

# Evaluating ALMP in Spain: some lessons

**Inmaculada Cebrián**

**Departamento de Fundamentos de Economía e Historia Económica**



**HIGH-LEVEL SEMINAR ON LABOR MARKET EXPERIENCES:  
TOWARDS MORE EFFICIENT LABOR MARKETS**

**Banco de España**

Madrid

11 May 2010

**El efecto de las bonificaciones de las  
cotizaciones a la Seguridad Social para el  
empleo en la afiliación a la Seguridad Social:  
un intento de evaluación macroeconómica,  
microeconómica e institucional**

**Luis Toharia (dir.)**

**(con José María Arranz, Inmaculada Cebrián, Carlos García Serrano,  
Virginia Hernanz, Gloria Moreno y Joaquín Pitarch)**

***(Fipros 2007)***

# Revision of labour market reforms in Spain

- ❖ **1984**: temporary contracts without causality
- ❖ Since then, different different labour market reforms trying to reduce the use of fixed-term and temporary contract and to promote open-ended contracts
- ❖ Most important reforms related to contracts:
  - **1994**: restrictions to temporary contracts and causality principle reinstated.
  - **1997**: promotion of open ended contracts
    - A new permanent contract with lower firing costs for some groups (women, youth, unemployed)
    - Subsidies to permanent contracts (reductions in employer social security contributions)
  - **2001** some extensions where introduced
  - **2002**: intervention to firing cost (liberalization)
  - **2006** new measures to foster open-ended contracts (restructuring subsidies, new conversions,.. )

# EVALUATION

❖ *Microeconomic*: effects on the probability to access a permanent employment and to maintain it.

➤ How targets groups are affected

❖ *Macroeconomic*: changes in the share of temporary employment and levels and variation of employment.

➤ Deadweight, substitution effect, displacement effect.

# MICROECONOMIC EVALUATION

## Different administrative data:

- ❖ Registered contracts:
  - ❖ Probability to sign different type of contracts
  - ❖ Longitudinal analysis: probability to reach stability in employment.
  
- ❖ MCVL (information from social security records) and registered contracts:
  - Employees characteristics
  - Employment spell duration, taking into account different type of contracts:
    - With or without subsidies (to social security contribution)
    - Severance payments in case of unfair dismissal 33/45 days per year of service (24/42 months max.)
  
- ❖ ¿Are there different stability trends comparing types of open ended contracts?
  - Ordinary contract
  - Initial subsidized contract
  - Conversion from temp to perm

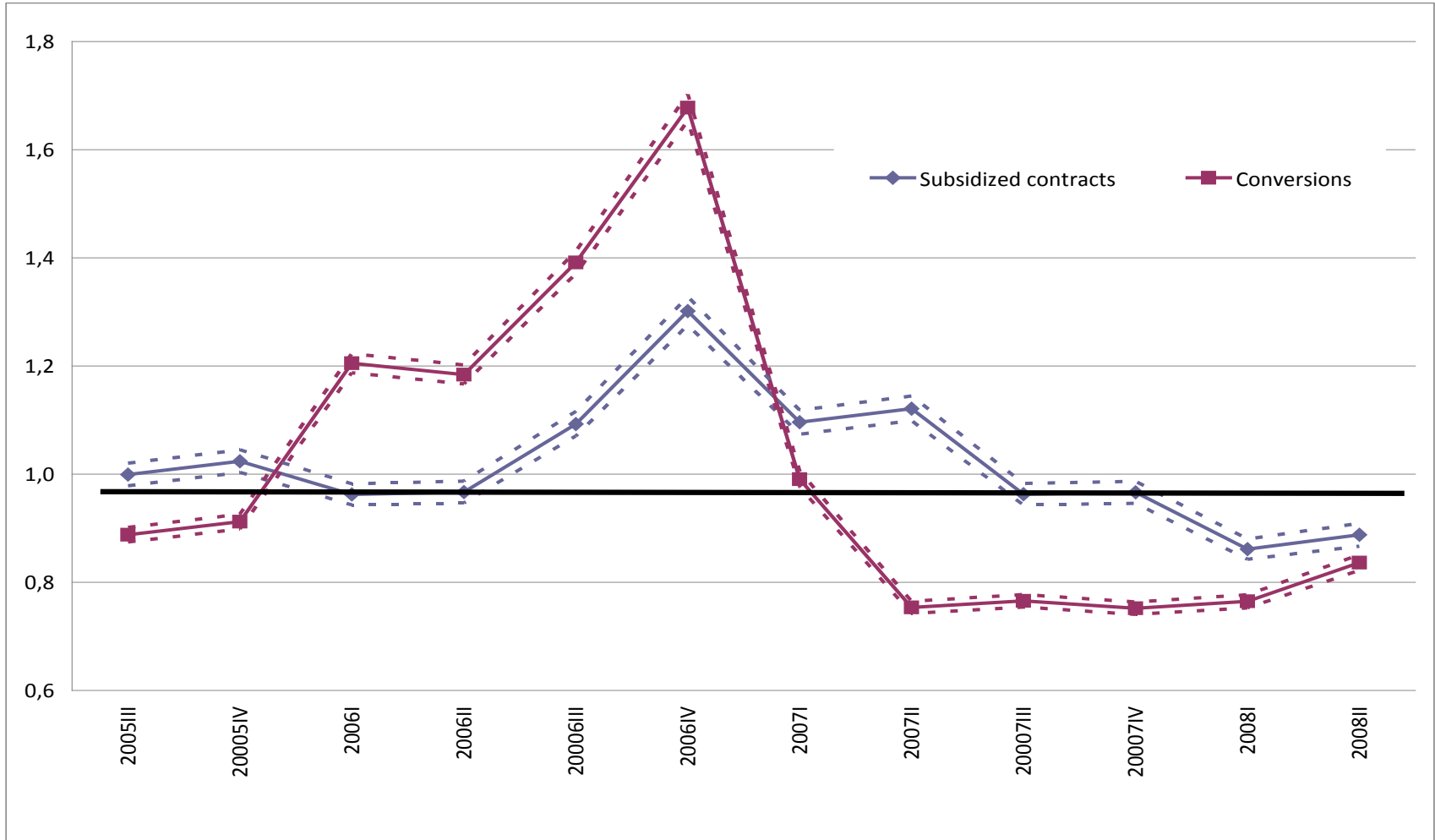
## Type of contracts. Source: Registered contracts (2005-2008)

