

Online Appendix for Tax Heterogeneity and Misallocation

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A Additional results

This online appendix gives more details on the results presented in Section 5 in the main text.

A.1 Long-run output

Aggregate productivity gains imply output gains for given quantities of inputs. As was shown in Section 5.1, in the long run, improved productivity leads to capital investment, which further raises output. In the standard growth model with representative households and inelastic labor supply, steady-state capital is given by $K = (\alpha Z/r)^{\frac{1}{1-\alpha}}$, where Z is aggregate TFP. A 1 percent increase in TFP raises capital by $1/(1-\alpha) = 1.4\%$ and output by $\alpha/(1-\alpha) = 0.4\%$ in the long run beyond the direct increase from higher TFP. Consequently, the baseline 4.1% TFP gain from tax homogenization translates to a 5.8% ($= 4.1 \times 1.4$) long-run gain in output per capita.^{OA.1}

Our results on the revenue-neutral output gains in Section 5.1 were derived as follows. Pretax corporate income is proportional to output in our model: $\Pi = (1-\gamma)Y$. Each percent decline in the tax rate raises the capital stock by $\frac{1}{1-\alpha} \frac{\tau}{1-\tau}$, and output by α times the capital stock.^{OA.2} Additional output allows for even lower tax rates, and so on. The associated multiplier is $(1 - \frac{\alpha}{1-\alpha} \frac{\tau}{1-\tau})^{-1}$, which is about 1.1 when $\alpha = 0.28$ and the (common) tax rate is 20 percent, roughly the average effective rate in our sample between the two measures. Therefore, a revenue-neutral tax homogenization reform would raise output per capita by 6.4% (5.8×1.1) in the long-run, accounting for capital accumulation.

A.2 Interactions between distortions

When corporate taxation interacts with other distortions, eliminating tax differentials would also alter the distribution of ω_R and ω_N , which we assumed to be fixed in the main text. We discuss

^{OA.1}More generally, long-run output growth depends on the price elasticities of factor supply. Models with positively sloped capital supply schedules, such as Aiyagari (1994), would predict smaller gains, and those with positively sloped labor supply schedules would predict larger gains than the figures reported here.

^{OA.2}Because $\omega_\tau = \frac{1}{1-\tau}$, the percent change in the tax wedge is related to the percent change in the tax rate as follows: $\frac{d\omega_\tau}{\omega_\tau} = -\frac{d\tau}{\tau} \times \frac{\tau}{1-\tau}$. Multiplying that with the cost elasticity of capital demand, $1/(1-\alpha) = 1.4$, gives the total effect on the capital stock.

this extension in Section 5.2 and provide further details here. In models with collateral constraints or cash-in-advance requirements, lower taxes can free up internal funds for investment or employment, easing such constraints. This would raise productivity beyond the above estimates when highly-taxed firms are also more productive.

Ascertaining the extent of these additional gains, however, requires a more definitive stance on the nature of the underlying frictions than we adopt here. If investment distortions manifest as firm-specific interest costs rather than collateral constraints, for instance, eliminating tax heterogeneity may not alleviate capital distortions. Some progress can be made, however, on the *potential* role of these alternative models by interpreting the empirical correlation between productivity and tax rates as entirely endogenous. As we demonstrate next, this provides an upper bound on the productivity gains from homogenizing tax rates given the empirical patterns.

Labor distortions

Basic theory suggests that corporate taxes should not distort employment, conditional on capital and technology, because labor expenses are tax-deductible (equation (2)). Corporate tax rates can nonetheless directly affect employment when labor costs cannot be fully deducted or when there are explicit employment incentives. Similarly, cash-in-advance requirements, where wages have to be paid before sales are realized, generate a tax wedge in the optimality condition for employment. Because those funds can otherwise be invested in capital, the opportunity cost of capital, ω_K , becomes part of labor costs. Below, we present a cash-in-advance model and illustrate how corporate tax rates can directly affect employment in addition to their indirect effect through investment.

