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# HOW TO PAY FOR THE CONSEQUENCES OF A PANDEMIC?

*A preliminary approach to analogies in the past and alternatives for the future*

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CIAT

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# Abstract

Uncertainty around this unique crisis make us to resort to analogies with exceptional events happened in the past in search for guidance. War may be the best analogy that we can handle right now to try to understand the dynamics and possible consequences of the crisis, even though -as we will see- the circumstances differ in fundamental aspects, conditioning the possible options to finance the consequences of the pandemic (taxes, debt, inflation). This crisis began like a war and will continue as an economic crisis, and the initial conditions of the economy at the breakout of this crisis where not easy, just coming out of a global financial crisis and facing numerous challenges, climatic, commercial, technological and political. In the last section we identify some possible alternatives to answer the question in the title of the article: Orthodox (classic) economic measures -broadening tax bases; growth friendly taxation, general consumption and immovable property taxes; reducing tax fraud and strengthening tax administration-; Recent (potential) trends -green taxation; digital taxation and anti-downward international tax competition measures; progressive taxation on high incomes and wealth taxation-; Non-orthodox taxation (minimum taxation rules; financial transaction taxes; export duties; windfall taxes; exit taxes); and "Free lunch" (*whatever it takes*) measures -permanent stimulus and public debt; helicopter money-.

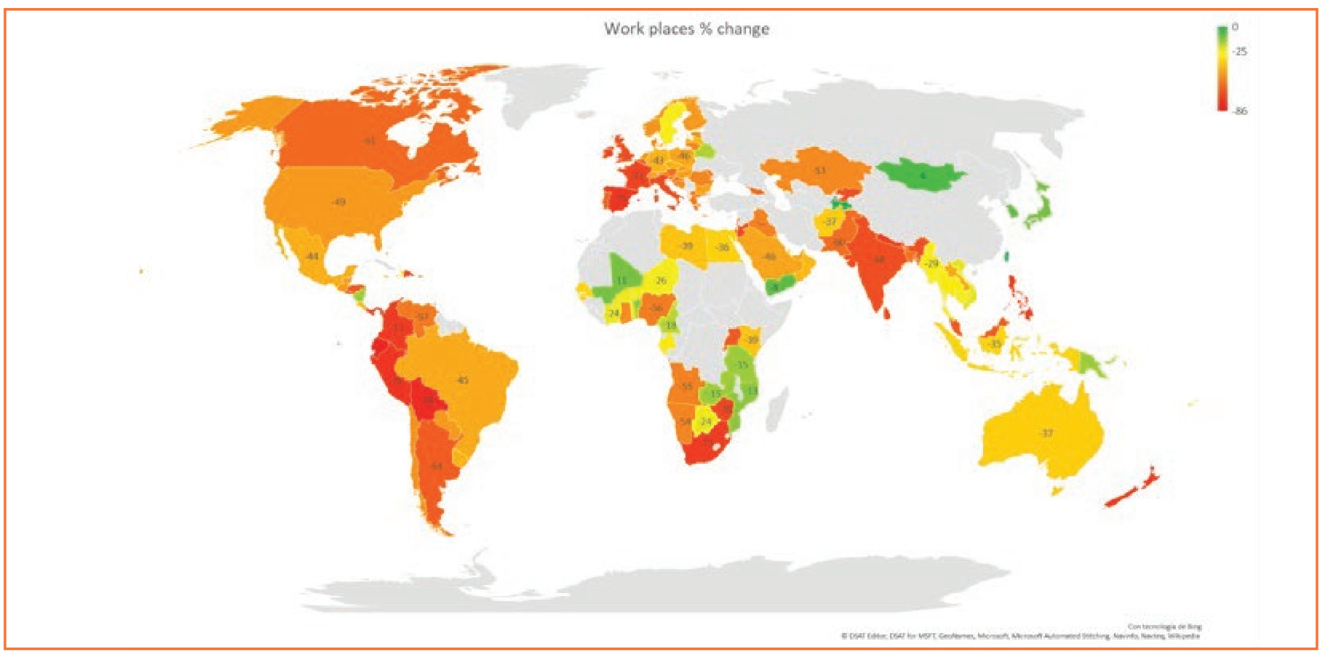
# Content

# 1 “This time is different” or “We know nothing”

It has been said before, many times, that “this time is different” when facing a new crisis, but this time is truer than ever. Nearly the whole world, at the same time, is facing a pandemic and reacting to it closing down the economy, suddenly stopping normal life.

Mobility reports like the ones prepared by Google (Figure 1) show the striking dimension of this phenomenon, mobility to workplaces has suffered a 47.5 per cent reduction on average, to retail and recreation places (like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters) a 54.3 drop, and to transit stations (public transport hubs such as subway, bus, and train stations) a 57 percent fall. And this is the average, in some countries specially hit by the pandemic and implementing the harshest measures of confinement and social distancing the impact has been even bigger: 92, 84 and 75 per cent reduction in mobility to retail and recreation, transit stations and workplaces in Spain; 90, 79 and 70 per cent in Italy.

