



European  
Commission



# Stimulating job demand:

the design of effective hiring  
subsidies in Europe

*EEPO Review*

This publication is based on national articles provided by the EEPO expert network. National articles are the sole responsibility of the author(s). The contents of this publication do not necessarily reflect the position or opinion of the European Commission or ICF GHK. Neither the European Commission nor any person/organisation acting on behalf of the Commission is responsible for the use that might be made of any information contained in this publication.

## European Commission

Loris di Pietrantonio, Federico Pancaldi and Monika Kalocinska (Employment, Social Affairs and Inclusion DG, Unit C.1)

**Belgium:** Robert Plasman, DULBEA — Université de Bruxelles (University of Brussels)  
Brussels

**Bulgaria:** Pobeda Loukanova, Economic Research Institute  
Sofia

**Czech Republic:** Daniel Münich, CERGE-EI — Centre for Economic Research & Graduate Education (Charles University) — Economics Institute (Czech Academy of Sciences)  
Prague

**Denmark:** Per Kongshøj Madsen, CARMA — Centre for Labour Market Research, Aalborg Universitet (Aalborg University)  
Aalborg

**Germany:** Nicola Düll, Economix Research & Consulting  
Munich

**Estonia:** Reelika Leetmaa, Praxis Centre for Policy Studies  
Tallinn

**Ireland:** Seamus McGuinness, Economic and Social Research Institute,  
Dublin

**Greece:** Dimitris Karantinos, EKKE — National Centre of Social Research  
Athens

**Spain:** Elvira González Gago, CEET — Centro de Estudios Económicos Tomillo, SL (Tomillo Centre for Economic Studies)  
Madrid

**France:** Sandrine Gineste, Bernard Brunhes Consultants  
Paris

**Italy:** Giuseppe Ciccarone, Fondazione Giacomo Brodolini (Giacomo Brodolini Foundation)  
Rome

**Cyprus:** Louis N. Christofides, University of Cyprus  
Nicosia

**Latvia:** Alfreds Vanags, BICEPS — Baltic International Centre for Economic Policy Studies  
Riga

**Lithuania:** Boguslavas Gruževskis and Inga Blaziene, Institute of Labour and Social Research  
Vilnius

**Luxembourg:** Patrick Thill, CEPS/INSTEAD — Centre d'Etudes de Populations, de Pauvreté et de Politiques Socio-Economiques (Centre for the Study of Population, Poverty and Socioeconomic Policy)/International Network for Studies in Technology, Environment, Alternatives, Development  
Differdange

**Croatia:** Zdenko Babić, Faculty of Law, University of Zagreb  
Zagreb

**Hungary:** Zsombor Cseres-Gergely, Magyar Tudományos Akadémia KRTK, Közgazdaságtudományi Intézet (Institute of Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences)  
Budapest

**Malta:** Manwel Debono, Centre for Labour Studies, L-Università ta' Malta (University of Malta)  
Msida

**Netherlands:** Sonja Bekker, ReflecT Institute, Universiteit van Tilburg (University of Tilburg)  
Tilburg

**Austria:** Ferdinand Lechner, Lechner, Reiter & Riesenfelder OEG  
Vienna

**Poland:** Łukasz Sienkiewicz, Szkoła Główna Handlowa w Warszawie (Warsaw School of Economics)  
Warsaw

**Portugal:** Reinhard Naumann, DINÂMIA — Centro de Estudos sobre a Mudança Socioeconómica (Research Centre on Socioeconomic Change)  
Lisbon

**Romania:** Cătălin Ghinăraș, National Labour Research Institute  
Bucharest

**Slovenia:** Miroljub Ignjatović, Fakulteta za družbene vede, Univerza v Ljubljani (Faculty of Social Sciences, University of Ljubljana)  
Ljubljana

**Slovakia:** Ľuboš Vagač, Centrum pre hospodársky rozvoj (Centre for Economic Development)  
Bratislava

**Finland:** Robert Arnkil, Työelämän tutkimuskeskus Tampereen yliopisto (Work Research Centre, Tampere University)  
Helsinki

**Sweden:** Dominique Anxo, CELMS HB — Centre for European Labour Market Studies HB  
Gothenburg

**United Kingdom:** Kenneth Walsh, TERN — Training & Employment Research Network  
Kidderminster

**Iceland:** Sveinn Agnarsson, Viðskiptafræðideild, Háskóli Íslands School of Business, University of Iceland  
Reykjavik