Suppose a fraction $\lambda \in [0, 1]$ of labor costs are not tax-deductible. Denoting the total cost per employee by ω_L , the after-tax income is now given by $(1 - \tau)[zF(k, n) - (1 - \lambda)\omega_L n] - \lambda\omega_L - \omega_R k$, which gives the following labor demand condition:

$$zF_n(k, n) = (1 - \lambda + \lambda\omega_\tau)\omega_L = \omega_N \quad (\text{OA.1})$$

When $\lambda > 0$, a higher corporate tax rate raises the marginal cost of labor. Importantly, heterogeneity in tax rates can generate a dispersion in marginal costs of labor ω_N across firms, even when all firms face the same total cost per employee ω_L .^{OA.3} Unlike in our baseline model, eliminating tax heterogeneity in this economy reduces the dispersion in marginal cost of labor, thereby leading to larger gains in aggregate productivity.

In our associated calculations we consider the extreme case of $\lambda = 1$, which implies $\omega_N = \omega_L \cdot \omega_\tau$. This is tantamount to interpreting the correlation between labor productivity and tax rates as structural. The following proposition gives the TFP under uniform taxation in that scenario:

Proposition OA.1. *In models with imperfect labor expensing, TFP in the uniform-tax economy with homogeneous tax rates across firms is:*

$$Z^{**} = \frac{\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{\beta}{1-\gamma}} \omega_K^{-\frac{\alpha}{1-\gamma}} \omega_\tau^{\frac{\gamma}{1-\gamma}} dG}{\left[\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{\beta}{1-\gamma}} \omega_K^{-\frac{1-\beta}{1-\gamma}} \omega_\tau^{\frac{1}{1-\gamma}} dG \right]^\alpha \left[\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{1-\alpha}{1-\gamma}} \omega_K^{-\frac{\alpha}{1-\gamma}} \omega_\tau^{\frac{1}{1-\gamma}} dG \right]^\beta} \quad (\text{OA.2})$$

Dividing Z^{**} by Z in equation (4) gives the aggregate change in TFP from homogenizing tax rates across firms. When all distortions are distributed log-normally, the implied change in aggregate TFP can be simplified as follows.

Proposition OA.2. *Suppose $\omega_K = \omega_R \cdot \omega_\tau$, $\omega_N = \omega_l \cdot \omega_\tau$, and ω_τ are jointly log-normally distributed. Eliminating tax heterogeneity yields the following change in aggregate TFP in models with imperfect labor expensing:*

$$\ln \frac{Z^{**}}{Z} = \frac{1}{2} \frac{\gamma}{1-\gamma} \sigma_\tau^2 + \frac{\alpha}{1-\gamma} \sigma_\tau^2 (L_{k\tau} - 1) + \frac{\beta}{1-\gamma} \sigma_\tau^2 (L_{n\tau} - 1), \quad (\text{OA.3})$$

where σ_τ^2 is the variance of $\ln \omega_\tau$ and $L_{k\tau} = \sigma_{k\tau} / \sigma_\tau$ and $L_{n\tau} = \sigma_{n\tau} / \sigma_\tau$ denote the slope coefficients from a linear projection of $\ln \omega_K$ and $\ln \omega_N$ on $\ln \omega_\tau$.

^{OA.3} A similar distortion can also arise when $\lambda < 0$, i.e., when there is a tax credit for employment. We focus on $\lambda > 0$ here given the positive empirical correlation between labor productivity and tax rates below.

Proof. Equation (A19) in Appendix A of the main paper gives TFP in the distorted economy as:

$$\ln Z = \mu_z + \frac{1}{2} \frac{1}{1-\gamma} [\sigma_z^2 - \alpha(1-\beta)\sigma_k^2 - \beta(1-\alpha)\sigma_n^2 - 2\alpha\beta\sigma_{kn}]. \quad (\text{OA.4})$$

When tax differentials are eliminated, the remaining heterogeneous capital and labor distortions are ω_R and ω_L , respectively. TFP in the uniform-tax economy is therefore:

$$\ln Z^{**} = \mu_z + \frac{1}{2} \frac{1}{1-\gamma} [\sigma_z^2 - \alpha(1-\beta)\sigma_R^2 - \beta(1-\alpha)\sigma_l^2 - 2\alpha\beta\sigma_{Rl}] \quad (\text{OA.5})$$