**FIGURE 1. Mobility trends for places of work (% change from baseline; 04/01/2020)**




**Source:** Own elaboration from Google LLC “Google COVID-19 Community Mobility Reports”. https://www.google.com/covid19/mobility/ Accessed: 04/29/2020

**Notes:** 131 countries considered. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

This is the first stage of Covid-19 crisis, when nearly all the governments in the world have reacted more or less in the same way following a chain reaction/imitation since the breakout in China, imposing confinements, curfews and different measures of social distancing. The goal is "flattening the curve" of contagious and severe cases to avoid the collapse of health systems, while some cure and vaccine is developed. Other possible strategies, like the so called "herd immunity" even if discussed at the beginning of the crisis have been discarded following the medical advice of most epidemiologists and under the pressure of daily figures of deaths and contagious. And this strategy has an obvious economic consequence: demand and supply are both hibernated by "medical" decision and governmental action. From here, and as a first reaction, the economic analysis and advice during the confinement has been unanimous. States must provide assistance to the economy during this phase trying to avoid the melt down of the economic system while keeping social peace: income support for individuals, business and the financial sector; easing tax payments; providing financial assistance[1]. Keeping vital signs.

And what about next? In the midst of the uncertainty, economics can only tell us that we need to avoid the contagious, now in an economic sense. And, again, it seems to be quite a coincidence that we have to do "whatever it takes"[2] to stop the downward spiral: from incomes and jobs lost during the lockdown; to reduced demand by those immediately affected; further slowdown, in turn, of investment and the whole economy; and falling altogether in a huge depression. Again, "flattening the (economic plummeting) curve".

We are beginning to know some figures about the impact of the lockdown and making some forecast about the future impact, all surrounded yet by enormous uncertainty but all pointing to an unprecedented crisis. April IMF Economic Outlook estimations range from a baseline scenario of a -3% global contraction in 2020 (and some advanced economies, like most of Europe, more than doubling this figure) to a -8%, with most of the economies in the world falling down.

1 See https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#mfp or http://www.oecd.org/coronavirus/en/#policy-responses. Concerning specifically Tax Administration measures support taxpayers: https://www.ciat.org/Biblioteca/Estudios/2020_COVIT19_support_ciat_iota_ocde.pdf

2 See, for example, Baldwin, R. and Weder di Mauro, B. (2020a) "Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes".

FIGURE 2. **IMF growth forecasts (1)**

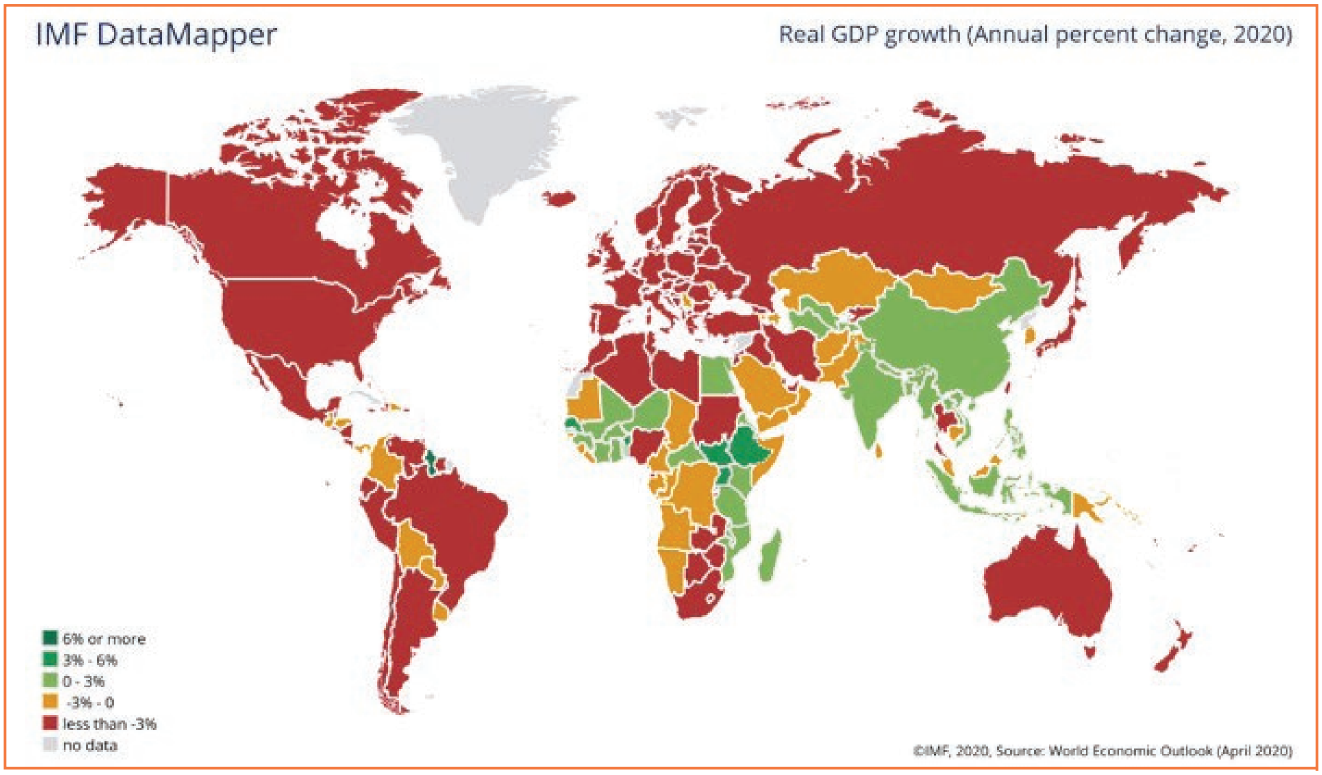



FIGURE 3. **IMF growth forecasts (2)**

So far, what we know.

