

Labor Market Fluidity, Skill Accumulation and the Insurance Effects from Taxes

German Cubas
University of Houston

Musab Kurnaz
Belk College of Business

Pedro Silos
Temple University

Terry Yip
McMaster University

Abstract

This paper uses the Canadian tax reform in the year 2000 to study how changes in the income tax schedule affect workers' career choices and welfare. Using administrative data, we document a decrease in the mean and progressivity of the tax code and find that the reform decreased occupational mobility. We develop an equilibrium model of occupational choice with human capital accumulation and incomplete markets. In our theory, human capital accumulation and occupational mobility are intimately related. The reform affected labor markets through the incentives to accumulate human capital in an occupation and the insurance mechanism provided by a progressive tax system. A version of the model calibrated to Canadian data reproduces the observed decline in occupational mobility.

.

.