	Number of contracts			% with lower firing costs(33 days)		
	June 2005/ May 2006	June 2006/ May 2007	June 2007/ May 2008	June 2005/ May 2006	June 2006/ May 2007	June 2007/ May 2008
Ordinary contracts	522370	670659	778508	0,0	0,0	0,0
Employment promotion Contract	30199	38348	40300	100,0	100,0	100,0
Young males subsidized		74120	78251	-----	86,0	86,6
Females subsidized	130671	180649	174007	57,9	54,0	53,4
Elder people subsidized	94282	86377	75887	88,1	88,7	89,3
Other subsidized contract	11602	8818	6531	68,1	75,6	77,4
Subsidized Conversion	542735	722894	39582	7,8	66,6	77,4
Unsubsidized Conversion	228013	413437	789639	2,1	51,4	53,5
Disable	15331	19097	17925	69,8	76,9	79,5
Subsidized FD	25131	28942	15977	47,3	64,4	68,7
Unsubsidized FD	88665	108599	124772	5,6	11,3	11,4
<b>Total</b>	<b>1688999</b>	<b>2351940</b>	<b>2141379</b>	16,1	43,5	35,8
<b>Total Subsidized contracts</b>	819752	1120897	408160	28,2	67,8	70,9
<b>% subsidized</b>	48,5	47,7	19,1	-----	-----	-----

# MICRO EVALUATION

Relative probabilities: entry into permanent employment with a subsidized contract or a conversion. Reference: ordinary contract and 2<sup>o</sup> quarter 2005

Source: Registered Contracts SPEE (May 2005 - June 2008).