**The former Yugoslav Republic of Macedonia:** Nikica Mojsoska-Blazevski, School of Business Administration, University American College Skopje  
Skopje

**Turkey:** Hakan Ercan, Orta Doğu Teknik Üniversitesi (Department of Economics, Middle East Technical University)  
Ankara

**Serbia:** Mihail Arandarenko, FREN — Fond za razvoj ekonomske nauke (Foundation for the Advancement of Economics)  
Belgrade

**Norway:** Sissel C. Trygstad, Fafo Institutt for arbeidslivs- og velferdsforskning (Fafo Institute of Labour and Social Research)  
Oslo

## EEPO Network Services

**ICF GHK**  
**GHK Consulting Limited**  
**30 St Paul's Square**  
**Birmingham**  
**B3 1QZ**  
**UNITED KINGDOM**  
**Tel.:** +44 121 233 8900  
**Fax:** +44 121 212 0308  
**E-mail:** eepo@ghkint.com

**Director:** Patricia Irving  
**Managers:** Anna Manoudi and Caroline Lambert  
**Editors:** Joanne Moore, Anna Manoudi, David Scott, Lucy Arora, Julie Farrell, Sein O'Muincheann, Jane Sanderson, Leona Walker Finlay

European Employment Policy Observatory Review

**Stimulating job demand:  
the design of effective  
hiring subsidies in Europe  
2014**

**European Commission**

Directorate-General for Employment, Social Affairs and Inclusion  
Unit C.1

Manuscript completed in May 2014

Neither the European Commission nor any person/organisation acting on behalf of the Commission is responsible for the use that might be made of any information contained in this publication.

The links in this publication were correct at the time the manuscript was completed.

© Cover photo: Belgaimage

For any use or reproduction of photos which are not under European Union copyright, permission must be sought directly from the copyright holder(s).

***Europe Direct is a service to help you find answers  
to your questions about the European Union.***

**Freephone number (\*):  
00 800 6 7 8 9 10 11**

(\*) The information given is free, as are most calls  
(though some operators, phone boxes or hotels may charge you).

More information on the European Union is available on the Internet (<http://europa.eu>).

Luxembourg: Publications Office of the European Union, 2014

ISBN 978-92-79-38025-9 – doi:10.2767/22824 (online)

ISBN 978-92-79-38026-6 – doi:10.2767/23 (epub)

ISSN 1977-4478

© European Union, 2014

Reproduction is authorised provided the source is acknowledged.

# Table of contents

<b>1.</b>	<b>Introduction to the Review</b>	<b>5</b>
<b>2.</b>	<b>Policy context and the scope of hiring subsidy measures</b>	<b>6</b>
2.1.	Defining hiring subsidies	6
2.2.	European policy context	6
2.3.	The scope of this Review	7
2.4.	The benefits of hiring subsidies	7
2.5.	Key rationales for the use of hiring subsidies	8
2.6.	National contexts — why countries use hiring subsidies	9
2.6.1.	Institutional or structural barriers addressed by hiring subsidies	10
2.6.2.	The significance of hiring subsidies in Active Labour Market Policies across the EU	11
<b>3.</b>	<b>Mapping of existing measures</b>	<b>15</b>
3.1.	Types of hiring subsidy measures	15
3.1.1.	Subsidies to support labour demand	15
3.1.2.	Supporting disadvantaged groups into jobs	18
3.1.3.	The employment of young jobseekers	20
3.1.4.	The employment of primarily older workers and the long-term unemployed	22
3.1.5.	The employment of people with disabilities and reduced capacity for work	24
3.1.6.	Voucher schemes	25
3.1.7.	Direct job-creation subsidies/public works	26
3.1.8.	Supporting up-skilling	27
3.2.	Targeting of hiring subsidies	29
3.3.	Duration of hiring subsidies	31
<b>4.</b>	<b>Comparative analysis</b>	<b>32</b>
4.1.	Complementarity with other measures	32
4.2.	Combining hiring subsidies with training	33
4.3.	Evidence of successful approaches	34
4.3.1.	Effectiveness of hiring subsidies — findings from existing literature	34
4.3.2.	Limitations and challenges — findings from existing literature	34
4.3.3.	Effectiveness of hiring subsidies — findings from the current Review	35
4.3.4.	How hiring subsidies are judged	36
4.3.5.	Deadweight effects of hiring subsidy measures	37
4.4.	Evidence of successful/detrimental factors	38
4.4.1.	Types of incentive	39
4.4.2.	Level of incentive	39
4.4.3.	Conditionality placed on employers to be involved	40
4.4.4.	Sectors where job opportunities are offered	42
4.4.5.	Other design features	43
<b>5.</b>	<b>Conclusions and recommendations</b>	<b>44</b>
5.1.	Emerging conclusions on the features of successful hiring subsidies	44
5.2.	Employment benefits of hiring subsidies	45
5.2.1.	Hiring subsidies and job creation	45
5.2.2.	Using hiring subsidies to support labour demand	47
5.3.	Need for further research	49
<b>6.</b>	<b>Annex: Findings of national evaluation studies</b>	<b>50</b>



