Assessing the Feasibility of Taxing Robots

What is the issue?

- The rise in automation with increase in robots is likely to shrink the government's tax revenue.
- This has raised the need for assessing the implications and feasibility of taxing robots.

What are the recent proposals?

- Microsoft co-founder Bill Gates proposed the idea of imposing a tax on robots a couple of years ago.
- The idea was widely opposed by many.
- In 2017, a draft motion came up in the European Parliament, which recommended considering a tax on the owners of robots.
- The tax was to fund retraining programmes for workers displaced by the machines and to increase the finances of their social security system.
- But Europe has rejected the idea, and the draft motion was defeated.
- South Korea, the most robotised country in the world, instituted a robot tax of sorts in 2018.
- It reduced the tax deduction offered on business investments in automation.

Why is taxing robots crucial now?

- As per estimations, half of today's work activities could be automated by 2055.
- If that happens, hundreds of billions of tax dollars that now come as income tax would be lost every year.
- E.g. in the U.S., income taxes account for half of the $3 trillion collected every year by the Internal Revenue Service
- Jobs that are "most susceptible to automation" in the U.S. account for 51% of the activities in the economy and $2.7 trillion worth of wages.
- So an inevitable objective for taxing robots is that the governments need money.
- Besides this, the consequence of automation will place more demands on government services.
- The U.S. will probably need more money to retrain workers ousted from their jobs by automation and place them elsewhere.

- Also, millions of workers would be displaced to the bottom end of the service economy, where wages are low and robots are scarce.
- As a result of this, welfare expenses of government would increase significantly.
- To afford any kind of government services in the robot era, governments will have to find a new source to tax.

What are the shortfalls in current automation policy?

- **Subsidies** - A lot of automation is not deployed to enhance economic productivity by firms.
- It is instead done because automation is highly subsidised, encouraging many businesses to invest in it.
- Subsidies thus induce firms to go for capital investment in the place of paying for the labour employed.
- This is going on despite the disadvantage of the social cost involved in labour replacement i.e. expenses to the society as a whole.
- **Taxes** - The vast majority of government tax revenues are now derived from labour income.
- Payroll tax requirements necessitate employers to pay a percentage of the salaries they pay for their employees.
- So firms avoid taxes by eliminating employees and increasingly going for automation.
- **Productivity** - In effect, subsidies and taxes just make capital investment in automation attractive only financially.
- So firms go for automation irrespective of whether there is a real need for it or not.
- So the anomaly is that this kind of spending on automation does not transform into any significant improvement in the economy's productivity level.

How will taxing robots help address this?

- Taxing robots would make the employers opt for automation only when there is a logical need in terms of productivity enhancement.
- So in effect, taxing would not hurt economic growth, but would only rationalise investments and thus improve economic efficiency.
- It would ensure a level playing field between automation and labour use.
- So if properly constructed, a tax on automation may not be as destructive as it sounds.

Source: The Hindu