

EXECUTIVE SUMMARY

The objective of this report is to evaluate the effectiveness of the system of incentives for recruitment and entrepreneurship in place in Spain between 2012 and 2018. The aim is essentially to answer two questions: do the incentives increase the likelihood of the targeted individuals finding work / undertaking an activity? Do they help the beneficiaries maintain their employment? This evaluation from the point of view of the individuals is supplemented by a study from the companies' perspective, which allows an analysis of their response to changes in the incentive policy and attempts to determine the net effect on employment.

In Spain, incentives for recruitment and self-employment are the active labour market policies (ALMPs) with the largest allocation of funds, with around €2.9bn in 2018, a little over 40% of the total. These incentives aim to promote the employment of certain individuals with low employability by reducing their labour costs, mainly through reductions in social contributions. When the reduction in contributions is financed by the State Public Employment Service (Spanish acronym: SEPE), which transfers the amount of its cost to the General Treasury of the Social Security (Spanish acronym: TGSS), they are known as *bonificaciones* (discounts), while if the cost is borne directly by the Social Security system they are called *reducciones* (reductions).

The assignment undertaken by AIReF involves analysing seven types of incentives, which amounted to around €2bn billion in 2018. This evaluation supplements that carried out in 2018 on public spending on ALMPs.

TABLE 1. TYPES OF INCENTIVE UNDER EVALUATION

Type of incentive
1. Persons aged under 30
2. Persons aged over 45
3. Women underrepresented in certain sectors
4. Transformation of temporary contracts into permanent contracts
5. Flat rate for self-employed workers
6. Discounts and reductions for specific types of self-employment
7. People with disabilities

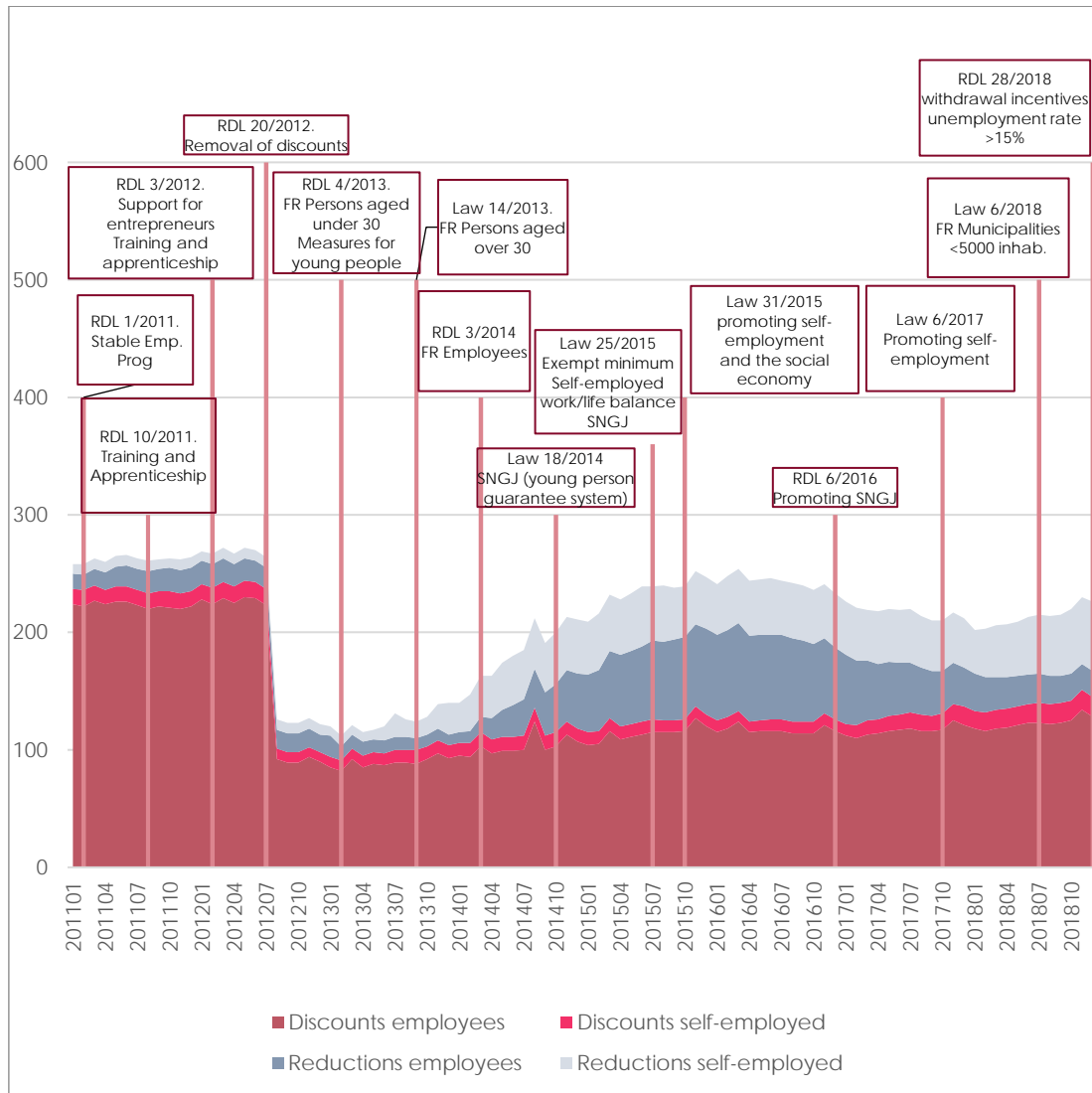
This set of incentives combines two different objectives: improving the employability of certain population groups and promoting certain types of employment, essentially employment under permanent contracts and self-employment. By group, incentives for people with disabilities accounted for 41% of expenditure evaluated in 2018. By employment type, 32% of expenditure evaluated was allocated to incentives for the registration of new self-employed workers.

