

# Low wage policy in France: assessing the impact of rebates on SS contributions

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# Outline

## › Low wage policy

- But with a focus on the French case
- And on the major French demand-side policy targeted to this category of workers : rebates on SS contributions

## › Focus will also be more methodological

- Strategies for evaluating this policy
  - Standard *ex ante* and *ex post* evaluations
  - A complementary approach under progress : dynamic microsimulation of supply/demand interactions

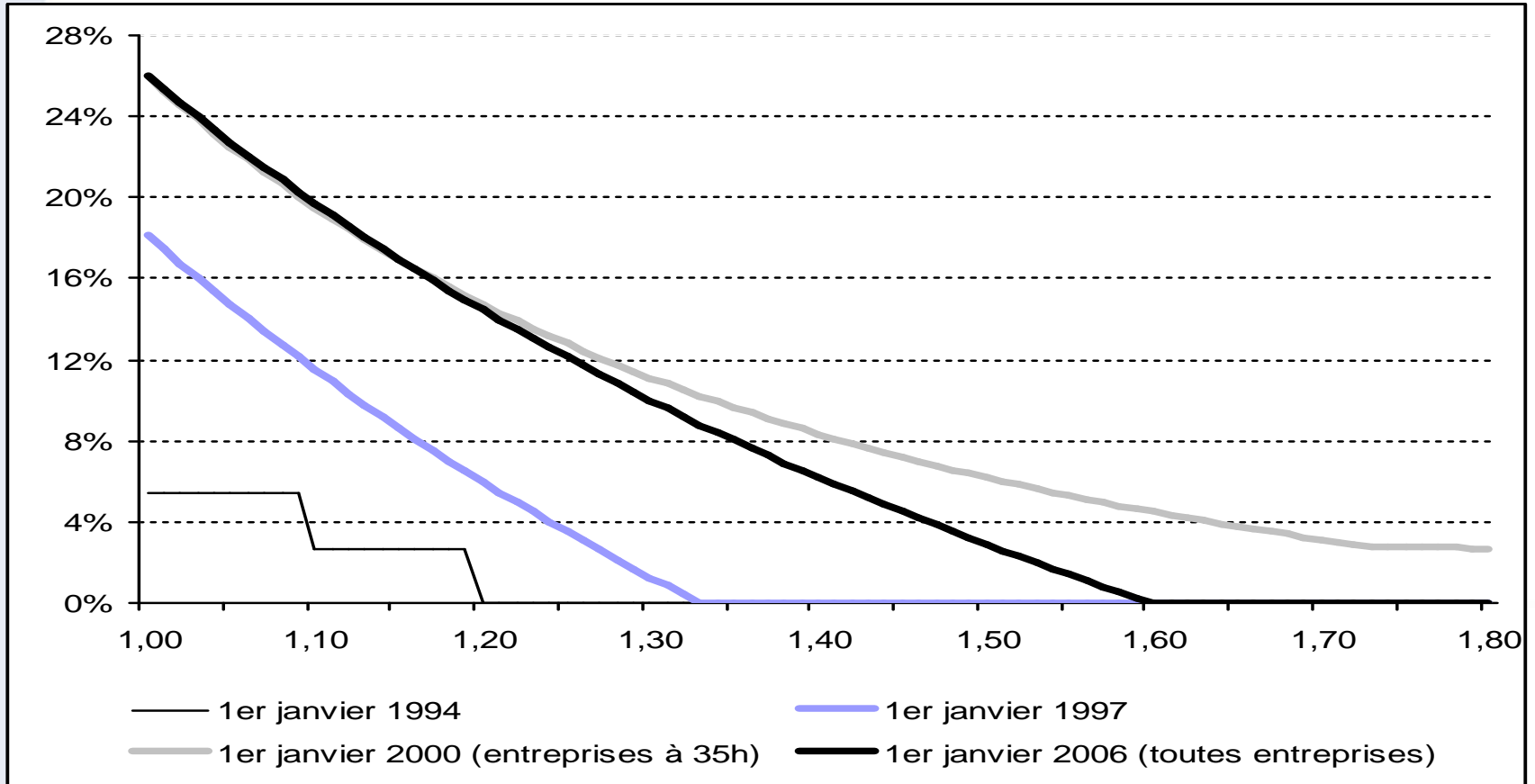


# Historical context

- › Increasing concern during the early 1990s for adverse LM consequences of ...:
  - A relatively high minimum wage
  - Combined with high rates of employers' Social Security contributions
- › Policies have increasingly tried to solve this problem through targeted rebates on SS contributions, in several steps:
  - « offensive » rebates during the mid 1990s aiming at reducing labor costs
  - « defensive » rebates at the turn of the century to compensate the increase in hourly labor costs resulting from working time reduction.
  - This WTR period had also led to a divergence of minimum wages across firms according to when they had moved to 35 hours
  - Last episode in 2006: new structure of rebates associated to re-convergence to a common value for the minimum wage



