



Autoridad Independiente
de Responsabilidad Fiscal

Spending Review 2019/2020

Hiring Incentives Study

October 2020

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Introduction and objectives

Hiring incentives

Hiring incentives are a type of active labour market policy that aims to reduce differences in the level of employability of different groups due to differences in productivity, inequality, gender gap, disability, etc., through reductions in the labour cost of people with lower employability.

- In Spain, they are mainly applied in the form of **reduced social contributions**¹
- Economic theory and international empirical evidence support **their potential effectiveness**, which is **subject to certain aspects of their design**: this improves if they are targeted at groups with very low employability, if elements are introduced that penalise their strategic use or if they are programmes with a specific duration
- **The use and effectiveness of incentives tend to rise in times of recession**: the group of individuals with difficulties in accessing employment grows and the risk of unwanted effects (dead-weight loss) is reduced due to greater wage rigidity.
- Incentives currently account for a **total annual cost of €2.9bn**
- In Europe, **Spain is the country that, with a similar employment framework, spends the most on incentives** and targets the largest proportion on self-employment

¹ When the reduction in the contributions is financed by the State Public Employment Service (Spanish acronym: SEPE) they are known as *bonificaciones* (discounts). If the cost is borne directly by the Social Security system, they are called *reducciones* (reductions)

The purpose of this study is to assess whether the incentives for the period between 2012 and 2018 improved the employability of the target groups...

Incentives that make up the assignment:

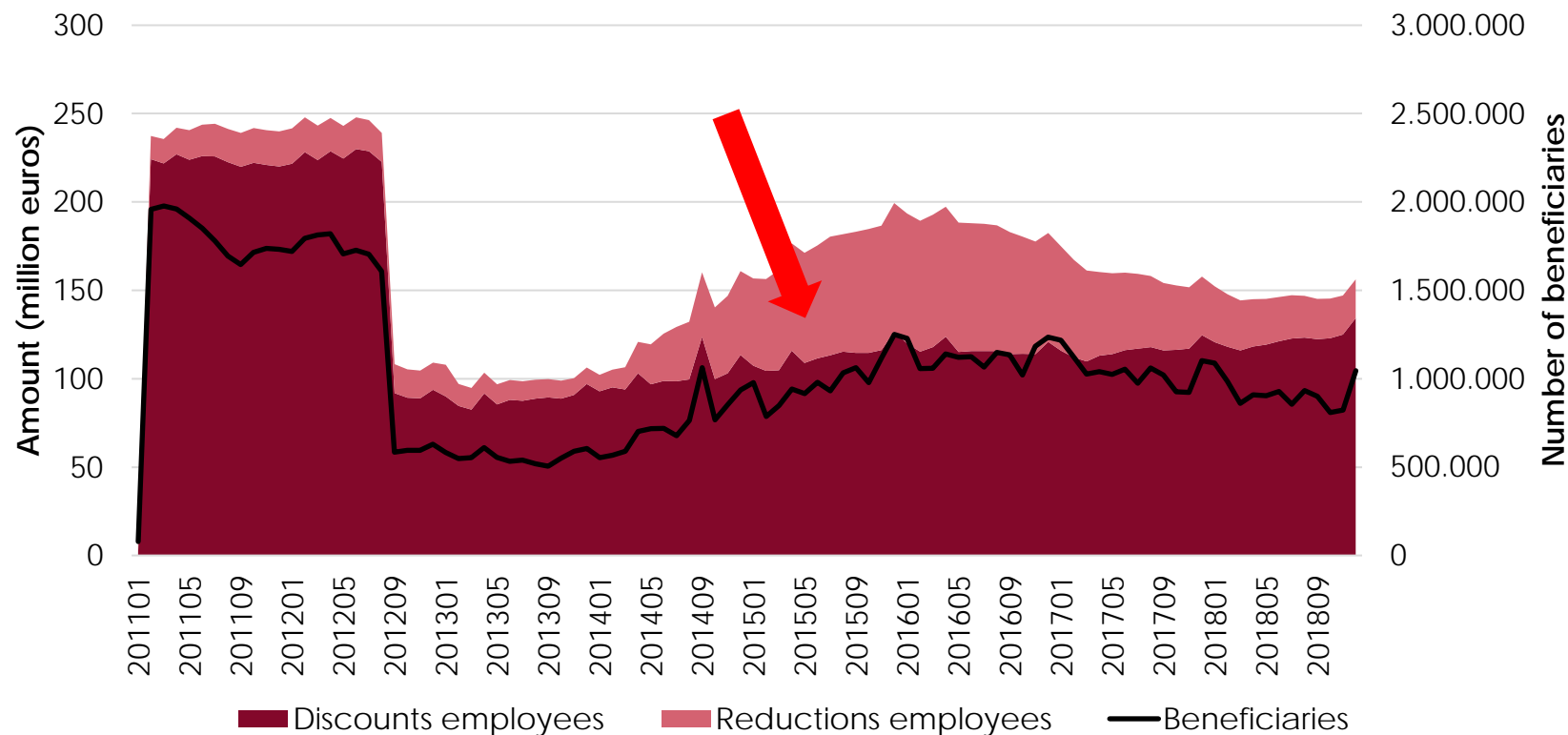
1. Aged under 30
2. Aged over 45
3. Women underrepresented in certain sectors
4. Transformation of temporary contracts into permanent contracts
5. Flat rate for self-employed workers
6. Discounts and reductions for specific types of self-employment
7. People with disabilities

...answering two questions:

- **Did they facilitate their access to the labour market?** → Did they increase their chances of getting a job?
- **Did they contribute towards them keeping their job?** → Did they reduce their chances of losing their job?

In general, positive effects are found in the groups that are incentivised, BUT with nuances....

Furthermore, using company data, the aim is to estimate whether the incentives had a net effect on employment...

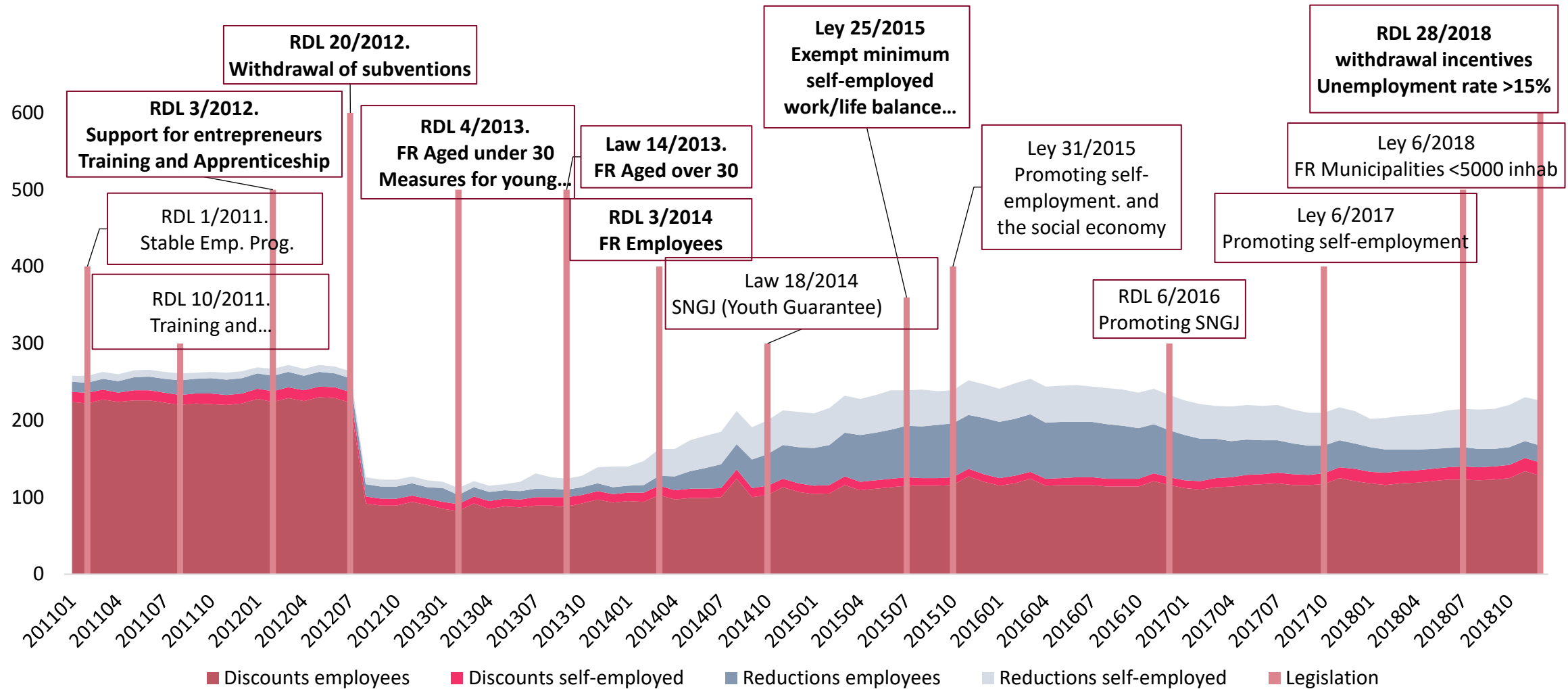


...and it is concluded that a 50% reduction in incentives accelerated the drop in employment from -2.73% to -2.96% between July 2012 and December 2014