TABLE 2. SPENDING ON THE INCENTIVES UNDER EVALUATION, BY GROUP AND CONTRACT TYPE 2018

	Persons aged under 30	Persons aged over 45	People with disabilities	General	Total (€'000) (%)
Permanent	39.0	49.1	186.0	53.7	327.8 (16%)
Permanent or temporary	12.9		440.8		453.8 (22%)
Temporary			50.0		50.0 (2%)
Conversion to permanent	46.6		138.9		185.5 (9%)
Self-Employed Flat Rate	188.7		15.0	445.9	649.6 (32%)
Self-employed persons				111.9	111.9 (5%)
Training or work experience	270.8		0.6		271.4 (13%)
Total (€'000) (%)	558.0 (27%)	49.1 (2%)	831.3 (41%)	611.5 (30%)	2,049.9

The period under review is characterised by a wide range of regulations and generalised incentives offered to the entire population. Specifically, the incentive system analysed began with the 2012 labour market reform and underwent several adaptations up to the end of 2018¹, when all the measures that were dependent on the evolution of the unemployment rate and which provided for its abolition when the unemployment rate stood at under 15% were repealed. Many changes took place over the period, with approvals and repeals of incentives, changes in eligibility conditions, amounts and durations.

FIGURE 1. KEY MILESTONES IN THE PERIOD AND SPENDING ON INCENTIVES (THOUSAND EUROS)



¹ RDL 28/2018.

The theory and empirical evidence support the effectiveness of these instruments, particularly at times of recession. Although they can lead to unwanted indirect effects, such effects can be reduced by targeting their use on groups with very low employability, limiting their use in periods of expansion and introducing penalties for their strategic use.