# ■ 1. Introduction to the Review

The employment crisis in Europe has made it particularly compelling for Member States to set up effective measures to stimulate labour demand, alongside supply-side measures. Among other tools, in the 2012 Employment Package<sup>(1)</sup> the European Commission emphasised the role of hiring subsidies targeting new hires as a relevant measure extensively used by Member States to promote employment in disadvantaged-worker categories, such as young and older people, the long-term unemployed and women.

**The objective of this Review** is to map the detailed design of hiring subsidies across EU Member States and identify good and effective practices in targeting, funding, monitoring and integrating incentives with other policies. The Review is intended as a source of mutual learning and transfer of good practices between Member States. The Review aims to provide an overview of the use of hiring subsidies in the EU; examples of interesting practices and practices in need of improvement; results of evaluation reports and academic studies testing the effectiveness of existing hiring subsidies over time; as well as recommendations on how the Commission might use the findings of this Review.

This Review focuses on 'hiring subsidies' aimed at facilitating the creation of **new jobs** for unemployed persons. This includes job creation and opportunities for improving employability through work experience, via subsidising the employers'

wage costs or reductions in employers' social security contributions. The Review does not aim to cover measures for maintaining existing jobs, nor direct job creation such as public works measures. In this document, hiring subsidies are used interchangeably with the terms 'employment incentives' and 'recruitment incentives'.

This Review summarises the key messages emerging from 33 national articles prepared by the European Employment Policy Observatory (EEPO) national experts, on the theme of stimulating job demand through the design of effective hiring subsidies across Europe. The experts' articles have been complemented by existing literature. The national experts were asked to consider the following aspects in their national articles, in order to contribute to an overview of Member States' measures to stimulate job demand through hiring subsidies:

- Describe measures for incentivising new job creation for different target groups, either current or significant measures adopted during the 2000s;
- Report on evaluation results testing the effectiveness of existing hiring subsidies over time;
- Provide an assessment of the main success factors, or the main shortcomings, in the design and implementation of the described measures.

---

<sup>(1)</sup> European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions: *Towards a job-rich recovery*, COM(2012) 173 final, Strasbourg, 18.4.2012.



## ■ 2. Policy context and the scope of hiring subsidy measures

### 2.1. Defining hiring subsidies

The Organisation for Economic Co-operation and Development (OECD)<sup>(2)</sup> has noted a shift over recent decades towards labour market policies that are active rather than passive across many European countries. Typical aspects of 'activation' strategies include introducing new job-search requirements and conditions for benefits recipients, emphasising a greater role for public employment services (PES) and encouraging partnerships between different labour market stakeholders.

Hiring subsidies are symbolic of this shift. They are demand-side labour market measures that include providing employers with wage subsidies, or targeted (as opposed to 'across the board') reductions in social security contributions for employers<sup>(3)</sup>. Hiring subsidies are also understood as measures that aim at favouring the conversion of temporary contracts into open-ended ones.

Generally, hiring subsidies focus on reactivating the long-term unemployed, or supporting groups at risk of labour-market exclusion (such as young people, people with disabilities, women, older workers, etc.)<sup>(4)</sup>.

The OECD Employment Outlook 2009 report refers to hiring subsidies as one of a number of active measures for labour demand support, which alongside hiring subsidies, includes training measures, public sector job creation (and other forms of subsidised work experience), and short-time working arrangements.