The incentives analysed totalled around €2bn per year in 2018 and were mainly targeted at people with disabilities and to promote self-employment

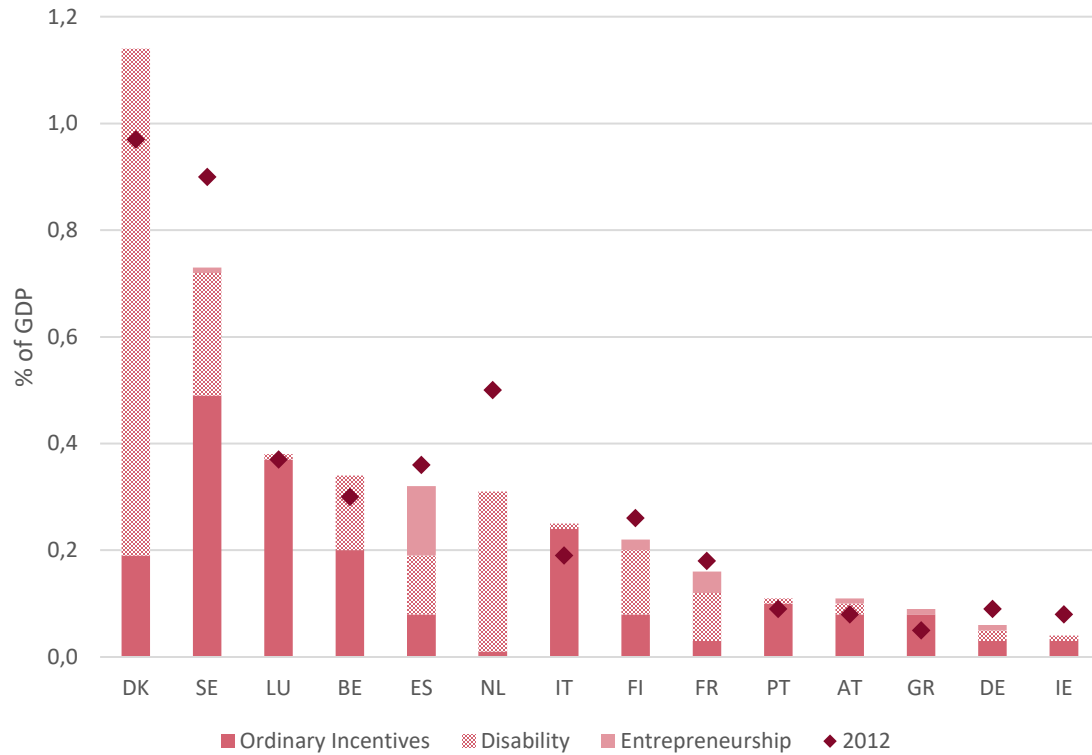
	Aged under 30	Aged over 45	People with disabilities	General	Total (€'000) (%)
Permanent	39.0	49.1	186.0	53.7	327.8 (16%)
Permanent or temporary	12.9		440.8		453.8 (22%)
Temporary			50.0		50.0 (2%)
Conversion to permanent	46.6		138.9		185.5 (9%)
Self-Employed Flat Rate	188.7		15.0	445.9	649.6 (32%)
Self-employed (others)				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

In the period under analysis (2012-2018), there were relevant regulatory changes, including the generalisation of incentives for employment under permanent contracts to the entire population.



Internationally, in 2018 Spain was among the European countries with the highest expenditure on incentives, although this has fallen slightly since 2012

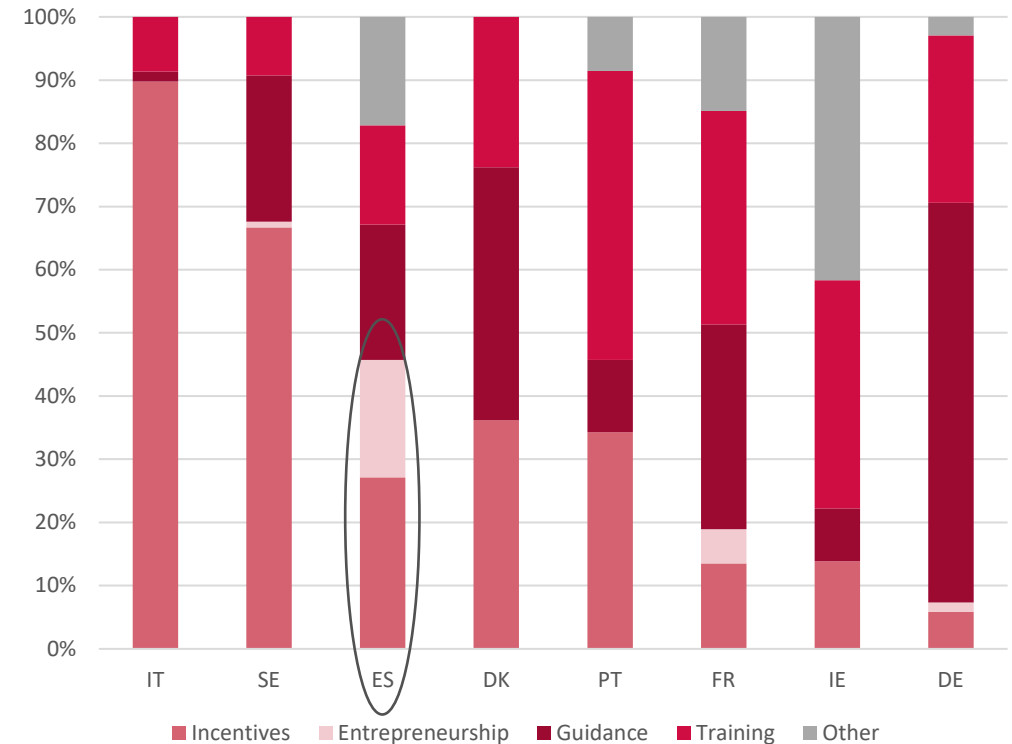
Spending on incentives. 2018 (bar) and 2012 (dot)



Source: LMP database, European Commission.

Spain is the country with the highest expenditure on incentives for self-employment

Distribution of spending on ALMP 2018



Source: LMP database, European Commission.

The incentives in Spain account for almost half of the ALMP budget

Incentives should be analysed in the institutional context of their labour market...



Source: LFS, Eurostat.

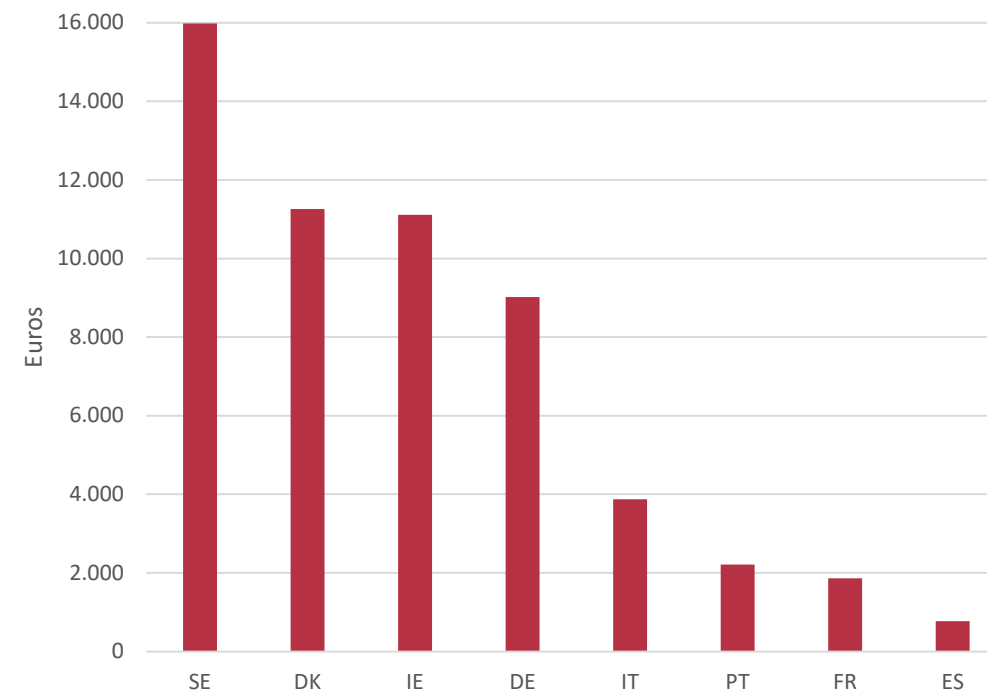
<p>SOUTHERN EUROPE Similar problems to Spain High level of temporary contracts</p>	
<p>NORTHERN EUROPE Strong job markets Low unemployment Labour flexibility</p>	
<p>ANGLO-SAXON MODEL Very flexible model</p>	

... three blocks of countries can be identified

Incentives for people with disabilities, young people and long-term unemployed are available in the countries analysed...