The methodology used in this study combines a regulatory analysis of the incentives and the use of counterfactual econometric techniques to measure the effectiveness of the incentives in the period under review. The empirical evaluation is based on the employment records of the Continuous Sample of Working Lives and, for the first time, incorporates the employment records of the actual beneficiaries of the incentives together with data on all the discounts and reductions applied in the period, provided by the SEPE and the TGSS for this study. In addition, an analysis is performed from the company's perspective using the Company Worker Panel (Spanish acronym: PET), a new database that brings together a sample of companies with the employment records of their workers. Information from the companies' annual accounts held by the Association of Registrars in Spain, made available to AIReF through the Bank of Spain, have been incorporated into this database. The analysis is completed with a study of this type of incentive in neighbouring countries.

The conclusions and proposals drawn from the analysis are presented below.

General conclusions and proposals

The period under review is characterised by a **wide range of regulations and generalised incentives offered to the entire population**, in a context of high unemployment and a high temporary employment rate. These **structural problems** have affected the orientation of the incentive policy, to the detriment of its effectiveness and of the most vulnerable groups.

The results of the evaluations of the incentives performed in this study show **evidence of their potential effectiveness**, as it has been found that they do make it easier to obtain employment in times of crisis. However, the positive effects are modest and are mainly found in individuals with a medium-high level of education. In addition, they do not last over time once the incentive disappears. Furthermore, on the basis of a representative sample of companies, it has been concluded that a 50% reduction in incentives increased the fall in employment by approximately 8% between July 2012 and December 2014.

STRUCTURAL REFORMS	<p>Incentives should be a tool aimed at improving the employability of certain groups, but in no case should they replace the reforms necessary to combat the high temporary nature and high unemployment level that characterise the Spanish labour market.</p>
LINKS TO THE BUSINESS CYCLE	<p>Incentives can be used as a stimulus to contribute towards activating the labour market in a recessionary period, particularly among those groups that suffer most from its effects.</p> <p>In the current context of the crisis triggered by COVID19, it has again been found that it is young people that are most affected by job losses, largely due to the highly temporary nature of their employment. Therefore, given the evidence of fewer unwanted effects in periods of contraction, it may be advisable to implement, exceptionally and while addressing structural reforms, a temporary plan to encourage the employment of young people under permanent contracts. Strategic aspects of its design should be carefully considered in order to enhance its effectiveness: it should be a transitional programme, with a time limit for the incentives that promotes stability without having a deterrent effect for companies and with amounts that do not rise with the salary.</p>
TARGETING, STABILITY AND FLEXIBILITY	<p>Incentives must be targeted at very specific groups with low employability. This requires a stable framework based on a systematic set of indicators making it possible to identify the groups least likely to find a job and consequently to adapt the incentives to the needs of each moment in time.</p>
SIMPLIFICATION, ELIGIBILITY AND AMOUNTS	<p>It is necessary to implement fewer incentives and to standardise the requirements for beneficiary companies. A simpler system, with clear and easily verifiable requirements, might stimulate its use by companies. In addition, a more targeted system would increase the amounts and make them more attractive</p>
COORDINATION AMONG PUBLIC ADMINISTRATIONS	<p>Greater coordination among all the administrations is necessary in order to focus efforts on the groups with the greatest needs in each territory and to simplify the range of incentives, thus improving their effectiveness.</p>
TRAINING AND COORDINATION WITH OTHER ALMPs	<p>Linking incentives to training programmes might improve the employability of vulnerable groups, although reforms are needed to improve the quality of training and its connection to the job market through greater collaboration with the business sector.</p> <p>In addition, combining incentives with other activation measures might improve their effectiveness. This requires progress in implementing profiling tools and designing pathways to improve personalised support for job seekers.</p>

EVALUATION	It is necessary to conduct ongoing monitoring and evaluation of the incentive system and to build a database with the evaluations performed. Building a system of monitoring indicators and the datasets necessary for evaluating the incentives' effectiveness and efficiency, as well as facilitating and promoting evaluations among the scientific community.
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Specific proposals

At the end of 2018, a large number of incentives that were conditional on the unemployment rate being over 15% were repealed. The incentives repealed included those linked to the contract to support entrepreneurs, which is evaluated in this study. Although its impact is small in terms of expenditure, the conclusions of this study support the idea that progress should be made in simplifying a system that should be targeted towards the most vulnerable groups, since, as explained below, there is room for improvement in the effectiveness of the incentives evaluated.

