

# Relative Effects of Labor Taxes and Unemployment Benefits on Hours Worked per Worker and Employment\*

Been-Lon Chen\*\*  
Academia Sinica

Mei Hsu†  
National Taiwan Normal University

Chih-Fang Lai‡  
Academia Sinica

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## Abstract

Labor supply in Europe was declined by about 30% relative to the US over the past 3 decades. The decline comes from hours per worker and employment. This paper studies a matching model and the effects of labor taxes and unemployment benefits. Labor taxes decrease hours and employment, with overstated adverse effects on hours if extensive margins are not considered. Unemployment benefits decrease employment and increase hours, with understated adverse effects on employment if intensive margins are not considered. In baseline, labor taxes and unemployment benefits together explain about 75% of declining labor supply in Europe relative to the US.

**Keywords:** search, labor taxes, adverse labor markets, hours worked per worker and employment.

**JEL classification:** E24, E60, H20.

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\*\* Corresponding author: Been-Lon Chen, the Institute of Economics, Academia Sinica, 128 Academia Road Section 2, Taipei 11529, TAIWAN. Email: [bchen@econ.sinica.edu.tw](mailto:bchen@econ.sinica.edu.tw). Phone: (886-2)27822791 ext. 309; Fax: (886-2)27853946.

† College of Management, National Taiwan Normal University, 162 He-Ping E. Road Section 1, Taipei 106, TAIWAN, [mhsu@ntnu.edu.tw](mailto:mhsu@ntnu.edu.tw). Phone: (886-2)27734329, Fax: (886-2)23648372.

‡ Institute of Economics, Academia Sinica, 128 Academia Road Section 2, Taipei 11529, TAIWAN; email: [cflai@econ.sinica.edu.tw](mailto:cflai@econ.sinica.edu.tw). Phone: (886-2)27822791 ext. 522; Fax: (886-2)27853946.