# Rebates on SS contributions at four successive periods



Source: DARES/DGTPE

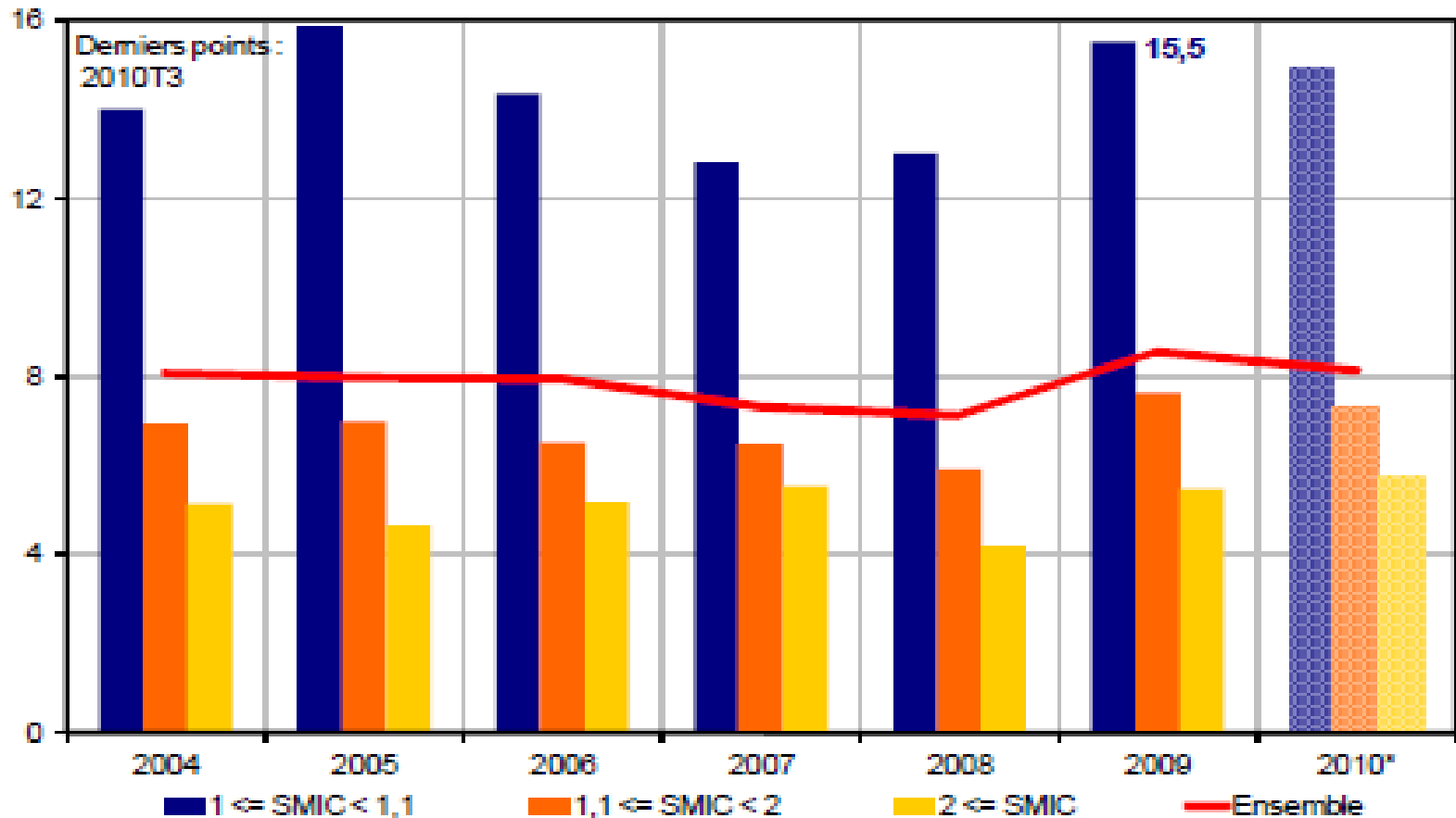


# Reevaluating this policy

- › Some relative consensus has emerged that these policies have been helpful
  - They have apparently avoided further declines in the share of low skilled work in total employment
- › But no consensus on their quantitative efficiency and their optimal design
