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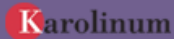
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Tax Wedges, Unemployment Benefits and Labour Market Outcomes in the New EU Members

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Year: 2009 Volume: 3 Issue: 1 Pages: 69-92

Abstract: There has been a widely accepted belief that certain labor market institutions, including high taxation and generous benefits, can lead to low employment and/or high unemployment. To what extent do such priors about tax wedges and unemployment benefits apply to the new members of the EU? Principal Component Analysis (PCA) suggests the new members share similar characteristics to each other and should be grouped separately from the rest of Europe. There are statistically significant differences in the medians of unemployment benefits and the labor market outcomes of the less productive workers, but insignificant differences in prime-age outcomes and tax wedges. Within the new members, our non-parametric analysis finds tax wedges and the duration of benefits (not the replacement ratio) are associated with poor labor market outcomes, but the evidence is weak.

JEL classification: J21, J48, J68, P27

Keywords: Labour market institutions, principal component analysis

RePEc: http://ideas.repec.org/a/fau/aucoz/au2009_069.html

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