Reducing Social Security Contributions: More Employment, Higher Wages or Increased Profits?

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Abstract

Social Security Contributions (SSCs) are a major source of revenue for some countries, generating a large gap between the labor cost an employer faces and the wage effectively earned by an employee. In France, SSCs nominally paid by the employer are particularly high, representing an additional cost for labor of around one third of the gross wage. This high level of employer SSCs is combined to a large minimum wage. Altogether, the rigidities on the gross wage at the bottom of the wage spectrum and the high rate of employer SSCs have been suspected of fostering unemployment of less qualified workers. Since 1993, several reforms have reduced employer SSCs for low wages in order to favor employment. Building on previous works and implementing precise microsimulation of SSCs, I take a new look at the effect of the extension of these SSC reductions that took place between 1995 and 1997. I explore firm-level effects of this reform by implementing a dynamic difference-in-difference strategy with different levels of “treatment”. I find that reducing SSCs had a strong impact on employment, but only on a very short term. The most affected firms also increased their profits. I found however no effect on average wage progression for different wage groups.

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