The Effect of Mandatory Profit-Sharing on Workers and Firms: Evidence from France

Very preliminary - comments welcome!

Elio Nimier-David (CREST) David Sraer (UC Berkeley) David Thesmar (MIT)

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Motivation: increased demand for redistribution

– Labor share has gone down globally (Karabarbounis and Neiman, 2013).

– Stagnant income growth for low-skill workers in many developed countries (Piketty et al., 2018; Drechsel-Grau et al., 2021)

– Concerns of increased firm market power in local labor markets (Stansbury and Summers, 2020)

⇒ Increased demand for redistribution to low-income workers

This paper: we study **a non-fiscal form of redistribution** – *mandatory profit-sharing in France*

Institutions: mandated profit-sharing in France

Created by De Gaulle in 1967:

- After 1945, development of strong welfare state for workers:
  - Social security, universal health care, employment protection laws, ...
- Mandatory profit sharing sold as next step for post-war French economic development
  - align interests of workers and shareholders
  - "third way" between capitalism & communism
  - part of broader goal of workers' representation on boards and employee stock-ownership

"*Le grand changement qu'il faut apporter à la condition ouvrière, c'est l'association active du travail à l'œuvre économique qu'il contribue à accomplir. (De Gaulle, 1966)*"

Mandated profit-sharing: RSP

– Every year, firms **with more than 100 employees** have to set aside $€RSP \geq 0$

– $€RSP$ is then distributed to <u>all</u> employees, proportional to wages

– $€RSP$ determined by **formula**:

$$€RSP = \frac{1}{2}\left(\frac{\text{wage bill}}{\text{value added}}\right)(\text{net income} - .05 \times \text{book equity})^{+}$$

- $.05 \times$ book equity: **"fair" compensation for shareholders**
- $\frac{\text{wage bill}}{\text{value added}}$: workers receive more **when they contribute more to output**

Mandated profit-sharing: Tax Implications

– for **workers**, money received is:

1. tax free if held 5 years on dedicated savings account
2. taxable if earned right away

- **for firms**, two main tax advantages:

1. no payroll taxes paid on $€RSP$
2. $€RSP$ is like a cost, i.e. pre-tax

– Firms with fewer than 100 workers can create profit-sharing plan (and benefit from tax advantages)

– Firms can share more than $€RSP$, up to a threshold ($\approx$ €30k per employee/year in 2020)

Mandated profit-sharing in 2017: some numbers

– ≈ 40% of all employees effectively receive profit-sharing (Dares, 2019)

– Second-highest share of employees receiving profit-sharing in Europe (Batut and Rachiq, 2021)

– Total amount of profit sharing in 2017 ≈ €7bn

  - ≈ 4% of wages for employees receiving profit-sharing

  - ≈ 1.5% of total wages

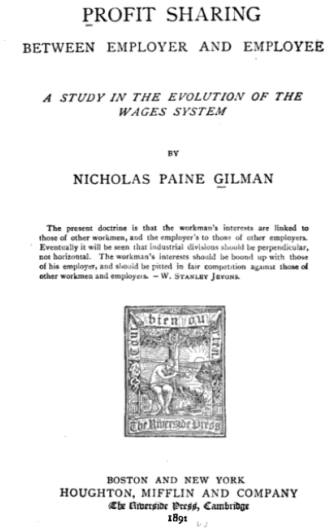
– 65% paid in (income) tax free accounts

Recent policy debates

Hillary Clinton (2015): *Companies that share their profits with employees will receive a two-year tax credit from the federal government with the goal of boosting employee wages and incentivizing workers.*

Emmanuel Macron (2022): *No dividend to shareholders without profit-sharing for workers? ("Dividende salarié")*

Profit-sharing: a long standing issue in economics



PROFIT SHARING

BETWEEN EMPLOYER AND EMPLOYEE

A STUDY IN THE EVOLUTION OF THE WAGES SYSTEM

BY

NICHOLAS PAINE GILMAN

The present doctrine is that the workman's interests are linked to those of other workmen, and the employer's to those of other employers. Eventually it will be seen that industrial divisions should be perpendicular, not horizontal. The workman's interests should be bound up with those of his employer, and should be pitted in fair competition against those of other workmen and employers. — W. STANLEY JEVONS.

BOSTON AND NEW YORK
HOUGHTON, MIFFLIN AND COMPANY
The Riverside Press, Cambridge
1891

The Increase in Industrial Remuneration Under Profit-Sharing

David F. Schloss

The Economic Journal
Vol. 1, No. 2 (Jun., 1891), pp. 292-303 (12 pages)

Published by: Oxford University Press on behalf of the Royal Economic Society

Main research question and a null hypothesis

What is the impact of mandatory profit-sharing on workers and firms?

– H_0: in a competitive labor market with risk-neutral workers

- workers' total compensation = MPL

$\Rightarrow$ firms **substitute profit sharing for fixed wage** and no redistribution

- no payroll taxes on profit-sharing $\Rightarrow$ **pure transfer from taxpayers to shareholders**

Further questions we ask in this paper

– In practice, **rigid wages in France**, especially for low skill workers:

⇒ regulation **can increase workers' total compensation**

⇒ regulation **can reduce shareholder's income, despite tax advantage**

– Do firms **avoid the regulation**?

- e.g., **bunching** below 100 employee threshold, strategic leverage, consumption through the firm, ...

– How does mandatory profit-sharing affect **workers' total compensation**?

– How does mandatory profit-sharing affect **investment**, **employment**, **productivity**?