What we do not know is (among many other things): how long the contagious risk will stay with us; when are we going to develop and distribute a vaccine; if there are going to be other waves; if immunity is lasting; how is going to react the global economy; how are going to act the governments concerning people, capital and good and services movements; how the people are going to behave and vote; if the pace is going to be homogenous among countries; what is going to happen with airplanes companies, tourism, commodities; who is going to be blamed…and… how are we going to pay for the cost of flattening the curves, maintaining alive the economy and fostering the recovery?

It has never happened before, not with this magnitude and not with this origin. This is why we have so many uncertainties. Is in this sense that we can say that we do not know anything, inductive reasoning -empiricism- does not work here due to the lack of experiences. And so, we have to resort to analogies with exceptional events happened in the past or to deductive logic to look for some guidance or, at least, explore possible scenarios.

In this article we are going to focus in the last one of our list of questions, how are we going to pay for the consequences of this pandemic, something that is not receiving right now so much attention given the urgency of flattening the curves and the mantra of doing whatever it takes.

Our first step will be to ask ourselves if this crisis looks like any other events in the past that have had this kind of sudden and relevant impact on the economy, being Wars or Systemic Economic Crisis -like the Great Depression or the Global Financial Crisis- the major candidates, and what could be the lessons that we should learn from the way these analogies have been financed: who and how have born in the past their economic cost.

The second one, will be to come back to the present days bearing in mind the lessons -if any- of the past to try to assess what are the initial conditions of the crisis here and now, the proposals already made to pay for the cost and alternatives for the future, with a special focus on taxation alternatives.

# 2 Is this a War or an Economic Crisis? Lessons from analogies

Let´s begin with the coincidences between Covid-19 emergency and Wars that could justify the usefulness of the analogy for us to think about the financing problem in the aftermath of the crisis:

1. In both cases civil society has to accept, by responsibility or coercion, temporary restrictions to individual freedom.

2. Simultaneously, governments increase their role, controlling the basic patterns of both the economy and daily life.

3. As a result, public expenditures and deficits increase and private activity is crowded out; public sector increases its role as the main employer[3].

4. All this process develops in a high uncertainty environment regarding the duration and final outcomes the crisis, complicating the planning of the next steps.

5. From a positive point of view, the extreme incentives developed during this kind of crisis produce some innovations, especially in the technological or medical fields.

It is easy to see way the War analogy can be alluring to try to understand the current crisis. Both episodes are triggered by the same agent, the governments, not having anything to do with market forces, and their economic consequences regarding some basic elements, public and private roles in the economy, are similar. It is difficult to think of any other analogy sharing these characteristics. But before we rush to use it to try to answer our question -how are we going to pay for the consequences of this pandemic- using the experience accumulated with wars, let us consider its possible drawbacks. Wars and the Covid-19 crisis also differ in fundamental aspects – particularly regarding what kind of “enemy” are facing and how are we “fighting” it- that could limit the practical scope of the analogy:

3 See, for example, Obinger and Petersen (2014).

1. From the psychological and sociological point of view there is a fundamental difference between wars and this crisis, in this case there is no “enemy” to defeat (the virus does not count to this effects), only us are suffering casualties. At the same time, most of us are playing a passive role in this fight, following social distancing rules -under the menace of sanctions in most cases-, even if communication strategies are trying to combat it implicating all of us as a fundamental factor in the solution. All this together could affect the strength of popular support to political choices, especially when confronting the costs of the measures taken today in an uncertain environment[4].

2. The extent of the crisis, in terms of countries and population affected, is bigger than any war in the past, nearly global, even if the casualties were lower. This symmetry could amplify the negative economic effects, especially in such an interconnected world like ours.

3. Public revenue is being reduced not only because of the economic activity fall but also because the economic policy consensus is asking for tax reductions in order to maintain incomes and business in the meantime. Often taxes were increased during wars in order to finance them, promoting some degree of progressive taxation[5].

4. On the positive side, wars are more destructive in terms of infrastructures, industries and physical assets; the activity patrons suffered more profound changes that disrupt economics activity deeper; and usually implied the adoption of price controls to limit inflation that have to be raised after the war[6].

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4 The already famous “hindsight bias” will contribute, making it easier to criticize current decisions on the ground of information only available in the future.

5 See, Scheve and Stasavage (2010, 2012) or Aidtyand and Jensenz (2007).

6 As Daniel Susskind states in “The Pandemic’s Economic Lessons” (The Atlantic, April 6th, 2020), “In contrast, what troubled John Maynard Keynes, the British economist, at the start of the Second World War was the possibility of too much demand. That combined with a shortage of supplies due to the war effort, he feared, would lead to explosive inflation. His solution, a compulsory saving scheme, is precisely the opposite of what we need.” Holger Schmieding in The Globalist (April 3, 2020) also reflects on the war analogy pros and cons.

