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Comment on
The effects of tax incentives for small firms on employment levels

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The paper

Overview

- This paper analyzes the effect of a tax simplification/reduction program in Brazil.
- Study the effect of tax incentives for small firms on *their own* employment levels.
- Exploit the discontinuity in firm revenue that defines eligibility to the program.
- Distinguishes the effect on firm size and on firm survival.
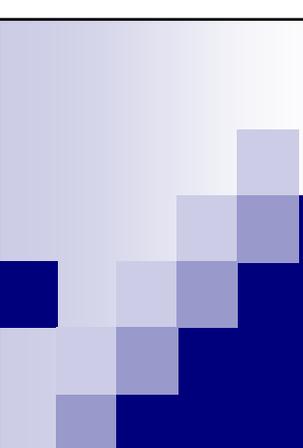
The approach

The approach

- The paper analyzes non experimental observational admin data.

- The identification strategy relies on economic theory:
  - □ To define the parameters and effects of interest.
  - □ To indicate estimation alternatives.
  - □ To reveal potential sources of bias.

- No need to be apologetic! These *are* conventional methods:
  - □ Obs. data most often than not has selection issues.
  - □ RCTs not always feasible, +scale up/equilibium…

The data

The data

- Other papers have analyzed some aspects of SIMPLES – the data source is one of the advantages here.
- Paper describes the sources+program, not the dataset. More details needed:
  - Descriptive statistics of outcomes-controls.
  - Panel structure: rotating one year panels? Can link 1997 to 1999?
  - Attrition vs mortality – this is a key aspect of the model/id strategy.
  - Average employment levels in the sample: from 27 to 37 in three years?

The experiment

The experiment

- Need a bit more on the institutional setting – the authors clearly know it quite well.
- Stated, intended and unintended effects:
  - Boost (formal) employment?
  - Boost formality – registration
  - Why employment? Profits?
- More on possibility of revenue manipulation-anticipation of tax change. Promised in intro…
- Inflation pushes firms above the threshold.
- "Opting" for the program – the threshold might be exogenous, but participation is not. "Non-compliers"? Anticipate higher future revenue…

The model

The model

- The simple model could perhaps be streamlined. Careful with notation.
- Two tax levels: T^s, T^{ns} – what about T=0? Tax evasion – manipulation – audit…
- Important "selection" mechanism: effect on employment or on *registered* employment?
- Selection into the data sample.
- Galiani-Weinschelbaum (2007, CEDLAS DP 47):

