

PRESS RELEASE  
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Focus should be placed on improving the employability of certain groups

## **AIReF POINTS OUT THAT RECRUITMENT INCENTIVES CANNOT REPLACE STRUCTURAL REFORMS FOR COMBATING THE PREPONDERANCE OF TEMPORARY CONTRACTS AND UNEMPLOYMENT**

- The Independent Authority for Fiscal Responsibility analyses seven types of incentives, which amounted to around €2bn billion in 2018
- The institution concludes that the incentives make it easier to obtain employment in times of crisis, but the positive effects are modest and do not last over time
- It considers that incentives should be targeted at very specific groups with low employability, that fewer incentives should be implemented and that the requirements for beneficiary companies should be standardised.
- It calls for greater coordination amongst all administrations and with the other policies in place, particularly in relation to training, and it states that the incentive system needs to be subject to ongoing monitoring and evaluation
- In order to encourage self-employment, AIReF recommends moving towards a contribution system in line with income and, in the meantime and given the economic context, maintaining the flat rate and strengthening inspections
- AIReF also proposes focusing efforts to improve training contracts, particularly their training component, and encouraging their use by companies
- Commitment to redesigning incentives for recruiting people with disabilities by focusing on groups with special difficulties, especially in sheltered employment

The Independent Authority for Fiscal Responsibility (AIReF) today presented the study of the second phase of the Spending Review “Recruitment and Self-Employment Incentives”, in which it analyses seven types of incentives, which totalled around €2bn in 2018. This evaluation follows on from that which AIReF conducted in the first phase of the Spending Review on expenditure on Active Labour Market Policies



Recruitment and employment incentives aim to promote the employment of certain low-employability individuals 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 Treasury General of the Social Security (Spanish acronym: TGSS), they are known as allowances, while if the cost is borne directly by the Social Security they are called reductions.

The seven incentives that form part of AIReF's commission combine 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 evaluated expenditure in 2018. By employment type, 32% of evaluated expenditure was allocated to incentives for the registration of new self-employed workers.

The period under review is characterised by a wide range of regulations and generalised incentives offered to the entire population. Specifically, the analysed incentive system began with the 2012 labour market reform and underwent several adaptations up to the end of 2018. During 2018 all the measures that determined its abolition when the unemployment rate stood under 15% were repealed. Many changes took place over the period, with approvals and repeals of incentives and changes in eligibility conditions, amounts and durations.

## **General conclusions**

At a general level, the AIReF study finds that 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. The evaluation shows evidence of the potential efficacy of the analysed incentives but finds 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, AIReF concludes that a 50% reduction in incentives accelerated the drop in employment from -2.73% to -2.96% between July 2012 and December 2014.

AIReF believes that incentives should 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.

It is also necessary to implement fewer incentives and to standardise the requirements for the beneficiary companies. According to AIReF, establishing 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. AIReF also believes that 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.



The institution also states that 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. 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.

AIReF also believes that it is necessary to conduct ongoing monitoring and evaluation of the incentive system and to build a database with the evaluations performed. Specifically, it suggests building a system of monitoring indicators and datasets so that administrations can evaluate the incentives, incorporating the information from the regions, and with the aim of facilitating and promoting evaluation among the scientific community.

### **Specific proposals**

In the analysis of the flat rate for self-employed workers, AIReF concludes that it meets the objective of encouraging entrepreneurship and self-employment, but in people with a medium-high level of education who had been unemployed for a short time. The incentive improves the survival of these employments while it is in force, but when it is withdrawn, survival converges with that of non-beneficiaries. AIReF recommends moving towards a contribution system in line with income and, in the meantime and given the economic context, maintaining the flat rate and strengthening inspections.

With regard to the contract to support entrepreneurs, repealed in 2018, AIReF finds that it partially met the objective of facilitating stable employment and boosting entrepreneurial initiative. Nonetheless, it concludes that the positive effects 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.

With regard to incentives to convert training and apprenticeship contracts into permanent contracts, AIReF finds there they meet the objective of promoting the employment of young people with a low level of education. However, the effect found is small and the use of the training contracts by companies is low. AIReF therefore proposes concentrating efforts on improving training contracts, particularly their training component, and encouraging their use by companies.

As for the incentives for recruiting people with disabilities, which account for 40% of the expenditure analysed in this Study, AIReF has not been able to evaluate their effects on the recruitment of people with disabilities due to the absence of legislative changes in the period. An alternative approach through regional incentives finds no evidence that they boost the recruitment of persons with disabilities. AIReF does find positive effects on the likelihood of maintaining their job compared with disabled workers without incentives. AIReF proposes redesigning these incentives by focusing on groups with special difficulties, especially in sheltered employment. It also highlights the need 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.