To limit the social and economic costs of the current jobs crisis, the OECD notes that governments should prioritise the scaling-up of effective active labour market policies to provide increased numbers of jobseekers with the re-employment assistance they require and minimise the build up of long-term joblessness<sup>(5)</sup>. This may require greater emphasis on labour demand supports to shore up activation regimes and ensure that more disadvantaged jobseekers do not become disconnected from the labour market.

Hiring subsidies are distinct as they exclusively focus on the creation of new jobs, or promoting opportunities for improving employability through work experience.

In the context of major job losses during the recession, many OECD countries have introduced or scaled up subsidies that encourage firms to retain or hire workers<sup>(6)</sup>. The OECD suggests that in addition to programmes that seek to preserve jobs at risk, there may be an expanded role for hiring subsidies that concentrate on the creation of new jobs, as these have been proven to be quite effective.

In the face of the current downturn, the large majority of OECD countries have expanded existing hiring subsidies or established new ones, typically targeted at specific vulnerable groups<sup>(7)</sup>.

### 2.2. European policy context

It is possible to draw a distinction between employment incentives that facilitate the hiring of unemployed people (recruitment incentives, used in particular to improve employability by providing some work experience) and employment incentives that assist in continuing the employment of persons at risk of losing their jobs due to restructuring or economic pressures (employment maintenance incentives)<sup>(8)</sup>. This Review focuses on the former, i.e. on recruitment incentives or hiring subsidies that contribute to net new recruitment.

The Communication, *Towards a job rich recovery*, suggests that hiring subsidies are a way of cushioning the unemployment effects of economic crisis, especially for disadvantaged groups. It states that: 'Creating the right kinds of incentives and hiring subsidies should motivate employers to engage in net new recruitment, thus creating jobs that would otherwise not be created. Targeting vulnerable groups such as young people or the long-term unemployed can have positive effects particularly where hiring subsidies are combined with additional efforts to help the target population.'

<sup>(2)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(3)</sup> ICF GHK, *European Employment Observatory Review: Long-term Unemployment*, European Commission, Luxembourg, 2009.

<sup>(4)</sup> Ibid.

<sup>(5)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(6)</sup> Ibid.

<sup>(7)</sup> Ibid.

<sup>(8)</sup> Ecorys/IZA, *Analysis of costs and benefits of active compared to passive measures*, final report, European Commission, DG Employment, Social Affairs and Inclusion, Rotterdam, 2012.



A Commission staff working document supporting the [above] Communication<sup>(9)</sup> suggests that hiring subsidies represent a 'flexicurity' measure that combines external flexibility and **employment** security. Such an approach aims at replacing traditional job protection with measures enhancing the employability of outsiders to the labour market, while easing hiring and lay-off procedures and costs for the employers, backed up by active labour market policies. Hiring subsidies function as a back up in this context.

Another kind of flexicurity measure combines external flexibility with **job** security. These measures often contain elements to facilitate hiring and lay-offs, which are combined with incentives for employees to maintain their existing jobs (mostly related to regulations on the promotion of open-ended contracts).

Hiring subsidies are particularly relevant for young people. A Council Recommendation on establishing a Youth Guarantee<sup>(10)</sup> suggests the use of 'targeted and well-designed wage and recruitment subsidies to encourage employers to create new opportunities for young people, such as an apprenticeship, traineeship or job placement, particularly for those furthest from the labour market'.

## 2.3. The scope of this Review

The 2012 Employment Package<sup>(11)</sup> presents levers that could support a job-rich recovery, addressing both the demand and supply sides of the labour market. It notes that besides supply-side measures, such as skills and activation investment, and labour-matching services, there are also a number of tools that impact positively on labour demand. Hiring subsidies to encourage new hiring are one such demand-side tool. They have been used to target employers to create new or temporary employment for vulnerable groups, supporting youth and older workers in particular.

This Review explores 'hiring subsidies' measures in more detail. These employment incentives are considered to cover measures aimed at facilitating the creation of **new jobs** for unemployed persons or promoting opportunities for improving

employability through work experience, often through wage subsidies paid to employers or reductions in the level of social insurance contributions paid upon the hiring of workers. Hiring subsidies are also understood as measures that aim at favouring the conversion of temporary contracts into open-ended ones.

The Review does not aim to cover measures for maintaining existing jobs. Similarly, the Review does not aim to cover direct job creation such as public works measures in detail, nor stock subsidies, as described below.

