

Abstract :

We study the impact of a large payroll tax cut for both younger and older workers in Hungary. Motivated by the prediction of standard equilibrium job search models, we examine the heterogeneous impact of the policy. Employment increases most at low-productivity firms, which tend to hire from unemployment, while the effects are more muted for high-productivity firms, especially for older workers. At the same time, wages only increase for older workers at high-productivity firms. These results point to important heterogeneity in the incidence of payroll tax subsidies by firm type and highlight that payroll taxes can change the composition of jobs in the labor market.