Our empirical setting: shock and data

– Regulatory shock: in November 1990, eligibility threshold reduced **from 100 to 50 employees**:

- **only regulatory threshold at 100** employees (many at 50, some at 10 (Garicano et al. (2016)))

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– Administrative Data:

- **Corporate tax files** *for all firms with more than 20 employees* for 1984-99
  - ⋆ Employment, wage bill, €RSP, value added, sales, investment, capital, etc.
- **Employer-employee panel** containing 1/24 of working population ($DADS$) for 1984-99
  - daily wage, occupation, firm id, tenure, experience
  - sample: private sector, workers aged between 16 and 62 working full time

Literature review

– Large literature on **adoption of profit-sharing**, although (1) small sample (2) endogeneity issue

- mixed evidence on wage incidence
  - ⋆ Ugarkovic (2008), Black et al. (2004), Delahaie and Duhautois (2019), Mabile (1998)
- large effect on labor productivity / TFP
  - ⋆ FitzRoy and Kraft (1987); Kruse (1992); Cahuc and Dormont (1997); Prendergast (1999); Knez and Simester (2001); Doucouliagos et al. (2020)
- mixed evidence on employment effect
  - ⋆ Weitzman (1985, 1987),Wadhwani and Wall (1990); Bell and Neumark (1993)

– Immense literature on labor market institutions (and their incidence on workers and firms)

– Large literature on **ESOP** and productivity, but different population of firms

Roadmap

Introduction

Bunching Analysis

Difference-in-difference evidence

Employee-level evidence

conclusion

Bunching analysis at 100 employee threshold

– Mandatory profit-sharing is **the only regulatory constraint specific to 100 threshold**

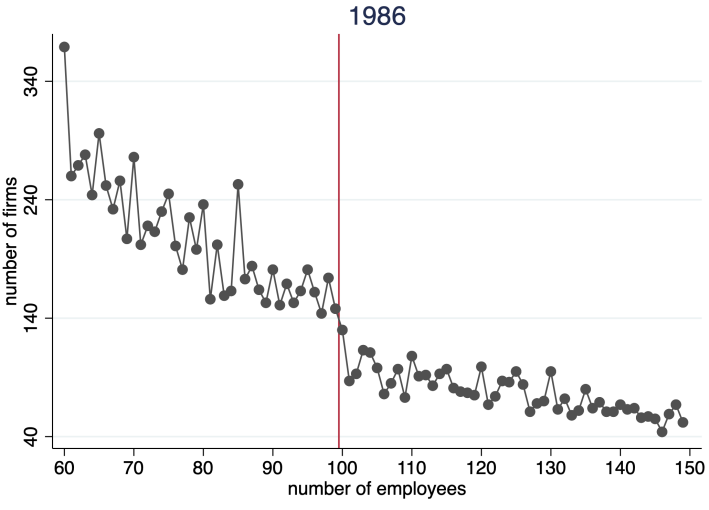
– If firms perceive mandatory profit-sharing as a cost ⇒ bunching at 100

– Caveat about data vs. regulation:

- Employment count in data: **average of end-of-quarter employment**
- Regulation: **eligible if employment count at end-of-month is greater than 100 at least 6 months**

⇒ some *measurement error*

Count of firms by # of employees: raw data pre-reform



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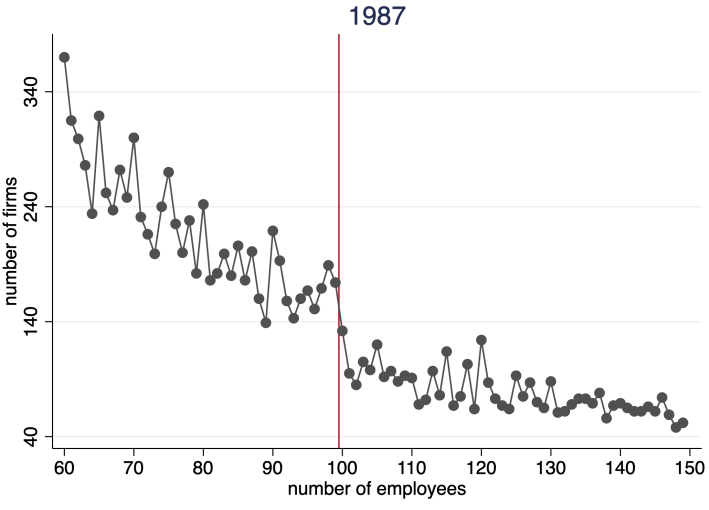

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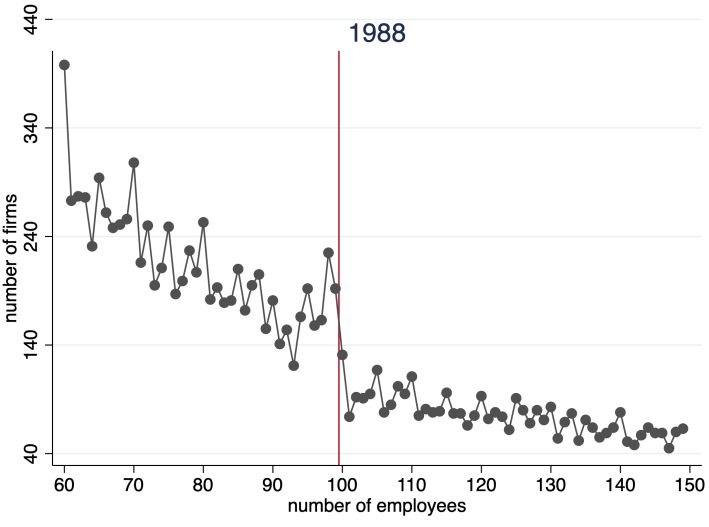

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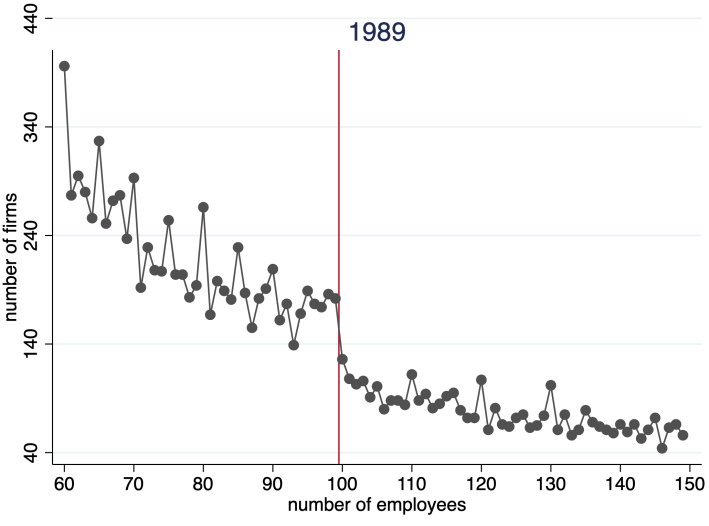
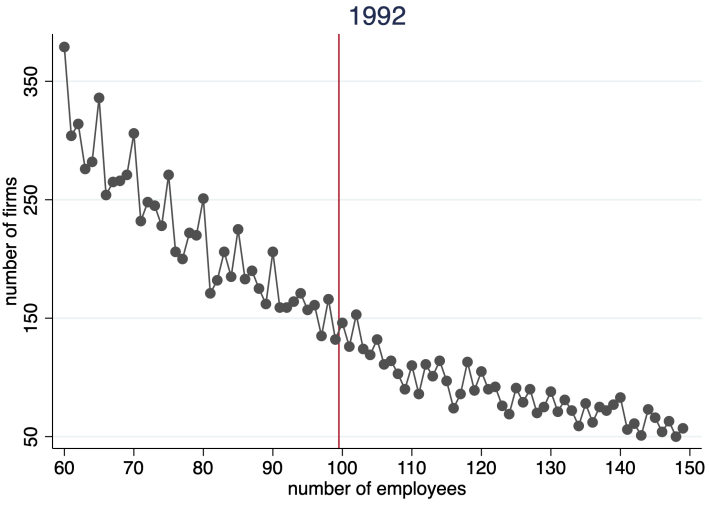


Count of firms by # of employees: raw data post-reform



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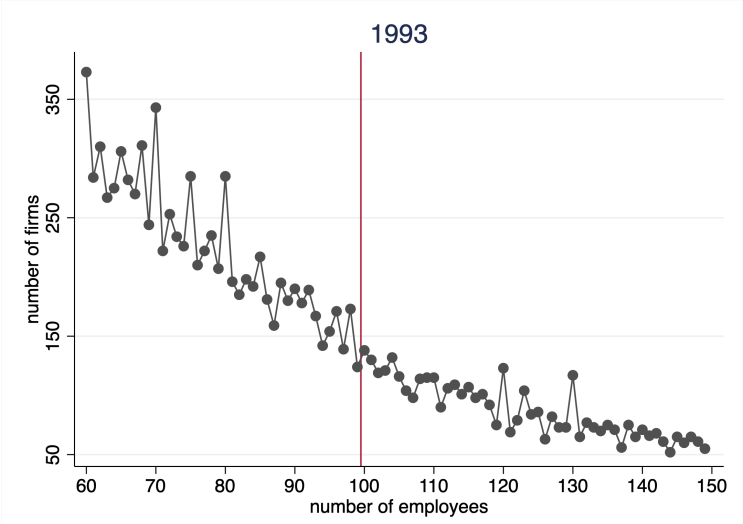

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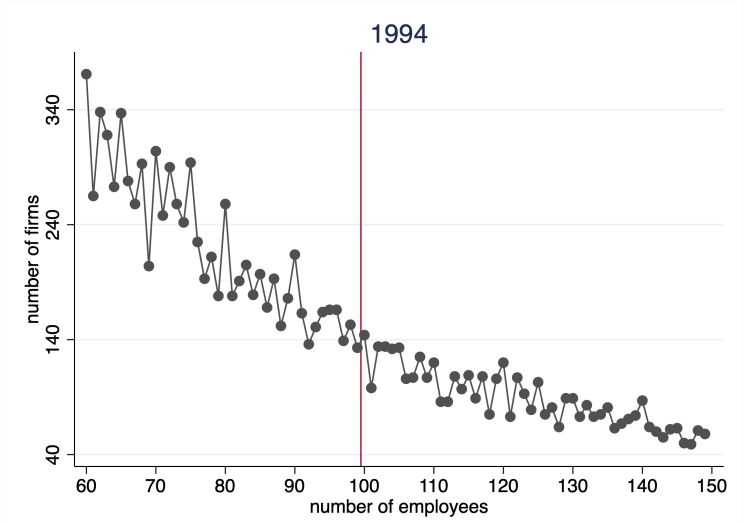

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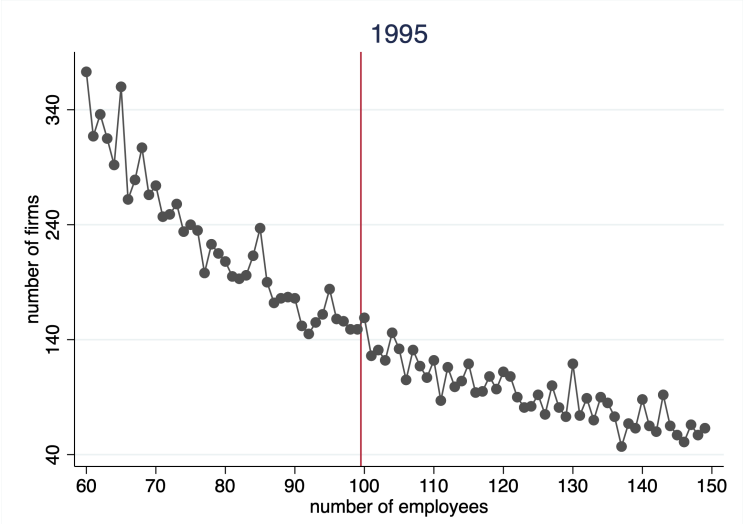