Incentives for new hiring entail the subsidisation of part of the employers' wage or non-wage labour costs. The OECD draws a distinction here between hiring subsidies and broad cuts in employer social security contributions (or stock subsidies)<sup>(12)</sup>. Stock subsidies are defined as general reductions in employers' social security contributions. Stock subsidies are relatively easy to implement and relatively effective in supporting employment in the short run, at least as compared with the employment effects of other forms of fiscal stimulus<sup>(13)</sup>. Overall, the short-run effectiveness in generating new jobs depends on the responsiveness of labour demand to changes in unit labour costs. The long-run effect of a reduction in employer social security contributions on the equilibrium of employment is likely to be much smaller, due to offsetting real-wage adjustments<sup>(14)</sup>. Typically, deadweight effects tend to be associated with such subsidies, since they cover all jobs, even those that would have been created without the subsidy. Reductions of employer social security contributions are therefore relatively cost-ineffective. For this reason, they should be a temporary anti-recessionary measure. The current Review does not cover stock subsidies in any further detail but rather focuses on marginal employment subsidies, creating net employment.

## 2.4. The benefits of hiring subsidies

Hiring subsidies can play a positive role in supporting labour demand<sup>(15)</sup>. Hiring subsidies, in particular, can be beneficial for promoting employment among disadvantaged groups, and therefore for better overall equity. This is important in recessions when there are higher proportions of well-qualified job losers and therefore increased competition for new jobs.

<sup>(9)</sup> European Commission, Commission Staff Working Document: *Open, dynamic and inclusive labour markets*, SWD(2012) 97 final, Strasbourg, 18.4.2012.

<sup>(10)</sup> Proposal for a Council Recommendation on Establishing a Youth Guarantee, COM(2012) 0729 final — 2012(0351) final, Brussels, 5.12.2012.

<sup>(11)</sup> European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions: *Towards a job-rich recovery*, COM(2012) 173 final, Strasbourg, 18.4.2012.

<sup>(12)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(13)</sup> *ibid.*

<sup>(14)</sup> *ibid.*

<sup>(15)</sup> *ibid.*

The European Commission's report, *Employment in Europe 2010*, notes that 'in times of economic crisis, temporary wage subsidies can be used both to ensure a smooth adjustment of employment to output changes and to address wider social or equity concerns'. Subsidies can help by targeting those most at risk in a crisis situation.

The overall benefits of hiring subsidies include the following.

- Hiring subsidies tend to be relatively cost-effective because they exclusively concentrate on newly created jobs<sup>(16)</sup>.
- There is a role for hiring subsidies as a way of targeting harder-to-place benefit recipients and keeping the growing number of long-term unemployed connected to the labour market<sup>(17)</sup>. Wage subsidies, in particular, incentivise firms to hire less qualified workers<sup>(18)</sup>.
- Through targeting harder-to-place benefit recipients, hiring subsidies can help to keep active labour market policies (ALMPs) credible, at a time when the immediate returns on job-search assistance may be low for harder-to-place jobseekers. Hiring subsidies (and other labour demand measures), could be considered as a backstop to activation regimes, provided that there is appropriate targeting to the most vulnerable unemployed. Activation strategies must adapt in order to foster the rapid reintegration of job losers into employment, while keeping all unemployed persons engaged in employment-related activities.
- Subsidised employment provides work experience and training, therefore increasing the chances of sustainable employment effects<sup>(19)</sup>.
- In recessionary conditions, wage subsidies provide firms with opportunities to retain and hire more workers<sup>(20)</sup>.
- Wage subsidies reduce market segmentation by promoting inclusion. This can lower structural unemployment and thus decrease wage pressures in the private sector<sup>(21)</sup>. Also, targeting employer contribution reductions

at low-wage workers may have longer-term impacts through lowering structural unemployment<sup>(22)</sup>.

A report analysing the costs and benefits of active measures<sup>(23)</sup> discusses the effectiveness of employment incentives **prior to 2008**. The evidence suggests that measures have had mixed results, but that there are several design features which can inform good practice.

In some countries, wage-subsidy measures have focused on an increasing share of fixed-term contracts, rather than increasing employment as such. There is evidence for small positive effects on permanent job creation and job stability (for example in Italy) but no significant change to the overall employment probability. One US study found that workers with a college degree experienced a 10% rise in the probability of being hired on a permanent basis, compared to 4% of workers with a high-school diploma, and no significant change for less educated workers. However, subsidies for converting contracts are costly because permanent employment does not generate higher fiscal revenue than temporary employment. Also, the increased labour participation of workers may contribute to heightened unemployment as other workers are displaced.