Note that $\sigma_k^2 - \sigma_R^2 = \sigma_\tau^2 + 2\sigma_{R\tau}$, $\sigma_n^2 - \sigma_l^2 = \sigma_\tau^2 + 2\sigma_{l\tau}$ and $\sigma_{kn} - \sigma_{Rl} = \sigma_{R\tau} + \sigma_{l\tau} + \sigma_\tau^2$. Rearranging the terms and netting out μ_z and σ_z^2 terms, the efficiency gains or losses from distortions are equivalent to:

$$\begin{aligned} \ln \frac{Z^{**}}{Z} &= \frac{1}{2} \frac{1}{1-\gamma} [\alpha(1-\beta)(\sigma_k^2 - \sigma_R^2) + \beta(1-\alpha)(\sigma_n^2 - \sigma_l^2) + 2\alpha\beta(\sigma_{kn} - \sigma_{Rl})] \\ &= \frac{1}{2} \frac{1}{1-\gamma} [\alpha(1-\beta)(\sigma_\tau^2 + 2\sigma_{R\tau}) + \beta(1-\alpha)(\sigma_\tau^2 + 2\sigma_{l\tau}) \cdots \\ &\quad \cdots + 2\alpha\beta(\sigma_{R\tau} + \sigma_{l\tau} + \sigma_\tau^2)] \\ &= \frac{\sigma_\tau^2}{2} \frac{1}{1-\gamma} \left[\alpha(1-\beta)(1 + 2\frac{\sigma_{R\tau}}{\sigma_\tau^2}) + \beta(1-\alpha)(1 + 2\frac{\sigma_{l\tau}}{\sigma_\tau^2}) \cdots \right. \\ &\quad \left. \cdots + 2\alpha\beta(1 + \frac{\sigma_{R\tau}}{\sigma_\tau^2} + \frac{\sigma_{l\tau}}{\sigma_\tau^2}) \right] \\ &= \frac{1}{2} \frac{\gamma}{1-\gamma} \sigma_\tau^2 + \frac{\alpha}{1-\gamma} \sigma_\tau^2 (L_{k\tau} - 1) + \frac{\beta}{1-\gamma} \sigma_\tau^2 (L_{n\tau} - 1) \end{aligned}$$

The last equality substitutes the linear projection coefficients for $\frac{\sigma_{R\tau}}{\sigma_\tau^2} = L_{R\tau} = L_{k\tau} - 1$ and $\frac{\sigma_{l\tau}}{\sigma_\tau^2} = L_{l\tau} = L_{n\tau} - 1$, and $\gamma = \alpha + \beta$. $\square$

Comparing equations (7) and (OA.3) reveals the significance of a structural link between taxes and labor costs. The first component, attributable to tax asymmetry, is now larger because it includes the direct contribution of tax heterogeneity to the dispersion in ω_N . The second component captures the correlation between tax rates and other capital distortions. Because taxes now raise marginal costs of both capital and labor, they generate a positive correlation between the two. This

exacerbates the distortionary effect of taxes (via σ_{kn} in the baseline TFP equation (6)). The last component in (OA.3) can be smaller or larger than in equation (7) because it now captures the productivity implications of the correlation between the tax wedge, ω_τ , and *other* labor distortions, ω_L .

Capital distortions

Similarly, consider the empirical decomposition of capital distortions into a random component and a tax-related component: $\ln \omega_R = L_{R\tau} \ln \omega_\tau + \ln \omega'_R$, where $\ln \omega'_R$ is orthogonal to $\ln \omega_\tau$. If this empirical relationship is structural, then eliminating tax differences would alter $\ln \omega_R$ through $L_{R\tau}$, unlike our baseline model. Consequently, setting $\omega_K' = \omega_R'$ in the uniform-tax economy delivers the following TFP:

Proposition OA.3. *TFP in the uniform-tax economy with homogeneous tax rates across firms is*

$$Z^{***} = \frac{\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{\beta}{1-\gamma}} \omega_K^{-\frac{\alpha}{1-\gamma}} \omega_\tau^{\frac{\alpha L_{k\tau}}{1-\gamma}} dG}{\left[\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{\beta}{1-\gamma}} \omega_K^{-\frac{1-\beta}{1-\gamma}} \omega_\tau^{\frac{(1-\beta)L_{k\tau}}{1-\gamma}} dG \right]^\alpha \left[\int z^{\frac{1}{1-\gamma}} \omega_N^{-\frac{1-\alpha}{1-\gamma}} \omega_K^{-\frac{\alpha}{1-\gamma}} \omega_\tau^{\frac{\alpha L_{k\tau}}{1-\gamma}} dG \right]^\beta}. \quad (\text{OA.6})$$

The approximate gains from tax homogenization are as follows.

