

LABOUR TAX WEDGE IN THE REPUBLIC OF MACEDONIA - TRENDS AND INTERNATIONAL COMPARISON

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ABSTRACT: The tax wedge is a significant part of total labour costs, which creates a difference between the gross wage and the net take-home pay. The tax wedge receives much attention in research, since it is perceived that high labour tax wedge has detrimental effects on labour market outcomes and causes higher levels of unemployment. The paper addresses the following issues: the effects of an increase or decrease of tax wedge on the labour market; the tax burden on labour in the Republic of Macedonia and the reductions of personal income tax and social contributions rates; an international comparison of the tax wedge and the position of Macedonia. A hierarchical cluster analysis was performed on 43 countries (OECD and EU members and EU candidate countries), resulting in three groups of countries classified according to their tax wedge, employment rate and unemployment rate. We found that OECD and EU countries can be classified into two groups, one with high tax wedge, high unemployment rate and low employment rate, and the other one with opposite characteristics. Macedonia belongs to the third group of countries with poorest labour market outcomes, while the average tax wedge is somewhere between those of the other two clusters. The results can serve the professional and scientific public in analyzing the labour market flexibility; as well as the relevant state institutions and policy makers, in conceptualization of appropriate policies aimed at changing taxes that burden wages.

Key words: tax wedge, labour costs, hierarchical cluster analysis, unemployment.

JEL Codes: H24, J32, J38