
Wages, Labor Costs, Taxes and Technological Determinants of Inequalities: France 1976-2010

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Abstract

This paper makes two simple points. First, labor demand depends on labor cost. Hence, demand-side explanations for the rise in inequalities such as skill biased technical change and job polarization should be tested using data on labor cost. When we do so for France, we find some evidence of skill biased technical change in France, as in every other developed country, and in contrast with previous studies that used net or gross wages. Second, providing that payroll taxes and social security reforms are entirely passed on to workers in the long run, they are an effective institutional tool to reduce wage inequalities. This is clear in France, where net and gross wage inequalities have remained roughly constant, while labor cost inequalities have actually increased by 25% during the past forty years. This sharp contrast between French wage and labor cost inequalities contribute to the general debate that opposes institutional factors and demand-side factors to explain the rise in inequalities.

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