Proposition OA.4. *If ω_K, ω_N , and ω_τ are jointly log-normally distributed, then eliminating tax heterogeneity yields the following change in aggregate TFP:*

$$\ln \frac{Z^{***}}{Z} = \frac{1}{2} \frac{\alpha(1-\beta)}{1-\gamma} \sigma_\tau^2 L_{k\tau}^2 + \frac{\alpha\beta}{1-\gamma} \sigma_\tau^2 L_{n\tau} L_{k\tau}, \quad (\text{OA.7})$$

where σ_τ^2 is the variance of $\ln \omega_\tau$ and $L_{k\tau} = \sigma_{k\tau}/\sigma_\tau^2$ and $L_{n\tau} = \sigma_{n\tau}/\sigma_\tau^2$ denote the slope coefficients from a linear projection of $\ln \omega_K$ and $\ln \omega_N$ on $\ln \omega_\tau$.

The proof follows similar steps to the proof of Proposition OA.2. This gain is larger than the baseline if $L_{R\tau} > 0$, or, equivalently, if $L_{k\tau} > 1$. Therefore, a structural interpretation of the empirical relationship between taxes and capital distortions amplifies the productivity effects of

tax heterogeneity. When $L_{R\tau} > 0$, eliminating tax differences also reduces the dispersion in ω_R , thereby alleviating capital distortions.

A.3 Macroeconomic trends and estimated TFP gains

In Section 5.3, we investigated how TFP gains from eliminating tax heterogeneity are affected by trends in factor shares and markups.

We take the decline of the labor share as given and calibrate its drop to the BEA's measure for each year of our analysis. Because the shares of capital, labor and profits sum to one, a change in the labor share necessarily changes at least one other parameter. While the evidence on the decline in the aggregate labor share is relatively well-accepted, how much of that decline was redistributed to capital versus profits is less clear. We therefore consider two alternative scenarios. First, we assume that the decline in the labor share was matched one for one by a rise in the capital share of income, keeping the share of profits constant over time. Second, we assume that the labor and capital shares declined proportionally, thus raising the profit share $1 - \gamma$ over time.

The resulting values for α , β , and γ are shown in Panel (a) of Figure OA.1. The black solid line shows the labor share of income published by the BEA. It declines from 57.7 percent in 1980 to 53.0 percent in 2016. In the first scenario we consider, this is matched by a 4.7 percent increase in the capital share α , shown as the gray dashed line in the figure. In the second scenario, we keep the cost shares of labor and capital fixed at $2/3$ and $1/3$, implying a rise in the profit share from 13.5 in 1980 to 20.5 in 2016, or, equivalently, a rise in the markup from 15.6 to 25.9 percent (shown as the red dashed line). The resulting capital share decline from 28.8 percent to 26.5 percent is shown as the red solid line.

From (7), changes in the labor share of income have a ceteris paribus ambiguous effect on estimated TFP gains. Note that the labor share of income β acts as a weight in equation (7) when considering distortions that are related to the allocation of labor versus capital. A lower β shifts weight away from the correlation between tax distortions and capital distortions. Because the effect of tax heterogeneity on allocative efficiency is generally ambiguous in a distorted economy—it

depends on the correlations of tax rates with other capital and labor distortions—the net effect of a change in the labor share is ambiguous as well. For instance, if labor productivity is generally high and capital productivity is generally low among firms that face higher tax rates, then a lower labor share should be associated with smaller TFP losses from tax heterogeneity.

We first consider the scenario of a higher capital share. A higher value of α raises the TFP gains, *ceteris paribus*. This effect is unambiguous from (7). Intuitively, the larger the importance of the distorted factor in production is, the larger are the losses from tax distortions. However, the dashed gray line in panel (b) of Figure OA.1 shows that the TFP gains from this scenario yield similar magnitudes as our baseline, indicating that the role of the capital share is quantitatively small.