$$\Pi_f(a) = Pf(a,l) - w_f l(1+t) - \tau$$
$$\Pi_i(a) = (Pf(a,l) - w_i l)(1-q)$$

The model

- The option is not only manipulating revenue to be above-below the SIMPLES threshold – it is also possible to manipulate *declared* revenue.
- No cheating? Non-registered workers in "formal" firms need to be paid from non declared funds.
- Modeling firms that have both formal and informal workers is not an easy task, but having a third T=0 option might help.
- Perhaps connect a bit more with discussion-results in Fajnzylber **(P.!)** et al. and others.
- Firm size impact and aggregate productivity.
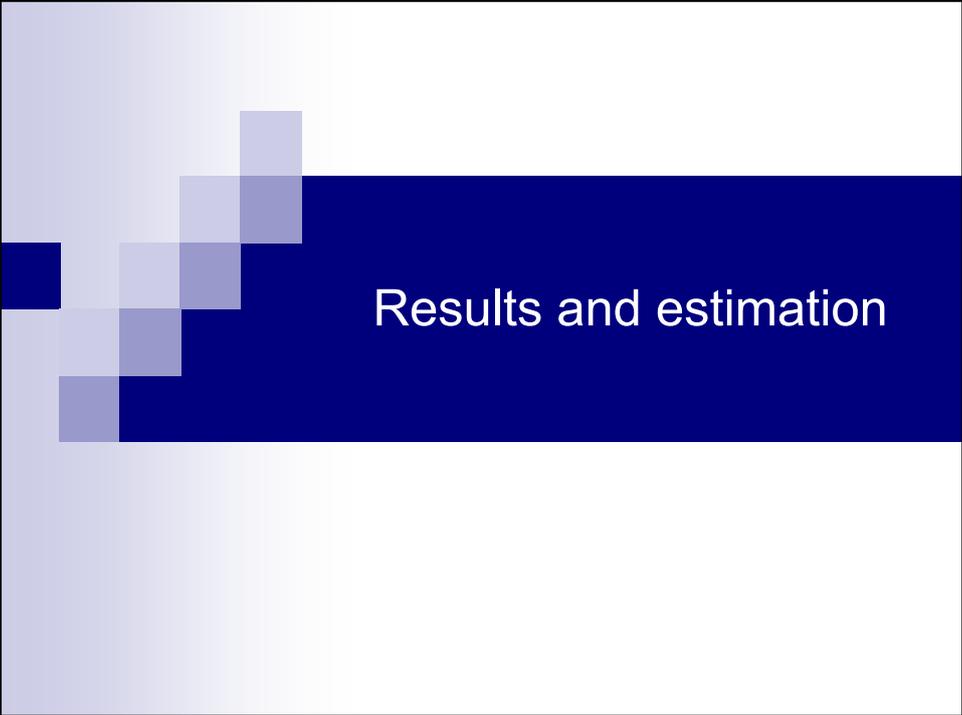
Results and estimation
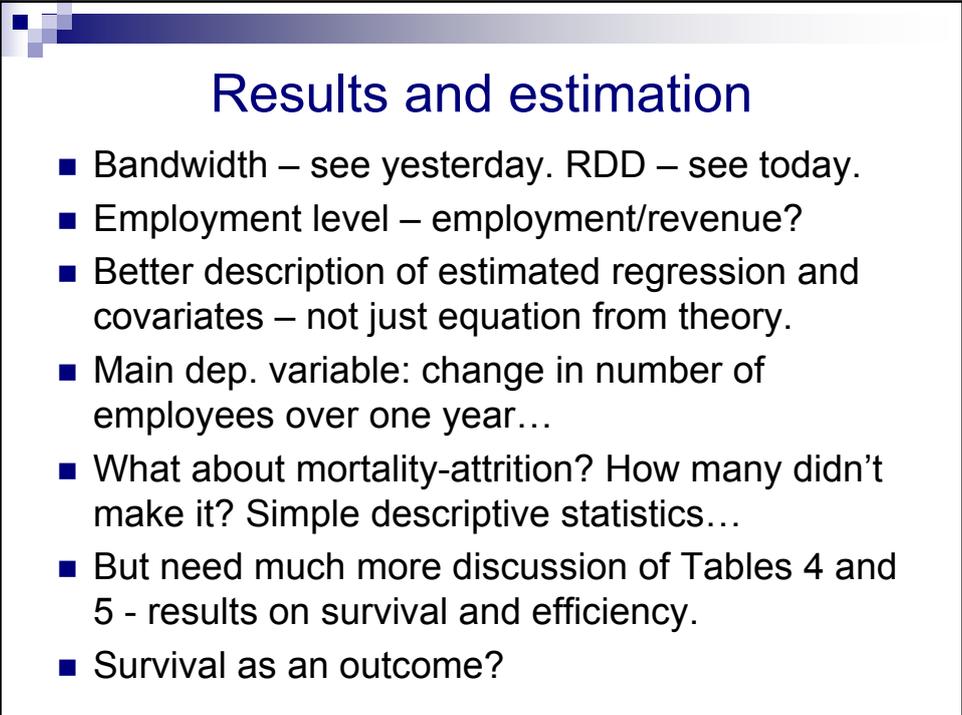
Results and estimation

- Bandwidth – see yesterday. RDD – see today.
- Employment level – employment/revenue?
- Better description of estimated regression and covariates – not just equation from theory.
- Main dep. variable: change in number of employees over one year…
- What about mortality-attrition? How many didn't make it? Simple descriptive statistics…
- But need much more discussion of Tables 4 and 5 - results on survival and efficiency.
- Survival as an outcome?
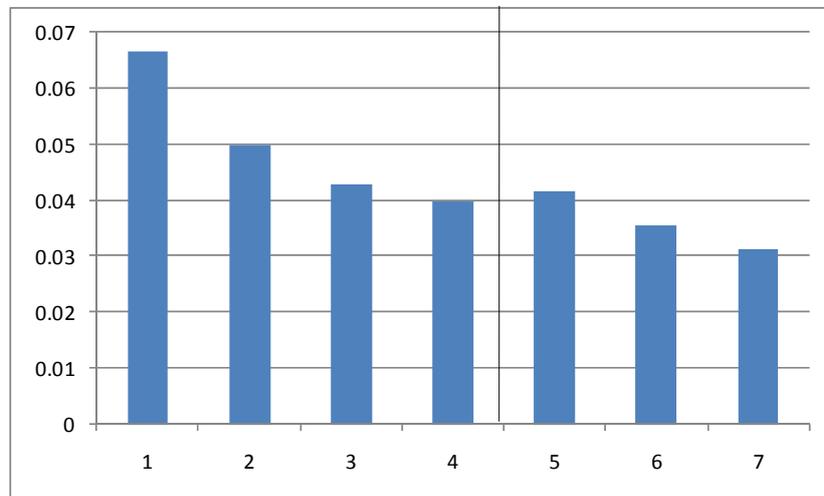
Related literature

- Connect to LAC applied literature on payroll tax reforms: Gruber, Kugler-Kugler, Cruces-Galiani-Kidyba.
- Other externalities of formality-registration: access to credit, etc.

Sum up

- The paper is very open about selection problems.
- Could discuss more the threats to the identification strategy:
  - Choosing informality-under declaration of revenue
  - Manipulation of forcing variable
- Discuss why not – but also what if: size and direction of potential bias.