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**International commodity taxation in the presence
of unemployment**

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Abstract

This paper analyses the effect of consumption taxes on unemployment in presence of wage rigidity and compares non-cooperative tax setting under the destination and origin principle of commodity taxation. We show that, in a two country economy, consumption taxes negatively affect domestic employment and cause an employment externality which is negative under the destination and positive under the origin principle. Whereas the non-cooperative tax rate is inefficiently high under both principles, we show that, when the level of rigid wages is high, the origin principle is superior to the destination principle from the viewpoint of employment as well as social welfare.

Keywords: commodity taxation, destination principle, origin principle and unemployment.

JEL Classification: F16, H87, J23.

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