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

Stefano Scarpetta
Head of the Employment Analysis and Policy
Directorate for Employment, Labour and Social Affairs
OECD
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

<p>| Measures to support labour demand for job seekers and vulnerable workers during the crisis                                                                 |</p>
<table>
<thead>
<tr>
<th>No. of OECD countries</th>
<th>Targeting</th>
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<td>Job subsidies, recruitment incentives or public sector job creation</td>
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<td>Reduction in non-wage labour costs</td>
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<td>--- new hires</td>
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<td>Short-time working schemes</td>
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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)
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 switching 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?