- › This debate reemerges in the current crisis context.
  - These policies are costly: about 22 billions Euros in 2008 (1% of GDP)
  - They are suspected of benefiting to employers at least as much as to employees
  - On the other hand, the crisis has confirmed the higher fragility of less-skilled employment



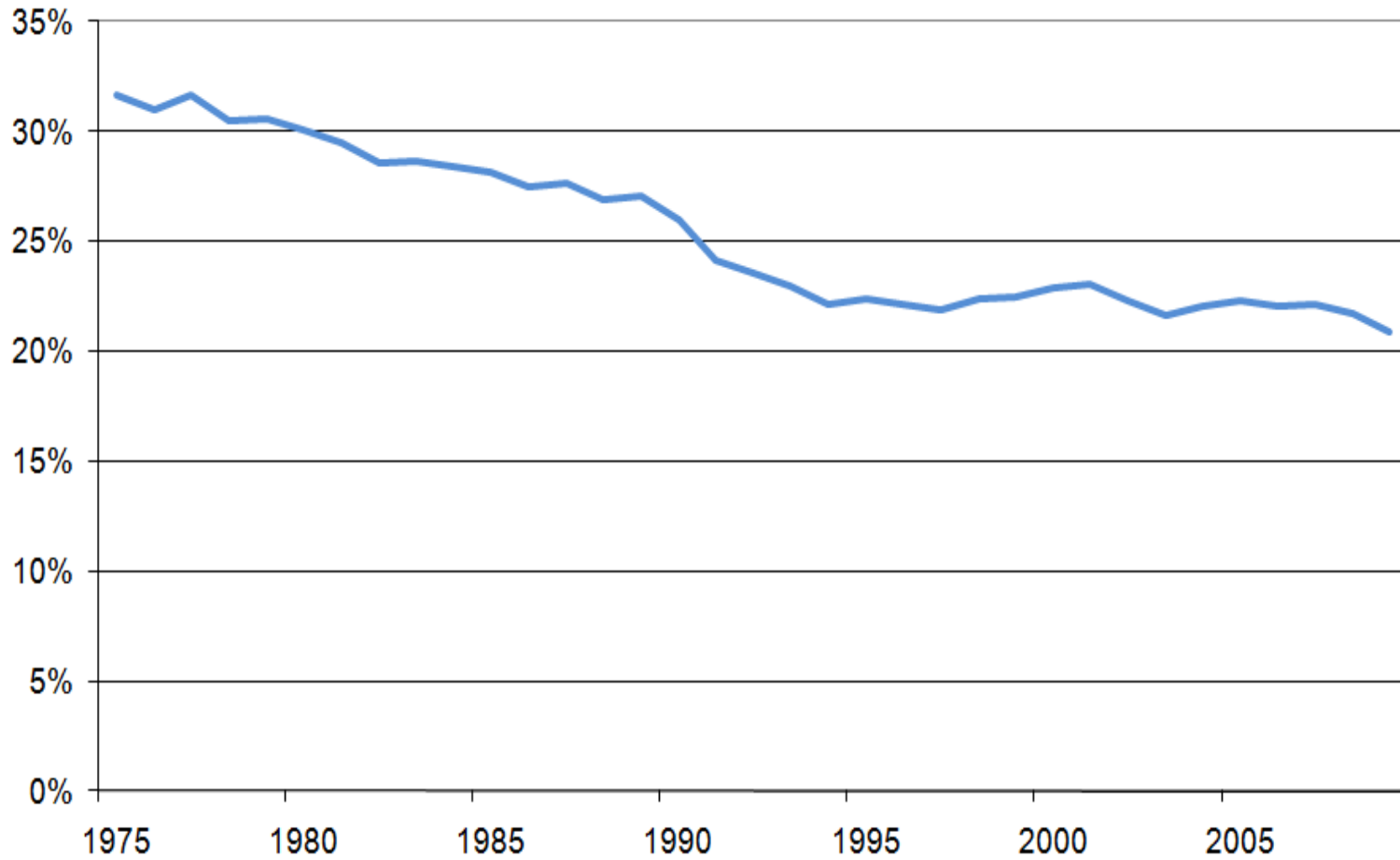
# Yearly probability of exit from employment, by wage level



