Labour market change

Assessment of public initiatives to combat labour market segmentation in the EU Member States

Pilot case study: Hiring incentives programme for open-ended contracts (Spain)

Labour market segmentation: Piloting a new quantitative and policy analysis

Disclaimer: This working paper has not been subject to the full Eurofound evaluation, editorial and publication process.
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Introduction

This report presents the in-depth analysis of the policy measure named ‘Hiring incentives programme for open-ended contracts’ (Programa de fomento del empleo indefinido). The first set of financial incentives for full-time, open-ended contracts that might be considered a ‘programme’ in Spain appeared in 1994, 10 years after the labour market reform that allowed employers to recruit under temporary contracts for all types of jobs (using non-casual fixed-term contracts).

Hiring incentives have become the main category of expenditure of the Spanish active labour market policies (ALMPs) since the late 1990s. This is the type of policy that has been used profusely during the last three decades, concentrating a great deal of public spending on ALMPs, with the aim of fighting unemployment, reducing labour market segmentation (LMS) and promoting stable employment. This case study focuses on the main hiring incentives programmes launched by Spanish governments since the 1990s, in particular the ones of 1997 and 2006.

Applied methodological approach

A thorough search for formal evaluation reports and academic studies of the selected policy measure has been carried out. In general, the academic evaluations analysed contain reliable conclusions based on quantitative data and causal inference. Regarding the former, they use micro data from large surveys (Labour Force Survey) and administrative datasets referring to contracts (from the files of the public employment service - PES) and social security records (contained in the dataset called ‘Continuous Sample of Working Lives’ or Muestra Continua de Vidas Laborales). As for the latter, the studies use econometric methods such as difference-in-differences, for which they define treatment and control groups, to examine the probabilities of transition from unemployment and temporary employment to permanent employment, and duration models, in which the dependent variable is the number of days that an open-ended contract spell lasted.

Several available evaluations of the policy measure focus on the causal incidence of hiring subsidies on the transitions either from a temporary contract or from unemployment to a permanent contract for eligible workers (Kugler et al, 2003; García-Pérez and Rebollo, 2009a; Méndez, 2013). These transition probabilities increased between 1998 and 2001, as well as from 2006 to 2007. Not surprisingly, these trends coincided with the post-1995 and post-2003 periods of economic expansion in Spain; but they also occurred after the labour market reforms and the major changes in the policies to foster permanent employment passed in 1997 and 2006. This fact highlights the relevance of controlling not only for personal characteristics of workers but also for cyclical and other macroeconomic factors when analysing the potential impacts of the hiring incentives programmes for open-ended contracts launched in those years. The evaluation studies take account of this feature. At the same time, the studies are usually limited to the analysis of one labour market transition of workers (in this case, from either unemployment or temporary employment to permanent employment), so they do not focus on the longer-term effects of incentives on workers’ career, which could be considered a potential methodological limitation. Some studies, however, also analyse the duration of permanent contracts (Cebrán et al, 2011) and the transitions from permanent employment to non-employment (Kugler et al, 2003; García-Pérez and Rebollo, 2009b).

In addition to desk research, three semi-structured interviews have been conducted to provide qualitative and quantitative information on relevant features of the scheme. Interviews with two representatives of the administrative staff with practical knowledge of this policy measure allowed to fully understand all the complexities of the policy measure and to fill in the gaps in understanding its design and delivery characteristics. An interview with an expert in the field of
LMS and evaluation served to deepen the knowledge on the intended and unintended effects of the measure.

**Description of the initiative in focus**

**Type of initiative**
The ‘Hiring incentives programme for open-ended contracts’ (*Programa de fomento del empleo indefinido*) aims to provide incentives to employers and is related to employment/job stability. The programme is a labour demand-side type of measure designed to facilitate upward mobility in two directions. Firstly, it aims to favour the integration into the labour market of certain population groups who have difficulties to access an open-ended contract (transitions of disadvantaged unemployed workers to permanent employment). Secondly, it promotes a substitution of temporary contracts for permanent contracts (transitions of temporary workers to open-ended contracts). The ultimate goal is to increase the stability in employment of groups of workers more affected by temporary work, excessive turnover and LMS.

**Rationale and objectives**
This type of programme was first established in 1994 and has been profusely used since then. The hiring incentives for permanent contracts were one of the main components of the 1997 labour market reform which also included changes in severance payments and other regulations of the labour market (see below). The objectives of the measures were to contribute to the competitiveness of firms, to the improvement of employment and to the reduction in temporary work and labour turnover. No specific quantitative targets were set in this respect, nor by target group. The programme relied on discounts on employers’ social security contributions to cut labour costs in order to increase the stability/permanence in employment by promoting the hiring of certain groups of workers under permanent contracts and/or the conversion of temporary contracts into open-ended ones. The 1997 scheme explicitly targeted specific groups of individuals (principally, young people, older workers and women). Similar design, objectives and target groups inspired the hiring programme of 2006, in which the government used rebates on employers’ social security contributions directed not only to increase the initial permanent hiring of unemployed workers but also to encourage the transformation of temporary contracts into permanent ones through an extraordinary plan.

**Time frame**
The first hiring incentives for full-time, open-ended contracts appeared in 1992, but it is from 1994 that this type of measure can be considered a ‘programme’, strictly speaking. After that, there were two important programmes (mostly associated with labour market reforms) that were launched to help to increase permanent employment and to help to reduce unemployment and LMS. These were the programmes of 1997 (with a foreseen duration of two years) and 2006 (with a foreseen duration of four years).

**Target group(s)**
The main target population in these programmes consists of women (whose participation and employment rates were low and unemployment rates high at the time of the introduction of the measure), young people (whose unemployment was also very high), unemployed older workers (exhibiting long durations in unemployment) and some more specific groups (such as people with disabilities). They were explicitly targeted by the measure because they suffered higher unemployment and/or excessive turnover and LMS at the time, which is recognised in the law that approved the measure. Some of these groups, such as women and young people, but also low-skilled workers, were the ones more exposed to the rapid and substantial increase in temporary employment during the 1980s and 1990s.
Delivery methods

