

# Discussion of Fraud Deterrence in Dynamic Mirrleesian Economies

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Taxation Theory Conference  
May 2012

# Overview

- Start with NDPF environment
  - separable preferences
  - general stochastic process for shocks
- Modification: skill randomly become observable (not history!)
  - i.i.d. over agents and time (fixed probability  $p$  of getting "audited")
  - important: upper bound on punishment (or lower bound on utility)
  - since both higher  $p$  and higher punishment make it easier to provide incentives
- See what help with incentives does to NDPF prescriptions
  - relevant current  $T < \infty$  benchmark comparisons should be Farhi-Werning 2011 and Golosov-Troshkin-Tsyvinski 2011
- Nice and tidy presentation in the paper
  - but I wish some steps were argued precisely in addition to intuitively suggested
  - especially sufficiency of FOA (NOT immediately obvious)

# Summary/main takeaways

- Capital distortions: sign will be different for different  $s^t$ 
  - with verification, deferring consumption helps incentives
  - reason: effective cost of deviating is difference between continuation payoff and worst punishment
  - but see also non-separability of preferences
- Labor distortions: standard results unchanged?
  - shown: zero at the top, positive below
  - verified types are of course undistorted
  - asymptotic result as in Golosov-Troshkin-Tsyvinski 2011?
- With  $T = \infty$  "reverse of immiseration": all but measure zero get full insurance with high consumption, distortions go away

# Truthful-reporting rewards in case of verification:

- Given opportunity, in equilibrium the planner will always want to reward:
  - ex ante expected payoff of truth telling increases
  - does nothing to payoff of lying for any other type
  - overall easier to provide incentives (but there is cost because of risk aversion)
- Would prefer to start discussion by pointing that out, otherwise:
  - when reporting truth why the lottery?
  - probability of verification i.i.d. over time so why  $s^t$  not  $\theta^t$ ?
  - (seems redundant until realization that payoff may differ along the equilibrium path)
- See the effect of random verification separately from rewarding
  - beyond two-period example

# Overall

- Random verification is a powerful simplification of a complex problem
- Nice results worth pursuing further
- Ask about optimal verification:
  - joint characterization of verification probabilities and allocations
  - clearly challenging but important direction for future work
  - maybe worth pursuing more than endogenizing upper bound on punishment,
  - although neat that this overturns Kocherlakota (1996) result with limited commitment (i.e. autarky is the upper bound): there is role for social insurance
- Look for implementation in a life cycle version:
  - $T < \infty$  implies decentralization with potentially both savings taxes and subsidies for different  $s^t$
  - practical implementation?