Source : Bardaji, 2011 (LFS data)



# Share of less skilled work in total hours worked



Source: Labour Force Survey

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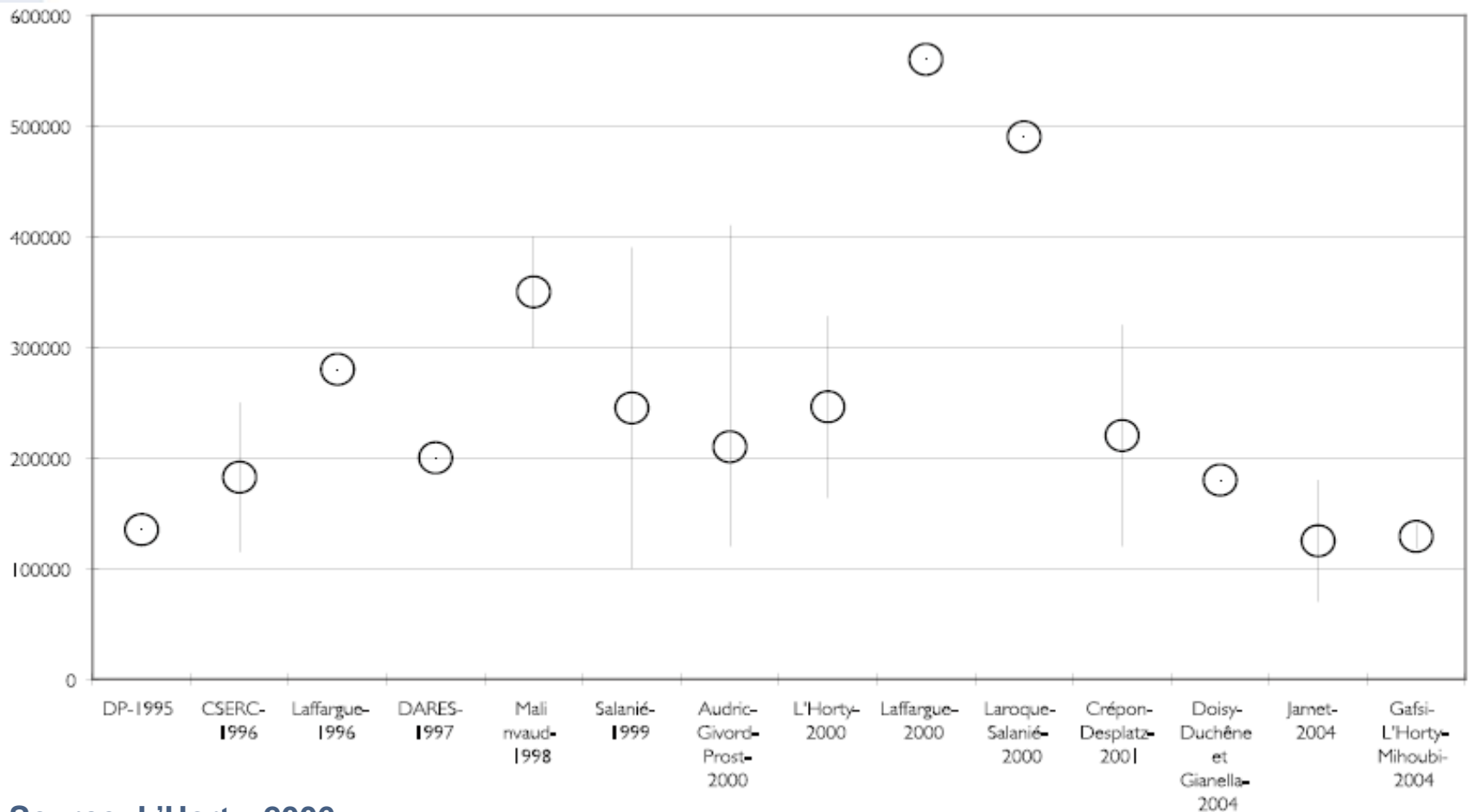
## Existing evaluations : what have been the instruments ?