The specific measures consisted of providing financial incentives in the form of bonuses or rebates (*bonificaciones*) on employers’ social security contributions. This implied spending for the Spanish PES and a transfer of funds from PES to the social security system. In the 1997 programme, the rebates lasted for two years (or the duration of the contract, if it was shorter than two years) and ranged from 40 to 80% of employers’ social security contributions, implying reductions in labour costs of at least 10%. As regions and local governments might also supplement the rebates with lump-sum amounts, the total savings on labour costs for employers resulting from public (national, regional and local) aid could be higher but not exceed 60% of the total wage cost of the worker. In the 2006 programme, this reduction lasted longer (four years instead of two) and used fixed amounts instead of percentages, with average savings similar to the ones in the previous system. The use of fixed amounts was intended to favour (through a larger relative reduction in labour costs) the groups of lower qualification and of lower wages within the target groups. The amounts were higher for women (€1,200 yearly if they were recruited after the birth of a child or after a period of inactivity; €850 otherwise) and older workers (€1,200 yearly) than for young people, irrespective of gender (€800 yearly). No requirements for firms to maintain the employment after the end of the rebates and/or not to replace current employees by subsidised ones were included (these types of requirements were established in later initiatives, in 2010). Both programmes, since they were part of broader labour market reforms, were preceded by separate agreements between social partners and the government and by discussions regarding the need to carry them out, their characteristics, the advantages and disadvantages, and their possible effects. This means that social partners and the government devoted time to inform and to raise awareness among citizens, workers and companies about these policy measures. This aspect could be important when it comes to clarifying issues related to its implementation and operation.

Key actors involved in implementation

The main actor was the government, through the Ministry of Labour, since they design and implement the programmes, decide on the target groups and establish the amount of the financial incentives. Nevertheless, some of the programmes were agreed beforehand with the social partners. This was the case of the labour market reform of 1997, which was based on a previous agreement (the so-called ‘Interconfederal agreement for stability in employment’ or *Acuerdo Interconfederal para la Estabilidad del Empleo* - AIEE) between the employers, made up of CEOE and CEPYME (Spanish Confederation of Businesses Organisations and Spanish Confederation of Small and Medium Enterprises), and the most representative trade unions, CCOO and UGT (Workers’ Commissions and General Union of Workers). The subsequent programme of hiring incentives was adopted by the government to complement this agreement and the corresponding reform. Something similar occurred with the tripartite agreement between the government, business organisations and trade unions that allowed to launch a wide-range hiring incentives programme in 2006. In this case, an agreement was reached called ‘Agreement for the Improvement of Growth and Employment’ (*Acuerdo para la mejora del crecimiento y el empleo* - AMCE). The core of the reform was aimed at improving job stability, limiting successive and abusive temporary employment and encouraging open-ended contracts. In contrast, the labour market reforms of 2010 and 2012 and the corresponding alterations of the hiring incentives programme were passed by two different governments (socialist and conservative respectively) without any agreement or dialogue with the social partners.

Administrative level of implementation

The measure was implemented at a national level, although the regional governments and municipalities could supplement the national subsidies with lump-sum amounts.
Sectoral focus
The measure was not targeted at any specific industry, although after the 2008 crisis there were some additional incentives consisting of a higher reduction in the social security contributions directed to the hiring of workers belonging to manufacturing industries that were hit hard by the recession, such as textiles, footwear, tanning and leather goods. Nevertheless, hiring incentives programmes only apply to the private sector of the economy.

Funding arrangements
These measures are financed through the budget of PES, using the revenues coming from the employers’ contributions to unemployment benefits. The hiring incentives imply a transfer of funds from PES to the social security system. When it comes to reductions in the social security quota (which is the form that the incentives increasingly acquired from 2012 onwards), these are not counted in the PES budget as a spending, although they are amounts that the social security system ceases to receive. The first instrument is accounted for as a higher expenditure, while the second is considered a lower revenue.

The promotion of permanent contracts became an important labour market strategy in Spain during the 1990s. Between 1996 and 2002, the country devoted 50% of its total ALMP expenditure to subsidising permanent employment, which amounted to about 0.3% of its GDP. These figures were basically the same in 2007, just after the 2006 reform. The total amount of expenditure in this type of policy has increased from almost €2 billion yearly in 1999–2002 to around €3 billion yearly in 2006–2007. The modifications carried out in 2010 and 2012, and in the direction towards reducing the number of groups eligible for the hiring incentives, diminished the spending. However, as a consequence of the increasing use of direct reductions in the social security quotas in addition to rebates on the contributions since 2014, the share of hiring subsidies in the total ALMP spending has increased again, exceeding 60%.

Linkages with/embeddedness into other measures (national and EU)
Hiring incentives were the central pillar of ALMPs in Spain (in terms of spending) during the 1990s and 2000s. However, their financial weight decreased within active policies during the 2010–2013 period. This process, partly determined by austerity policies, has been reinforced by the application of recommendations from various studies and evaluations that show little long-term effectiveness and the demands for reform of this instrument from international organisations, such as the OECD or the EU. This has found an echo at the state level in the labour reforms of 2010 and 2012, which limited financial incentives for permanent contracts to more specific groups than previous programmes.

One of the aspects most criticised by international organisations on the configuration of ALMPs in Spain is the excessive emphasis on employment incentives as the main programme within the active policies, to the detriment of actions aimed at training or advising and accompanying the unemployed (European Commission, 2014, 2015; OECD, 2011). These institutions have criticised the excessive spending on this type of policy and its extension to an increasing number of situations and characteristics of workers, which supposedly increases the deadweight loss and reduces the effectiveness of incentives. In fact, Eurostat data on labour market policy show a continuous growth of spending on incentives within the ALMPs, especially during the late 1990s and mid-2000s, which might reflect the extension in the subjective scope (target groups) of incentives in the Spanish case.

In-depth analysis of the initiative in focus
This section presents an in-depth analysis of the context of the initiative, its details in terms of measures and target groups, mechanisms, and outcomes. These separate elements are represented in Figure 1.
Assessment of public initiatives to combat labour market segmentation in the EU Member States
Pilot case study: Hiring incentives programme for open-ended contracts (Spain)

