

Inequality-aware Market Design Seminar Series

Paweł Doligalski: Redistribution with Performance Pay

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Details

When: 27 Jul 2022 @ 17:00 GMT+2

Where: GRAPE

Speaker this week

[Paweł Doligalski ↗](#)

University of Bristol, GRAPE

Paweł Doligalski is a lecturer in economics at the University of Bristol. He is broadly interested in public finance. His recent research concerns optimal taxation of performance bonuses and income redistribution in economies with an informal sector.

Abstract: Half of the jobs in the U.S. feature pay-for-performance. We derive novel incidence and optimum formulas for the overall rate of tax progressivity and the top tax rates on total earnings and bonuses, when such labor contracts arise from moral hazard frictions within firms. Optimal taxes account for the fiscal externalities and welfare consequences of two distinct forces: a direct crowding-out of private insurance and a countervailing crowding-in due to endogenous labor effort responses. These imply that the amount of pre-tax earnings risk to which the worker is exposed is roughly invariant to tax progressivity, whereas the (adverse) welfare consequences of the crowd-out outweigh those of the crowd-in. Quantitatively, the optimal tax policy with performance-pay contracts is close to that prescribed by standard models that treat pre-tax earnings risk as exogenous. Finally, we uncover an efficiency-based argument for taxing bonuses at strictly lower rates than base earnings. Find the paper [here ↗](#).

Should you have any queries please contact the seminar organizers at IMD@grape.org.pl.



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