The same report discusses employment incentive measures introduced after the recession, **from 2009 onwards**. In this period, employment incentives tended to target employers to create new or temporary employment for vulnerable groups. Youth, older workers and people with disabilities have been supported in this way, mostly through reduced employer contributions.

## 2.5. Key rationales for the use of hiring subsidies

In general terms, a distinction can be made between three rationales for hiring subsidies — an 'economic', a 'social', and an 'up-skilling' rationale — so hiring subsidies can be distinguished by:

- an **'economic' rationale, where** subsidies are intended to support labour demand **with the purpose of creating jobs** in the economy;
- a **'social' rationale, with the purpose of shifting recruitment in favour of specific groups** and overcoming potential productivity

<sup>(16)</sup> Ibid.

<sup>(17)</sup> Ibid.

<sup>(18)</sup> European Commission, *Employment in Europe 2010*, Directorate-General for Employment, Social Affairs and Equal Opportunities, Brussels, 2010.

<sup>(19)</sup> Ibid.

<sup>(20)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(21)</sup> Ibid.

<sup>(22)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(23)</sup> Ecorys/IZA, *Analysis of costs and benefits of active compared to passive measures*, final report, European Commission, DG Employment, Social Affairs and Inclusion, Rotterdam, 2012.

gaps among new recruits from certain groups (i.e. compensating for lower productivity of workers in the short term, resulting from their lack of work experience or other labour market disadvantages, in order to bring about a redistribution of jobs in favour of excluded groups);

- **an ‘up-skilling rationale’**, including hiring subsidies designed to contribute to **enhancing the skills and employability** of workers (e.g. when subsidies are used in combination with training to address employers’ and workers’ skills needs).

There are differences in terms of the conceptual basis on which different subsidies have been introduced in different Member States. There have also often been developments within each country over time in how subsidies have been and are being used (or planned to be used in the near future), according to the challenges faced at any given time during the period 2000–13. Moreover, the scale and importance of different types of hiring subsidies as an element of active labour market policy varies greatly between Member States.

## 2.6. National contexts — why countries use hiring subsidies

This Review has found that the challenges that EU Member States, candidate countries, Iceland and Norway have tried to address through hiring subsidies reflect all three of the rationales identified in Section 1.4, discussed in turn below.

**A significant share of Member States have used hiring subsidies in line with the ‘social’ rationale to give incentives to employers to hire groups at a particular disadvantage in the labour market, including young people, women and other marginalised groups.**

**Female unemployment** is noted as a challenge that hiring subsidies have tried to address, in the Czech Republic and Turkey. With urbanisation in Turkey and as families have moved out of agriculture, employment rates for women have fallen significantly. Because of their low human capital levels, a significant number of women do not work or look for employment after migrating into urban areas. In the Czech Republic, there is a low share of part-time work, especially for women. In relation to this, the employment penalty of motherhood is very high in the Czech Republic<sup>(24)</sup>. This

has been attributed to the combination of low salary levels (relative to the fixed costs of commuting, etc.), the unavailability of low-cost childcare, and the tax treatment of married couples with children<sup>(25)</sup>. Finally, after women reach the relatively low statutory retirement age, the employment rates of women in this age bracket decline faster than in many EU countries.

**High youth unemployment** is a key concern across the EU and in Turkey. High youth unemployment combines with high long-term unemployment in Belgium, France and Slovakia, and these countries have used a variety of hiring subsidies to stimulate job demand to combat the large increase in the rate of youth unemployment. A main challenge in the Turkish labour market is that working-age population growth keeps outpacing employment growth, and educated young people have difficulty in finding jobs<sup>(26)</sup>.