Figure 1: Visual presentation of the initiative

<table>
<thead>
<tr>
<th>Generic contexts</th>
<th>Outcomes</th>
<th>Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1995, high unemployment rate (22%), particularly among young people and women; high share of older workers among the long-term unemployed.</td>
<td>For young workers and middle-aged women, positive effects on transitions from unemployment into permanent employment and from temporary employment into permanent jobs.</td>
<td>Provision of fiscal incentives and promoting the use of a new permanent contract (with lower dismissal costs), all to encourage employment.</td>
</tr>
<tr>
<td>In 1999, high levels of temporary employment, particularly among women (37%) and young workers (61%).</td>
<td>Higher stability of subsidised permanent contracts compared to non-subsidised ones.</td>
<td>Altering employers' incentives to hire certain groups of workers under open-ended contracts and to favour the employment stability of these groups.</td>
</tr>
<tr>
<td>1997-1999, signature of an Agreement for stability in employment (AJEE) between employers' organisations and the main representative trade unions.</td>
<td>Substantial decrease in temporary employment across different groups of workers, especially among young people and women.</td>
<td>Incentivising employers to convert temporary contracts into permanent ones.</td>
</tr>
<tr>
<td>Reforms to reduce the strictness of the employment protection legislation and the introduction of a wide-range hiring incentives programme.</td>
<td>Substantial deadweight loss: 89% of companies would have hired workers even if no financial incentives had been provided.</td>
<td>Same mechanisms as before. Two important features of the new programme were intended to have a more direct impact on the decisions of employers:</td>
</tr>
<tr>
<td>In 2005, low unemployment rate (9%), however persistently higher among young people and women; high share of older workers among the long-term unemployed.</td>
<td>In 2006, signature of an Agreement for the improvement of Growth and Employment (AMEC) between the government and the most representative social partners.</td>
<td>- Use of fixed amounts (different across groups) instead of reduced severance payments.</td>
</tr>
<tr>
<td>In 2005, high levels of temporary employment (54%), particularly among women (37%) and young workers (59%).</td>
<td>Reforms to improve job stability, limit successive and abusive temporary hiring and to encourage open-ended hiring.</td>
<td>- Extension of the duration of the financial incentives from two to four years.</td>
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Overview of the context

Until 1984, temporary contracts in Spain were restricted to seasonal, occasional or temporary jobs, and they accounted for less than 10% of all existing jobs. The 1984 reform allowed employers to recruit under temporary contracts for all types of jobs and for a maximum period of three years (specifically under the so-called ‘temporary contracts for employment promotion’). After that period the firm had to grant the temporary worker with a permanent status or to dismiss him/her. Soon after this reform, the share of temporary employment increased rapidly and in the beginning of the 1990s Spain had the highest share among developed countries (with a third of employees employed on a temporary basis). The magnitude of the phenomenon motivated the application of countervailing reforms aimed at promoting permanent employment. The first major reform intended to reduce the incidence of temporary employment was enacted in 1994. The 1994 reform restored the principle of causality in the application of temporary contracts and introduced fiscal incentives for their conversion into permanent ones for workers aged less than 25 and for those over 45 years. Two years after the launch of this reform the share of temporary employment remained almost unchanged.

The alleged inefficacy of the 1994 reform, along with the fall of the socialist government in 1996 and its replacement by a conservative government with a different labour policy, explain why a new major reform and a new programme of hiring incentives with the same goal of promoting permanent employment and reducing LMS were introduced only three years later. In 1996, although the Spanish labour market was recovering from the crisis of the early 1990s, the unemployment rate was still around 22%, with younger and female workers showing the highest rates, according to Labour Force Survey figures from 1996: 51% for the 16–19 age group, 39% for the 20–24 age group and 29% for the 25–29 age group; women exhibited an unemployment rate of 30%, while the one of men was below 18%. Older workers, although with an unemployment rate below the average, suffered especially longer durations, and comprised a high share of the long-term unemployed. In this context, LMS was also perceived as a problem, with a third of total employees still under a temporary contract and very limited transition rates from temporary to permanent contracts (about 5% quarterly and 12% yearly, during the 1990s and the beginning of the 2000s (Guell and Petrongolo, 2007)). In terms of the incidence of temporary employment, women (37%) and young people (61%) were more prone to be working under fixed-term contracts. In the private sector, the share of temporary employment was 44% for women and 37% for men. The adverse labour market situation of these groups of workers explains why they were chosen as the targets of the hiring incentives programme launched in 1997.

The 1997 reform, enacted in May, was the first labour market reform agreed between trade unions and employer organisations in Spain. With the aim to alleviate the failure shown by the different reforms and to deal with the problems on the labour market, on 7 April 1997, after several months of arduous negotiations, the employers (CEOE and CEPYME) and the most representative trade unions (CCOO and UGT) signed three important agreements. One of these (AIEE) resulted in the enactment of two decree-laws which were validated by the following laws: Law 63/1997 of 26 December 1997 and Law 64/1997 of the same date. The name of the AIEE already indicated the aims of the measures that it promoted: “to contribute to the competitiveness of companies, to the improvement of employment and to the reduction in temporality and rotation thereof.” Based on this objective, the social partners proposed certain changes in labour regulations. One of the most relevant was the introduction of a new permanent contract type (‘permanent contract for the promotion of employment’, PCPE) with relevant differences (in terms of dismissal costs) from the existing one (the regulation of which remained unchanged), so that any worker, except middle-aged ones (30–44 years) registered as unemployed for less than one year, could be hired under the new permanent contract.

Moreover, a programme of financial incentives in the form of payroll tax reductions was introduced in order to reinforce the use of the new permanent contract. The rebates lasted for two years (or the duration of the contract, if it was shorter than two years), with the exception of
workers aged 45 and over (for them, they lasted for the whole duration of the contract). No requirements to maintain employees after the end of the rebate, and/or not to replace current staff by subsidised workers were established (these were introduced in 2010). The subsidies ranged from 40 to 80% of employers’ social security contributions, which were 23.6% of total wage costs, implying reductions in labour costs of at least 10% (depending on the individual eligibility requirements). Regions and local governments might also supplement the rebates with lump-sum amounts. The total savings on labour costs for employers resulting from public (national, regional and local) aid could thus be higher but not exceed 60% of the total wage cost of the worker. The target groups were young workers (aged 16–29), older workers (45 and over) and women. The tax reductions were higher for women than for men; higher for young and older workers as compared to middle-aged workers; and higher for contract conversions than for those hired initially under permanent contracts, in the case of young workers. However, the tax reductions were not cumulative. Middle-aged unemployed male workers (aged 30–44) could not be hired under the new contract, although they could easily recover eligibility by being hired under a temporary contract since no age restriction was stated for contract conversions. Therefore, the financial incentives were designed to favour the initial permanent hiring and the conversion of temporary contracts into permanent for those groups of workers whose labour market situation was less favourable.

On 30 December 1998, the Spanish government passed its National Employment Plan for 1999 (NEP) and announced that payroll tax reductions would last for one additional year for permanent contracts signed until May 1999, but they would be significantly lower in magnitude and length for those signed after that date (in fact, in the following years the incentives were reduced by modifying year after year their amount in the Supplementary Provisions of the General State Budgets). Finally, limitations were also established for companies to use the new contract type. Thus, companies that in the 12 months prior to the conclusion of the contract had dismissed an individual worker for objective reasons declared ‘unfair’ by court ruling, or that had proceeded to a collective dismissal, could not register a PCPE.