**TABLE 1.** Covid-19 Emergency and Wars

| COVID-19 EMERGENCY AND WARS | |
|---|---|
| **COINCIDENCES** | **DIFFERENCES** |
| 1. Temporary restrictions to individual freedom | 1. No "enemy" and passive role affects the strength of popular support |
| 2. Governments increase their role | 2. The extent of the crisis is bigger |
| 3. Public expenditures and deficits increase | 3. Economic policy consensus is asking for tax reductions |
| 4. High uncertainty environment | 4. Wars are more destructive in terms of infrastructures, industries and physical assets, etc. |
| 5. Innovations are encouraged by the extreme incentives developed during this kind of crisis | |

| LITERATURE INSIGHTS REGARDING WARS AND HOW TO FINANCE THE CRISIS |
|---|
| • Wars usually provoke changes in individual and social patterns of conduct and choices derived of the traumatic event… |
| • Increasing demand for public insurance that amplify (generally lasting) the public role in the economy; and |
| • Promoting increases in progressive taxation… |
| • …If support for the war is high, technical capability of tax administrations is ready, solidarity and egalitarianism raise and the idea that it is necessary to tax some individuals more heavily than others to compensate for some prior source of unfairness spreads. |

**Source:** Own elaboration based on literature (see section references)

Let us focus now on literature insights regarding wars and the possible answers to our question, how to finance the crisis. Following Cappella (2012) in his "The Political Economy of War Finance", "Leaders must choose between four primary means of war finance: taxation, domestic debt, external extraction, and printing. Each alternative has different political and economic costs and benefits. Borrowing compounds the cost of war through high interest rates; printing can result in disastrous inflation; taxation combats high inflation and minimizes cost yet can be politically damaging; while garnering money from abroad invites outside influence and fosters dependency."

According to his analysis, based in the statistical analysis a data set on interstate war finance from 1823 to 2003, augmented with six case studies, there are four primary influences shaping war finance outcome: support for the war effort, fear of inflation, bureaucratic capacity, and the ability to cope with a balance of payments problem.

The results show that "a larger percentage of the war effort is financed by taxation when there are one or more of the following conditions: high support for the war, inflationary fears, or high bureaucratic capacity to extract tax revenue. In contrast, higher levels of borrowing and printing are likely to fund wars when support for the war is low or the state has low bureaucratic capacity. Moreover, the state will borrow from abroad when it is facing low currency reserves".

Concerning also taxation, Obinger and Petersen (2014) state that "Mass warfare and mass conscription also increased political demands for progressive taxation. Scheve and Stasavage (2010) have shown that the high opportunity costs of war participation borne by millions of individuals generated political pressure to levy financial burdens on those who did not risk their lives or sacrifice time and income during military service. Hence it was the 'logic of equal sacrifice that led to higher tax burdens for the rich".

In the same vein, Scheve and Stasavage (2012) conduct an empirical analysis of the political economy of inherited wealth taxation that covers a significant number of countries and a long time frame (1816–2000), concluding "that mass mobilization for war has been a major force leading to heavy taxation of inherited wealth. Trends in inheritance taxation have closely followed shifts in the format of military force. As the industrial countries adopted militaries based on universal conscription and they fought major wars against each other, this mass mobilization generated pressures for an analogous conscription of wealth based on fairness grounds. As the industrial countries have shifted away from fighting large wars with mass armies the argument for a conscription of wealth has no longer had such salience.” And finally adding that “a main lesson of our work is that support for progressive taxation is greatest when its advocates can make a convincing case that it is necessary to tax some individuals more heavily to compensate for some prior source of unfairness. In the absence of such an appeal, arguments that the rich should pay more simply because they have a greater ability to pay may fall on deaf ears”.

Aidtyand and Jensenz (2007) in “The Taxman Tools Up: An Event History Study of the Introduction of the Personal Income Tax in Western Europe” highlight that wars create an acute need for public finance and many countries introduced temporary income taxes during times of war, and that helps to build institutional capacities that lower the administrative cost of a permanent adoption.

Trying to elaborate in the psychological mechanism that link wars and public role in societies, Obinger and Petersen (2014) underline that “War is certainly an event that leads to a recalibration of individual preferences and may even affect the general normative and ontological beliefs. Both soldiers and civilians suffered from manifold war related trauma, mostly in an early phase of their biography. Early life experiences have a particular strong impact on individual consciousness by creating a natural conception of the world which preconfigures the perception and mental processing of later experiences in the life cycle (…) “Bombs, unlike unemployment, knew no social distinctions, and so rich and poor were affected alike in the need for shelter and protection” (Fraser, 1973). “Wars generally increase risks and make subjective risk calculation difficult (Overbye, 1995). In this situation, individuals typically show a greater propensity to seek insurance (Dryzek and Goodin, 1986)”. “These changes in individual preferences may also have affected collective behaviour in at least four respects. First, the aforementioned changes of individual preferences increase the chance that policies favoring risk-sharing and risk-prevention are adopted at the collective level. The most important institutional device of risk-pooling is the welfare state. Second, lesson drawing is important and had a similar policy impact. “Learning from catastrophes” (Schmidt, 1989) has paved the way for policies and institutions designed to prevent a recurrence of similar traumatic events in the future. Third, the hardships of war encountered by large segments of the population strengthened solidarity and egalitarianism (…). This realignment of values encouraged a qualitative change in social provision as the odium of traditional poor relief was replaced by the notion that welfare benefits should be delivered as a matter of social rights (Titmuss, 1950). Moreover, people became accustomed to big government that had emerged during wartime and affected the everyday life of people (…). Fourth and finally, war and national crisis stimulated co-operation among competing elites. By incorporating the opposition into war cabinets, many democracies deliberately strived for national unity and cohesion, while tripartism and conciliation gained importance in industrial relations. (…) This increase in solidarity facilitated government interventions in the war years and beyond."