A number of countries describe challenges related to **inactivity and the marginalisation of some population groups**. In Hungary, a shift towards reaching out to the growing inactive population brought about an increase in measures focusing on activation and supporting labour demand. This approach gained a momentum that lasted throughout the 2009 crisis, despite the unemployment rate almost breaking its former record of 11.3% in 2010. The focus of hiring subsidies and job-creation programmes has somewhat changed from the main objective of combating mass unemployment and long-term unemployment towards more targeted measures to tackle employment barriers among disadvantaged groups. In Lithuania, ALMPs that have been implemented are mainly geared towards assisting those in the weakest position in the labour market. A general overview of Lithuania’s experience in organising ALMPs suggests that in conditions of high unemployment, supported employment and job creation appear to be relatively efficient measures. During the EU accession period there was a growth in awareness in Malta about the need to increase labour market opportunities for minority or vulnerable groups. In Estonia, hiring subsidies aim to promote the employment of disadvantaged groups rather than to stimulate labour demand in general. In Austria, integration subsidies aim to improve the labour market reintegration opportunities of those that are remote from the labour market.

<sup>(24)</sup> The employment rate of Czech women with children under the age of 6 is 41 percentage points lower than that of women without such children, while the corresponding gap is only 12 percentage points in the EU on average.

<sup>(25)</sup> According to the OECD, the Czech Republic is in the top third when EU countries are ranked by the implicit tax on returning to work (composed of childcare fees, benefits change and of social security and income tax). Czech self-employed people face lower taxes, but most self-employed people are men.

<sup>(26)</sup> World Bank, *Turkey Labor Market Study*. Washington DC, 2006.

**Several countries have also used hiring subsidies, according to the ‘economic’ rationale, to address general problems of high unemployment and — in particular — high long-term unemployment.**

In Ireland, the scale of the unemployment challenge is significant (the unemployment rate<sup>(27)</sup> in the first quarter of 2014 (Q1) was 12.1 %, having fallen from a peak of 15.1 % in Q1 2012) and there has been increased ALMP activity to address these rates over the past three years. Similarly in Greece, ALMPs have attempted to mitigate the crisis of rising unemployment since 2010. Hiring subsidies have also emerged in response to high and growing unemployment in candidate countries such as Serbia and in non-Member States, such as Iceland.

The challenge in some countries is more specifically **long-term unemployment**. Measures in Belgium have aimed to address the country’s notably high long-term unemployment levels. In Denmark, hiring subsidies for the employment of the long-term unemployed by public and private employers are important programmes within ALMPs. The share of long-term unemployment in total unemployment in Finland is not particularly high (23.6 %) compared to the OECD average, but it is much higher than in the other Nordic countries, and long-term unemployment remains a major barrier to employment, especially for older workers. In France, different kinds of hiring subsidies have been implemented over the last 30 years to stimulate job demand, now dedicated to combating the dramatic increase in the rate of long-term unemployment. Similarly, the main goal pursued by hiring subsidies in Slovakia has been to address one of highest rates of long-term unemployment in the EU. Legislation implemented in 2000 in Italy introduced incentives and tax rebates for employers that hire long-term unemployed workers with open- and fixed-term contracts.

Other countries underline the challenge of **new job creation** and how hiring subsidies can address this to a certain extent. In Romania, generating jobs has been at the core of labour market policies since the beginning of the 1990s. Romania’s unemployment insurance law of the early 2000s facilitates hiring subsidies as a means of incentivising employers and especially small and medium-sized enterprises (SMEs) to generate jobs and thus compensate for the massive shedding of jobs resulting from the restructuring of former State-owned enterprises. In Portugal, the 2001 Job Offer Stimulus programme confirmed the principle of ‘liquid job creation’ and obliged companies to maintain employment volume for four years from the beginning of support. Hiring subsidies in Greece have traditionally targeted

the creation of new jobs, and in Luxembourg, hiring subsidies have constituted an important tool to combat unemployment in terms of offering incentives to employers to create both temporary and permanent jobs. In the United Kingdom, job creation has targeted the public and voluntary/community sectors.

In Cyprus, as a result of the banking crisis, the labour market swung from being overheated to one of the slackest in the EU-28. With excess demand for labour in the early to mid-2000s, the emphasis of labour market programmes was on encouraging further participation. Later, with the advent of the recession, emphasis changed to unabashed hiring subsidies. Cyprus experienced a dramatic rise in long-term unemployment, and comparing February 2013 to February 2014, the number of registered unemployed with some tertiary education rose by 17.6 %, while the figure for those with degree qualifications rose by 32.5 %.

