BRIEFING: Summarising and signposting essential reading we've seen elsewhere...

THE PRICE OF A DRINK – TOO EXACTLY? Flawed EVIDENCE for MINIMUM ALCOHOL PRICING

This article begins by exploding some myths – many of them promoted by government ministers from the Prime Minister downwards. The Prime Minister, for example, has stated that cans of high-strength lager are available for between 25 and 30 pence – this is not true. Press reports suggest that UK alcohol consumption is increasing and yet it has decreased by 13 per cent between 2004 and 2011. Despite this, the government has been trying to introduce a minimum per-unit price for alcohol.

A University of Sheffield model has been used to provide many of the figures that are quoted in the minimum pricing debate and was the source of the figures used by the Scottish government in support of its minimum pricing plans. Duffy questions this model. For example, addicted drinkers are not assumed to be less price sensitive than casual drinkers of alcohol in the model. Independent testing of the Sheffield model has suggested that it did not predict trends in alcohol consumption and the related harms very effectively. Duffy argues that the Sheffield model is not just inaccurate, it is not useful. For example, using figures derived from the model, the Scottish minister responsible for health suggested that a minimum price of 50 pence per unit would save 60 lives per year in Scotland. However, the standard error of the number of deaths in Scotland is much greater than 60. So the predicted effect is not significantly greater than zero and there is no way of testing the prediction. The proposal for minimum pricing has been dropped in England though we do not know whether this was due to a reconsideration of the evidence or not.

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www.rss.org.uk/site/cms/contentCategoryView.asp?category=93
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Did the COMMUNITY REINVESTMENT ACT lead to RISKY LENDING?

Some people have blamed the financial crash on the Community Reinvestment Act (CRA) which required banks to lend to people who might have been considered to be poor risks. The CRA is certainly not a credible single explanatory factor for the crash. However, it is one of several ways in which regulation made the financial system – especially in the USA – much more risky than it might otherwise have been. So far, empirical results on the effects of the CRA have been mixed. However, this paper has very strong results. It appears that, around the time of regulatory inspections, the number of loans to the target groups of the CRA did increase – and thus the regulation was effective in achieving its objectives (even if the objectives were misguided). Furthermore, the loans originated by the banks being inspected were 15 per cent more likely to be delinquent one year later. These patterns were strongest when the securitisation market was booming in the run up to 2007.

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An earlier version is available free from:
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GLOBALIZATION and CORPORATE TAXATION

It is frequently asserted that tax competition in the context of globalisation leads to a race to the bottom in terms of tax rates and government revenues. The Catholic Church has made such points in its encyclical *Caritas in veritate*: "Consequently, the market has prompted new forms of competition between States…by means of a variety of instruments, including favourable fiscal regimes". Dominique Strauss-Kahn, formerly at the IMF, was a particularly vocal advocate against tax competition.

The alarmist case against globalisation and tax competition is analysed in this recent paper published, as it happens, by the IMF. The case is found wanting. As the paper concludes: "There is no negative relationship between the extent of FG [financial globalisation] and corporate tax rates and revenues."

Indeed, rising profitability from the economic benefits of globalisation may increase revenues, it is argued. One of the reasons why globalisation does not lead to lower tax rates is that it results in a more diversified capital base – domestic investors will invest abroad and much domestic capital will be owned by foreigners. There is therefore less pressure from domestic business elites for lower corporate tax rates.

The study also finds that there is a strong relationship between tax rates on mobile and immobile factors of production and that general sentiment towards the market economy is an important determinant of tax rates.

There appear to be two lessons here. The left is wrong to argue that globalisation leads to a race to the bottom in terms of tax revenues. At the same time, believers in free markets may be too sanguine: the forces of tax competition would appear to be no substitute for the hard work of winning the battle of ideas when it comes to keeping taxes low.

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www.imf.org/external/pubs/ft/wp/2012/wp12252.pdf