



ELSEVIER

Available online at www.sciencedirect.com

SCIENCE @ DIRECT®

Labour Economics 12 (2005) 205–222

LABOUR
ECONOMICS

www.elsevier.com/locate/econbase

Union wage setting and progressive income taxation with heterogeneous labor: theory and evidence from the German income tax reforms 1986–1990

Kerstin Schneider*

Department of Economics, University of Dortmund, D-44221 Dortmund, Germany

Received 20 March 2001; received in revised form 16 January 2003; accepted 30 October 2003

Available online 8 February 2004

Abstract

This paper analyzes the effects of tax shifting in a model with union wage setting and progressive income taxation. The setup allows for different skill levels of the workforce and accounts for the union's distributional objective of income equality. The theoretical predictions of the model are empirically tested with a panel of German micro-data covering the period of the income tax reforms 1986–1990. It is shown that average taxes raise wages, whereas increasing the progressivity of the tax system reduces wages. The effect of progressivity on high-skilled labor tends to be less significant and smaller. Stronger preferences for equality compress the (pre-tax) wage distribution.

© 2003 Elsevier B.V. All rights reserved.

JEL classification: H20; J31; J51

Keywords: Tax reform; Tax progression; Union model; Worker heterogeneity; Income distribution

1. Introduction

In many industrialized countries, unemployment rates are high. The explanations are manifold, but high taxes and social security contributions are often thought to contribute significantly to unemployment. Thus lowering taxes might reduce wage pressure and thereby alleviate the unemployment problem. Here the focus is on income taxes. An income tax reform can be targeted at reducing the overall tax burden and/or changing the

* Tel.: +49-231-755-3147; fax: +49-231-755-5404.

E-mail address: kerstin.schneider@wiso.uni-dortmund.de (K. Schneider).

progressivity of the tax system. While the wage raising effect of average taxes is widely accepted, the debate of the effects of marginal taxes or the progression of the tax system is still ongoing.

There are two fields of research that study the economics of taxation and labor markets. On the one hand, the literature analyzes income taxation in competitive labor markets. [Feldstein \(1995\)](#) reports elasticities of taxable income with respect to the marginal net-of-tax rate of at least one. Lowering marginal taxes increases taxable income, because work effort and hence wages increase. He concludes that the dead-weight loss from high marginal taxes has been greatly underestimated in traditional labor supply models. In subsequent work, Feldstein is confirmed, but the reported elasticities tend to be lower. [Gruber and Saez \(2002\)](#) for example arrive at an estimate of approximately 0.4.

On the other hand, there is an emerging literature on the effects of progressive income taxation in the presence of labor market imperfections. And interestingly, the policy conclusions from models with competitive labor markets are reversed for various models with imperfect labor markets. It is argued that tax progression reduces wage pressure and enhances the efficiency of the labor market ([Hoel, 1990](#); [Lockwood and Manning, 1993](#); [Holmlund and Kolm, 1995](#); [Koskela and Vilmunen, 1996](#); [Aronsson et al., 1997](#); [Sørensen, 1999](#); [Pissarides, 1998](#); [Hansen et al., 2000](#)).

Closely related to the present paper are [Holmlund and Kolm \(1995\)](#), [Aronsson et al. \(1997\)](#), and [Hansen et al. \(2000\)](#). [Aronsson et al. \(1997\)](#) estimate a wage equation using a panel of Swedish firms. They report elasticities of pre-tax wages with respect to average taxes of 0.8 and with respect to marginal taxes of -0.3 . Using individual and time series data from Sweden, [Holmlund and Kolm \(1995\)](#) also find support for the union model. The elasticities of the pre-tax wage with respect to the marginal tax range from -0.25 in the time series analysis to -0.6 using individual data. [Hansen et al. \(2000\)](#) report a marginal net-of-tax elasticity for Danish blue-collar workers of 1.34. For white-collar workers, the elasticity is found to be statistically insignificant.

Thus, both types of labor market models predict wages to decrease if progression rises. In the model with perfect labor markets, wages fall because workers put in less effort. In models with labor market imperfections, wages are set above the market clearing level and wage moderation is efficiency enhancing.¹ The policy implications to be drawn from the observation that higher marginal taxes reduce wages depend therefore critically on the structure of the labor market.

The US labor market is fairly competitive and a traditional labor supply model may be adequate to describe the labor market. Models that account for labor market imperfections better describe European labor markets. For instance, trade unions—while struggling to keep their member base—tend to be powerful in Europe and they have a large impact on the labor market. This is in particular true for Germany, where the percentage of workers covered by collective bargaining agreements was as high as 90% in 1990 ([OECD, 1997](#)). For this reason, the German labor market is modeled in a trade union framework and a panel with individual data of (middle-income) employees is chosen to test the predictions of the union model.

¹ See [Calmfors \(1995\)](#) for stressing this point.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات