

Name: ESKINDIR WORKU YITAYEW

Student ID: 201726005

Thesis Title: The Economic Incidence of Social Security Payroll Tax: Evidence from Ethiopia

#### Abstract

This study analyzed the impact of a new pension program in Ethiopia that required private sector employers to contribute to their employees' pension on the hourly wage of their employees. I compare the change in the relative hourly wage of private business employees with state-owned enterprise employees using a difference-in-difference design. The data for this study comes from the Ethiopian Central Statistics Agency (CSA) annual Urban Employment Unemployment Survey (UEUS). I use data spanning from 2009 to 2016 from the survey to estimate the effect of the social security payroll tax. I find evidence suggesting the hourly wage of private business employees declined due to the program after controlling for fixed time and group effects as well as other covariates. The relative decline in the hourly wage of permanent private organization employees ranges between 6 to 11 percent depending on the covariates included in the model. The result is consistent with the standard labour market prediction with respect to employers shifting the cost of the tax to their employees. In addition, the result seems to hold using different estimation strategies and control group. However, the effect of the program on the hourly wage of employees is not evident in the first year of the program introduction. These may reflect private business employers took time to respond and did not immediately shift the payroll tax from the program to wage of their employees. Another important limitation of this study is the difference-in-difference regressions did not account for serial correlation, which would compromise the statistical significance of the results.