

**Economics
Seminar
Series
2016**



SOUTH ASIAN UNIVERSITY
FACULTY OF ECONOMICS

Seminar

***Factor Income Taxation, Growth, and Investment
Specific Technological Change***

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Date: April 22, 2016
(Friday)
Time: 2:30 p.m.
Venue: FSI Hall, Akbar Bhawan
Satya Marg, Chanakyapuri, New Delhi

All are Welcome

Why do countries with different tax arrangements exhibit the same growth rate? We refer to this as a growth-tax puzzle. To explain the puzzle, we construct a tractable endogenous growth model with endogenous investment specific technological change (ISTC). Public and private capital stock externalities are assumed to augment ISTC. A specialized labor input exerts a positive externality in final good production. Our primary interest is to highlight the role of such externalities in explaining the puzzle. We show that the competitive equilibrium growth rate can be decomposed into a labor factor and a capital factor. Changes in factor income taxes, by affecting these factors, can have opposing effects leading to constancy in growth. Our model builds on the existing endogenous growth literature by providing an alternative, but compatible explanation for the offsetting growth effects of fiscal policy on growth observed in the data.