The article continues linking wars with theories on the growth of public expenditures: "Arguably the most well-known feedback effect of war on post-war public policy is the 'displacement effect' detected by Peacock and Wiseman (1961) in their study on British public expenditure development. They argued that large scale disturbances such as major wars would alter the people's ideas about tolerable levels of taxation and shift public revenues and expenditure to higher levels during wartime. However, war-induced higher tax rates and expenditure would never return to their pre-war levels due to habituation effects, institutional rigidities and new war-related spending obligations. (…) Empirical evidence for the accelerating effect of wartime policies on post-war social policy is abundant."

Briefly summarizing:

- wars usually provoke changes in individual and social patterns of conduct and choices derived of the traumatic events;

- increasing demand for public insurance that amplify (generally lasting) the public role in the economy; and

- promoting increases in progressive taxation;

- if support for the war is high, technical capability of tax administrations is ready, solidarity and egalitarianism raise and the idea that it is necessary to tax some individuals more heavily than others to compensate for some prior source of unfairness spreads.

War may be the best analogy that we can handle right now to try to understand the dynamics and possible consequences of the crisis, but as we have seen the circumstances differ in fundamental aspects. That differences present advantages in the sense that the direct damage to the economy basis are lower, but concerning who and how is going to pay for all the costs they cast relevant doubts about the guiding insights derived from wars.

Individual and social changes of preferences resulting from the experiences lived during the wars were fundamental to back the increased role of public sectors and its financing through progressive taxation. Now, I am afraid, some characteristics of the crisis, like the absence of an “enemy” and -the majority of- citizens passive role, are not promoting consensus in terms of solidarity and egalitarianism in most countries where the number of deaths is high -precisely the ones who are going to need more funding to recover- and governments are the only ones to be blame for it. In this context raising taxes, especially on high incomes or wealth, could be more difficult even if there could be reasons to consider this option (we will come back to this in the next chapter). If some consensus is not reached and solidarity prevails, the dimension of the economic intervention to try to reduce the economic damage and foster recovery is going to be smaller, and its financing is more probable to be led by debt, money creation and inflation.

Besides war analogies, we can consider systemic economic crisis as episodes similar to the current crisis which may be appropriate to guide us now. In this case similarities are simple to present, economy has suffered suddenly a profound change, disrupting the way it has been working and requiring structural measures to recover. The problem is that differences make it difficult to stablish a useful analogy when it comes to look for solutions: first of all, the causes of the crisis are not in the “economic realm”, we cannot try to solve the “economic problem” reverting the “economic factors” that triggered it (is in this sense that war analogy works better). Somewhat derived from this, some usual considerations made when confronting an economic crisis do not seem so relevant now. Particularly, concerns with regard to “moral risk” and “incentives distortions” affecting the efficiency of support measures to individuals and business affected by the lockdown, or arguments against them based on the positive effects of “creative destruction” of crisis.

All these differences do not mean that there are no lessons to learn from systemic economic crisis, the economic consequences of Covid-19 must be analyzed using the economist’s toolbox to try to avoid mistakes made in the past and to replicate successes, while taking into account that reaction to economic crisis has always been conditioned by the technical and ideological interpretation of their causes and by their historical context.

The Great Depression changed the role of governments thanks to the general view that market forces have failed, but also taking advantage of a way paved by governments changes during and after World War I. On the contrary, the 70s´ crisis was followed by a shift to a new, and in this case more conservative, ideological regime[7]. And the last Great Financial Crisis, somewhat ironically, provoke a debt crisis and austerity policies that drastically reduced most governments scope of action. In the next section we will come back to these reflections trying to figure out what can we expect to happen now.

7 "The Defining Moment: The Great Depression and the American Economy in the Twentieth Century", edited by Bordo, Goldin and White (1988), provides an excellent panorama on this topic.