Despite the effort made, the Spanish labour market continued to exhibit serious problems, such as the relatively low employment rates of women (although they had certainly increased), the high unemployment rates of young people, women and people with disabilities, the high share of temporary employment and the excessive worker turnover. The beginning of the 21st century was characterised by an increase in employment higher than that in the labour force, and consequently by a drop in the unemployment rate. However, the share of temporary employment did not decline, and there was a perception that the labour market had become a dual labour market. In fact, in 2005 despite the long period of intense growth of the GDP and net job creation and the substantial reduction in the unemployment rates (which overall had dropped to 9%, the lowest rate over the last three decades), women and young people still had high unemployment rates (12% for women; 31% for the 16–19 age group, 17% for the 20–24 age group and 11% for the 25–29 age group), older workers suffered high shares of long-term unemployment (about half of all the unemployed aged 50–59 had been looking for a job for at least one year), and the share of temporary employment was persistently high (around 34%), being greater among women (37%) and young workers (55%), after having increased since 2003, according to Labour Force Survey data.

To solve these problems, the new socialist government, business organisations and trade unions signed the ‘Declaration for Social Dialogue’ of 8 June 2004. They undertook to analyse the elements that had an impact on the creation of employment and its stability, as well as the unjustified use of temporary hiring. After months of negotiations between the government and the most representative social partners at national level, an agreement was reached called ‘Agreement for the improvement of growth and employment’ of May 2006 (AMCE), first embodied in the Royal Decree-Law 5/2006, of 9 June, and subsequently in Law 43/2006 of 29 December. The core of the reform was aimed at improving job stability, limiting successive and abusive temporary employment and encouraging open-ended contracts, especially for the target groups identified as suffering a disadvantage in the labour market: female, young and older
workers. The main measure that was intended to encourage the use of permanent contracts was the redesign of the bonus programme and the design of an ‘extraordinary plan’ for the conversion of temporary employment into permanent one (Plan extraordinario para incentivar la conversión de contratos temporales en fijos). As in the case of the 1997 programme, no explicit quantitative targets were set on reducing the share of temporary employment or increasing indefinite hiring.

The ‘new’ programme of economic incentives aimed to stimulate initial open-ended contracts, both for ordinary contracts and for contracts for the promotion of employment. This excluded conversions with the intention of discouraging that the first employment relationship between the worker and the employer is temporary. In addition, the 2006 reform included other changes in the bonus programme. There was a significant regrouping and simplification of the groups of workers whose hiring gave the employers the right to receive economic incentives. After the modifications applied by AMCE, the groups that could benefit from the economic incentives were young unemployed (between 16 and 30 years old); unemployed women; women re-entering the labour market after at least five years of inactivity; older unemployed (45 years old and over); workers registered as unemployed in PES for at least six months; people with disabilities, at risk of social exclusion and victims of gender violence; and workers (in particular elderly workers) under temporary contracts for training and replacement. In short, the groups selected in the new system were those with the highest rates of temporary employment (higher than the national average) and those with greater difficulty in accessing and/or returning to the labour market.

A key feature of the 2006 programme was the replacement of the bonus percentages of social security contributions (which benefited more workers with high wages) with fixed amounts, varying for the different groups. These amounts were also simplified. This substitution aimed at making the reduction in the labour cost more intense for the groups of lower qualification and of lower wages. The amounts were higher for women (€1,200 yearly if they were recruited after the birth of a child or after a period of inactivity; €850 otherwise) and older workers (€1,200 yearly) than for young people (€800 yearly) and unemployed in general (€600 yearly). Taking into account that the wages of women and young people are on average lower than the ones of older workers, the reduction in labour costs was more intense for the former than for the latter. The subsidy amounted to €5,000-6,000 for people with disabilities. On average the savings for employers were similar to the ones obtained with the previous system.

Another important feature was the extension of the duration of the incentives from two to four years (or the duration of the contract, if it was shorter than four years). This was decided to favour the permanence of the initial open-ended contracts and to stimulate the maintenance of employment. The indefinite nature (for the duration of the contract) of the bonuses for those over 45 and people with disabilities was maintained. The scheme also simplified the management of the incentives to the employers.

On the other hand, Law 43/2006 also introduced an ‘extraordinary plan’ to encourage the conversion of temporary contracts into permanent contracts during the second half of 2006, through a fixed annual bonus (€800 yearly) for three years, instead of two years, for temporary contracts held before 1 June 2006. This conversion plan was intended to transform the temporary contracts subscribed prior to the entry into force of AMCE, and thus to reduce the high temporary employment rate.

Overview of the mechanisms

In both reforms, the hiring incentives programme was combined with the use of the new permanent contract for the promotion of employment which involved lower dismissal costs. This combination was designed to alter the incentives of employers to hire workers under an open-ended contract rather than temporary contracts and to favour workers’ employment stability, breaking the pervasive chain of unemployment and temporary jobs, reducing their excessive turnover and curbing LMS. In order to influence the hiring decisions of employers, the subsidies were relatively generous. Furthermore, they were modulated to produce greater...
impacts on the recruitment of certain groups of workers such as younger and older workers and unemployed women in general. This substitution effect was intentional and explicitly recognised beforehand by the signers of both agreements and by the government at the time of launching the respective programme. That implied that the schemes provided firms that offered permanent contracts to eligible individuals with financial incentives to enhance the worker’s probability of accessing that position, whereas at the same time the likelihood that certain non-eligible individuals would obtain such a position was relatively diminished.

In the 1997 measure, the government established percentages of reduction that were always higher for younger and older workers than for middle-aged workers, and higher for women than for men. The objective was to produce reductions in the labour costs, that were larger especially for young people and women. García-Pérez and Rebollo (2009a, 2009b) showed that the joint availability of both national and regional subsidies could reduce the total labour costs of the average worker’s first two years of the permanent contract by more than 15% for women aged 30-44 and by at least 23% for women aged 45 and over. One indication of the scope of the subsidisation approach is the fact that employers were more than fully compensated for dismissal costs: the hiring subsidy exceeded those costs for a firm that dismissed a worker holding an ordinary open-ended contract (with higher dismissal costs than the new open-ended contract). These costs were even lower for the PCPE created in the labour market reform of 1997. Malo and Toharia (1999) calculated the total labour costs, including dismissal costs, of the new permanent contract while subsidies for open-ended contracts were operative, and found that they were marginally lower than for a temporary contract of the same duration. This evidence implies that the amounts of the subsidy were calculated appropriately to induce employers to hire more on a permanent than on a temporary basis. It seems that the schemes influenced significantly the hiring preferences of employers and this substitution effect can be traced in the findings obtained by the revised evaluation studies (Kugler et al, 2003; García-Pérez and Rebollo, 2009a; Méndez, 2013): the hiring subsidies programmes produced positive outcomes for young male workers and for young and middle-aged women in terms of increasing outflows from temporary employment and unemployment into permanent work. These groups constituted some of the main targets at which the hiring incentives programmes were directed.

