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LABOR MOBILITY AND INCOME TAX COMPETITION

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Abstract

This paper provides a model of nonlinear income taxation in a context of international mobility. We consider two identical countries, in which each government chooses non-cooperatively redistributive taxes.

It is shown that when skilled workers can move at low cost, the income taxation does not involve distortions. When the cost to move becomes high for skilled workers, taxation policy is less redistributive but qualitatively similar to the taxation policy in autarky. Moreover, the mobility of the unskilled workers does not affect the income taxation when both countries have Rawlsian objectives.

Keywords: Fiscal Competition, Labor Mobility, Optimal Taxation, Mechanism Design.

JEL Classification: H21, H23, H77.

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