**TABLE 2. Covid-19 Emergency and Economic Crisis**

| COVID-19 EMERGENCY AND ECONOMIC CRISIS | |
|---|---|
| **COINCIDENCES** | **DIFFERENCES** |
| 1. Economy has suffered suddenly a profound change, disrupting the way it has been working and requiring structural measures to recover | 1. The causes of the crisis are not in the "economic realm", we cannot try to solve the "economic problem" reverting the "economic factors" that triggered it.<br>2. Concerns about "moral risk" and "incentives distortions" affecting the efficiency of support measures to individuals and business affected by the lockdown, or arguments against them based on the positive effects of "creative destruction" of crisis do not seem so relevant |

**INSIGHTS REGARDING ECONOMIC CRISIS AND HOW TO REACT NOW**

- Reaction to economic crisis has been always conditioned by the technical and ideological interpretation of their causes and by their historical context, making every one of them rather unique
- All these differences do not mean that there are no lessons to learn from systemic economic crisis, the economic consequences of Covid-19 must be analyzed using the economist's toolbox to try to avoid mistakes made in the past and to replicate successes

# 3 Here and Now: initial conditions and alternatives

What do we have so far? A crisis that is much like a war -but without an enemy- and somewhat like a systemic economic crisis -but without economic causes-. As we said at the beginning, it has never happened before.

To try to get further it could be useful to put some context about the “Here and Now”. Summarizing, these are some of the preexisting factors that currently were and are the initial conditions of the crisis:

- The world was still in the aftermath of the Global Financial Crisis, followed by the Debt Crisis and austerity policies.

- Concerns about inequality and concentration of wealth reached the public opinion in many countries in the aftermath of 2008 crisis, rising theoretical and practical proposals to increase progressive taxation, including capital and wealth taxes.

- A new economic uncertain period had begun fueled by commercial wars, commodities crisis (especially oil) and economic nationalism (including Brexit in the European Union).

- These two factors had contributed to maintain monetary policy active, with interests’ rates at minimums.

- The transition to a digital economy was accelerating, questioning the future of labor markets, among gloomy perspectives on the impact of machine learning/artificial intelligence and digitalization on unemployment and rising demand for safety nets even in the way of basic income systems.

- Complaints about international tax fraud and elusion were mainstream, and while some mayor advances have taken place -BEPS initiative, exchange of information, tax havens limitations, etc.- a lot of challenges still stand.

- A consensus to tax the digital economy (and, broader, to avoid unfair tax competition) was not still reached; G-20 and the OECD where working on it in the midst of numerous unilateral initiatives.

- The evidence on the climatic crisis was growing, moving public opinion toward backing policies to try to avoid it, including green taxation and the transformation of the carbon economy.

We could continue, with other fundamental factors -the possible new global balance of powers, radical Islamic terrorism, inequality, etc.-, but I think that is enough to show that the world was not short of challenges before Covid-19.

This panorama shows that it is not going to be easy to coordinate the way out of the crisis, but pose a relevant dilemma: are some of these problems going to be displaced, some addresses with new energy, or some emphasized in the near future? Fortunately, this is not the topic of this article and we can focus on what could be their effect on how Covid-19 crisis is going to be paid.

To these preexisting factors, we must add the first responses that we already know in the policy and academic fields. As we have already said, the peculiar characteristics of this crisis (starting like a war, but with systemic economic crisis like consequences) have contributed to create a consensus on the need to do whatever it takes to keep economies alive and avoid the downward spiral[8]. This "consensus" includes active monetary policy to provide liquidity, an increase in public expenditure to protect incomes and businesses, reducing or deferring taxes, an obvious increase of deficits and public debt, relaxing stability rules, increasing international financial help for least developed countries and coordination in areas like de EU… even the once marginal "helicopter money" is becoming kind of mainstream.

8 Baldwin and Weder di Mauro, B. (2020a) "Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes" and (2020b) "Economics in the Time of COVID-19" are good examples. IMF policy tracker (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19) gives us an excellent panorama of policies adopted. And CIAT-IOTA-OECD joint document collects Tax Administrations measures to support taxpayers (https://biblioteca.ciat.org/opac/book/5722)

More difficult is to find some clues on how all this is going to be paid for, especially concerning taxation alternatives. Let us explore what we have on the table so far, classifying measures into four groups:

**1. Orthodox (classic) economic measures.**

The need to reform tax system is all but new, economic theory and policy advice offer a broad toolbox, backed by international organizations[9]. Classical advice that could be used to increase revenues in current scenario would include:

- broadening tax bases eliminating most of tax expenditures, simplifying tax systems, reducing inefficiencies and facilitating tax administration;

- promoting *growth friendly* taxation, favoring general consumption (single tax VAT systems, preferably) and immovable property taxes;

- reducing tax fraud and elusion, with a recent emphasis on international BEPS -Base Erosion and Profit Shifting- and the actions connected to it, and strengthening tax administration capacity -including international cooperation-;

The limitations of this recommendations are that there were reasons why some of the problems where there before the crisis, and it is not clear that these restrictions are going to be milder now, quite the opposite.

Fighting tax expenditures is especially difficult, given their attractiveness to interest groups, rent seekers and politicians; even if a lot of research has been done on them recommending its control, in the middle of the crisis the demand for tax expenditures is going to grow (in fact, it is already growing right now).

9 OECD (2020) and IMF (2020a) offer some insights on international organizations perspective on this issues.

Regarding the so call "*growth friendly* taxation", and especially the increase of general (and homogeneous) consumption taxes the problem is that, taken as an isolated measure[10], it is regressive in relation to income. During a crisis, with low incomes particularly affected and consumption depressed, increasing these taxes -and especially rising tax rates on basic goods and services- would be considered unfair and could provoke social distress.

