

The Employment and Wage Effects of Labor Tax Reforms

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Abstract

We quantitatively evaluate the contribution of reallocating the tax burden across different workers in mitigating or exacerbating the cyclical movements of individual labor income for different types of workers. We present descriptive evidence on the the distribution of labor income and wage shocks along the business cycle, building on and extending the work by Guvenen et al. (2014). We then develop an equilibrium search model of the labor market with ex-ante heterogeneous workers, aggregate uncertainty and non-linear taxes on wages. We develop a numerical scheme based on collocation/projection techniques and approximation of distributions in order to handle the complexity of our dynamic system and numerically solve the model. The model will be estimated by simulated method of moments. We plan to use our estimated theoretical framework to assess how different configurations of the wage tax schedule affect the cyclical properties of wages and wage/income changes.