Taxation when markets are not competitive: Evidence from a loan tax

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What is this paper about?

This paper $\rightarrow$ Study how tax deadweight loss varies by market structure

1. Pass-through estimates of unexpected introduction of loan tax in Ecuador
2. Quantitative model including (i) Bertrand-Nash competition, (ii) credit rationing, and (iii) joint maximization.

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Mechanism: Under Bertrand-Nash competition, borrowers bear a higher burden of the tax, leading to a greater deadweight loss per unit of revenue raised. In contrast, in a joint maximization environment, the tax falls primarily on banks, reducing its distortionary effect on borrowing.

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- New structural model of commercial lending including collusion

Comment I: Threats to Identification

1. Demand Effect: how can we distinguish between supply and demand effects?
   - Cannot include firm-time fixed effects since it drops coefficient of interest
     $\rightarrow$ Can extend the sample to all loans such that you can add this FE?
   - Are firms changing their behavior?
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   - Incomplete pass-through with bargaining powers (Alviarez et al., 2023)
3. Buyer-seller relationship lengths affect pass-through of shocks (Heise, 2019)
   $\rightarrow$ Control for length of bank-firm relationship
   $\rightarrow$ Control for other characteristics of the relationship/contract

Comment II: Interest Rate

More concentrated markets have higher interest rates

- Can you distinguish if this is because of markups or marginal costs?
  $\rightarrow$ include FE/financial variable to control for marginal costs

- If this is all about markups..
  1. Trade-off: there is lower pass-through of taxes but higher interest rates. If there were competition, interest rates would be lower.
  2. Markups lead to misallocation so, does this compensate the "gains" of smaller deadweight loss per unit of revenue raised from taxes?
     $\rightarrow$ Nice exercise to make

Comment III: Collusion Term

Do we need a collusion term/story to have incomplete pass-through?

$$r_{ikmt} = \frac{mc_{ikmt}}{1 - d_{ikmt}} - \frac{1}{\underbrace{\frac{\epsilon_{kk}}{r_{ikmt}}}_{Bertrand-Nash} + \underbrace{\upsilon_m \sum_{j \neq k} \frac{\epsilon_{kj}}{r_{ijmt}}}_{Alternative\ \ Conduct}}$$

- Trade literature variable markups: CES demand + discrete number of firms
  $\rightarrow$ + productive firms, higher market shares, higher markups, lower pass-through (Atkeson and Burstein, 2008) [1] [2]
  $\rightarrow$ Model of banks with variable markups Herreno (2023)

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- Is there a way to test variable markups vs collusion?
- Map of the model to empirics?
  1. Which is the right variable to use in the regression?
     $\rightarrow$ Clarify why HHI instead of the number of banks, etc.
  2. Does it have to be at the market level, or can it be at the firm level?
     $\rightarrow$ Try the market share of the bank interacted with the shock

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- Firms' side:
  - Are these "less harmed" firms connected to concentrated markets increasing their sales, employment, etc?

Comment V: Market Definition

How to define a market?

- Can firms get loans in other provinces?
  $\rightarrow$ Show before the shock this was not the case

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- Paper on defining labor markets (Fogel, 2022))
  $\rightarrow$ Can think of the analogous version for banks

Small Comments

- Abstract: "If competition were stronger, the effect of 10%.." Can you say how much is the increase in competition that leads to that effect?
- Do you control for time events that could affect differently more concentrated markets?
- Page 16, two paragraphs have a similar sentence "In addition, we include bank and firm fixed effects to control for unobserved, time-invariant heterogeneity in the determinants of interest rates."
- Table 12 is too simple given the importance for the paper
  $\rightarrow$ calculate the standard errors of the calibrated values and test whether the incidence and excess burden differ from the Bertrand-Nash and joint maximization cases (more aligned with Appendix G).

Conclusion

Great Paper!

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