The only first best option would be reducing fraud and strengthening tax administrations (not only to increase their efficiency against fraud but also to give better service to honest taxpayers and favor voluntary compliance). In this case the limitations are time (results only arise after a lag) and international cooperation (a field that has witnesses clear improvements in the last decade, but that now is going to face new challenges).

## 2. Recent (potential) trends.

We have considered some of them above when sketching the initial conditions of this crisis. The most outstanding ones would be:

- Green taxation: scientific evidence and social awareness could foster the adoption of green taxation measures, especially given fiscal space created by the low oil prices derived from competition among producers and the fall in demand derived from the crisis. It could adopt the form of green taxes connected to pollution emissions or, easier, increasing fuel taxes (especially the specific or *ad rem* component, not linked to prices like the *ad valorem*).[11]

- Digital taxation and anti-downward international tax competition measures: digital economy growth and the international dimension without physical presence of the biggest companies in this fields have led many countries to adopt unilateral measures to tax these activities and their profit on destination basis. Besides the OCDE is working on two proposals in this area: Pillar I would try to create a homogeneous taxation for international digital activities, avoiding double taxation

10 In a post by Alberto Barreix, Carlos Garcimartín and Marcio Verdi (https://www.ciat.org/medidas-tributarias-en-la-post-crisis-del-covid-19/ ) some possible compensations are proposed, based on Personalized VAT.

11 The IMF (2020b) has published a short note ("Greening the recovery") on this topic. It could include other measures as a "carbon border adjustment" applied to the carbon content of imports from countries not taking adequate steps on mitigation, reducing fuel or trip-related tax expenditures, or "green bonds" to finance the additional climate spending.

but also “no taxation”; and Pillar II would point to the more general problem of international downwards tax competition with its GloBE (Gobal Anti-Base Erosion) proposal.

- Progressive taxation on high incomes and wealth taxation: current crisis joint with previous concerns about inequality growth could foster the increase of tax rates on high incomes[12] (especially those -as capital income- currently undertaxed in comparison with labor income) and taxation of wealth. One example of the latter is Landais, Saez and Zucman (2020) proposal of “A progressive European wealth tax to fund the European COVID response”[13]. According to the authors “the creation of a progressive, time-limited, European-wide progressive wealth tax assessed on the net worth of the top 1% richest individuals. If fighting COVID-19 requires issuing 10 points of EU GDP in Eurobonds (or a rescue fund worth 10 points of EU GDP), a progressive wealth tax would be enough to repay all this extra debt after ten years. What about the risks that taxing wealth may hinder growth coming out of the recession? It is likely that, compared to other forms of fiscal consolidation or public expenditure contraction to repay for the COVID Eurobond debt, a wealth tax is the less likely to harm growth. In large part because a time limited wealth tax operates like a capital levy: you tax past accumulation but the returns to current investment and innovation are unaffected”.

Again, all of these measures will find difficulties to be implemented. Green taxation in the midst of a recession will face the usual criticism of harming competitiveness if it is not an international coordinated initiative. And wealth or progressive taxation will receive the classical disapproval on orthodox economic theory on the effects of taxes on incentives to work, save and invest. Specifically, wealth taxes, even as temporal or one-off options, face criticisms based on their administrative difficulties -controlling and assessing the value of all assets- and the inefficient or unfair consequences of a bad design -harming productive capacity and liquidity in the case of including businesses assets; excluding real high wealth owners in case of excluding them-. Besides, the solidarity consensus that -as we have seen previously- usually is behind the increase of progressive taxation in the war analogy, does not seem to be here and now yet.

12 See IMF (2020).

13 Many other proposals are emerging all around the world. See, for example, the article “Coronavirus en América Latina: ¿deben pagar los ricos por la crisis?” (https://www.dw.com/es/coronavirus-en-am%C3%A9rica-latina-deben-pagar-los-ricos-por-la-crisis/a-53202627 ) or “Impuesto a las grandes fortunas: propuestas en todo el mundo” (https://www.pagina12.com.ar/262701-impuesto-a-las-grandes-fortunas-propuestas-en-todo-el-mundo)

Digital taxation could be an option with less risk for most governments, but its revenue capacity is limited, while adjustments based on international tax levels differences will be always difficult to agree on and could make international commerce confrontation worse.

### 3. Non-orthodox (yet at least) taxation.

Some, till now, non-orthodox taxes could come back or be increased when facing the urgency for revenue. Among them:

- Minimum taxation rules: they could adopt different forms, but basically, they change the regular way taxable basis are calculated, limiting deductions or expenditures -tax incentives or losses carry forward, for example- or introducing a minimum taxation by a percentage of some other variable (assets or sales, usually).

- Financial transaction taxes: the possibility of taxing financial transactions has a long history, linked to controlling speculation and exchange rates volatility -Tobin Tax-, complementing VAT -given the technical exemption of financial services in this tax- or just increasing revenue in case of urgent need[14]. Recently, following the Global Financial Crisis international financial transaction taxes have been considered in many countries, especially in Europe.

- Export duties: taxation on exports is unusual, but it has played a role when exchange rates have provided certain sectors -commodities, primary sector- a competitive advantage in the midst of a crisis.

- Windfall taxes: a nonroutine taxes on above the average profits is another possibility, used when some sector can be identified as privileged in times of crisis.