Conditional distribution of firm size: pre- vs. post- reform

Conditional distribution of firm size: pre- vs. post- reform with Pareto counterfactuals

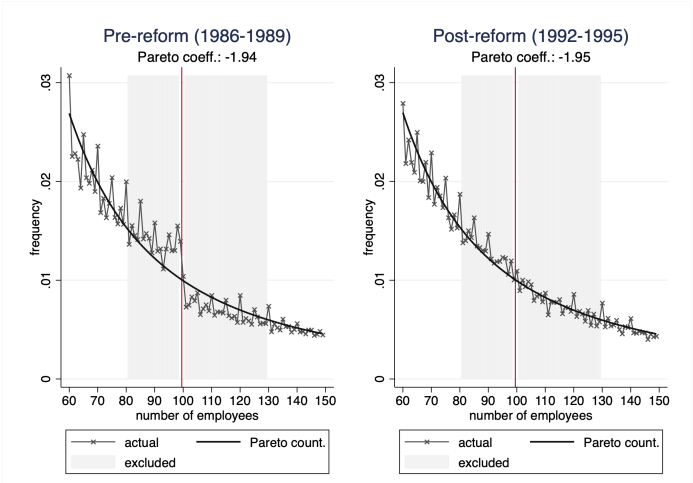
– We vizualize *excess bunching / missing mass* by fitting Pareto counterfactual distributions:

- No binning; exclude 81-129 range
- If p_j is the share of firms with j employees, $j \in [60, 149]$, we estimate:

$$\log(p_j) = \alpha + \beta \log(j) + \epsilon_j^{pre}, \quad \text{for } j \in [60, 80] \cup [130, 149]$$

- For both pre- and post period

Conditional distribution of firm size: pre- vs. post- reform with Pareto counterfactuals

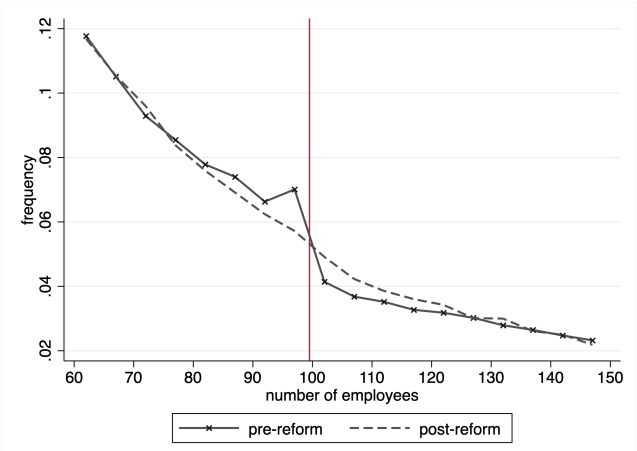


Round number reporting

– Firms tend to report multiples of five for employment counts

$\Rightarrow$ we bin the size distribution: 60-64, 65-69,...

Round number reporting



Employment effect of bunching

– Using counterfactual distribution (e.g., Pareto or post-reform distribution), we can count the employment loss directly due to bunching

  - ≈ 4,300 employees lost to eligibility at 100 employee threshold

– We can also use a bunching estimator to quantify potential employment distortion induced by regulation beyond bunching

  - **in progress**

Some simple economics of mandatory profit-sharing

- Firm generate revenues $p_i y_i = z_i l^\theta$. No corporate income tax to simplify
- Profit without regulation: $p_i y_i - w l_i$
- $RSP_i = \tau (p_i y_i - w l_i)$ (assume τ)
- Profit with regulation: $(1-\tau)(p_i y_i - w l_i)$ (assuming same wage)

  $\Rightarrow$ bunching at 100 for firms with $z \in [z_L, z_U]$

  $\Rightarrow$ **no distortion in labor demand beyond bunching**. Intuition: labor cost tax-deductible

  - similar intuition with capital input if $ROE \approx 5\%$ – formula deducts a 5% equity cost

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- if fixed wage **adjusts downward** with profit-sharing, **more incentives to hire above threshold**

"Reduced-form" model and bunching estimator (in progress)

- In practice, regulation may lead to **distortion in labor demand** *beyond bunching*:
  - Investment incentives: true ROE $> 5\% \Rightarrow$ lower incentives to invest $\Rightarrow$ lower MPL
  - Asymmetry: firm only pays $€RSP$ when profits are positive
  - Non-deductible inputs: e.g., managerial effort
  - τ decrease with firm labor share, providing incentives to reduce labor demand

"Reduced-form" model and bunching estimator (in progress)

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– We model these distortions in "reduced-form" and estimate them with bunching estimator:
  - profit without RSP: $z_i l_i^\theta - w l_i$; profit with RSP:$(1-\tau)\left(z_i l_i^\theta - w(1+\lambda) l_i\right)$
  - Calibrate θ at .7; use diff-in-diff estimate for τ: 5%
  - Recover marginal buncher from data (Kleven and Waseem (2013)) and infer λ
    - $\widehat{\lambda} \approx 2\%$
    - reduction in labor demand $\approx \frac{\widehat{\lambda}}{1-\theta} \approx 6\%$

- Alternative: estimate a full structural model as in Garicano et al. (2016)

Difference-in-differences analysis

– How does mandatory profit sharing affect workers' compensation? firm outcomes?

Difference-in-differences analysis

– How does mandatory profit sharing affect workers' compensation? firm outcomes?

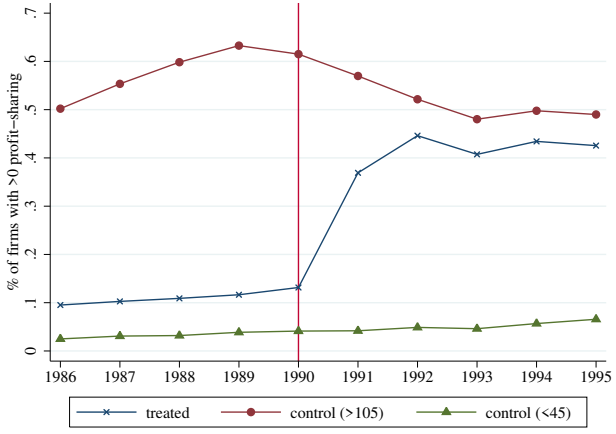
– We implement a simple **intent-to-treat, difference-in-difference strategy**:

- 5-year window around regulatory change (1986-1995), balanced sample of firms
- Treatment group: **firms with 55-95 employees in 1989-90** (4,014 firms per year)
- Two control groups:
  1. **Firms with 105-500 employees in 1989-90** (5,192 firms per year)
  2. **Firms with 25-45 employees in 1989-90** (6,638 firms per year).

– Specification: (i firm, j industry, t year)

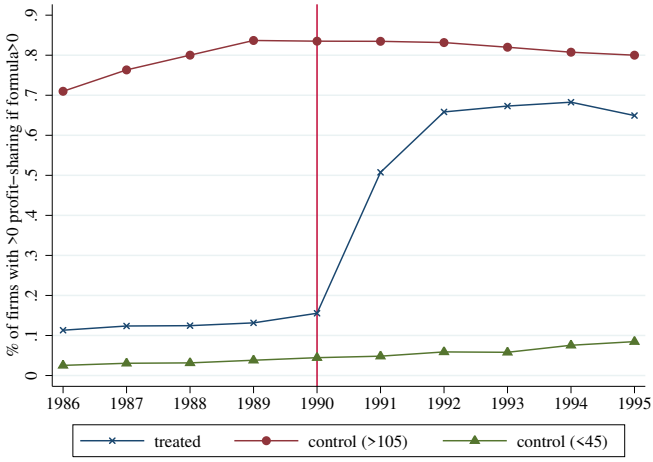
$$\begin{aligned} Y_{ijt} = \alpha_i + \delta_{jt} + \beta^T \mathbb{1}_{\{i \in \text{treatment}\}} \times \mathbb{1}_{\{t \geq 1991\}} + \beta^C \mathbb{1}_{\{i \in \text{control}(\leq 45)\}} \times \mathbb{1}_{\{t \geq 1991\}} \\ + \gamma^T \mathbb{1}_{\{i \in \text{treatment}\}} \times t + \gamma^C \mathbb{1}_{\{i \in \text{control}(\leq 45)\}} \times t + \epsilon_{ijt} \end{aligned}$$

1st-stage: share of firms with > 0 profit-sharing

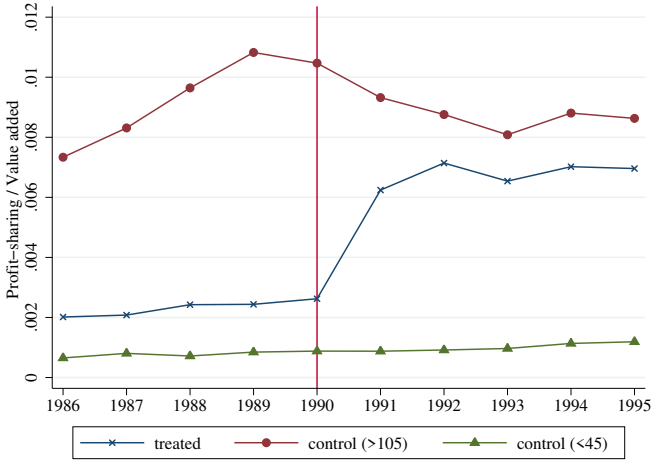


- low take-up for smaller firms consistent with scheme being a net cost for firms

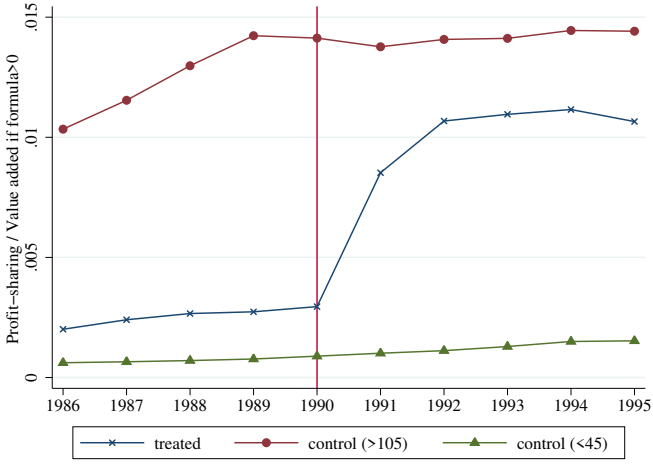
1st-stage: share of firms with > 0 profit-sharing if formula > 0



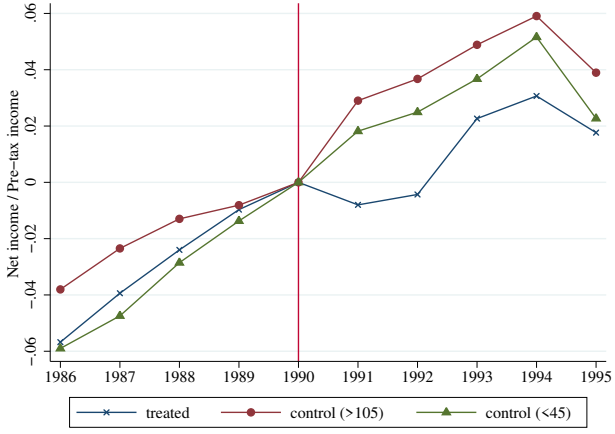
Mandated profit-sharing ≈ .5 ppt of value-added on average



If formula > 0, mandated profit-sharing $\approx$ 1 ppt of value-added



Effect for owners: Net-income / pretax-income ↘ ≈ 3 ppts

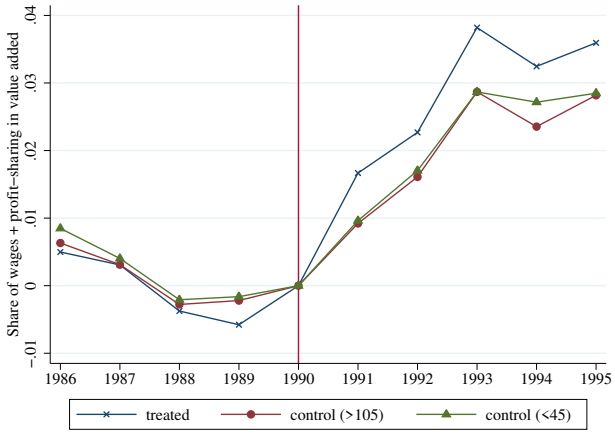


Note: base year is 1990

Effect for owners: if formula > 0, net-income / pretax-income $\searrow \approx$ 5 ppts

Note: base year is 1990

Effect for workers: wages+profit-sharing ↗ ≈ .8ppt of value-added



Note: base year is 1990

Effect for workers: wage labor share stays unchanged

Note: base year is 1990

Regression evidence: quantification

	D(Profit-sharing)	Profit-sharing/ Value added	Profit-sharing/ Wages	Net income/ Pre-tax income
Control(< 45) x Post	0.092***	0.002***	0.005***	-0.016***
	(0.007)	(0.000)	(0.000)	(0.004)
Treatment x Post	0.356***	0.006***	0.013***	−0.048***
	(0.011)	(0.000)	(0.001)	(0.005)
Treatment-Control (< 45)	0.264***	0.004***	0.009***	−0.032***
P-value	0.000	0.000	0.000	0.000
Industry-Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes
Observations	154,510	153,000	154,510	122,228
Adj R^2	0.57	0.48	0.57	0.36

▸ Placebo ▸ Formula>0

Potential avoidance mechanisms

$$€RSP = \frac{1}{2}\left(\frac{\text{wage bill}}{\text{value added}}\right)(\text{net income} - .05 \times \text{book equity})^{+}$$

– Consumption through the firm
  - Reduction in net income

– Increased leverage
  - Dividend financed by debt
  - Future net income decrease

– Substitution between capital and labor
  - Reduction in labor share

Regression evidence: avoidance

	Materials/ Sales	Leverage Ratio	K / L	Pre-tax income/ Sales	D(Formula> 0)	Formula/ Sales
Control(< 45) x Post	0.005***	-0.003	-0.008	-0.001	0.022**	0.002
	(0.002)	(0.002)	(0.006)	(0.001)	(0.010)	(0.006)
Treatment x Post	0.004*	0.001	-0.001	-0.001	0.026**	0.002
	(0.002)	(0.003)	(0.007)	(0.001)	(0.011)	(0.006)
Treatment-Control (< 45)	-0.001	0.005 *	0.007	-0.000	0.003	0.001
P-value	0.508	0.053	0.267	0.668	0.760	0.752
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	153,981	150,136	149,486	128,381	154,182	154,082
Adj R^2	0.89	0.67	0.92	0.60	0.36	0.18

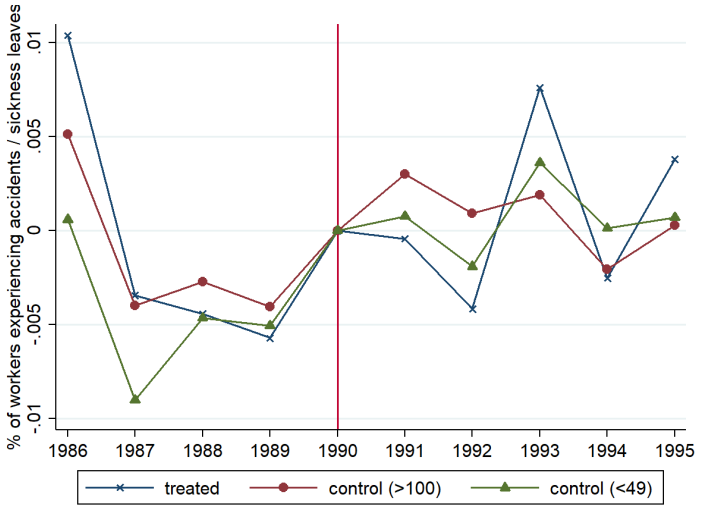
Placebo

Impact of profit-sharing on economic activity

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Labor Productivity	TFP
Control(< 45) x Post	-0.000	0.002	0.009***	-0.012**	-0.013**
	(0.002)	(0.002)	(0.003)	(0.005)	(0.006)
Treatment x Post	0.003	0.009***	0.004	-0.005	-0.017***
	(0.002)	(0.002)	(0.003)	(0.006)	(0.006)
Treatment-Control (< 45)	0.003	0.007***	-0.004	0.007	-0.004
P-value	0.130	0.000	0.174	0.177	0.528
Industry-Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes
Observations	151,437	151,388	147,518	154,347	145,879
Adj R^2	0.63	0.63	0.25	0.92	0.68

▸ Placebo ▸ Manufacturing ▸ Services ▸ Additional outcomes

Impact on sick leaves (from labor force survey)



Robustness checks

– Sample
  - Allowing exits: all firms observed 5 year before the policy
  - Unbalanced panel: all firms observed in 1989-1990

– Size of the treatment/control groups
  - Variations in the lower-bound of the never-treated group and upper-bound of the always-treated group

– Years used to compute firm size
  - Firms staying in the same treatment/control group over the whole pre-treatment period

– Heterogeneity by industry (Manufacturing vs. services & retail)

The elasticity of labor earnings w.r.t. profit-sharing

– Previous result on worker compensation may conceal heterogeneity. Wages more flexible at the top
  $\Rightarrow$ we analyze worker-level wage data

– Match balance sheet and Employer-Employee data

– Compute $\frac{\text{Wage}}{\text{Day}}$ & $\frac{\text{Wage + Prof. sharing}}{\text{Day}}$ for full-time workers

– For all employees, low-skill workers, and high-skill workers separately

– Two stage least squares using the regulatory change as an instrument

$$\log(Y_{ijt}) = \alpha_i + \delta_{jt} + \beta \times \widehat{IHS\ (\text{Prof. Sharing}_{ijt})} + \epsilon_{ijt}$$

$$IHS\ (\text{Prof. Sharing}_{ijt}) = \alpha_i + \delta_{jt} + \gamma \times \mathbb{1}_{\{i \in \text{treatment}\}} \times \mathbb{1}_{\{t \geq 1991\}} + \eta_{ijt}$$

Elasticity (2SLS)

	log(Wage)	log(Wage+P.S.)	log(Wage) Low-Skill	log(Wage+P.S.) Low-Skill	log(Wage) High-Skill	log(Wage+P.S.) High-Skill
IHS(Prof. Sharing)	0.001	0.009***	0.002	0.010***	-0.022*	-0.013
	(0.003)	(0.003)	(0.003)	(0.003)	(0.012)	(0.012)
FEs						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
First Stage F	289	289	279	279	68	68
Observations	398777	398777	358806	358806	35996	35996

▸ OLS

Conclusion

– Mandated profit-sharing in France:
  - acts as $\approx 5\%$ tax on corporate income
  - redistributed to workers, representing $\approx 0.8\%$ of value-added
  - mostly for low-wage workers, presumably because of wage-rigidity
  - little avoidance mechanisms
  - no significant effect on labor productivity / TFP

– Many open questions:
  - impact on worker's risk exposure?
  - persistent effect on workers' earnings?
  - conflicts within the firm (strikes)& employee turnover?
  - ...

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Very preliminary - comments welcome!

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Profit-sharing in Europe (2015)

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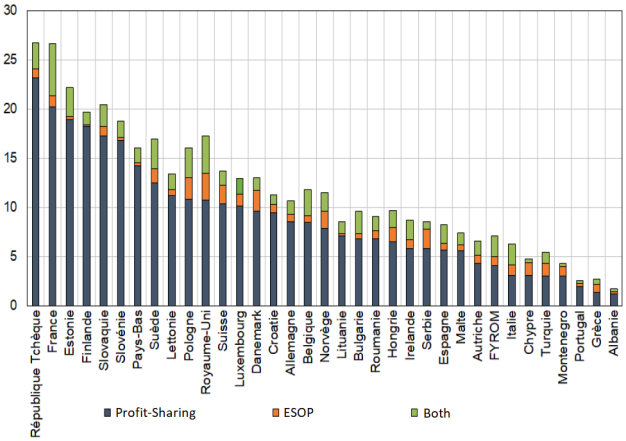

Share of workers covered by profit-sharing schemes vs. ESOP in Europe. Batut and Rachiq (2021). Source: European Working Condition Survey, 2015.

Placebo tests: quantification

	D(Profit-sharing)	Profit-sharing/ Value added	Profit-sharing/ Wages	Net income/ Pre-tax income
Control(< 45) x Post 1988	-0.052***	-0.001***	-0.002***	0.001
	(0.008)	(0.000)	(0.000)	(0.005)
Treatment x Post 1988	-0.054***	-0.001***	-0.002***	0.001
	(0.009)	(0.000)	(0.001)	(0.006)
Treatment-Control (< 45)	−0.002	0.000**	0.001	−0.001
P-value	0.697	0.032	0.110	0.889
Industry-Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes
Observations	77,255	76,533	77,255	64,785
Adj R^2	0.71	0.50	0.64	0.45

Back

Regression evidence conditional on formula >0

	D(Profit-sharing)	Profit-sharing/ Value added	Profit-sharing/ Wages	Net income/ Pre-tax income
Control(< 45) x Post	0.043***	0.002***	0.005***	-0.009**
	(0.008)	(0.000)	(0.001)	(0.004)
Treatment x Post	0.437***	0.008***	0.017***	−0.051***
	(0.012)	(0.000)	(0.001)	(0.004)
Treatment-Control (< 45)	0.395***	0.006***	0.013***	−0.042***
P-value	0.000	0.000	0.000	0.000
Industry-Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes
Observations	103,734	103,239	103,734	96,368
Adj R^2	0.73	0.58	0.65	0.30

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Placebo tests: avoidance

	Materials/ Sales	Leverage Ratio	Pre-tax income/ Sales
Control(< 45) x Post 1988	-0.006***	0.001	-0.000
	(0.002)	(0.002)	(0.001)
Treatment x Post 1988	−0.003	0.000	0.001
	(0.002)	(0.003)	(0.001)
Treatment-Control (< 45)	0.003	−0.001	0.002
P-value	0.163	0.589	0.115
Industry-Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes
Observations	76,982	53,975	67,818
Adj R^2	0.92	0.79	0.69

Back

Impact of profit-sharing on economic activity (Manufacturing)

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Capital/Labor Ratio	Labor Productivity	TFP
Control(< 45) x Post	-0.001	0.002	0.010***	-0.005	-0.005	-0.503
	(0.002)	(0.002)	(0.004)	(0.007)	(0.006)	(0.946)
Treatment x Post	−0.000	0.007**	0.011***	−0.000	−0.007	−1.139
	(0.003)	(0.003)	(0.004)	(0.008)	(0.007)	(1.052)
Treatment-Control (< 45)	0.000	0.005 *	0.001	0.005	-0.002	−0.635
P-value	0.852	0.059	0.812	0.565	0.809	0.509
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	83,803	83,785	81,196	82,056	84,579	81,142
Adj R^2	0.60	0.60	0.22	0.92	0.89	0.74

Back Placebo

Impact of profit-sharing on economic activity (Services & Retail)

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Capital/Labor Ratio	Labor Productivity	TFP
Control(< 45) x Post	0.001	0.002	0.007	-0.012	-0.021**	-2.775**
	(0.003)	(0.003)	(0.005)	(0.011)	(0.009)	(1.383)
Treatment x Post	0.007*	0.012***	−0.005	−0.001	−0.004	−4.603***
	(0.004)	(0.004)	(0.006)	(0.012)	(0.010)	(1.546)
Treatment-Control (< 45)	0.006**	0.010***	−0.011**	0.011	0.016**	−1.828
P-value	0.049	0.001	0.026	0.295	0.043	0.158
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	67,003	66,972	65,690	66,793	69,127	64,105
Adj R^2	0.66	0.66	0.26	0.91	0.93	0.78

◂ Back ▸ Placebo

Additional outcomes

	Equity/ Assets	Cash/ Assets
Control(< 45) x Post	0.007***	0.003
	(0.002)	(0.003)
Treatment x Post	0.004	−0.001
	(0.002)	(0.003)
Treatment-Control (< 45)	−0.004	−0.004
P-value	0.115	0.220
Industry-Year FE	Yes	Yes
Firm FE	Yes	Yes
Treatment × trend	Yes	Yes
Observations	150,083	150,195
Adj R^2	0.73	0.75

Back Placebo

Placebo tests: economic impact

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Capital/Labor Ratio	Labor Productivity	TFP
Control(< 45) x Post 1988	0.000	-0.001	-0.003	-0.007	-0.000	-0.539
	(0.002)	(0.002)	(0.004)	(0.008)	(0.006)	(0.887)
Treatment x Post 1988	−0.002	−0.002	0.001	−0.003	0.002	−0.924
	(0.002)	(0.002)	(0.005)	(0.008)	(0.007)	(0.963)
Treatment-Control (< 45)	−0.002	−0.002	0.004	0.004	0.002	−0.385
P-value	0.276	0.392	0.441	0.550	0.695	0.646
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	75,855	75,834	73,778	74,611	76,248	72,776
Adj R^2	0.72	0.72	0.27	0.94	0.83	0.82

Back

Placebo tests: economic impact (Manufacturing)

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Capital/Labor Ratio	Labor Productivity	TFP
Control(< 45) x Post 1988	0.002	0.001	-0.004	-0.011	-0.016*	-1.998*
	(0.003)	(0.003)	(0.005)	(0.010)	(0.009)	(1.057)
Treatment x Post 1988	−0.002	−0.003	−0.001	0.002	−0.001	−1.480
	(0.003)	(0.003)	(0.005)	(0.011)	(0.011)	(1.161)
Treatment-Control (< 45)	−0.004	−0.004	0.003	0.013	0.015 *	0.518
P-value	0.160	0.153	0.589	0.173	0.084	0.611
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	41,985	41,978	40,575	41,012	42,287	40,555
Adj R^2	0.70	0.70	0.25	0.94	0.92	0.81

Back

Placebo tests: economic impact (Services & Retail)

	Wages/ Value added	Total compensation/ Value added	Investment Ratio	Capital/Labor Ratio	Labor Productivity	TFP
Control(<45) x Post 1988	-0.001	-0.002	-0.000	-0.005	-0.007	1.324
	(0.003)	(0.003)	(0.007)	(0.012)	(0.011)	(1.528)
Treatment x Post 1988	−0.002	−0.002	0.003	−0.010	−0.007	−0.017
	(0.003)	(0.003)	(0.008)	(0.013)	(0.011)	(1.650)
Treatment-Control (<45)	−0.001	0.000	0.003	−0.005	0.000	−1.342
P-value	0.741	0.990	0.664	0.665	0.989	0.331
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Treatment × trend	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33,538	33,524	32,874	33,269	34,550	31,888
Adj R^2	0.74	0.74	0.27	0.94	0.95	0.83

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Placebo tests: additional outcomes

	Equity/ Assets	Cash/ Assets
Control(< 45) x Post 1988	-0.002	-0.002
	(0.002)	(0.003)
Treatment x Post 1988	-0.004	-0.002
	(0.002)	(0.003)
Treatment-Control (< 45)	-0.002	0.000
P-value	0.384	0.889
Industry-Year FE	Yes	Yes
Firm FE	Yes	Yes
Treatment $\times$ trend	Yes	Yes
Observations	74,932	74,988
Adj R^2	0.84	0.82

Back

Elasticity (OLS)

	log(Wage)	log(Wage+P.S.) Low-Skill	log(Wage) Low-Skill	log(Wage+P.S.) High-Skill	log(Wage) High-Skill	log(Wage+P.S.)
Profit-sharing (IHS)	0.016***	0.023***	0.011***	0.018***	0.011***	0.018***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
Controls and FEs						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	398777	398777	358806	358806	35996	35996

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