# Article information:

Is capital taxation always harmful for economic growth? | SpringerLink
<https://link.springer.com/article/10.1007/s10797-019-09530-3>

# Article summary:

1. The relationship between capital taxation and economic growth is investigated theoretically and empirically using a long cross-country panel data set going back to 1965.

2. Greater reliance on capital taxation, measured in different ways, is not negatively associated with growth rates, and the association between capital taxation and growth tends to be more positive in high-income countries.

3. A multi-country innovation-based growth model is proposed to rationalize these empirical findings, demonstrating that positive rates of capital taxation can increase the long-run growth rate in leading economies where the engine of growth is domestic innovation activity.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article "Is capital taxation always harmful for economic growth?" investigates the relationship between capital taxation and economic growth. The authors use a long cross-country panel data set going back to 1965 and employ various econometric techniques to document that greater reliance on capital taxation is not negatively associated with growth rates. They find that the association between capital taxation and growth rates tends to be positively related for developed countries, but for developing countries, the relationship is mostly statistically insignificant.

The article provides a comprehensive literature review of the theoretical and empirical contributions on capital taxation and economic growth. The authors discuss the standard optimal growth model of Ramsey, Cass, and Koopmans, which demonstrates that in equilibrium, capital should be taxed at a zero rate. However, they also highlight endogenous growth models where the optimal tax rate on capital may differ from zero if the resulting revenue is used to fund productive government spending.

The authors propose a multi-country innovation-based growth model to rationalize their empirical findings. They demonstrate that positive rates of capital taxation can increase the long-run growth rate in leading economies where domestic innovation activity drives growth. However, this is not the case in lagging economies where growth is driven by imitation of existing innovations from the technology frontier.

Overall, the article provides valuable insights into the relationship between capital taxation and economic growth. However, it has some potential biases and limitations. For instance, it does not consider other factors that may affect economic growth such as political stability or institutional quality. Additionally, it does not explore counterarguments against its findings or provide evidence for claims made.

Furthermore, while the article acknowledges that there are endogenous growth models where taxing capital can increase growth rates by allowing governments to limit adverse effects of high labor taxation or fund productive government spending, it does not provide equal weight to these arguments compared to those supporting zero tax rates on capital.

In conclusion, while the article provides useful insights into the relationship between capital taxation and economic growth, it has some potential biases and limitations that should be considered when interpreting its findings.

# Topics for further research:

* Political stability and economic growth
* Institutional quality and economic growth
* Counterarguments against capital taxation and economic growth
* Productive government spending and economic growth
* Adverse effects of high labor taxation on economic growth
* Endogenous growth models and optimal tax rates on capital

# Report location:

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