Incentives for permanent recruitment of the contract to support entrepreneurs

DEFINITION	Discounts for company social security contributions for companies with fewer than 50 workers that recruit under a permanent contract and maintain them for three years: - Persons aged under 30. €1,000 (1st year), €1,100 (2nd year), €1,200 (3rd year). Increase of €100/year for women. - Persons aged over 45: €1,300/year, €1,500/year for women.
COST (€m)	77.7
OBJECTIVE	To facilitate stable employment and boost entrepreneurial initiative
OBJECTIVE FULFILMENT	Partially. The positive effect on the likelihood of finding employment in young people is small and is not found in people with a low level of education or qualifications. A greater positive effect is found in the maintenance of employment, but following the incentive period, the beneficiaries become the same as non-beneficiaries. No effect is found in those aged over 45.
CONCLUSIONS	The positive effects of these incentives for employment under permanent contracts, now repealed, did not reach the most vulnerable groups, who would need other types of incentives either linked to training or with requirements that are more attractive to companies.

Incentives for the conversion of training and apprenticeship contracts into permanent contracts

DEFINITION	€1,500/year (€1,700/year women) reduction in company social security contributions under permanent contracts resulting from the transformation of a training and apprenticeship contract, for three years.
COST (€m)	34.2
OBJECTIVE	To promote the employment of young people with a low level of education, after having obtained a professional qualification in a work-linked vocational training scheme in a company.
OBJECTIVE FULFILMENT	Yes , but the effect found is small and the use of the training contract by companies is low.
PROPOSALS	Concentrating efforts on improving training contracts, particularly their training component, and encouraging their use by companies. Removing the age limit under different circumstances for older people: long-term unemployed, reconversion, etc.

Flat rate for self-employed workers

DEFINITION	Contribution of €60 for 12 months for initial registrations of self-employed workers. Reductions of 50% in the following 6 months and 30% in the next six months. In municipalities with fewer than 5,000 inhabitants, a contribution of €60 for the first 24 months. Discount of 30% in the third year for persons aged under 30.
COST (€m)	634.6
OBJECTIVE	To promote entrepreneurship and self-employment
OBJECTIVE FULFILMENT	YES , but in people with a medium-high level of education who had been unemployed for a short time. It improves survival while the incentive is in place, but when it is withdrawn, the survival of the beneficiaries converges to that of non-beneficiaries.
PROPOSALS	Move towards a system of contributions in line with income. The need for future incentives will depend on the design of the new contribution system. In the meantime, given the economic context, it is recommendable to maintain the flat rate and strengthen the mechanisms for inspections and oversight that prevent their improper use. In any event, a focus should be placed on measures that will improve the survival of self-employed work: advice, training, etc., in coordination with the public administrations.

Incentives for recruiting people with disabilities

<p>DEFINITION (main incentives)</p>	<p>Discount of 100% in company contributions in contracts made by Special Employment Centres and the ONCE throughout the term of the contract.</p> <p>Discounts of between €4,500 and €6,300/year for permanent contracts of people with disabilities in an ordinary company throughout the term of the contract.</p> <p>Discounts of between €3,500 and €5,300/year for temporary contracts for people with disabilities in an ordinary company throughout the term of the contract.</p>
<p>COST (€m)</p>	<p>831.3</p>
<p>OBJECTIVE</p>	<p>To promote the labour market integration of people with disabilities.</p>
<p>OBJECTIVE FULFILMENT</p>	<p>Not conclusive on the promotion of recruitment. It does contribute towards maintaining jobs.</p>
<p>PROPOSALS</p>	<p>Redesign the incentives by focusing on groups with special difficulties, basically in sheltered employment. Improving the availability of information on the labour market integration of people with disabilities in ordinary and sheltered employment, both at an aggregate level and in terms of access to microdata that will improve the quality of the evaluations.</p>