

1 Main text tables

Table 1: Equilibrium under the current tax system and under other potential scenarios.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	26.65%	10.00%	8.39%	10.00%
τ^ℓ	25.50%	18.22%	25.50%	25.50%	24.89%
θ	0.276	0.265	0.267	0.265	0.264
τ^A	0.00%	0.00%	10.15%	12.90%	13.07%
<i>Aggregates:</i>					
Employment	.	+4.02%	+1.14%	+1.59%	+1.96%
Labor Share	56.00%	56.78%	57.93%	58.44%	58.54%
Net Output	.	+0.44%	-0.10%	+0.16%	+0.20%
C.E. welfare change	.	0.38%	0.09%	0.14%	0.18%
Revenue	.	+0.00%	+1.41%	+0.01%	+0.01%

Table 2: Comparison of observed tax reforms and reforms costing the same revenue.

	Observed reforms			Alternative reforms		
	System in 2000 with $\tau^k = 20\%$	System in 2010s with $\tau^k = 10\%$	System in 2020 with reform to $\tau^k = 5\%$	Revenue- neutral labor tax reform with $\tau^k = 20\%$	Revenue- neutral capital tax reform with automation taxation	Revenue- neutral capital and labor tax reform
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Tax system:</i>						
τ^k	20.00%	10.00%	5.00%	20.00%	8.58%	26.65%
τ^ℓ	25.50%	25.50%	25.50%	21.09%	25.50%	18.22%
θ	0.271	0.276	0.278	0.269	0.266	0.265
τ^A	0.00%	0.00%	0.00%	0.00%	11.42%	0.00%
<i>Aggregates:</i>						
Employment	.	+1.01%	+1.47%	+3.56%	+2.43%	+5.06%
Capital	.	+5.64%	+8.34%	+1.14%	+3.07%	-2.19%
Labor Share	56.30%	56.00%	55.86%	56.46%	58.15%	56.77%
Net Output	.	+2.38%	+3.49%	+2.83%	+2.55%	+2.83%
Cost/Revenue per job (\$)	.	162851.59	169857.32	45953.81	67316.09	32378.22
Revenue	.	-10.49%	-16.00%	-10.49%	-10.49%	-10.49%

2 Appendix Tables

Table A.1: Robustness: including the implicit tax on labor from means-tested and disability programs.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	31.20%	10.00%	6.44%	10.00%
τ^ℓ	33.50%	23.98%	33.50%	33.50%	32.15%
θ	0.281	0.265	0.270	0.266	0.264
τ^A	0.00%	0.00%	12.13%	17.01%	17.32%
<i>Aggregates:</i>					
Employment	.	+6.07%	+1.37%	+2.23%	+3.18%
Labor Share	56.00%	57.09%	58.36%	59.29%	59.51%
Net Output	.	+1.13%	-0.17%	+0.38%	+0.57%
C.E. welfare change	.	0.81%	0.15%	0.28%	0.41%
Revenue	.	+0.00%	+2.03%	+0.01%	+0.00%

Table A.2: Robustness: effective tax on capital for equity financing only.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	12.00%	27.17%	12.00%	10.71%	12.00%
τ^ℓ	25.50%	18.88%	25.50%	25.50%	25.00%
θ	0.276	0.266	0.268	0.266	0.265
τ^A	0.00%	0.00%	9.48%	11.96%	12.07%
<i>Aggregates:</i>					
Employment	.	+3.64%	+1.07%	+1.46%	+1.76%
Labor Share	56.00%	56.71%	57.80%	58.26%	58.33%
Net Output	.	+0.35%	-0.08%	+0.13%	+0.16%
C.E. welfare change	.	0.33%	0.08%	0.12%	0.15%
Revenue	.	+0.00%	+1.10%	+0.01%	+0.00%

Table A.3: Robustness: capital wedge of 15%.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	21.98%	10.00%	8.85%	10.00%
τ^ℓ	25.50%	20.23%	25.50%	25.50%	25.04%
θ	0.272	0.264	0.267	0.265	0.264
τ^A	0.00%	0.00%	5.59%	9.17%	9.36%
<i>Aggregates:</i>					
Employment	.	+2.98%	+0.63%	+1.12%	+1.42%
Labor Share	56.00%	56.53%	57.03%	57.69%	57.77%
Net Output	.	+0.47%	-0.01%	+0.17%	+0.22%
C.E. welfare change	.	0.20%	0.03%	0.07%	0.09%
Revenue	.	+0.00%	+0.79%	+0.01%	+0.00%

