

Economic Effects of Investment Subsidies

New Zealand Tax Reform – Where To Next?

VUW Tax Policy Conference

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Outline

- ▶ Summary
- ▶ Discussion
- ▶ Thoughts (suggestions)...

Summary

- ▶ 1) Do investment subsidies boost growth?
- ▶ 2) How to design a good subsidy?

Summary

- ▶ 1) Do investment subsidies boost growth?
 - Elasticity of supply of capital
 - Elasticity of demand for capital
 - Closed or open economy?

Small gains, or even losses

Summary

- ▶ 2) How to design a good subsidy?
 - Favouring equipment – difficult to justify
 - Low or negative tax burdens for debt-financed investment – difficult to justify

Discussion

- ▶ Subsidies are inefficient & inequitable
- ▶ New Zealand: R & D tax credit

Would like to see

- ▶ Why subsidising?
 - Do firms fail to invest?
 - Do subsidies increase investment, or just reclassification?
- ▶ Empirical, cross-country/ panel study
- ▶ Behavioural economics...
- ▶ Link between investment subsidies & savings subsidies
- ▶ Evaluation of NZ's R & D tax credit