# ¿How is stability of open-ended contracts?

**Probability of being in the same job at the end of 2007 for those contracts initiated between 2004 and 2007**

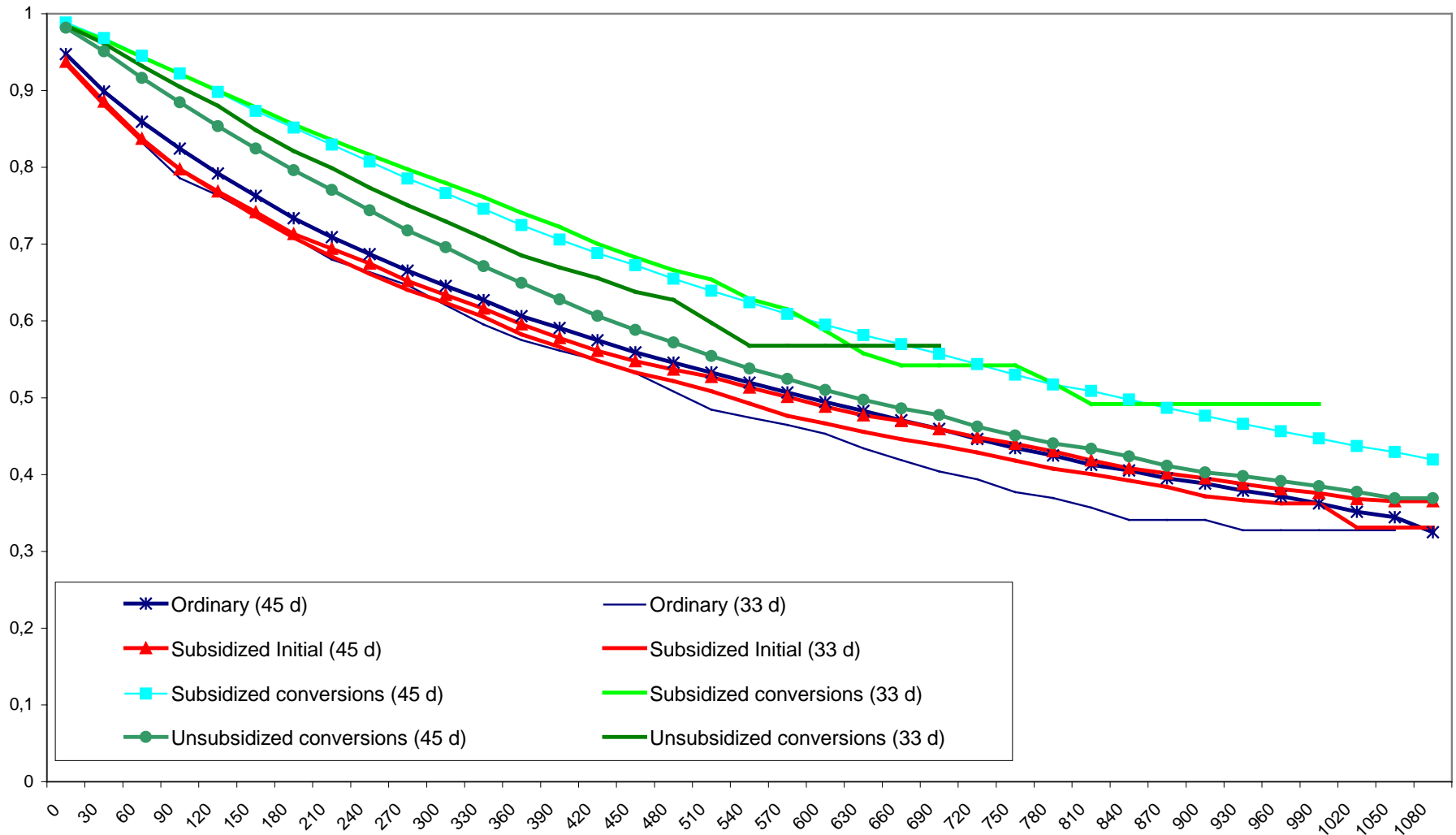
**Source: MCVL 2004-2007**

	<b>Ordinary contracts</b>	<b>Initial subsidized contracts</b>	<b>Subsidized conversions</b>	<b>Unsubsidized conversions</b>	<b>Total</b>
<b>2004</b>	<b>34,23</b>	<b>29,84</b>	<b>46,41</b>	<b>38,46</b>	<b>37,33</b>
<b>2005</b>	<b>41,38</b>	<b>39,25</b>	<b>57,36</b>	<b>46,64</b>	<b>46,47</b>
<b>2006</b>	<b>52,04</b>	<b>45,83</b>	<b>64,13</b>	<b>72,60</b>	<b>58,05</b>
<b>2007</b>	<b>73,39</b>	<b>65,35</b>	<b>81,78</b>	<b>90,05</b>	<b>75,63</b>