We now consider the second scenario, under which markups increase, which is equivalent to a lower value of γ . *Ceteris paribus*, lower values of γ are associated with lower TFP losses from tax heterogeneity as indicated by equation (7). Therefore rising markups would tend to reduce the TFP gains over time. Intuitively, this is because lower values of γ bring the economy further away from a linear technology (or, equivalently, from perfect competition), where the best firm can absorb all the resources without facing diminishing returns to scale. The lack of that possibility lowers the total gains to reallocating inputs more efficiently.

Looking at the red dashed line in panel (b) of Figure OA.1 once again shows similar TFP gains under this scenario relative to the baseline. Our results point to an approximately 1 percentage point lower potential TFP gain from eliminating tax heterogeneity in recent years.

Decomposition Figure OA.2 shows the decomposition of TFP gains under the alternative macro scenarios where the labor share declines. The left panel attributes that decline to a higher capital share of income and the right panel to a rise in markups. The relative magnitudes of the interaction between tax wedges and capital or labor distortions are broadly similar across scenarios. Under rising markups, overall TFP gains from eliminating tax heterogeneity decline by more, especially toward the end of the sample. This is attributable to a lower value of γ , which reduces the

TFP losses associated with each component (see equation (7)), although the decline in the labor component is the most apparent.

A.4 Sectoral decomposition of TFP gains

This appendix describes the construction of the sectoral data used in the industry-level TFP loss calculation, how we compute TFP gains at the sector level, and how we aggregate sector-level results to aggregate losses. Those results were reported in Section 5.4 of the main paper.

Industry data. We obtain labor and capital shares at the 2-digit NAICS level from the Bureau of Labor Statistics’ multifactor productivity data. We compute value added as output minus energy, materials, and services, and define the capital and labor shares as capital costs and labor compensation divided by value added. For every sector, we use a single value for the capital and labor share, which is obtained as the value in the year 2000, roughly the mid-point of our sample period.

In addition, for every sector we compute employment-, capital-, and value-added weights, denoted as λ_N^s , λ_K^s , and λ_Y^s . We use the BLS Current Employment Statistics (CES) data to construct industry-level employment weights. Each 2-digit NAICS industry’s employment is measured as aggregate weekly hours of all employees. To obtain capital shares, we use the Bureau of Economic Analysis (BEA) Fixed Assets Accounts private nonresidential fixed assets by industry table. Finally, we compute each industry’s share of aggregate value added from the BLS multifactor productivity data for the year 2000. Employment and capital weights are constructed by averaging each industry’s hours and capital stock, respectively, over the available years in the source data and dividing these averages by their sum across industries. Employment data cover 2007–2024; capital-stock coverage varies by industry and generally spans 1947–2023. We restrict attention to industries with all required inputs, exclude finance, real estate, and utilities, and renormalize each set of weights to sum to one. These weights are held fixed throughout the analysis.

Industry-specific TFP gains. To compute industry-specific TFP gains, for each 2-digit sector s , we use the capital and labor shares α^s and β^s from the BLS data and combine them with the common parameter γ to define sector-specific production parameters as $\gamma\alpha^s$ and $\gamma\beta^s$.

For every sector, tax measure, and year, we then compute the TFP gains from eliminating heterogeneity in tax rates, while applying the same firm-level semi-elasticities and tax-wedge distributions as in the baseline. This delivers a sector-level TFP gain from eliminating tax dispersion, g_z^{sjt} , where $j \in \{\text{GM}, \text{BCG}\}$ denotes the tax measure.

Finally, we aggregate across sectors using value-added weights λ_Y^s to obtain total productivity gain from reallocating inputs *within* sectors (following tax homogenization in each sector).

