”The Effect of Tax Instruments on Income and Consumption in the Global Economy”

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We formulate a structural empirical general equilibrium model of bilateral trade among multiple countries which features three key aspects: a fundamental heterogeneity of economic actors (firms and consumers), non-homothetic preferences of consumers, and a broad consideration of taxes (on income, profits, and imports). All types of taxes in this model exhibit more or less direct redistributive effects on consumers: they take -- on net -- income from richer consumers and more profitable firms and, through lump-sum transfers, benefit poorer consumers relatively more than richer ones. The model unveils that non-tariff features of the tax system exhibit large effects on the volume of domestic as well as cross-border demand for goods. The associated effects tend to be larger than those that tariffs could have in most economies, and they are of heterogeneous magnitude across economies accruing to three fundamental sources: the heterogeneity in the dispersion of incomes, firm (i.e., technology) heterogeneity, economic size, and trade costs.