DARES
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Comments on:
The impact of a payroll tax credit on employment and wages
by Goos and Konings

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The context

- Low skilled workers severely affected by globalisation and skill-biased technological changes
  - The unemployment rate of low-skilled 2/3 times that of high skilled;
  - During the economic downturn, low-skilled workers particularly hard hit (e.g. construction, temporary jobs)
- Measures to support labour demand have become very popular during the current crisis
  - Short-time working subsidies (22 countries)
    - Arguably, they have helped to reduce the pace of job losses and promote adj. in hours.
  - Reductions in non-wage labour costs, in some cases targeted at SMEs, disadvantaged groups (16 countries)
  - Hiring subsidies and work experience, generally targeted at disadvantaged groups (17 countries)

Measures to support labour demand during the crisis

Measures to support labour demand for job seekers and vulnerable workers during the crisis

	No. of OECD countries	Targeting				
		Youth	Older workers	Low skilled	LTU	SMEs
Job subsidies, recruitment incentives or public sector job creation	١٧	AUS,BEL, CA,FRA, ITA, UK, USA	BEL, FRA, USA	LUX	PRT, SWE	CA, JPN, KOR,
Reduction in non-wage labour costs	١٦		POL	BEL, CZE		
--- new hires	٧	PRT, SPA, TUR	POL	FRA	PRT	FRA
Short-time working schemes	٢٢					ITA, KOR

What do we know about payroll tax credit?

- A significant effect of the tax wedge on labour use on employment, but significant uncertainty
  - Nickell (1993) reviewed the literature and estimated a 10 pc points reduction in labour taxes to increase E by 1-3% -- a relatively small but not insignificant effect
  - Estimated short-run labour demand elasticities are in the range of -0.3 to -0.5 (Hamermesh, 1993)…
  - …2009 Employment Outlook suggests that avg. responsiveness of LD has more than doubled over past 30 years; the sensitivity of LD increases in contractions and declines in expansions
  - …but, of course, "pass through" is very important and long-term elasticities tend to be much smaller (~ -0.2) → costs per additional job created are large…
  - …targeted reductions on low-wage workers (outsiders) are likely to be more effective; but stigma effects; anyhow they have suggested during crisis (e.g. Edlin and Phelps 2009)

The paper

- Key features:
  - It exploits a natural experiment with the introduction of a categorical payroll tax credits (Maribel II/III- IV) – targeted to manual workers and specific firms
    - Maribel II/III → focus on exporting and transport industries
    - Maribel IV → tax credit increases with share of manual workers
  - Firm-level data, assessing treatment-on-the-treated effects
  - Uses a D-in-D approach looking at within-firm variation in E and W of manual workers between firms <u>switching</u> and non-switching Maribel participation

- Key findings:
  - Avg. treatment effect 5.7% for manual E; 1.7% for wages
  - No evidence of adverse effects on workers not enjoying tax credits
  - Stronger effects in sectors more directly targeted (manuf, transport)

Some comments

- How should we interpret the results?
  - By construction, the analysis does not consider:
    - financing of the tax credit;
    - longer-run wage adj. (Phillips effect);
    - substitution effects across firms/employment
    - horizontal equity of potentially displacing manual workers with similar LM prospects but not eligible (e.g. other sectors in Maribel II/III)
- What is the cost per job created?
    - A rough estimate suggests a cost ~90-95% of manual worker pre-tax wage
- Identification:
  - FE estimators do not control for unobserved time-varying firm characteristics, e.g. growth of targeted vs. non-targeted firms → Heckman et al. matching approach
    - +ve (and significant) E effect also for non-manual workers and PT workers: complementarity of different workers; profitability effect dominates substitution effect?