

# Administrative Capacity and Policy Implementation: Lessons from 2020

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# What happened

- 2020 has been an interesting year
- Unprecedented government response to address massive health crisis and mitigate economic consequences
  - Public health measures
  - Macro interventions
  - Support for individuals
  - Support for businesses on different sizes
- Variation in what countries did in response

# Fiscal measures

## Discretionary 2020 fiscal measures adopted in response to coronavirus by 15 June 2020\*, % of 2019 GDP

	Immediate fiscal impulse		Other liquidity /guarantee	Last update
		Deferral		
<b>Belgium</b>	1.4%	4.8%	21.9%	03/06/2020
<b>Denmark</b>	5.5%	7.2%	4.1%	01/07/2020
<b>France</b>	4.4%	8.7%	14.2%	18/06/2020
<b>Germany</b>	8.3%	7.3%	24.3%	04/08/2020
<b>Greece</b>	3.1%	1.2%	2.1%	05/06/2020
<b>Hungary</b>	0.4%	8.3%	0.0%	25/03/2020
<b>Italy</b>	3.4%	13.2%	32.1%	22/06/2020
<b>Netherlands</b>	3.7%	7.9%	3.4%	27/05/2020
<b>Portugal</b>	2.5%	11.1%	5.5%	04/05/2020
<b>Spain</b>	3.7%	0.8%	9.2%	23/06/2020
<b>UK</b>	8.0%	2.3%	15.4%	16/07/2020
<b>United States</b>	9.1%	2.6%	2.6%	27/04/2020

Anderson et al. (2020) "The fiscal response to the economic fallout from the coronavirus", <https://www.bruegel.org/publications/datasets/covid-national-dataset/>

# What can we learn from the response to the pandemics?

- A unique crisis, do lessons from it generalize?
- Perhaps not, but you understand limitations of the tools that we have better when you stress them.
- The importance of state and administrative capacity in response to the crisis

# What did economic policy try to accomplish

- Objectives:
  - Ad hoc social insurance — replacing income lost due to the response to pandemics (both endogenous and policy driven)
  - “Stimulus”
  - Maintaining liquidity, preventing bankruptcies, mitigating spillovers, preserving job matches and business links
- I'll focus on interventions targeted at individuals and small/medium businesses
- Why? Interventions targeted at large businesses, in developing countries at least, worked through central banks and financial markets. New and unprecedented, important decisions what to do but not constrained by administrative capacity
- In contrast, administration was key elsewhere.

# Social insurance

- The direct impact of the crisis was immediate and very heterogeneous. Some sectors shut down, some people easily switched to remote work, some sectors boomed.
- An ideal response would be to directly target those affected
- That's not exactly what happened
- Why? Administrative problem: how to identify who is affected, how to reach those people
- Similarities to designing transfer programs (eg. my work with Kleven, 2011) — trade-offs between generosity, precision and take up

# Unemployment (loosely, the U.S. case)

- Who was directly affected: business owners, employees, self-employed
- How can we know who exactly? Standard tool: unemployment insurance
- But... large gaps in eligibility... and
- Administrative problem #1: systems that could not handle the load
- Administrative problem #2: inflexible systems that couldn't be quickly adapted to implement person-specific benefit formula
- Solution #1: uniform unemployment benefit, with slow delivery
- Still, gaps.
- Solution #2: uniform transfer to everyone.
- Easy? Not really... (1) rely on tax information (2) accept errors (3) fill gaps (nonfilers, movers) in other ways

- Why worry about businesses?
  - Owners are people too
  - As opposed to “normal” recessions, viable/efficient businesses affected
  - Spillovers within supply chains and to other markets (eg., real estate)
  - Preventing bankruptcies of viable businesses may (should?) make recovery faster
- Two different (not mutually exclusive) goals of policy toward businesses
  - relying on businesses to deliver support for employees
  - strengthening the business itself

# Supporting businesses to help employees

- “Tax equivalences” — the same base, but different practical consequences because of implementation issues (eg sales tax and VAT, my work with Slemrod, 2006)
- Direct unemployment benefits vs furloughs vs covering payroll directly vs incentivizing to retain workers
- Different countries used different approaches. A fascinating question about reasons why and consequences
- Partial answer for “why”: administration again. Do you have tools in place to identify who needs it and how much?
  - U.S.: Paycheck Protection Program that incentivizes retaining overall payroll
  - Belgium, Norway: facilitating temporary and partial layoffs; taking advantage of existing unemployment insurance infrastructure
  - Australia: per worker subsidy, made possible by modern real-time tax/payroll reporting system (Hamilton, 2020)
  - Germany: leveraging existing short-term work reduction program (Kurzarbeitergeld)

# Reaching businesses

- Deferrals
- Tax administration
- Payroll processors
- Banking sector
- Existing business lending government agencies
- Central banks
- Trade-offs: eligibility criteria and verification, speed.
- Common to verify eligibility ex post. Incentive effects.

# Agenda

- Massive amount of work on the crisis, but time to think about broader lessons going forward
- Hypothesis (hardly revolutionary): existing administrative technology determined how countries responded
- Did it matter how exactly the response was delivered?

...in Alstadsæter et al, 2020 we found that, statically, Norway and US had quantitatively very similar support for businesses, but it was implemented very differently.

- What was the cost of sacrificing targeting due to implementation constraints?
- How should we think about the overlapping roles of tax, welfare and unemployment systems? How should they interact?