

[IZA News](#)[About IZA](#)[Organization Chart](#)[People](#)[Research](#)[Labor Policy](#)[Publications](#)[Discussion Papers](#)[Policy Papers](#)[Standpunkte](#)[Books](#)[Research Reports](#)[IZA Compact](#)[IZA in the Press](#)[Publication Record](#)[Journals](#)[Events](#)[IZA Prize / YLE Award](#)[Teaching](#)[Links / Resources](#)[Press](#)

IZA



Minimum Wage and Tax Evasion: Theory and Evidence

by Mirco Tonin

(April 2011)

published in: Journal of Public Economics, 2011, 95 (11-12), 1635-1651

Abstract:

This paper examines the interaction between minimum wage legislation and tax evasion by employed labor. I develop a model in which firms and workers may agree to report less than the true amount of earnings to the fiscal authorities. I show that introducing a minimum wage creates a spike in the distribution of declared earnings and induces higher compliance by some agents, thus reducing their disposable income. The comparison of food consumption and of the consumption-income gap before and after the massive minimum wage hike that took place in Hungary in 2001 reveals that households who appeared to benefit from the hike actually experienced a drop compared to similar but unaffected households, thus supporting the prediction of the theory.

Text: See [Discussion Paper No. 5660](#)



[Back](#)