# When taking into account the type of severance payment: Duration analysis (Source: MCVL and contracts)

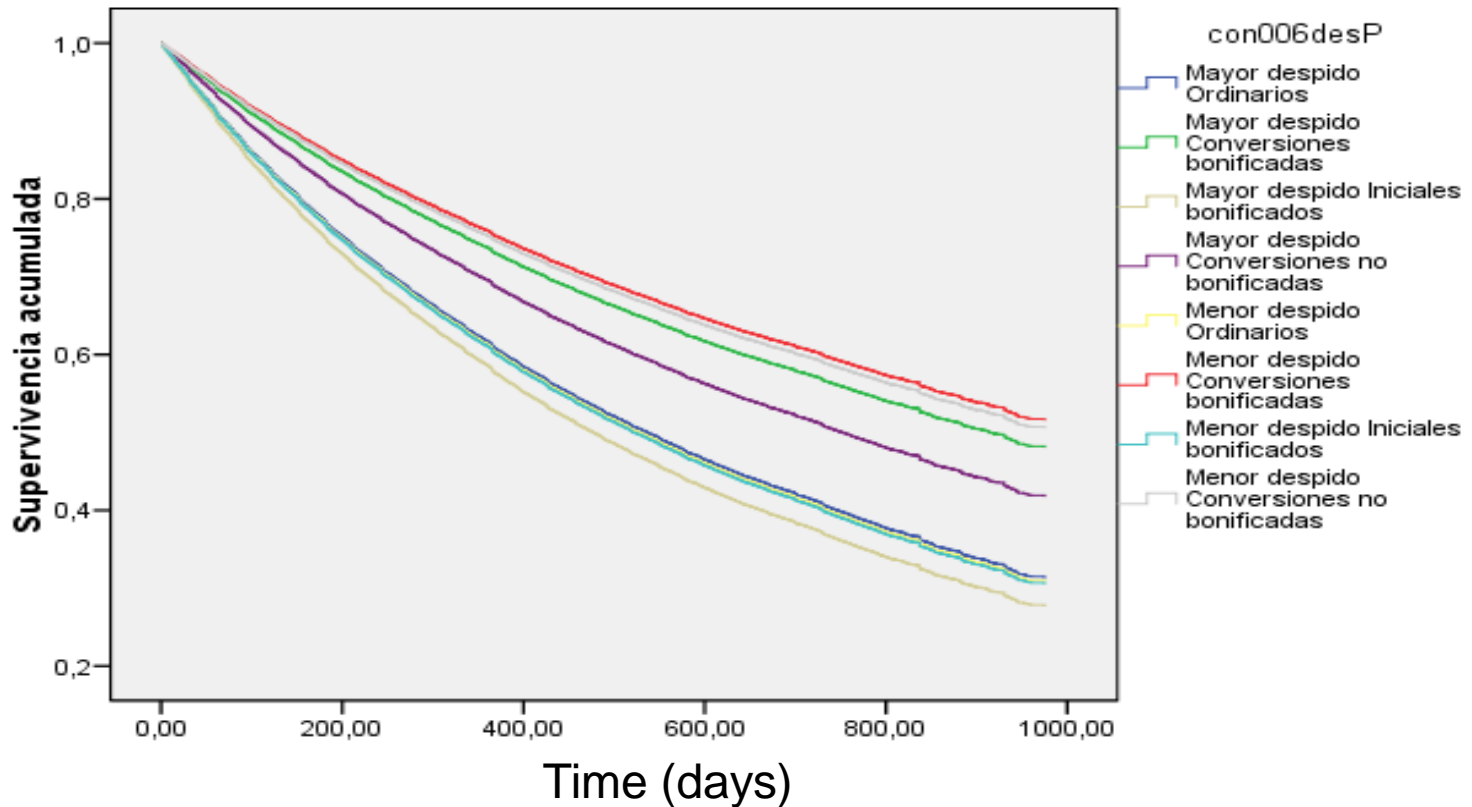
## EMPIRICAL SURVIVAL FUNCTIONS



- Promotion employment contracts (lower dismissal costs) are less stable
- Conversions are the most stable

# When taking into account the type of severance payment: duration model (Source: MCVL and contracts)

## Estimated survival functions



- ✓ Most stable subsidized conversion
- ✓ Dismissal costs do not affect significantly to duration

# Lessons:

- **First**

- ❖ **Reforms do not change stability pattern of Spanish contracts**
- ❖ **Conversions** are the most stable
  - ❖ **Should we change the way companies test their new employees?**
    - ❖ **What about trial period?**
- ❖ **Initial subsidized contracts the most unstable**

# Lessons:

- **Second**

- ❖ **Ordinary contracts** maintain their position in the Spanish labour market, although they represents higher firing cost

- ❖ They still represent about 45 per cent of new permanent contracts

- ❖ **Why?**

- ❖ Are they used by companies as an “**efficient contract**” in the same way than “efficient wages”?

- ❖ Better quality, more stable, less turnover, ..

- ❖ 2002 reform: dismissals are “free” (*unfair*)

# Lessons:

- **Third**

- ❖ Incentives to promote permanent contracts have neither increased employment, nor reduced unemployment.
  - ❖ Important deadweight and substitution effects
  - ❖ Transitions to permanent employment are only marginally boosted by subsidies