- Exit taxes: when there is a risk of capital flight, due to a change on future perspectives or tax increases expectations, some countries have experienced with a special taxation on capital pretending to leave the country, usually pointing to tax untaxed capital gains.

14 See, for example, CIATData Tax Rates section (https://www.ciat.org/tax-rates-in-latin-america/?lang=en) for a panorama of their use in Latin-America.

Most of these options are out of the economist's usual toolbox, but in the middle of a crisis with pressure to increase revenue "fast and easy" they could be considered by politicians and public opinion, even if in normal circumstances there is a consensus on their negative effects.

**4. "Free lunch" (whatever it takes) measures.**

Finally, some of the proposals focus on "radical" alternatives given the exceptionality of the crisis, considering alternatives that promise not to have to worry about who is going to pay for the crisis:

- One "option" can be summarized with Paul Krugman words ("The case for permanent stimulus", in Baldwin and Weder di Mauro, B. (2020a)): "I hereby propose that the next US president and Congress move to permanently spend an additional 2% of GDP on public investment, broadly defined (infrastructure, for sure, but also things like R&D and child development) — and not pay for it." "The obvious objection to a policy of permanent stimulus is that it will add to public debt — and not that long ago, policymakers were obsessed, or claimed to be obsessed, with the dangers posed by high ratios of debt to GDP. But those concerns were misplaced, and a look at the arithmetic of debt in an era of low interest rates suggests that permanent stimulus is entirely doable."

- Another is the "helicopter money". As Jordi Gali puts it ("Helicopter money: The time is now", in Baldwin and Weder di Mauro, B. (2020a)), "there is an alternative to a strategy based on higher taxes and/or more government debt in order to finance such an emergency fiscal plan, albeit one that has remained a taboo among most economists and policymakers – namely, direct, unrepayable funding by the central bank of the additional fiscal transfers deemed necessary, an intervention commonly known as 'helicopter money". "Legal issues aside, it is clear that a recurrent use of such policies by governments could be a source of an inflation bias and bring about changes in individual behaviour likely to undermine their effectiveness. But this should not be a concern in the current context, since the reliance on money financing would be strictly restricted to the duration of the emergency measures linked to the health crisis. This is a commitment for which fulfilment can always be guaranteed by the central bank, which would put its reputation at stake."

The problem with these alternatives is clear, their economic basis is open to debate and it is not at all clear that these options are accessible to all economies (especially not for less developed ones with weak currencies and difficulties to access to debt markets).

**TABLE 3. Covid-19 Initial Conditions and Alternatives**

| INITIAL CONDITIONS AND ALTERNATIVES | |
|---|---|
| **Preexisting factors and initial conditions of the crisis** | |
| • Global Financial Crisis followed by the Debt Crisis and austerity policies<br>• Concerns about inequality and concentration of wealth after 2008 crisis<br>• Commercial wars, commodities crisis and economic nationalism<br>• Active monetary policy, with interests' rates at minimums<br>• Digital economy and the future of labor markets<br>• Taxation of the digital economy<br>• Climatic crisis | |
| **Financing measures alternatives** | |
| **Orthodox (classic) economic measures** | **Recent (potential) trends** |
| • Broadening tax bases<br>• Growth friendly taxation, general consumption and immovable property taxes<br>• Reducing tax fraud and strengthening tax administration | • Green taxation<br>• Digital taxation and anti-downward international tax competition measures<br>• Progressive taxation on high incomes and wealth taxation |
| **Non-orthodox (yet at least) taxation** | **Free lunch" (whatever it takes) measures** |
| • Minimum taxation rules<br>• Financial transaction taxes<br>• Export duties<br>• Windfall taxes<br>• Exit taxes | • Permanent stimulus and debt<br>• Helicopter money |

# 4 Final remarks

This crisis began like a war and will continue as an economic crisis. Both analogies help us to understand what we are facing but, also important, what we are not. Besides, the initial conditions of the economy at the breakout of this crisis where not easy, just coming out of a global financial crisis and facing numerous challenges, climatic, commercial, technological and political. In the last section we have identified some possible alternatives to answer our question, how to finance the effort we are doing to fight the pandemic and avoid economic depression, looking at their advantages and restrictions. To choose among them (and implementing) is going to be an extremely difficult process.

Of course, the concretion of the financing plan must be tailored to each country specific characteristics. This is a common place, yes, but also an outright true. In this article we are not recommending all the alternatives to all countries, and, absolutely, not in the same degree.

In a similar vein, it is nearly sure that the best option is going to be a combination of different financing and taxing alternatives. The challenge and the need for resources are so big that any of the proposed tools by themselves is going to fall short.

Precisely because of the dimension of the crisis, financing the recovery would need a fiscal pact. It is going to be painful and maintaining social cohesion in the process fundamental. Solidarity and an openminded attitude would help.

Finally, economists could also help. As McCloskey put it, persuasion is itself an economic activity[15]. Persuading right now politicians and citizens that -also from the economic point of view- we are all in the same side of the war -even if the enemy has no face- and making solidarity and according a must wouldn´t be a bad beginning.

15 As quoted in Bordo, M., Goldin, C., and White, E. (ed.) (1998), p. 134.

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