- › *Ex ante* evaluation based on macro-econometric or CGE models.
- › One *ex post* evaluation available: Crépon and Desplatz (2002)
  - Matching analysis applied to firms that have « more or less » benefited from this policy during the mid 1990s
  - Order of magnitude of 460,000 jobs created or rather preserved thanks to this policy
  - But the validity of this result has been disputed
- › Strong variability between results of these various approaches





# N. of jobs created or preserved according to various studies, for a global fiscal expenditure of 5 billion Euros



Source: L'Horty, 2006



## Going further ?

- › Typical question in the current context :
  - what would be the impact of returning to the structure of rebates that prevailed before WTR?
- › Existing evaluations not fully helpful to answer that question
  - Replication or extrapolation of results obtained by Crépon and Desplatz for the mid-1990s is problematic:
    - Replication complex to implement due to the interaction with WTR: we shall estimate at best a joint effect
    - Simple extrapolation probably misleading: effects of rebates cannot be expected to be linear
  - Macro or CGE models not precise enough to quantify detailed change in the profile of rebates



## An additional approach

- › This explains that we are currently exploring a complementary avenue
  - *Ex ante* micro-evaluation based on microsimulation
- › Many existing models of this kind focusing on labour supply
- › The (partial) novelty is here, to focus on labour demand, in a dynamic setting
- › Work still under progress, but first results confirm that this track can be explored further



# The model (1)

- › We simulate the interaction between the population of workers and a population of jobs, in a fully dynamic setting: every year, people age, some enter the LM for the first time, others retire
- › The main steps for a typical year are:
  - Exogenous quits
  - Simulation of economic layoffs for jobs whose profitability drops at an excessively low level due to
    - Policy-driven changes in labor costs: minimum wage + rebates
    - Productivity shocks
  - Wage negotiation for insiders remaining in employment after the first two steps
  - Posting of new jobs by firms depending on average profitability
  - A matching process between these new jobs and people currently unemployed



## The model (2)

- › Runs on a sample of about 15000 people
- › Annual model, quarterly version under development
- › Calibration of global parameters and individual characteristics by indirect inference, to replicate main characteristics of the French Labour Market
- › Some additional features (not yet fully explored)
  - Includes some segmentation – four skill categories – with possibility to apply for jobs below one's skill category
  - Possibility to integrate some temporary keynesian features, with job creation constrained below the level implied by average profitability
- › To be added later : supply side module