However, one unintended impact of the hiring schemes had to do with their influence on the separation rate, namely on the outflows from permanent employment into non-employment. It is well known that some labour market measures may influence simultaneously the different transitions that occur in the labour market. For instance, the increase/decrease in the strictness of the employment protection legislation, that is intended to influence one of the labour flows (the outflow from employment), may also bring about effects on others (the inflow into employment) because it affects (directly or indirectly) not only the firms’ dismissal behaviour but also their hiring behaviour. In the case of the hiring incentives, as they are limited in time and directed at relatively disadvantaged groups, they may induce employers to recruit more workers but also to separate from them once the rebates on the social security contributions finish. This is due to the impact of the disappearance of the subsidy on labour costs and, thus, on the difference between wages and costs. Evidence of this mechanism and its impact on the transitions of workers has been found in several evaluation studies (Kugler et al, 2003; García-Pérez and Rebollo, 2009b; Cebrián et al, 2011).

These findings suggest that Spanish employers took advantage of wage and dismissal costs’ reduction measures to substitute permanent contracts for temporary ones in jobs that were not as stable as those for which employers used ordinary open-ended contracts. Therefore, although hiring subsidies might have encouraged firms to hire more permanent workers, they could not avoid the more frequent dismissal of these workers. This feature was also pointed out by one interviewed expert in the field of LMS and evaluation. This would further explain why the share of temporary employment did not decrease after the 1997 reform.

Several years later, it seems that policymakers became conscious of the problem of very general employment incentives. The new wave of hiring incentives launched in 2006 (to promote open-ended contracts) was slightly more focused on specific groups and took into account some
lessons learned about the design of these incentives. Compared to the previous one, the 2006 scheme had the same objectives (the substitution effect was explicitly formulated by the social partners and the government in the agreement before the scheme was launched), used similar instruments (rebates of the employers’ social security contributions) and relied on the same mechanisms (it tried to alter employers’ hiring behaviour). However, it set forth several changes and improvements. There are two important features of the programme that altered the design of the previous one and have almost always been maintained since then in the following programmes:

1. The use of fixed amounts, varying for the different groups, in order to favour (through a larger relative reduction in labour costs) the groups of lower qualification and of lower wages within the target groups (therefore, taking into account the internal heterogeneity of the population groups). The notion behind the use of fixed amounts was to encourage more recruitments of women and young workers (because their wages are on average lower than wages of older workers), and of less disadvantaged people within these groups of population (those female and younger workers with lower qualification and lower wages), by producing a larger reduction in labour costs for those categories of workers.

2. The extension of the duration of the financial incentives from two to four years to encourage the permanence of the initial open-ended contracts.

These features were stressed by the administrative staff of this policy measure and the expert in segmentation and evaluation, both interviewed for this study. They were also deemed as improvements in the design of the policy in the evaluation carried out by the Spanish Agency for Evaluation of Public Policies and Quality of Services (AEVAL, 2009) and by the social partners interviewed by Toharia et al (2008). In this study, social partners that participated in the AMCE-2006 agreement stressed the importance that the reform was accorded and that the objective of the hiring incentives programme was more qualitative than quantitative (meaning that the main goal was not to create jobs but to encourage permanent hiring instead of temporary hiring of specific groups of workers who are the most affected by temporary employment). All of them pointed out that the modifications improved the design of incentives programmes and worked reasonably well in a context characterised by strong economic growth and substantial net job creation.

Finally, another potential side-effect generated by the hiring incentives programmes is the possibility that companies benefiting from these incentives would be in a better competitive position (in terms of labour costs) compared to companies that do not benefit from them. In this way, they could displace other companies from the market where labour costs are a key factor in their competitiveness (displacement effect). If this issue was important, a hiring incentive policy maintained over time could be hindering the gradual transformation of the productive structure towards higher value-added production and perpetuating competitive strategies based on low (subsidised) labour costs. No evidence on the existence of this effect nor its magnitude is available. However, as one of the representatives of the administrative staff pointed out, one feature of the measure could make some firms take advantage of the subsidies in that way. Companies informed PES about the number of subsidised contracts and the corresponding amounts that had to be deducted from their social security contributions, but PES was unable to check directly whether this information was correct. This limitation was resolved technically over time but could have been quantitatively important in 1997 and during the years immediately after.

Overview of results and impacts

In general, the academic evaluations have found favourable results for some categories of workers (especially for young people and middle-aged women) and none or very small for others (older workers). Focusing on the hiring incentives programme launched in 1997, the studies have found that it increased the quarterly transition probabilities from unemployment into an open-ended contract for young men and young women (20-40%, depending on the study: Kugler et al, 2003; García-Pérez and Rebollo, 2009a; Méndez, 2013).
other groups are less clear-cut, since some studies also found positive effects for middle-aged women (Méndez, 2013) and for older men (Kugler et al, 2003; Méndez, 2013). At the same time, only one study found that the programme increased the transition probabilities from temporary employment into permanent employment (conversions) for young men (30%) and young women (20%) (Kugler et al, 2003), while the other two did not (García-Pérez and Rebollo, 2009a; Méndez, 2013). The same happened with middle-aged women: one study found a positive effect (67%) (García-Pérez and Rebollo, 2009a), while the other two did not (Kugler et al, 2003; Méndez, 2013). As regards the hiring incentives programme included in the National Employment Plan (NEP) for 1999 (that was a continuation of the 1997 scheme), the only study available (Méndez, 2013) found that the employers reacted to NEP by increasing both initial permanent hires and contract conversions of young and middle-aged workers during the first half of 1999. The results for older workers were null.

Complementing the previous analysis of the transitions, some studies have also examined the potential effects of the measure on the dismissal rate of the groups of workers affected by the hiring incentives. They did so in order to corroborate whether an unintended side-effect of these incentives was increasing transitions from open-ended contracts into unemployment. The latter result would be an indication that employers were using the subsidies principally as a cost-reducing device with very small long-term effects on LMS. Two descriptive studies found evidence of the increased separation rates among subsidised permanent workers. Using administrative records on permanent contracts signed in Spain between 1996 and 1999, Cebrián et al (2005) found that permanent hires under the new open-ended contract (PCPE) increased the hazard rate of ending the contract by 17-32% relative to that of ordinary permanent contracts, and led to less stable trajectories, namely to a higher probability of the worker being unemployed or out of the labour force in the subsequent years. In a related study, Cueto (2006) found that hires under the new contract were more stable than those under the ordinary permanent contract while the former enjoyed hiring subsidies, becoming less stable afterwards. Other evaluation studies have analysed the impacts by groups of workers and found similar results: the separation rate increased for all target groups classified according to gender and age, but especially for older workers (about 10–20% according to Kugler et al, 2003; García-Pérez and Rebollo, 2009b) and middle-aged women (about 10% according to García-Pérez and Rebollo, 2009b). The combined net effect of increased hiring and firing was null on the permanent employment rate of all groups of workers except for young men and young women, for whom it was positive (2.5% and 6%, respectively, according to Kugler et al, 2003). This would explain why the share of temporary employment remained persistently high and did not diminish during the late 1990s and early 2000s.

