

This paper examines the long-run impacts of selective commodity, payroll and profit taxes in a two-sector endogenous growth model with sector-specific or economy-wide production externalities, in which one sector produces consumption goods and the other produces investment goods. The novelty of the model is to allow not only for the endogenous total supply of labor, which may cause the emergence of indeterminacy, but also for intersectional allocation of labor. We analytically show that the long-run effects of those selective taxes are significantly affected by the emergence of indeterminacy of equilibria, which may reverse the standard results of dynamic tax effects.