Abstract:
This paper uses administrative data to analyze a large and long-lasting employer payroll tax rate
cut from 32% down to 15% for young workers (aged 26 or less) in Sweden. We find zero effect
on net-of-tax wages of young treated workers relative to slightly older untreated workers even in
the medium-run. Simple graphical analysis shows compelling positive employment effects of
about 2-3 percentage points for young workers arising primarily from fewer separations (rather
than more hiring). These employment effects are larger in places with higher youth
unemployment rates. We also analyze the effects of the tax cut on firms by tracing out
graphically the time series of outcomes for firms with large vs. moderate share of young workers
just before the reform as firms with large share young receive a larger tax cut windfall. We
obtain two main results on firm level effects. First firms with large share young grow faster after
the reform: employment, sales, value added, profits, and capital assets all grow faster. These
effects appear stronger in firms more likely to be credit constrained, consistent with liquidity
effects. Second firms with large share young increase the wages of all workers (young and old)
after the reform. Wages of low paid workers increase more in percentage terms. This suggests
that the payroll tax cut benefits workers collectively and indirectly through rent sharing.