Financial Crisis, Credit policy and Distortionary taxation: a Policy Evaluation

Crisi finanziaria, politica creditizia e tassazione distorsiva: una valutazione di policy

Laura Bisio

(ISTAT- Direzione Centrale delle Rilevazioni Censuarie e dei Registri Statistici)

Discussant
Barbara Annicchiarico

(Università degli Studi di Roma "Tor Vergata")

Nodo di ricerca
Aspettative e analisi macroeconomiche

Abstract
A real business cycle model featuring a financial sector and allowing for financial frictions is employed in order to evaluate the cost of a rescue credit policy to the banking sector which must be financed through higher distortionary tax rates. Alternative taxation schemes will be considered in order to assess the optimal one. The crisis scenario is simulated by assuming that an adverse financial shock hits the economy. Distortionary taxation is found to be always detrimental to the economy, by dampening the effectiveness of the credit policy. The welfare cost of alternative fiscal instruments is, on average, non-negligible compared to the simplistic case of lump-sum taxation, and distortionary wage taxation is found to be largely welfare-diminishing compared to distortionary consumption taxation.