$$g_{jt}^{\text{within}} = \sum_s \lambda_Y^s g_z^{sjt},$$

Allowing for input reallocation *between* sectors would alter the value-added weights λ_Y^s , as sectors with larger productivity gains, g_z^{sjt} , attract inputs from other sectors. To compute the resulting input shares after reallocation between sectors, note that sectoral production functions are of the Cobb-Douglas form with respective input elasticities α^s and β^s . Therefore, sector-level quantities are:

$$N^s = Z^s \frac{1}{1-\gamma} \left(\frac{\beta^s}{\omega_N^s} \right)^{\frac{1-\alpha^s}{1-\gamma}} \left(\frac{\alpha^s}{\Omega_K^s} \right)^{\frac{\alpha^s}{1-\gamma}} \quad (\text{OA.8})$$

$$K^s = Z^s \frac{1}{1-\gamma} \left(\frac{\beta^s}{\omega_N^s} \right)^{\frac{\beta^s}{1-\gamma}} \left(\frac{\alpha^s}{\Omega_K^s} \right)^{\frac{1-\beta^s}{1-\gamma}}, \quad (\text{OA.9})$$

where Ω_K^s and ω_N^s now denote effective sector-level distortions to capital and labor. Holding sectoral factor costs fixed, if sector TFP is multiplied by the gross factor g_z^{sjt} , the sector's capital and labor demand are each multiplied by $(g_z^{sjt})^{\frac{1}{1-\gamma}}$. Using $\lambda_K'^s$ and $\lambda_N'^s$ to denote input shares after reallocation, we have:

$$\begin{aligned}\lambda_K^s &= K'^s / \sum_s K'^s = \frac{(g_z^s)^{\frac{1}{1-\gamma}} K^s}{\sum_s K^s (g_z^s)^{\frac{1}{1-\gamma}}} = \lambda_K^s \frac{(g_z^s)^{\frac{1}{1-\gamma}}}{\sum_s \frac{K^s}{K} (g_z^s)^{\frac{1}{1-\gamma}}} \\ \lambda_N^s &= N'^s / \sum_s N'^s = \frac{(g_z^s)^{\frac{1}{1-\gamma}} N^s}{\sum_s N^s (g_z^s)^{\frac{1}{1-\gamma}}} = \lambda_N^s \frac{(g_z^s)^{\frac{1}{1-\gamma}}}{\sum_s \frac{N^s}{N} (g_z^s)^{\frac{1}{1-\gamma}}},\end{aligned}$$

where $\lambda_K^s = K^s/K$ and $\lambda_N^s = N^s/N$ are a sector's shares of total capital and labor in the distorted economy. If a sector's $(g_z^s)^{\frac{1}{1-\gamma}}$ is above its capital-weighted (labor-weighted) average across all sectors, then that sector obtains a larger share of the capital (labor) stock, i.e. $\lambda_K'^s > \lambda_K^s$.

Reallocating existing capital and labor supply according to these input shares, $\hat{K}^s = \lambda_K'^s K$ and $\hat{N}^s = \lambda_N'^s N$, gives the sectoral output growth after inter-sectoral reallocation of existing inputs as:

$$\frac{\hat{Y}_{s jt}}{Y^s} = \hat{g}_{s jt}^y = g_z^{s jt} \cdot \frac{(g_z^{s jt})^{\frac{\gamma}{1-\gamma}}}{\underbrace{\left(\sum_s \lambda_K^s (g_z^{s jt})^{\frac{1}{1-\gamma}} \right)^{\alpha^s} \left(\sum_s \lambda_N^s (g_z^{s jt})^{\frac{1}{1-\gamma}} \right)^{\beta^s}}_{\text{Between Sector Input Reallocation}}}$$

The first $g_z^{s jt}$ term is the within sector TFP gain, or output gain keeping K^s and N^s constant. The second term shows output gains from between-sector allocation and can be more or less than 1. The total output gain is obtained by aggregating sectoral gains:

$$g_{\text{total}}^{jt} = \sum_s \lambda_Y^s \hat{g}_y^{s jt},$$

where λ_Y^s are sectoral output shares in the distorted economy (as observed in the data). Because the within and between terms are positively related—the higher $g_z^{s jt}$ is, the larger the input gain from inter-sectoral reallocation—the aggregate gain is larger than the sum of sectoral gains from reallocating inputs within each sector alone. Finally, we refer to the difference between total and within components as the between-sector component of aggregate productivity gains: $g_{jt}^{\text{between}} = g_{jt}^{\text{total}} - g_{jt}^{\text{within}}$. In the main text, we report the average gains obtained by the two tax measures $j \in \{\text{GM}, \text{BCG}\}$ across our sample period.

