

On the political determinants of labor income tax progressivity

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Abstract

Since the economic and financial crisis of 2008/09, the world has seen a surge in the discomfort of electorates around the world, which materialized in changing political majorities and less predictable decisions flowing from direct democracy. Economists and political scientists concur that a change in the perceived income and wealth inequality in conjunction with an increased competition for resources may be part of the equation explaining this phenomenon.

Clearly, what should matter to households in this regard the most, beyond changes in consumer prices, are disposable, after-tax nominal incomes. While data on assets, incomes, and their distribution prior to taxation become more available, the profession has lacked a holistic, global view on how gross earnings are mapped into disposable income through labor income taxation and how this mapping has changed over past decades.

The present paper aims to fill this gap by introducing and describing a data set of unprecedented size and detail covering personal labor income tax calculators and statutory tax codes for 251 countries and territories for the years 1980-2012. The tax calculators provide data on effective average and effective marginal tax rates for archetypal household varieties and allow for adjustment in the earnings status of two spouses, account for the deductions, credits and allowances that accrue to workers, spouses, and their children.

Beyond presenting an overview of this data, the paper explores the impact of standard political factors on different measures of labor income tax progressivity. This analysis focuses on the built-in progressivity among single, male earners; however, a robustness check expands to consider all households along the income distribution.