

# Organization of Knowledge and Taxation

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## Abstract

This paper studies how labor income taxation interacts with the organization of knowledge and production, and ultimately the distribution of wages in the economy. A more progressive tax system reduces the time that managers allocate to work. This makes the organization of production less efficient and reduces wages at both tails of the distribution, which increases lower tail wage inequality and decreases upper tail wage inequality. The optimal tax system is substantially less progressive than the current one in the United States. However, if wages were exogenous, the optimal tax progressivity would be much higher.

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