	Permanent contracts	Training	Young people	Self-employed people	Disability	Other
France	No	Yes. No age limit	Yes	Yes	Yes	Low wages, Priority areas
Italy	Young people, qualified profiles, LTU > 45, Conversions	Yes	Yes	Yes	Yes	Social integration, priority areas
Ireland	No	Yes	Yes	No	Yes	LTU, others
Portugal	Linked to training, conversions	Yes. No age limit	Yes	Yes	Yes	Geographic mobility, Priority areas, LTU, others
Sweden	Yes. Young people	Yes. No age limit	Yes	Yes	Yes	Immigrants, LTU
Germany	No	Yes	Yes	Yes	Yes	LTU, older people, others
Denmark	No	Yes. No age limit	Yes	Yes	Yes	LTU, others

Ratio of amount in incentives / beneficiaries. 2018



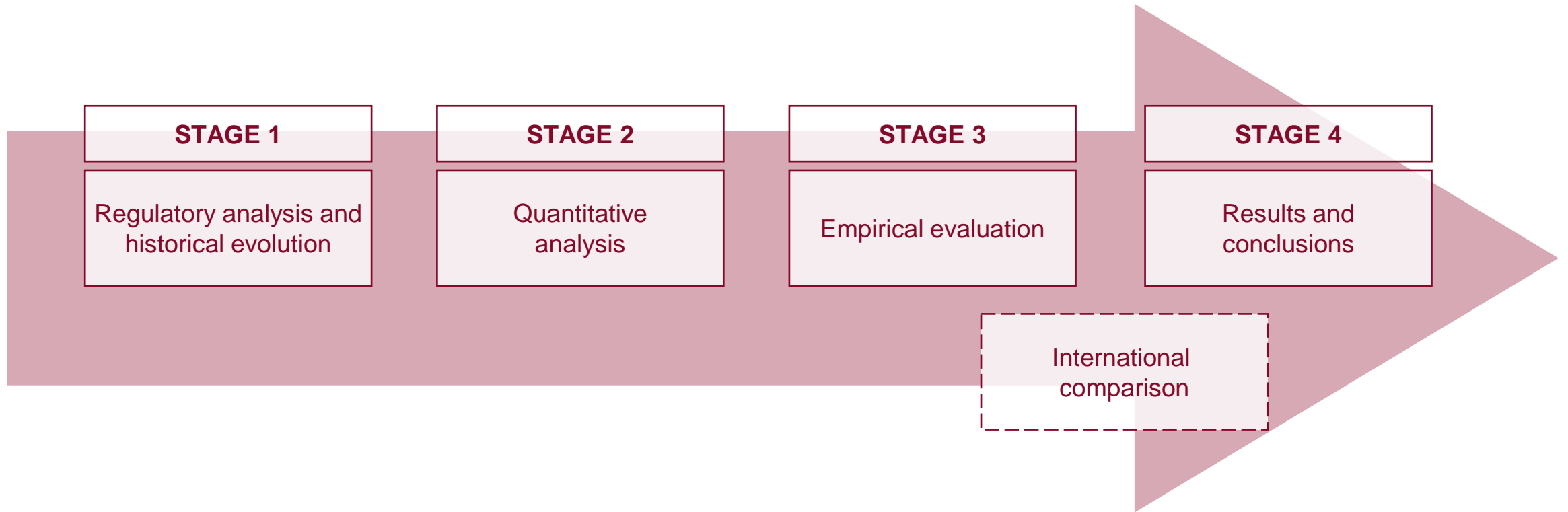
Source: LMP database, European Commission.

Spain is the country with the lowest average amount per beneficiary

...but there is greater commitment to training, with no age limit, less focus on permanent contracts and higher amounts

2 Methodology and sources of information

Work methodology



Databases



Employment history between 2005 and 2018 of incentive beneficiaries
2011-2018
7m beneficiaries

Continuous Sample of Working Lives
2007-2017
1.2m individuals/year



Reductions in Social Security contributions
2011-2018
3.3m beneficiaries

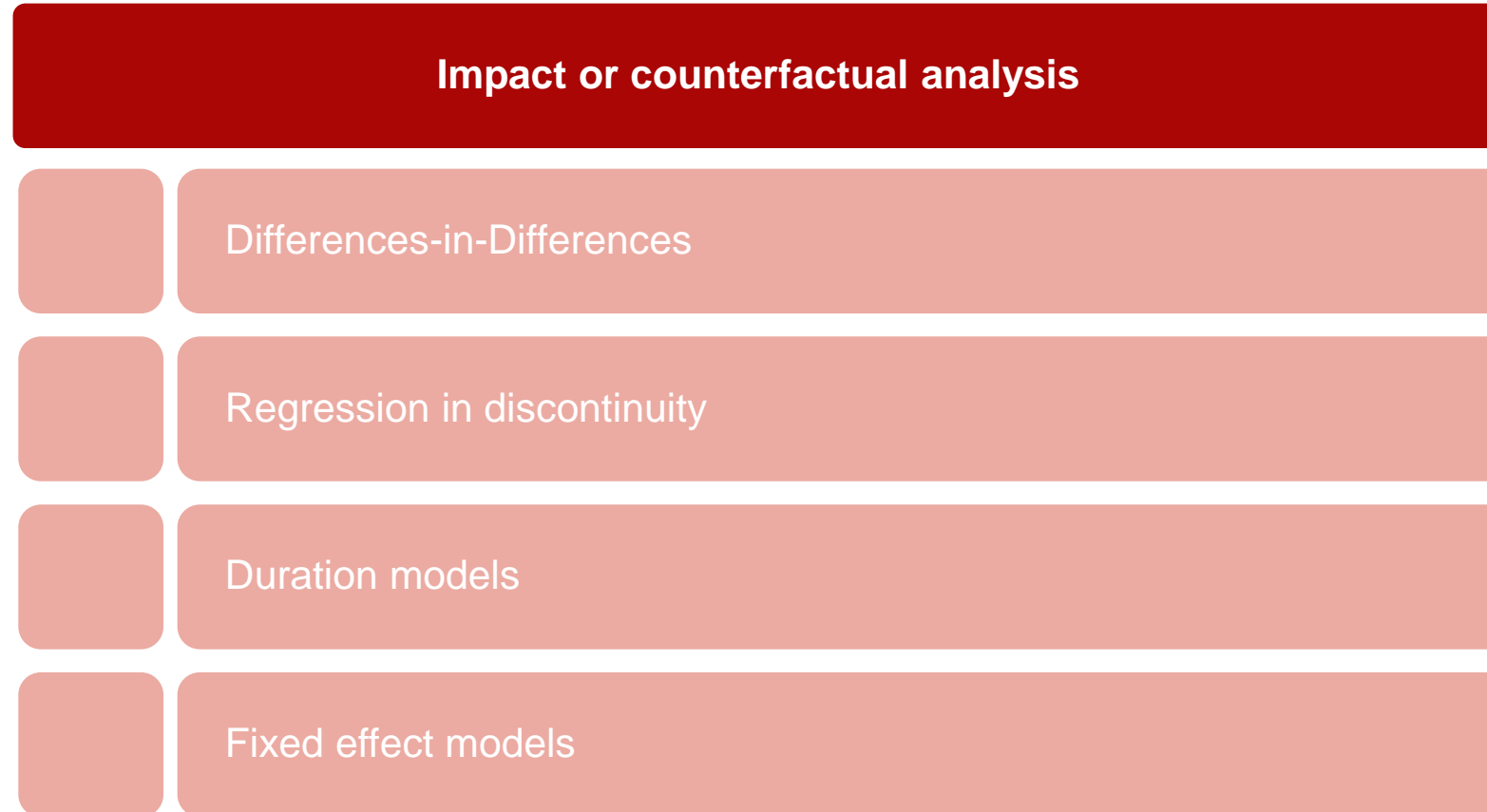
Discounts in Social Security contributions
2011-2018
5.2m beneficiaries

Company Worker Panel – PET (pilot)
2011-2014
263 thousand companies
5.9m workers

Central Balance Sheet Data Office
Database of information filed with Companies Registries
111 thousand companies



We basically use quantitative methodologies with counterfactuals to measure the effectiveness of the incentives...