Table A.4: Robustness: with only extensive-margin distortions.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	24.27%	10.00%	8.63%	10.00%
τ^ℓ	25.50%	19.24%	25.50%	25.50%	24.97%
θ	0.276	0.266	0.268	0.267	0.266
τ^A	0.00%	0.00%	8.37%	10.98%	11.18%
<i>Aggregates:</i>					
Employment	.	+3.50%	+0.95%	+1.35%	+1.69%
Labor Share	56.00%	56.66%	57.58%	58.06%	58.15%
Net Output	.	+0.47%	-0.06%	+0.17%	+0.22%
C.E. welfare change	.	0.27%	0.06%	0.10%	0.12%
Revenue	.	+0.00%	+1.17%	+0.02%	+0.01%

Table A.5: Robustness: assuming labor has an absolute disadvantage at higher-indexed tasks.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	24.12%	10.00%	8.32%	10.00%
τ^ℓ	25.50%	14.98%	25.50%	25.50%	24.34%
θ	0.637	0.618	0.622	0.619	0.617
τ^A	0.00%	0.00%	12.72%	15.70%	15.89%
<i>Aggregates:</i>					
Employment	.	+7.30%	+2.23%	+2.89%	+3.76%
Labor Share	56.00%	57.96%	59.21%	59.91%	60.17%
Net Output	.	+0.62%	-0.17%	+0.23%	+0.31%
C.E. welfare change	.	0.85%	0.22%	0.32%	0.43%
Revenue	.	+0.00%	+2.50%	+0.00%	+0.00%

Table A.6: Robustness: accounting for human capital responses.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	29.21%	10.00%	7.72%	10.00%
τ^ℓ	25.50%	16.90%	25.50%	25.50%	24.63%
θ	0.290	0.275	0.278	0.275	0.274
τ^A	0.00%	0.00%	12.53%	15.39%	15.43%
<i>Aggregates:</i>					
Employment	.	+5.73%	+1.73%	+2.35%	+2.97%
Labor Share	56.00%	57.06%	58.52%	59.07%	59.18%
Net Output	.	+1.23%	+0.03%	+0.48%	+0.62%
C.E. welfare change	.	0.59%	0.14%	0.23%	0.30%
Revenue	.	+0.00%	+1.98%	+0.01%	+0.00%

Table A.7: Robustness: setting $\epsilon^k = 1$.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	20.83%	10.00%	9.16%	10.00%
τ^ℓ	25.50%	20.97%	25.50%	25.50%	25.19%
θ	0.256	0.248	0.250	0.248	0.248
τ^A	0.00%	0.00%	6.76%	9.09%	9.09%
<i>Aggregates:</i>					
Employment	.	+2.18%	+0.62%	+0.92%	+1.08%
Labor Share	56.00%	56.48%	57.23%	57.64%	57.68%
Net Output	.	-0.38%	-0.27%	-0.17%	-0.19%
C.E. welfare change	.	0.18%	0.04%	0.07%	0.09%
Revenue	.	+0.00%	+0.66%	+0.02%	+0.00%

Table A.8: Equilibrium under the current tax system and under other potential scenarios, complementary capital.

	Current System	Ramsey Solution	Distorting θ	Distorting θ and changing τ^k	Distorting θ and changing τ^ℓ
	(1)	(2)	(3)	(4)	(5)
<i>Tax system:</i>					
τ^k	10.00%	26.65%	10.00%	9.28%	10.00%
τ^ℓ	25.50%	18.22%	25.50%	25.50%	25.27%
θ	0.159	0.150	0.151	0.152	0.151
τ^A	0.00%	0.00%	6.53%	6.35%	6.58%
<i>Aggregates:</i>					
Employment	.	+3.96%	+0.62%	+0.64%	+0.82%
Labor Share	55.98%	56.68%	57.01%	56.96%	57.02%
Net Output	.	+0.43%	-0.05%	+0.09%	+0.12%
C.E. welfare change	.	0.41%	0.05%	0.07%	0.10%
Revenue	.	+0.00%	+12.63%	0.00%	0.00%