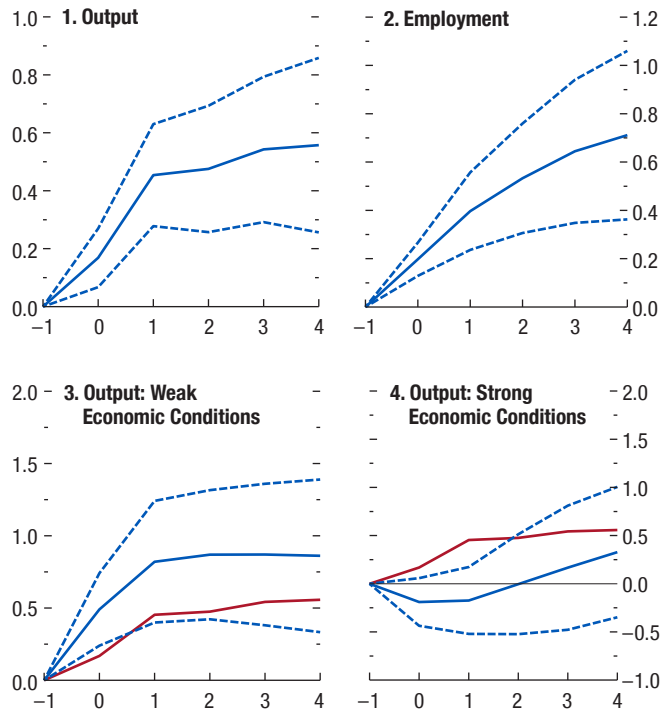


Figure 3.12. Macroeconomic Effects of Labor Tax Wedge Cuts
(Percent; years on x-axis)

Reductions in labor tax wedges have statistically significant short- and medium-term effects on output and employment. These effects are larger under weak economic conditions.



Source: IMF staff estimates.

Note: $t = 0$ is the year of the shock. Solid blue lines denote the response to a 1 percentage point reduction in labor tax wedges; dashed lines denote 90 percent confidence bands; and solid red lines represent the unconditional result.