Electronics vs. other SMCGs

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Further heterogeneities? Economic drivers of these heterogeneities?

Possible dimensions

- ▶ Intensity of competition for category
- ▶ Frequency of purchase
- ▶ Salience of price (e.g. SMCG w/o extras), loss-leaders, bundling...

⇒ Rich data could provide further insights into determinants of pass-through

Comment 2: Distributional consequences

How is the product basket for lower-income households constructed?

- ▶ Products bought during reduced VAT rate?
- ▶ Products bought during normal VAT rates?
- ▶ Mix of both?

Potentially interesting disaggregation with household panel

- ▶ Estimate pass-through to product basket bought
    - ▶ pre-VAT cut
    - ▶ during VAT cut
    - ▶ post-VAT cut
- ▶ Does VAT cut or differential pass-through lead to substitution?

⇒ Could provide deeper insights into distributional consequences

Comment 3: Lessons for policy

(Preliminary?) result: Expect quantity effects between 0.24% and 1.92%

What can we learn for policy?

▶ Do supply-side considerations (e.g. capacity constraints) matter?

▶ Do the results only to temporary tax decreases of a similar magnitude?

▶ To economies of a similar size (e.g. France, Italy, UK)?

▶ Also to EU as a whole? USA? China?

Minor comments

How does selection affect the results?

Evolution of the seasonally adjusted monthly relative price changes: how would a plot of means look, instead of modes? (Fig.4 & Fig.9)

Can you include the underlying specification and output tables?

How does accounting for anticipatory effects affect the results?