Discussion of:
“Taxes and Technological Determinants of Wage Inequalities: France 1976-2010”

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February 29 2016
Summary

Study of wage inequality trends in France (1976-2010)

Two main conclusions:

i) Many of the previous studies of France – unlike what is done in most of the wage inequality literature – use net (after tax) wages, and find no rise. Using labour costs alters this conclusion.

ii) Changes in tax structures can therefore alter conclusions about inequality trends.
Background

In existing research on wages, France seems to be something of an outlier.


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## International Comparison

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Four Comments

1). Demand and supply side “explanations”.

2). Does gross versus net matter elsewhere?

3). What is in labour costs?

4). Use of “canonical” model rather than more direct test of SBTC.
1) Demand and supply side “explanations”

The authors make a quite stark argument that “demand-side explanations for the rise in inequalities……should be tested using data on labour cost and not net wage”.

No quite as simple as that, though I agree the distinction is rather unexplored in the literature.

The “canonical” model, for example, has both demand and supply side components (in Tinbergen terms “race between supply and demand”, so which wage is right there?

Also, from welfare perspective, is it gross or net wages that matter?
2) Does gross versus net matter elsewhere?

From what I have seen (which is not a great deal) it does not.

If look at UK gross or net, you see rising wage inequality.

In some countries in OECD data, net wage inequality rises.

Need more detail on the nature of tax changes that do make it matter. For example, is it payroll taxes, or income taxes, or both, or other taxes?
3) What is in labour costs?

Gross wage seems to be net wage + employee social security contributions.

Labour cost is actual costs paid by the firm.

What is the difference: pensions ?; employer contributions?

More importantly, what is the component of the difference that matters for the differential inequality trends?
4) Use of “canonical” model

Several possible concerns here:

i) Attributing to SBTC from positive trend coefficient.

ii) The net wage and labour cost estimates are very similar.

iii) More direct evidence would be much better: e.g. from cost share equations like

\[
\Delta(\text{Skilled wage bill share})_{jt} = \alpha + \beta \Delta \log(\text{Capital}_{jt}) + \delta \Delta \log(\text{Output}_{jt}) + \phi \text{TECH}_{jt} + \varepsilon_{jt}
\]