With respect to the programme and the extraordinary plan delivered in 2006, the scarce studies available do not analyse the results for specific groups. Cebrián et al (2011) classify the contracts according to three features: whether they are ‘initial’ (directed to hire previously unemployed people) or ‘conversion’ contracts (directed to transform a temporary worker into a permanent one in the same firm); whether they are ‘ordinary’ (with higher dismissal costs) or ‘new’ (with lower dismissal costs); and whether they received hiring subsidies or not. The authors find that conversion contracts were more likely (about 40%) to survive than initial contracts. Moreover, in the case of conversion contracts, hiring subsidies were relevant, since subsidised permanent contracts were more stable than non-subsidised permanent ones (the difference is of eight percentage points (pp) for the PCPE and four pp for ordinary contracts). These positive results are corroborated by the qualitative analysis conducted by Toharia et al (2008). The interviewed representatives of the social partners stressed that the modifications introduced in the incentives scheme altered the design features of the 1997 programme and brought about positive effects. The result was an important decrease in the share of temporary employment for different groups of workers designed as targets in the 2006 programme. The officially published Labour Force Survey data show an overall reduction in the share of temporary employment in 2006–2007 (four pp), concentrated in the private sector (in the public sector the share did not change), with a greater impact on women (five pp) than on men (three
pp), and among young people (eight pp) than among adults and older workers (two pp), and with a greater effect also in the industries (construction) and companies (small firms) with a significant share of temporary employment.

Regarding the macroeconomic outcomes, only one study has examined the potential aggregate impacts of this type of measure (Arranz et al, 2013), obtaining that hiring subsidies for open-ended contracts had a small positive effect on yearly transitions from unemployment to employment and from temporary to permanent employment. Therefore, they only marginally contributed to increasing employment or reducing the extent of temporary employment. On average, the impact on yearly transitions to permanent jobs was stronger in 1997–2010 (following the 1997 labour market reform) than the impact in 1987–1996. Regarding the aggregate employment rate and the share of temporary employment, the incentivised contracts had some small positive and negative impact respectively, especially since 1997. In any case, the size of the estimated effects on transitions suggests that the impact on the aggregate stocks of permanent and temporary employment is not quantitatively important. The authors interpret that the hiring subsidies for permanent contracts had substantial deadweight and substitution effects.

AEVAL (2009) corroborated this interpretation when it examined the 2006 hiring incentives programme using a survey conducted with a representative sample of companies that carried out incentivised hiring during 2007. Among other findings, as many as 78.7% of the companies surveyed claimed that they hired workers due to the fact that those people’s profiles were relevant for the job and regardless of the existence of the bonus (implying that they would have hired the same people anyway), compared to 16.2% for whom both the profile and the bonus and 7.7% for whom it was the bonus that encouraged such hiring. Moreover, 89% of the analysed companies suggested that these workers would have been hired independently from the bonus. Finally, 65.1% of the companies believed that the bonus stimulates stable hiring little or not at all, compared to 34.9% who thought that it encourages it quite or a lot.

Finally, regarding potential multiplier effects, studies that examine the impact of hiring subsidies for permanent contracts based on variables other than those related to employment transitions are non-existent. There is, however, a relatively large empirical literature that focuses on the economic and social effects of excessive temporary employment and LMS. These studies indicate that workers holding a temporary contract receive lower wages than otherwise equivalent permanent employees (Davia and Hernanz, 2004), face a higher work accident risk (Guadalupe, 2003; Hernanz and Toharia, 2006), have a lower probability of being chosen to participate in firm-provided training and a lower likelihood of working in companies that offer formal training (Albert et al, 2005), and face a lower probability of marrying/cohabiting or entering into parenthood (De la Rica and Iza, 2005). Furthermore, a large proportion of atypical jobs determines poor accumulation of firm-specific skills that may be detrimental for innovation, productivity and workers’ welfare and wages (Dolado et al, 2016).

**Conclusions and policy pointers**

Hiring incentives programmes are aimed at limiting successive temporary employment, encouraging open-ended contracts and improving job stability, especially for the target groups identified as suffering a disadvantage in the labour market. This type of policy is a labour demand-side measure that, by providing incentives to employers, aims to alter their hiring practices. The ultimate goal is to facilitate upward mobility of unemployed and temporary workers, to increase their employment stability and to reduce LMS. The role and effectiveness of this policy measure when dealing with segmentation is, nevertheless, open to a discussion. Mainstream economists (who defend that segmentation is a form of distortion that derives from unnecessary regulations and institutional constraints) would say that wage subsidies only serve to temporarily reduce hiring costs and, although they might be effective, do not help to close the significant gap between the overall labour costs of employees holding temporary contracts and those under permanent ones (Bentoilja et al, 2012). Other authors argue that it is the
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segmentation originated in the economic and productive structures (labour-demand segmentation) that is relevant (Cebrián et al, 2011). This means that, if permanent contracts generated by hiring incentives programmes go to unstable jobs to a large extent, the increase in access to (subsidised) open-ended contracts will not result in the increase of the same magnitude in the stock of permanent, stable employment (as those jobs are inherently weaker). Thus, the share of temporary employment and LMS will remain practically unchanged.

Nevertheless, the hiring subsidies for new permanent contracts aim to affect one of the features of segmentation, namely the limited mobility of workers between different segments (and especially the unlikely transition of those trapped in the lower segments towards the upper segments). Hiring subsidies do it in two ways. Firstly, they provide firms that offer permanent contracts to eligible individuals with financial incentives that may enhance the worker’s probability of accessing that position. Secondly, they decrease the likelihood that certain non-eligible individuals will obtain such a position. This substitution effect is precisely the main objective of this type of measure. According to the evaluation studies, the hiring subsidies programmes launched in Spain in 1997 and 2006 seem to have been partially effective in that sense because they produced positive outcomes for young workers (women and men) and middle-aged women in terms of increased transitions to permanent employment and higher permanent employment rates.

