

CORE DISCUSSION PAPER  
2002/3

**REDISTRIBUTION WITH CAPITAL MOBILITY AND  
UNIONS' WAGE SETTING**

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January 2002

**Abstract**

Most models of tax competition assume full employment. Yet, actually one often observes that fiscal competition, particularly when it is aimed at attracting investment, is motivated by the concern of fighting unemployment and enhancing job creation. The present paper considers a multicountry model with capital mobility and unemployment. Fiscal policy has two opposing objectives: financing unemployment insurance and increasing employment. In each country there is a majority vote on this policy. The purpose of the paper is to analyse how opening borders to capital flows modifies the median voter's choice of the employment subsidy. Assuming that capital and labour are complements, economic integration is shown to rise the employment subsidy with fixed wages. This agrees with intuition as a larger employment subsidy attracts more capital. However, when wages are set by labour unions economic integration can change the median voter's choice in either direction.

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We are grateful to Tanguy van Ypersele, Motohiro Sato, a referee and the associate editor for their comments and suggestions.

This paper presents results of the programme "Actions de recherche concertées" of the Communauté française de Belgique. The scientific responsibility is assumed by the authors.