References

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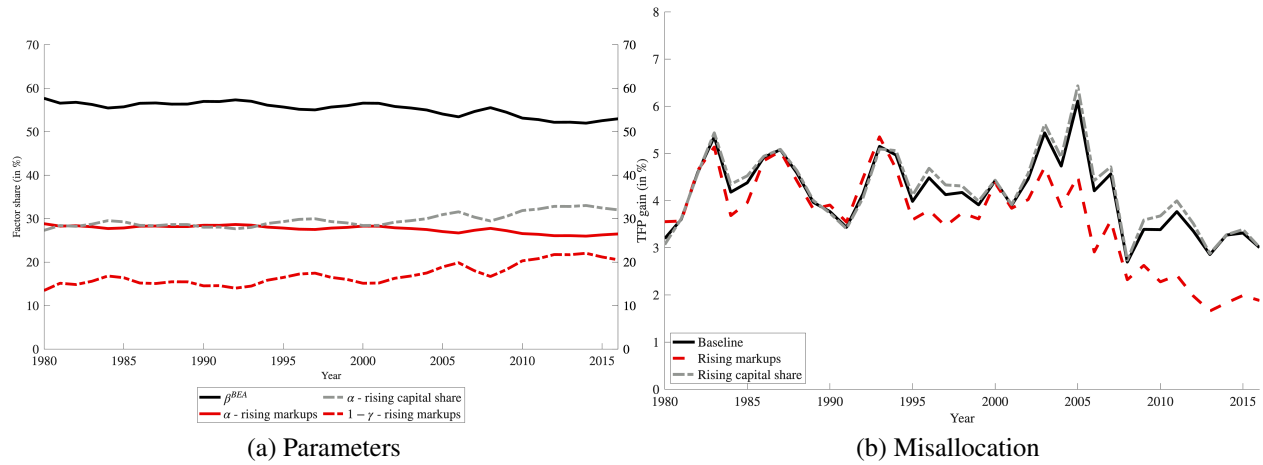


Figure OA.1: Macro trend scenarios

Note.— Panel (a) shows the labor share of income (β) from the BEA, and the associated changes in the shares of capital (α) and profits ($1 - \gamma$) under two alternative scenarios. Panel (b) shows the TFP gains from tax rate equalization in each scenario. Parameters are constant in the baseline.

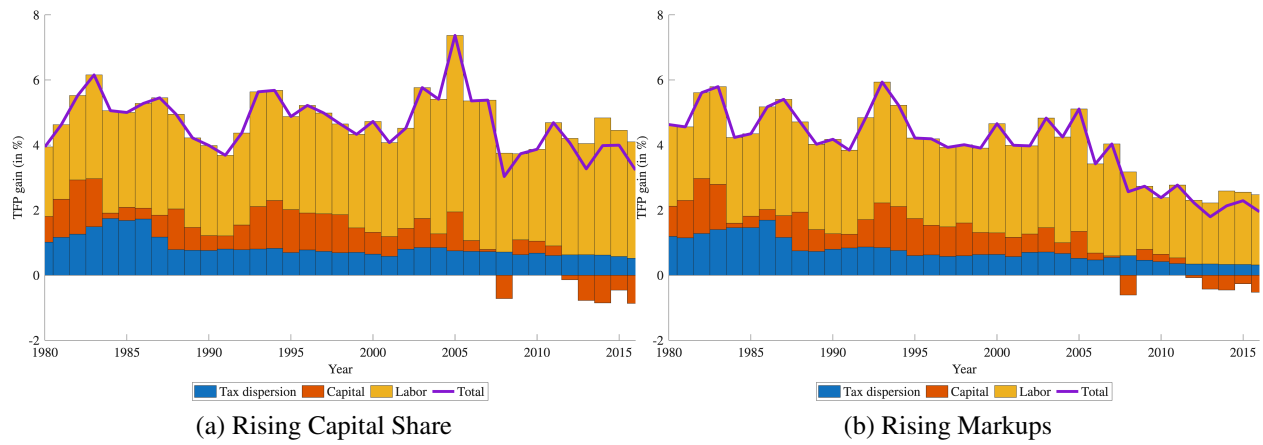


Figure OA.2: Sources of TFP gains under alternative macro scenarios