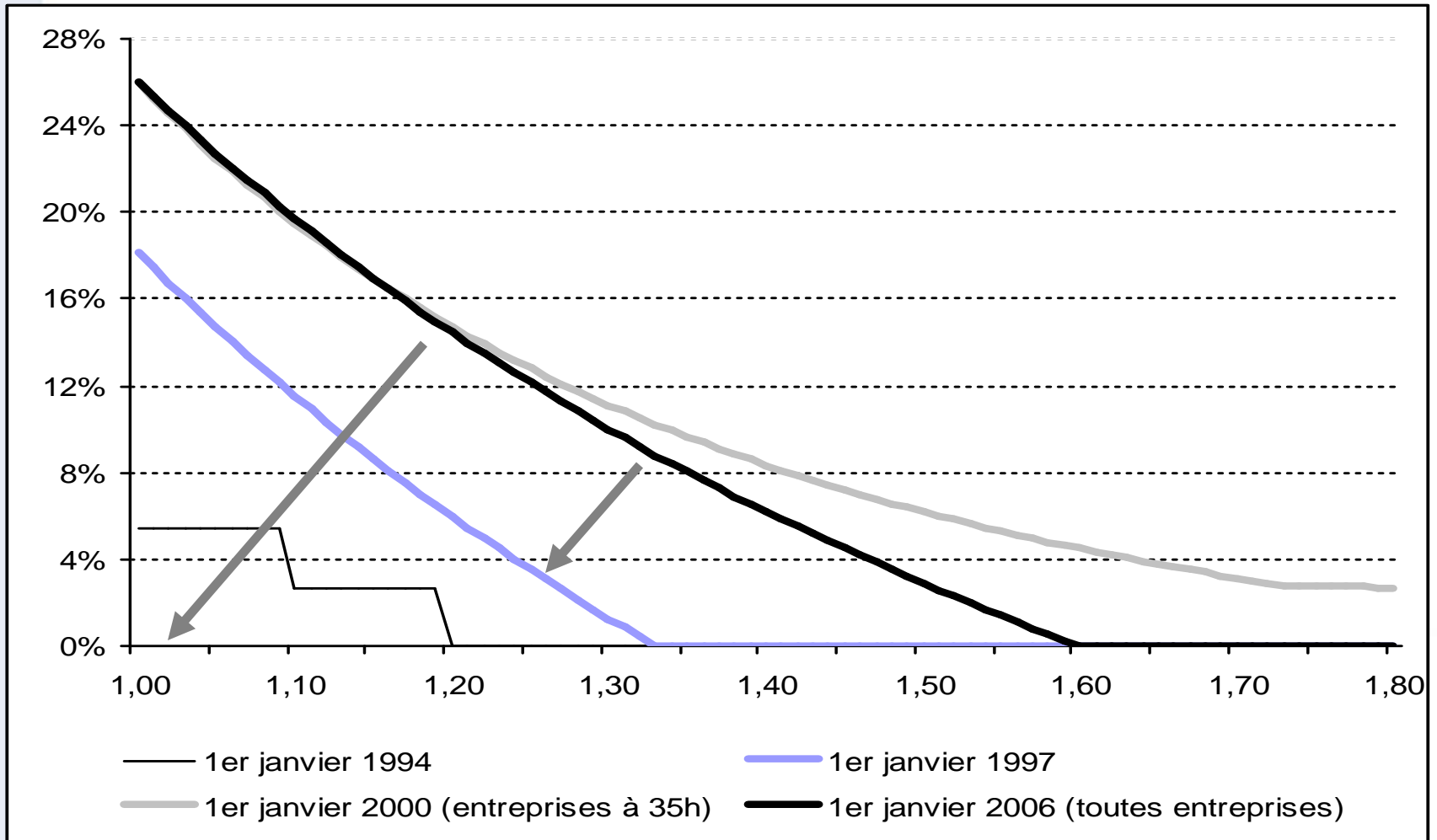


# The specific role of rebates

- › In such a framework, rebates reduce the probability of economic lay-offs and increase job creation, but part of the positive effect on employment can be absorbed by higher wages, due to the wage negotiation process
- › Conversely : reducing rebates has a negative impact on employment but part of which can be compensated by wage moderations
- › Three illustrative scenarios, from an equilibrium situation corresponding to the current structure of rebates
  - Complete and immediate suppression
  - Progressive suppression over 10 years
  - Return to the structure of rebates that prevailed before WTR