Some features of the policy measure strengthened its overall effectiveness. Firstly, the subsidies were relatively generous. Combined with other measures that also reduced workers’ labour costs (such as low dismissal costs of open-ended contracts), they were designed to influence the hiring decisions of employers. Secondly, the subsidies differed among target groups so as to produce varying impacts on the recruitment of certain groups of workers. In addition, two key features that were put into force by the 2006 programme were the use of fixed amounts instead of percentages to favour the groups of lower qualification and wages, and the setting of relatively long durations of the financial incentives to encourage the permanence of the initial open-ended contracts.

However, the measure also showed several weaknesses. In general, the programmes lacked a greater focus on the specific groups of workers who really suffer a greater disadvantage in the labour market and who are affected more by LMS. As the target groups of the programmes are heterogeneous, for the incentive policy to be effective, it is necessary to use mechanisms to further delimit the target groups, detecting workers with greater employability problems within these groups, for example by using additional variables (such as the level of education or information on previous work history. Furthermore, one side effect of the scheme (especially in 1997) was the unintended impact on the separations from permanent employment into unemployment. Hiring subsidies might have encouraged firms not only to hire more permanent workers, but also to fire these workers more frequently. These transitions increased for all groups of workers classified according to gender and age, but especially for older men, whose wages are higher on average. The setting of longer durations by the 2006 programme was intended to curb this problem.

Therefore, it seems that the policy measure worked reasonably well for young people and, to some extent, for middle-age women. This happened in 1997 but more so in 2006. One of the reasons was related to the amount and duration of the financial incentives. As women and young people earn on average less than men and older workers, the reduction in labour costs was more intense for the former than for the latter, influencing the hiring decisions of employers to a greater extent. Another more general reason might relate to the different economic contexts in which the programmes were launched. While in 1997 Spain was still recovering from the sharp crisis of the early 1990s, around 2006, the country enjoyed economic growth and reduced unemployment, making companies more willing to permanently hire younger and female unemployed and temporary workers.

It is also worth noting some features related to the design, implementation and delivery methods of the Spanish scheme that may be relevant in terms of transferability and effectiveness of this type of measure. Firstly, the origin of the schemes was agreed and accepted by the main social
partners at national level. The existence of an agreement allows to discuss the objectives, target groups, design and delivery of the measure between the representatives of workers and employers and the government, but also to disseminate the information and to facilitate the implementation of the measure. Such concerted effort to agree on the measure beforehand may give rise to arduous negotiations until reaching a balance of benefits and interests of social partners, but it also contributes to its effectiveness.

Secondly, the economic context seems to be important. The stage of the business cycle in which the measure is adopted can influence its results. An expansion makes companies be more prone to hire unemployed workers, which improves the situation of the most disadvantaged workers and gives rise to positive aggregate impacts.

Thirdly, several characteristics of the programme seem to help to reduce the deadweight loss:

- To limit the scope of application to very specific and narrowly defined groups who exhibit particularly low employability and are in a situation of long-term unemployment and/or suffer the consequences of LMS.
- To set conditions in companies that prevent the dismissal of workers in the periods immediately before and after subsidised hiring.
- To impose (and enforce) conditions on net employment creation or maintenance in the companies who benefit from subsidised contracts (as the Spanish government did by reforming the programme in 2010).

And finally, some features related to the delivery methods help to diminish the labour costs associated with the employment of disadvantaged workers (especially younger and female workers) and to make employers more prone to hire these people: establishing fixed amounts of a bonus instead of percentages of the social security contributions to help more disadvantaged individuals within the target groups, and setting a relatively long (several years) duration of the financial incentives in order to sustain the permanence of employment.
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All Eurofound publications are available at www.eurofound.europa.eu

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List of abbreviations

AMCE  Acuerdo para la mejora del crecimiento y el empleo (Agreement for the Improvement of Growth and Employment).

AIEE  Acuerdo interconfederal para la estabilidad del empleo (Interconfederal Agreement for Stability in Employment).

ALMP  Active Labour Market Policy

EPL  Employment Protection Legislation

LFS  Labour Force Survey

LMS  Labour market segmentation

NEP  National Employment Plan

PCPE  Permanent contract for the promotion of employment

PES  Public Employment Service

pp  Percentage point(s)
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Table 1: CMO configurations of the ‘Hiring incentives programmes for open-ended contracts’

<table>
<thead>
<tr>
<th>Initiative</th>
<th>1997-1999</th>
<th>2006</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>In 1997, financial incentives were introduced in the form of reductions ranging from 40 to 80% of employers’ social contributions for two years (or the duration of the contract in the case of workers aged 45 and over).</td>
<td>A ‘new bonus programme’ to incentivise permanent employment and an ‘extraordinary plan’ for the conversion of temporary contracts (signed prior to June 2006) into permanent ones was launched.</td>
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<tr>
<td></td>
<td>The reductions were higher for young and female workers, and for contract conversions than for initial permanent hiring.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Spanish government passed its National Employment Plan (NEP) for 1999 and announced that payroll tax reductions would last for one additional year for permanent contracts signed until May 1999, but they would be significantly lower.</td>
<td></td>
</tr>
<tr>
<td>Target group characteristics</td>
<td>Young unemployed under 30 years old</td>
<td>This programme simplified and regrouped the groups of workers:</td>
</tr>
<tr>
<td></td>
<td>Women under 45</td>
<td>• Unemployed workers (unemployed workers between 16 and 30 years old; unemployed women; unemployed over 45 years old; workers registered as unemployed in PES for at least six months)</td>
</tr>
<tr>
<td></td>
<td>Long term unemployed</td>
<td>• People with disabilities</td>
</tr>
<tr>
<td></td>
<td>Unemployed older than 45 years old</td>
<td>• Workers at risk of social exclusion and victims of gender violence</td>
</tr>
<tr>
<td></td>
<td>Temporary workers</td>
<td>• Workers under temporary contracts for training or replacement</td>
</tr>
<tr>
<td>Contextual features</td>
<td>The Spanish labour market was recovering from the crisis of the early 1990s. In 1996, the unemployment rate was still around 22% but it was higher for young people and women. The share of long-term unemployment for older workers was very high.</td>
<td>In 2005, after a long economic expansion, the unemployment rate had fallen to 9% (the lowest rate over the last three decades). However, it was significantly higher for young people and women. Older workers</td>
</tr>
</tbody>
</table>
### Mechanisms

- The hiring incentives programme was combined with the use of a new permanent contract for promotion of employment which involved lower dismissal costs.
- This combination was designed to alter the incentives of employers to hire certain groups of workers under an open-ended contract and to favour their employment stability, breaking the pervasive chain of unemployment and temporary jobs and the excessive turnover.
- There were increased incentives to hire specific groups of workers more prone to unemployment, unstable labour trajectories and higher turnover.