... supported by a comprehensive review of the incentive regulations for the period

3

Conclusions and proposals

General conclusions and proposals

<p>STRUCTURAL REFORMS</p>	<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>
<p>LINK TO THE BUSINESS CYCLE</p>	<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 promote stability and with amounts that do not rise with the salary.</p>
<p>TARGETING, STABILITY AND FLEXIBILITY</p>	<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 from time to time.</p>

General conclusions and proposals

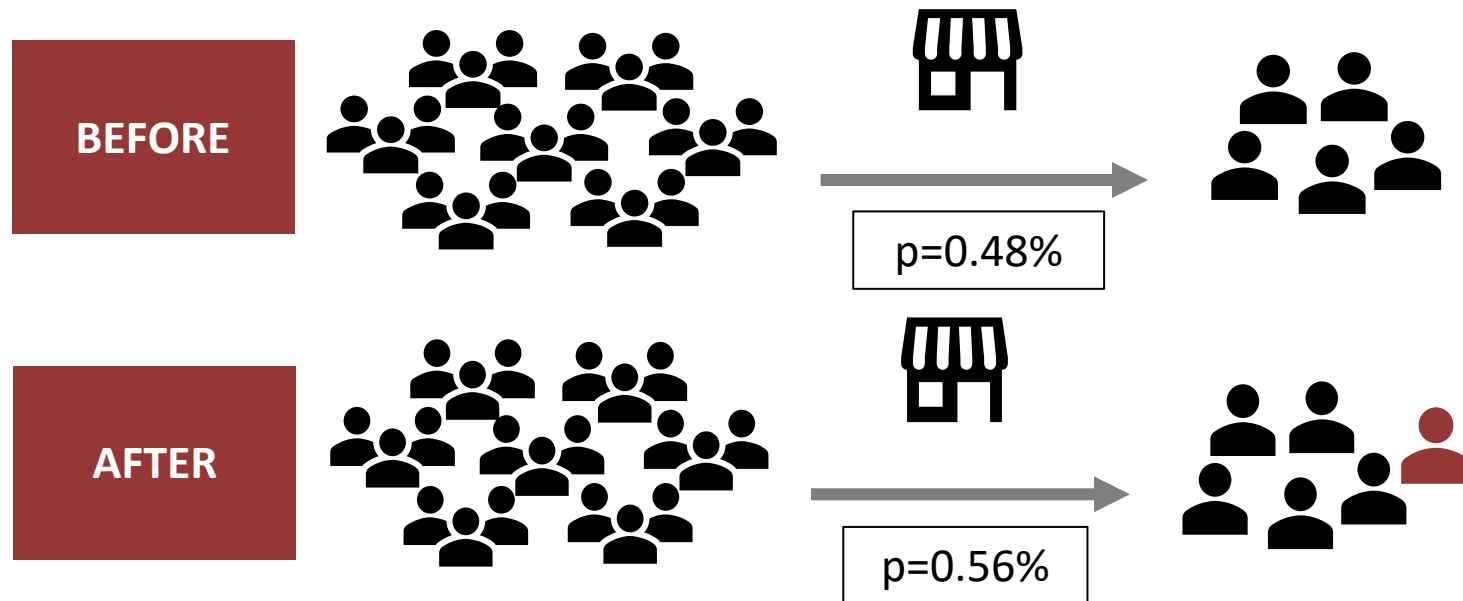
ELIGIBILITY SIMPLIFICATION AMOUNTS	<p>It is necessary to implement fewer incentives and to standardise the requirements for beneficiary companies. A simpler system, with clear and easily verifiable requirements, might stimulate its use by companies. In addition, a more focused system would increase the 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 IN COMBINATION 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	<p>Ongoing evaluation of the incentive system and building a database with the evaluations performed. Building a system of monitoring indicators and the datasets necessary for the administrations to evaluate the incentives, incorporating the information from the regions. Facilitating and promoting evaluation among the scientific community.</p>

Evaluations and specific proposals

Flat rate for self-employed workers

DEFINITION	<p>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.</p> <p>Discount of 30% in the third year for those under 30.</p>
COST (€m)	<p>634.6</p>
OBJECTIVE	<p>To promote entrepreneurship and self-employment</p>
OBJECTIVE FULFILMENT	<p>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.</p>
PROPOSALS	<p>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, maintaining the flat rate and strengthening inspections. In the medium term, focusing on measures to improve survival: advice, training, etc., in coordination with the public administrations.</p>

The flat rate promoted self-employment in the period analysed:



➤ Entry into force of the flat rate for young people raised the likelihood of them registering as self-employed by 17%.

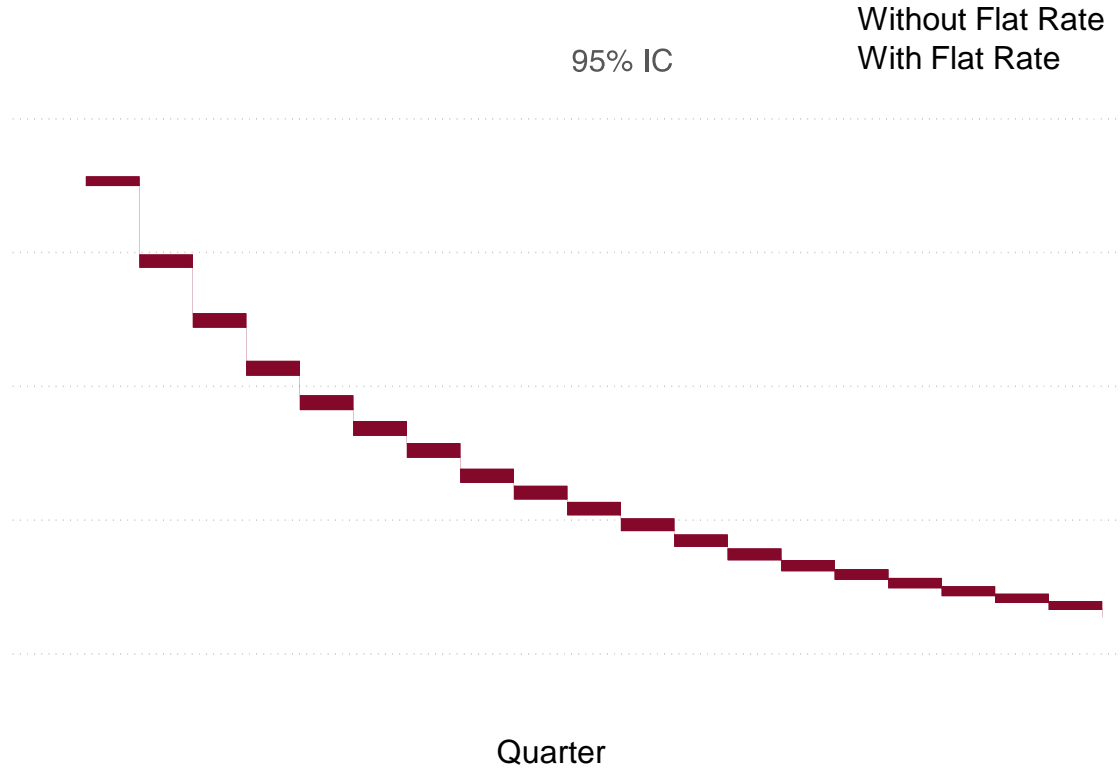
➤ Out of every 1,000 people aged under 30 who were unemployed in a month, 5 began self-employment the following month. With entry into force of the flat rate, 6 young people registered each month

- But the effect is found among people who had been unemployed for less than one month and who previously had a temporary contract
- and it is only found among young people with a medium-high level of education

The flat rate helped improve survival in self-employment: it reduced the probability of de-registering by 10%

Survival rate (Kaplan-Meier estimation)

Probability of remaining registered



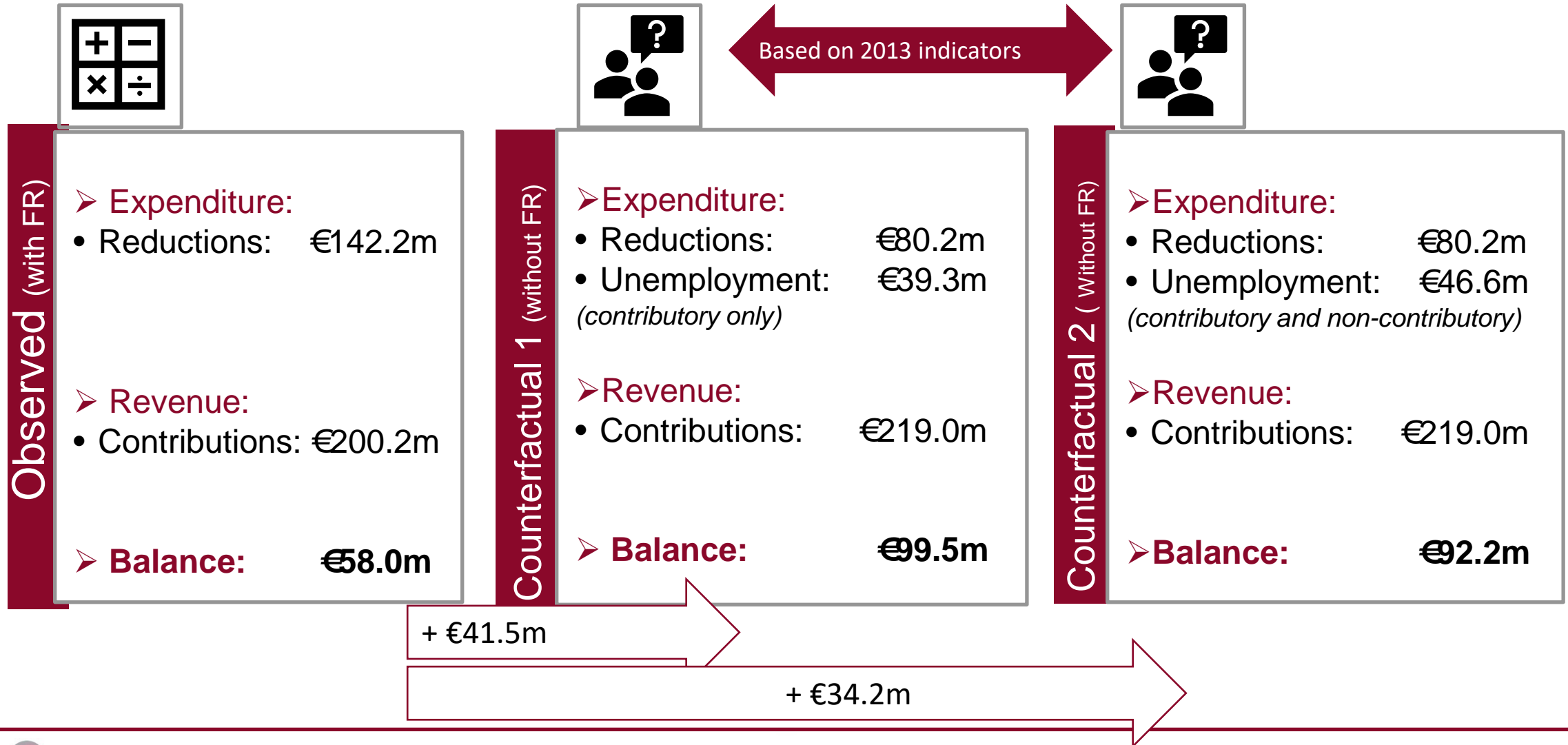
Estimation of the effect of the flat rate on the probability of leaving self-employment. Aged under 30

Average probability of de-registering in a quarter	9.6%
Reduction in probability due to incentive	↓ 1.01 pp.
Average probability of de-registering with flat rate	8.6%

Although the effect is uneven over time: more intense while in place and disappears when the incentive ends

Increase in probability of de-registering when flat rate ends	↑ 1.82 pp
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The cost-benefit analysis performed shows a net cost of the flat rate for young people of between 34.2 and 41.5 million euros (from the 142 million gross cost)



Flat rate for self-employed workers

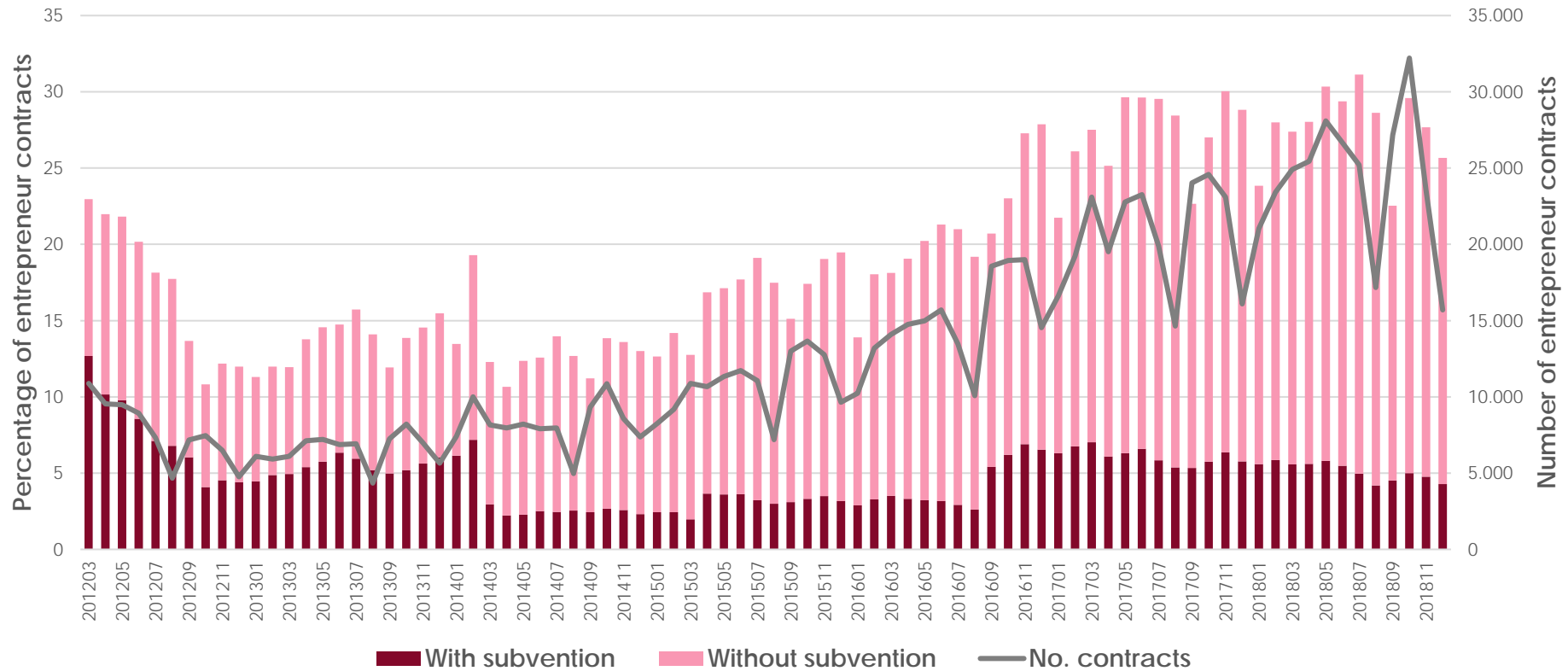
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OBJECTIVE	To promote entrepreneurship and self-employment
OBJECTIVE FULFILMENT	<p>YES, but in people with a medium-high level of education who had been unemployed for a short time. It improves survival while the incentive is in place, but when it is withdrawn, the survival of the beneficiaries converges to that of non-beneficiaries.</p>
PROPOSALS	<p>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, maintaining the flat rate and strengthening inspections. In the medium term, focusing on measures to improve survival: advice, training, etc., in coordination with the public administrations.</p>

Incentives for employment under permanent contracts: contract to support entrepreneurs (repealed)

DEFINITION	Discounts for the company social security contribution for companies with fewer than 50 workers that recruit under a permanent contract and maintain this 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 (3%) and is not found in people with a low level of education or qualifications. A greater positive effect (10%) 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 incentives for employment under the contracts did not reach the most vulnerable groups, who would need other types of incentives either linked to training or to requirements that are more attractive to companies.

The contract to support entrepreneurs accounted for 20% of all initial permanent contracts in companies with fewer than 50 workers...

Number of entrepreneur contracts and percentage of total permanent contracts



Source: SEPE and contract microdata.

... and only 37% of those eligible for the incentives made use of them. Specifically, 4.6% of the permanent contracts signed by companies made use of these incentives

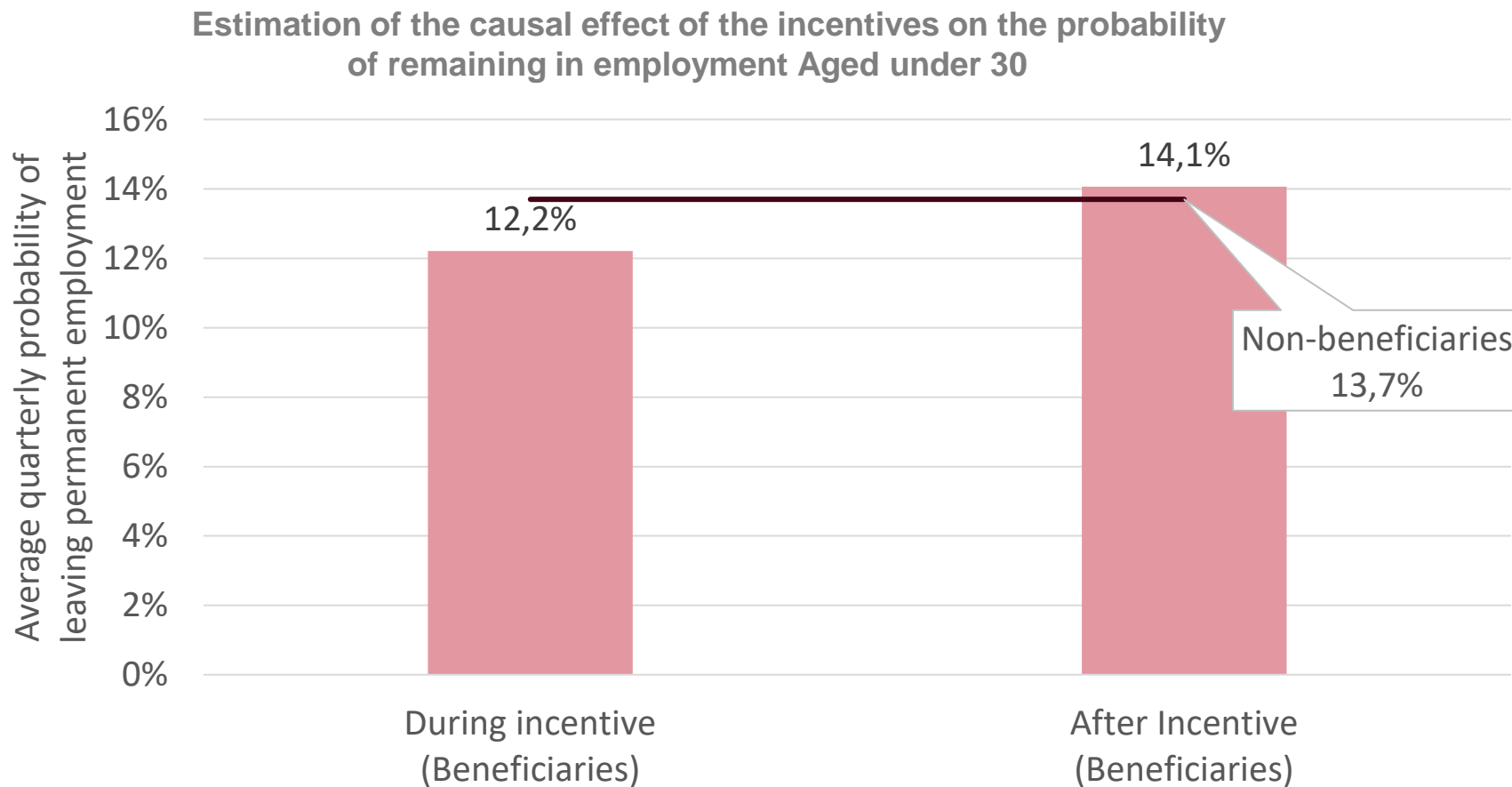
The incentives for the contract to support entrepreneurs increased the likelihood that young people would get permanent employment very slightly

Estimation of the causal effect of the incentives on the monthly probability of finding permanent employment Aged under 30

	General	Women
Probability at which young people were recruited before the incentive	0.95%	1%
Increase in probability due to incentive	↑ 3.27%	↑ 6.61%
Probability that young people were recruited with the incentive	0.98%	1.07%
In addition, these odds increase to a greater extent if:		
Median Qualification/Educational level	High Educational Level	

... but there are no effects among young people with lower qualifications or education

The incentives for the contract to support entrepreneurs reduced the probability of the beneficiaries (young people) leaving employment by 10%



At the end of the incentive, the probability of the beneficiaries leaving employment is equal to that of non-beneficiaries

For those aged over 45, there are no significant positive effects of these incentives on the probability of finding permanent employment....

Average quarterly probability of obtaining permanent employment	0.8%
Effect on probability due to incentive	0.019 pp.
Reduction in probability after withdrawal	↓ 4.4%
Reduction in probability after withdrawal for the long-term unemployed	↓ 7.3%

....and were slightly disadvantaged by the withdrawal of the incentives from August 2012, especially the long-term unemployed

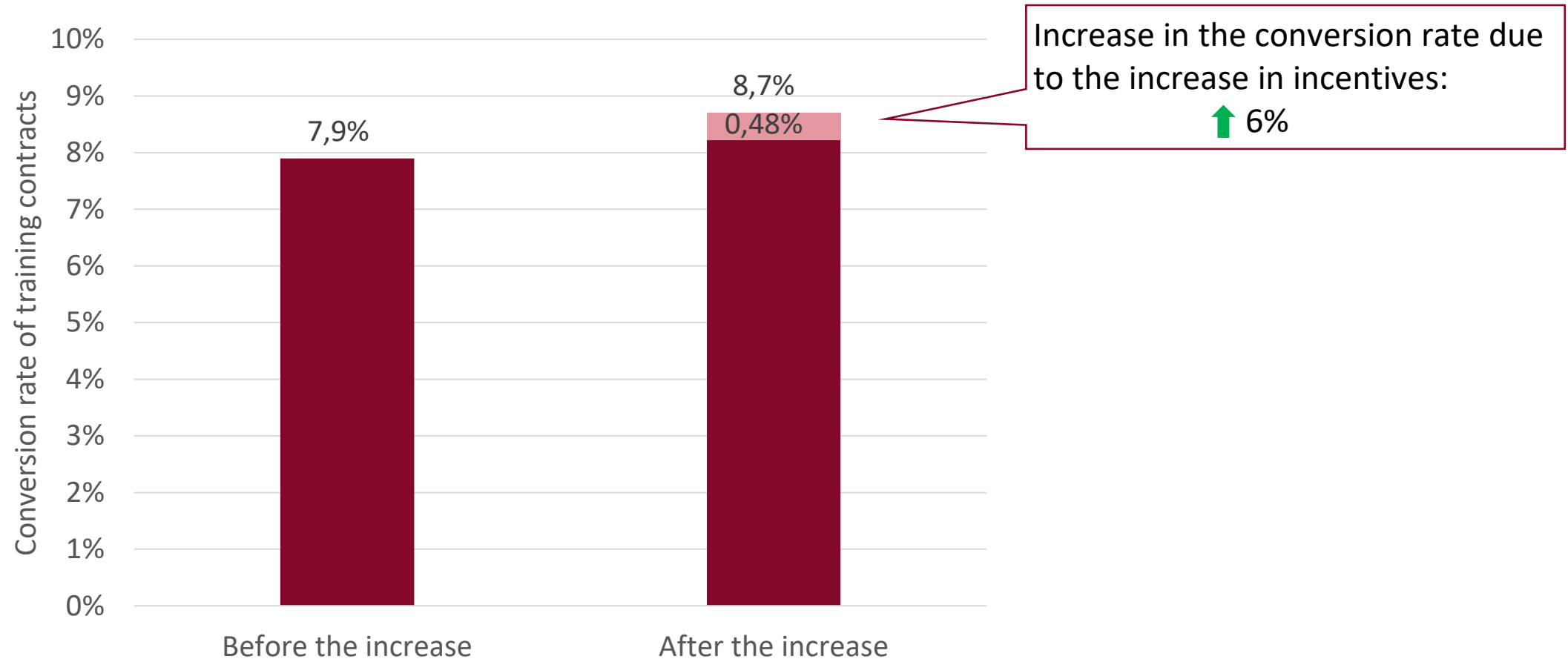
Incentives for employment under permanent contracts: contract to support entrepreneurs (repealed)

DEFINITION	Discounts for the company social security contribution for companies with fewer than 50 workers that recruit under a permanent contract and maintain 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.
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Incentives for the conversion of training and apprenticeship contracts

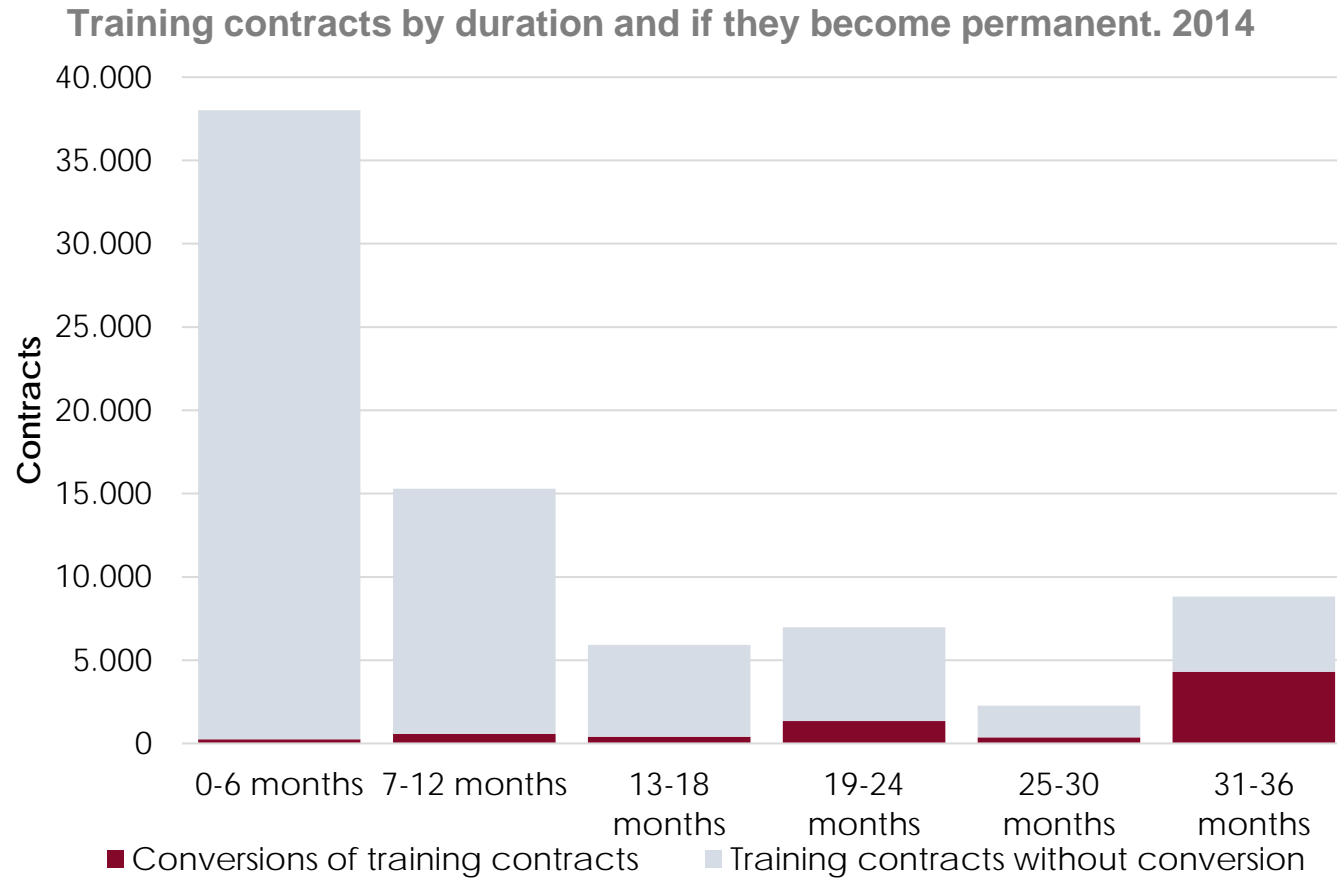
DEFINITION	€1,500/year (€1,700/year women) reduction in the company social security contribution in permanent contracts resulting from the transformation of a training and apprenticeship contract, for three years.
COST (€m)	34.2
OBJECTIVE	Promoting the labour market integration of young people with a 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	Concentrate efforts on improving training contracts, particularly their training component, and encouraging their use by companies. Remove the age limit under different circumstances for older people: long-term unemployed, reconversion, etc.