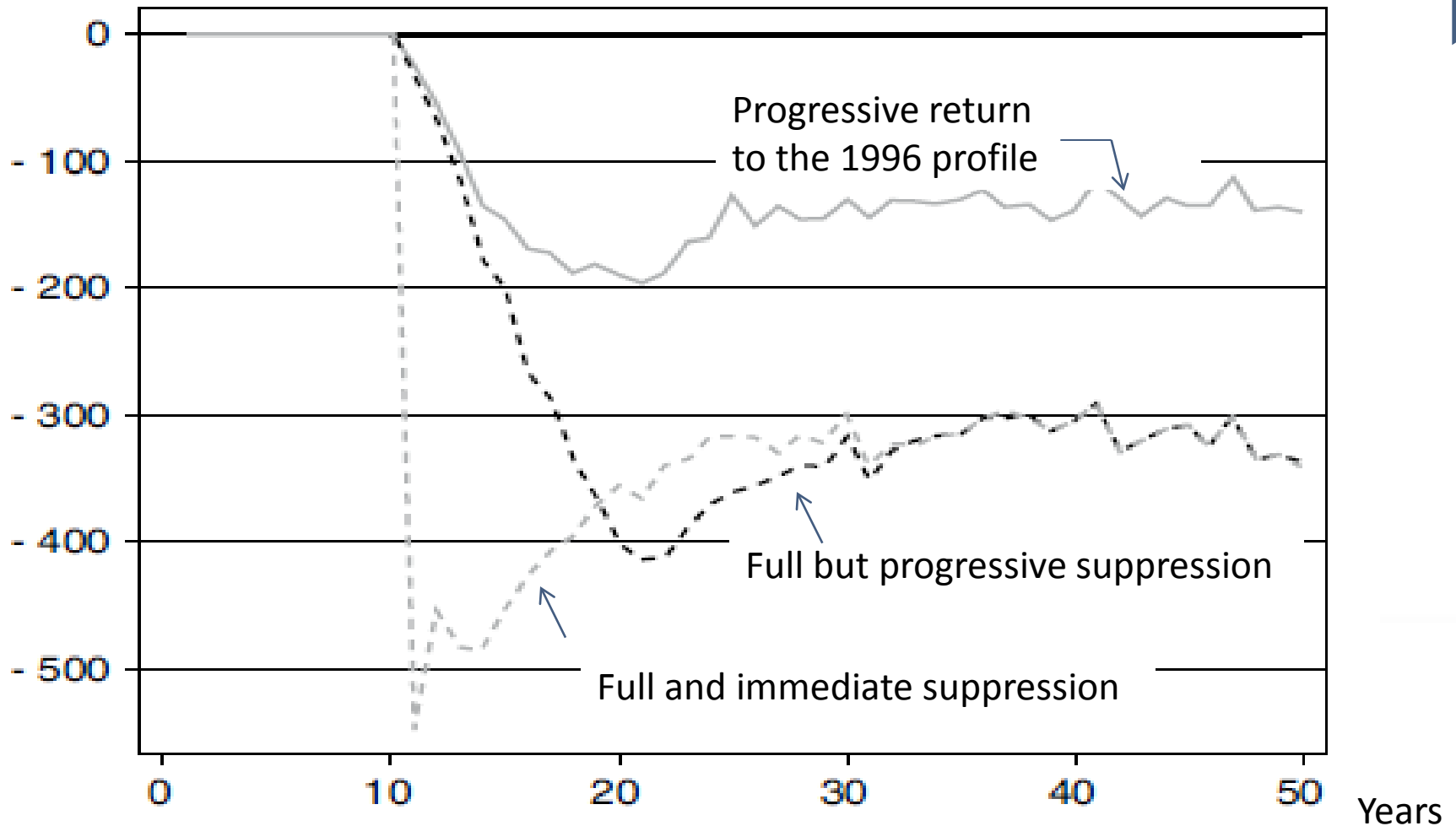


# The two main scenarios





# Partial or complete removal of SS contributions rebates: impact on global employment, in thousands



Source: Barlet, Blanchet, Le Barbanchon, 2009

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# Conclusion (1)

- › Such a modeling still experimental and raises problems similar to other *ex ante* instruments
  - Calibration
  - Role played by modeling assumptions
- › But, it offers a greater potential for simulating detailed changes in profiles of rebates or other policy changes and their impact on a large set of variables :
  - Detailed fiscal costs
  - Individual trajectories
- › In particular, may shed some light on the related issue of low wage traps and how the rebate is shared between:
  1. More people in employment
  2. Higher but less dynamic wages for people already in employment before the rebate
  3. Higher profits for firms
- › ...three effects that are generally difficult to disentangle through pure *ex post* evaluation



## Conclusion (2)

- › More generally, interesting to look for complementarity between this kind of micro-modelling and *ex post* micro-econometric evaluations :
  1. validating the model by trying to replicate on generated micro data the results of existing *ex post* evaluations
  2. and using the model to extrapolate the results of these evaluations
    - These results are generally local and only valid for the policy measure that is evaluated).