- The same mechanisms as before.
- Two important features of the new programme were directed to have a more direct impact on the decisions of employers:
  - the use of fixed amounts, varying across different groups, instead of bonus percentages of social security contributions
  - the extension of the duration of the financial incentives from two to four years

### Outcomes

- Positive effects on the transitions from unemployment into permanent employment and
- Effects of hiring subsidies for conversion contracts: subsidised permanent contracts are more stable
| from temporary contracts into permanent employment for young (female and male) workers and middle-aged women. | than non-subsidised permanent ones. |
| Increased transitions from permanent employment into unemployment for all groups of workers, especially for older workers. | Substantial drop in the share of temporary employment for different groups of workers, especially young people and women. |
| Positive effects on the employment rate of young (female and male) workers. | Important deadweight effects. In a survey of firms, only 8% of the companies said that the hiring of workers was exclusively due to the bonus; 89% of the analysed firms said that workers would have been hired independently of the bonus; and 65% of the companies believed that the bonus stimulated stable hiring either little or not at all. |
| The impact on aggregate stocks of permanent and temporary employment is not quantitatively important: the hiring subsidies for permanent contracts seem to have substantial deadweight and substitution effects. | |
Table 2: Evaluation studies on the ‘Hiring incentives programmes for open-ended contracts’

<table>
<thead>
<tr>
<th>Evaluation study</th>
<th>Period</th>
<th>Data source</th>
<th>Method</th>
<th>Outcomes</th>
<th>Author’s assessment of the quality of the evidence</th>
</tr>
</thead>
</table>
| Kugler et al (2003)| 1987-2000   | Labour Force Survey (survey data)| Difference-in difference and triple differences | • Positive effects on the quarterly transition rates from unemployment into permanent employment for young men (37%) and young women (20%) and older male workers (21%).
• Positive effects on the quarterly transition rates from temporary into permanent employment for young men (around 30%) and young women (around 20%).
• Positive effects on the quarterly transitions rates from employment into non-employment for older men (8%).
• Positive effects on the permanent employment probabilities of young men (2.5%) and women (6%). | The main focus of the evaluation is on effectiveness. The evaluation is relevant for the purposes of this study because it considers employment effects in terms of transitions into permanent contracts, transitions out of permanent contracts and employment rates. The evidence produced on the basis of a counterfactual analysis using a control group is strong. |
| Méndez (2013)     | 1987-2000   | Labour Force Survey (survey data)| Difference-in difference and triple differences | • Positive effects on the quarterly transition rates from unemployment into permanent employment for young men (23%) and young women (26%), and older male workers and middle-aged women (60%), after the 1997 programme.
• Positive effects on the quarterly transition rates from both unemployment and temporary employment to permanent employment improved for younger workers (35%) and middle-aged workers (71%), after the 1999-NEP. | The main focus of the evaluation is on effectiveness. The evaluation is relevant for the purposes of this study because it considers employment effects in terms of transitions into permanent contracts. The evidence produced on the basis of a counterfactual analysis using a control group is strong. |
| García-Pérez and  | 1995-2004   | Continuous Sample of Working Lives| Triple difference-in difference | • Positive effects on the quarterly transition rates from unemployment to permanent employment | The main focus of the evaluation is on effectiveness. It is relevant for the purposes of this study |
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**Pilot case study: Hiring incentives programme for open-ended contracts (Spain)**

**Disclaimer:** This working paper has not been subject to the full Eurofound evaluation, editorial and publication process.

<table>
<thead>
<tr>
<th>Study</th>
<th>Time Period</th>
<th>Data Source</th>
<th>Methodology</th>
<th>Findings</th>
<th>Evaluation Focus</th>
<th>Relevance for Study</th>
</tr>
</thead>
</table>
| Rebollo (2009a)        | (administrative and longitudinal data based on social security employment records) | for younger women (10%) and younger men (4%).  
- Positive effects on the intra-firm conversion rate from a temporary to a permanent contract only for middle-aged women (67%). | because it considers employment effects in terms of transitions into permanent contracts. The evidence produced on the basis of a counterfactual analysis using a control group is strong. |
| García-Pérez and Rebollo (2009b) | 1995-2004 | Continuous Sample of Working Lives (administrative and longitudinal data based on social security employment records) | Triple difference-in difference  
- Positive effects on the quarterly separation rates: eligible workers were more likely to exit from the permanent contract than non-eligible workers.  
- This occurred especially for middle-aged women and older workers: an average duration decreased for eligible workers, versus illegible ones by 21% for older women and by 9–10% for older male workers and female middle-age ones. | The main focus of the evaluation is on effectiveness. It is relevant for the purposes of this study because it considers employment effects in terms of transitions from permanent employment. The evidence produced on the basis of a counterfactual analysis using a control group is strong. |
- Subsidised initial permanent contracts (for the unemployed) are less stable (10% less) than ordinary permanent contracts.  
- Conversion permanent contracts (for temporary workers) are more stable (about 30% more) than ordinary permanent contracts.  
- Positive effects of hiring subsidies for conversion contracts: subsidised permanent contracts are more stable than non-subsidised permanent ones. | The main focus of the evaluation is on effectiveness. It is relevant for the purposes of this study because it considers employment effects in terms of duration of permanent contracts. The evidence is not strong since it does not carry a counterfactual analysis using a control group. |
- A one pp increase in incentivised contracts would produce an increase of 0.05–0.07 pp in the number of transitions from unemployment to employment and an increase of 0.19–0.25 pp in | The main focus of the evaluation is on aggregate effectiveness, providing evidence of the link between the measure and |
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<table>
<thead>
<tr>
<th>Study</th>
<th>Period</th>
<th>Data Sources</th>
<th>Methods</th>
<th>Findings</th>
<th>Evaluation Sources</th>
</tr>
</thead>
</table>
| Toharia et al (2008)                       | 2006-2008    | Survey and administrative datasets, and interviews | Quantitative and qualitative     | • The social agents interviewed considered that the new features of the incentives programme worked reasonably well.  
• The result was an important drop in the share of temporary employment for women (five pp) and young people (eight pp), both groups especially targeted in the programme. | The evaluation draws on multiple data sources and a set of interviews to social agents and the government. The study provides a qualitative assessment building on the interviews and extensive information for contextual analysis. |
| AEVAL (2009)                               | 2007         | Survey of a representative sample of companies that carried out incentivised hiring during 2007 | Qualitative: survey of firms     | • Only 8% of the companies said that the hiring of workers was exclusively due to the bonus; 89% of the analysed firms said that workers would have been hired independently from the bonus; and 65% of the companies believed that the bonus stimulated stable hiring either little or not at all. | The evaluation draws on a survey of firms. The study provides fairly strong qualitative assessment and extensive information for contextual analysis. |

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