Incentives to convert training contracts into permanent contracts were increased in 2012....



...which increased their conversion rate by 6%

But mainly contracts for 2 or more years are transformed, which account for about 25% of training contracts



Source: Microdata of incentive beneficiaries

In addition, only 1.4% of eligible young people entered into a training contract in 2018

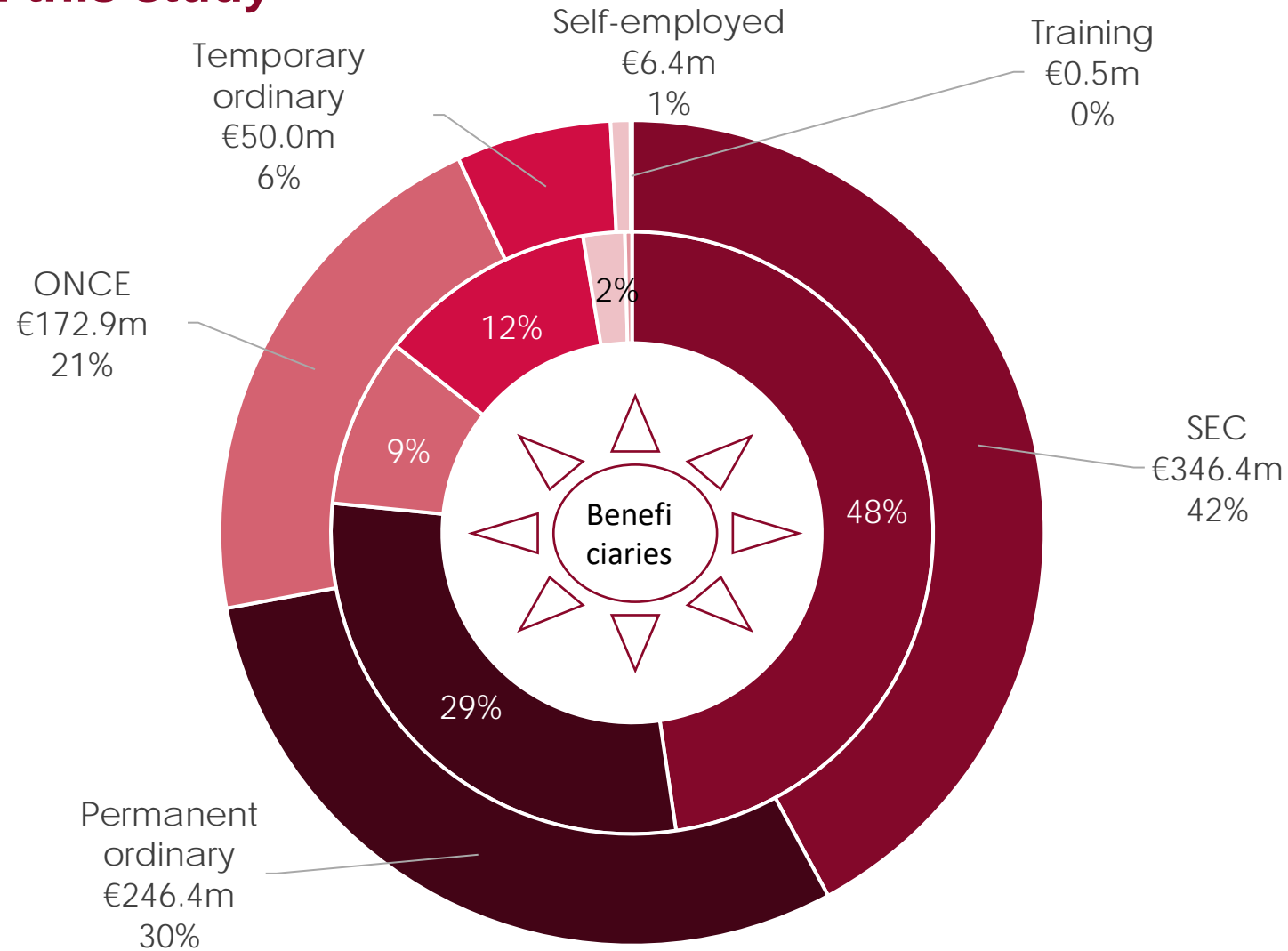
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PROPOSALS	To concentrate efforts on improving training contracts, particularly their training component, and encouraging their use by companies. Remove the age limit under different circumstances for older people: long-term unemployed, requalification, etc.

Incentives for recruiting people with disabilities

DEFINITION (main incentives)	<p>Discount of 100% of company contributions in the 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 for 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>
COST (€m)	831.3
OBJECTIVE	To promote the labour market integration of people with disabilities
OBJECTIVE FULFILMENT	<p>Not conclusive on promotion of recruitment</p> <p>It does contribute towards maintaining jobs</p>
PROPOSALS	<p>To redesign the incentives by focusing on groups with special difficulties, especially in sheltered employment. To improve the availability of information on the labour market integration of people with disabilities in ordinary and sheltered employment, both at the aggregate level and in terms of access to microdata that will improve the quality of the evaluations.</p>

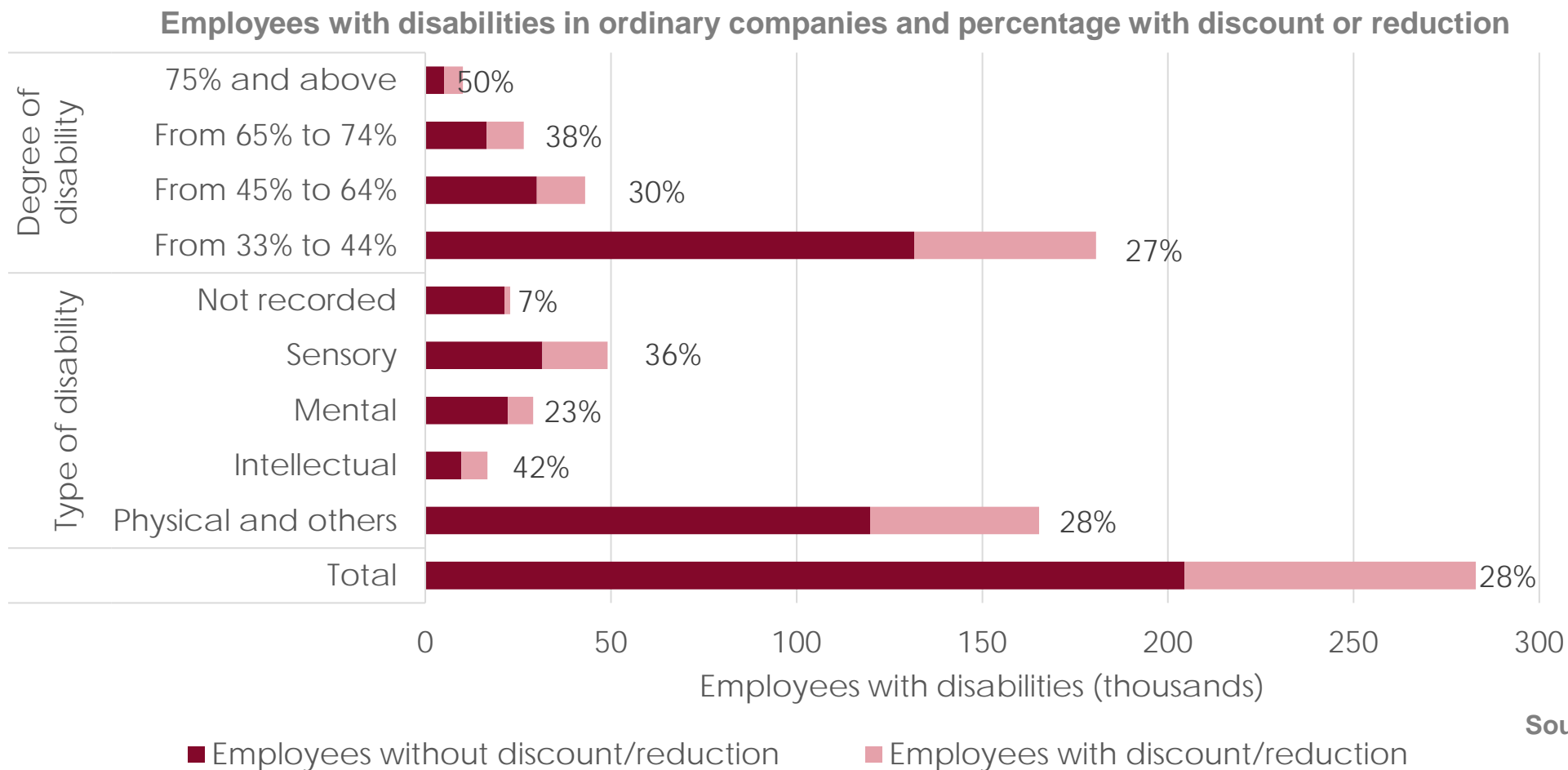
Incentives for people with disabilities account for 40% of the spending analysed in this study



...and they are mainly focused on:

- **Special Employment Centres**
- **Perm. Cont. in ordinary companies**
- **ONCE**

28% of workers with disabilities in ordinary companies benefit from incentives



62% of incentive beneficiaries have a degree of disability between 33% and 44%
There are no equivalent data on sheltered employment

Evaluation of incentives for people with disabilities

✓ Limitations to the evaluation:

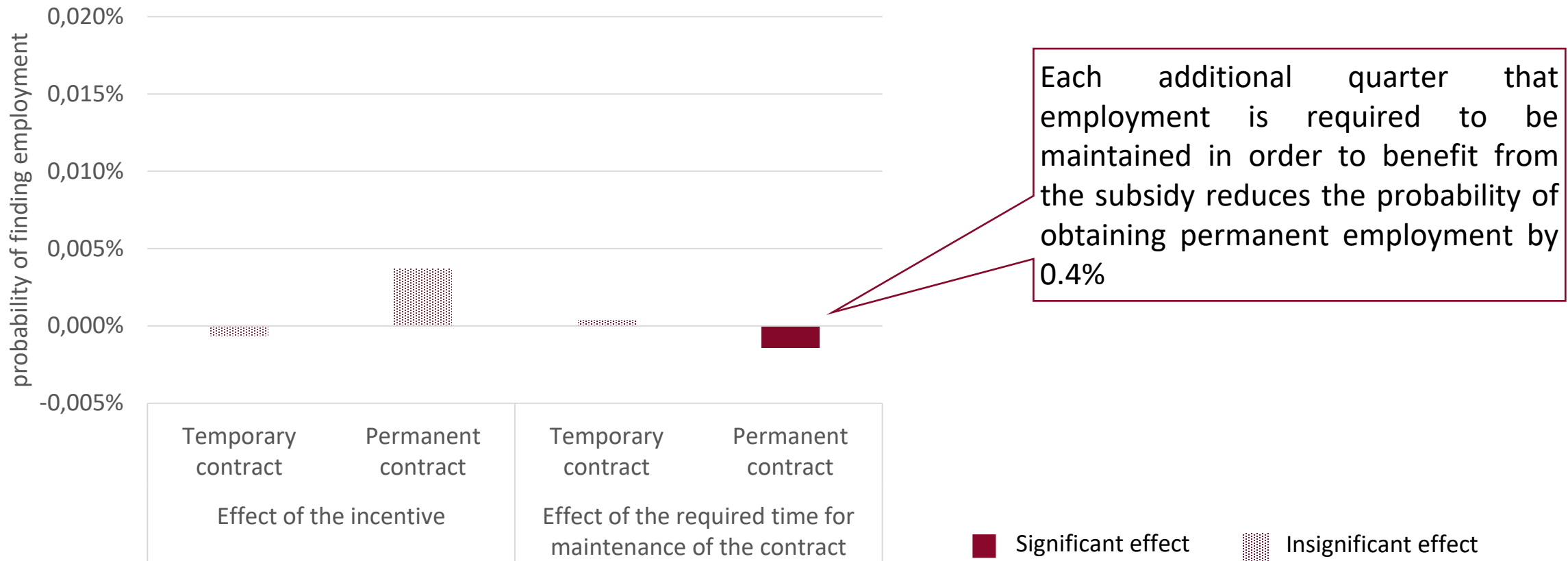
- Need for additional information to identify persons with disabilities in the data sources used (MCVL - Continuous Work History Sample)
- Absence of relevant regulatory changes during the study period
- Difficulty in selecting a control group similar to the treatment group

✓ How we tackled them:

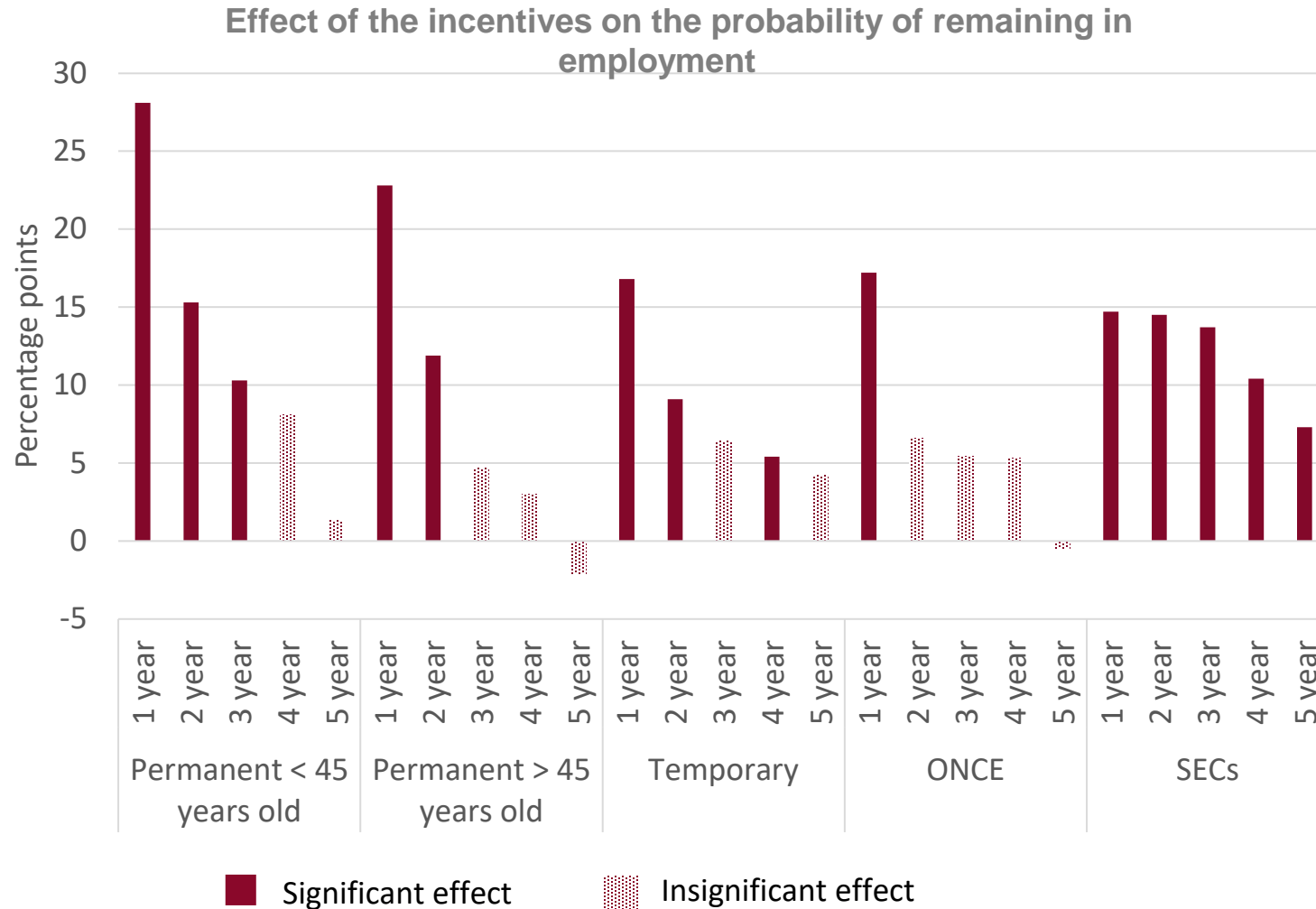
- We worked with the sub-sample of people receiving disability benefits
- We used the variability of regional incentives
- Regression models

With the available data and the aforementioned limitations, there is no evidence that regional incentives promote the recruitment of people with disabilities

Estimation of the causal effect of incentives for recruiting people with disabilities on the quarterly probability of finding employment



With data on actual beneficiaries, positive effects on the likelihood of maintaining their job are found compared with disabled workers without incentives



➤ Incentives can increase the likelihood of remaining in employment by 15-28 percentage points in the first year

➤ In ordinary companies, the effects can last up to the third year

➤ Significant effects can be seen at special employment centres up to the fifth year

Incentives for recruiting people with disabilities

<p>DEFINITION (main incentives)</p>	<p>Discount of 100% of the company contributions in the 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>
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