**Last but not least, a smaller number of countries have used hiring subsidies in accordance with the up-skilling rationale.**

Deficiencies in education and skills are highlighted in Finland, where the consequence of restructuring in the 1990s is still very much felt today. Also, in Germany, some regions have major concerns about overcoming skills shortages. The Ministry of Labour and Social Affairs has recently formulated its priorities in order to cope with demographic change in its strategy to secure future skills (*Fachkräftesicherungsstrategie*)<sup>(28)</sup>. Spain registered the third-highest proportion of low-skilled workers among the active population in the EU-28 between 2000 and 2012 (46.6 %). The unemployment rate of this group and other harder-to-help collectives (extra-EU-28 citizens, young people, etc.) has been significantly elastic in the macroeconomic context.

#### 2.6.1. Institutional or structural barriers addressed by hiring subsidies

Countries have also used hiring subsidies to address a number of institutional or structural barriers that prevent people from entering the labour market, including lack of work experience, declining demand in specific sectors of the economy, unattractiveness of work in the low-paid sector, and, last but not least, high costs for employers dampening labour demand.

Lithuania, Malta, Portugal, the United Kingdom and Norway have addressed the **lack of work**

<sup>(27)</sup> Eurostat.

<sup>(28)</sup> See Düll, 2012, for more details: [www.eu-employment-observatory.net/resources/reviews/Germany-LTU-July%202012.pdf](http://www.eu-employment-observatory.net/resources/reviews/Germany-LTU-July%202012.pdf)  
See also: [www.fachkraefte-offensive.de/DE/Die-Offensive/Strategie/inhalt.html](http://www.fachkraefte-offensive.de/DE/Die-Offensive/Strategie/inhalt.html)

**experience** among some unemployed people. Portuguese legislation has emphasised the necessity to combat unemployment by supporting young people to get a first job. The law identifies lack of experience among the young and the long absence from working life among the long-term unemployed as key barriers. Measures in Lithuania have also focused on unemployed persons taking up their first position according to the acquired qualification. The United Kingdom has also targeted young people with limited work experience. Norway has attempted to promote opportunities for improving employability through work experience, especially among those with reduced work capacity.

Germany, Portugal and Finland are addressing the demand and supply of skills. Given the huge demand for white-collar jobs and workers, a key barrier in Finland is how to shift people from declining branches (traditional male-dominated big industry) to care jobs, traditionally dominated by women. Some regions in Germany are focusing on the need to overcome skills shortages. The approach rests on the principle of increasing employment rates, improving the labour market integration of disadvantaged groups, and reducing the skills mismatch. In Portugal, more groups were targeted as the accelerated modernisation of the economy created growing difficulties for older, less educated workers. This generational gap was deepened with the advance of modern ICT, which introduced a digital divide in the workforce.

Bulgaria, Italy and Iceland have also implemented measures that promote work-based training.

Germany and Austria have used hiring subsidies to promote the low-paid sector. Austria aimed to raise the incentive for jobseekers to take up a job in the low-paid sector, and in Germany, the use of wage subsidies for lower-income groups or hard-to-place people is one element of the Hartz strategy, the objective being to promote the development of a low-wage sector for means-tested Unemployment Benefit II-recipients.

Slovakia and Finland have identified high costs for employers as important barriers to employment. In Finland, stimulating demand has concentrated more on creating an environment for investment and innovation, lowering taxes and other indirect means. Finland has a very high tax rate, and the tax wedge (over 42%) although lowered somewhat in the last decade, remains an important barrier to hiring. In Slovakia, employers consider high non-wage labour costs a crucial barrier to the creation of new jobs. OECD comparisons suggest that a high payroll tax burden inhibits employment particularly among disadvantaged target groups. As a result, one of the policy recommendations for Slovakia, voiced also by the European Commission,

is to reduce the tax wedge on low-paid work. Hiring subsidies follow the same objective.

In Spain, the configuration of hiring incentives and subsidies since the 1990s has been a public response to increasing the proportion of permanent contracts, given the traditionally high temporary contract rates. Moreover, Spanish temporary work rates have been one of the main structural features of the labour market (29.9% between 2000 and 2012, a proportion 2.2 times higher than the EU-28 average). Italy and Portugal have also implemented incentives with the aim of reducing the share of temporary employment contracts.

## 2.6.2. The significance of hiring subsidies in Active Labour Market Policies across the EU

Eurostat provides data for expenditure on employment incentives by country as a percentage of GDP. To complement the information provided in the national articles on the importance of hiring subsidies in Active Labour Market Policies across the EU, the table below (Figure 1.1) gives an indication of relative GDP spending on employment incentives in general.

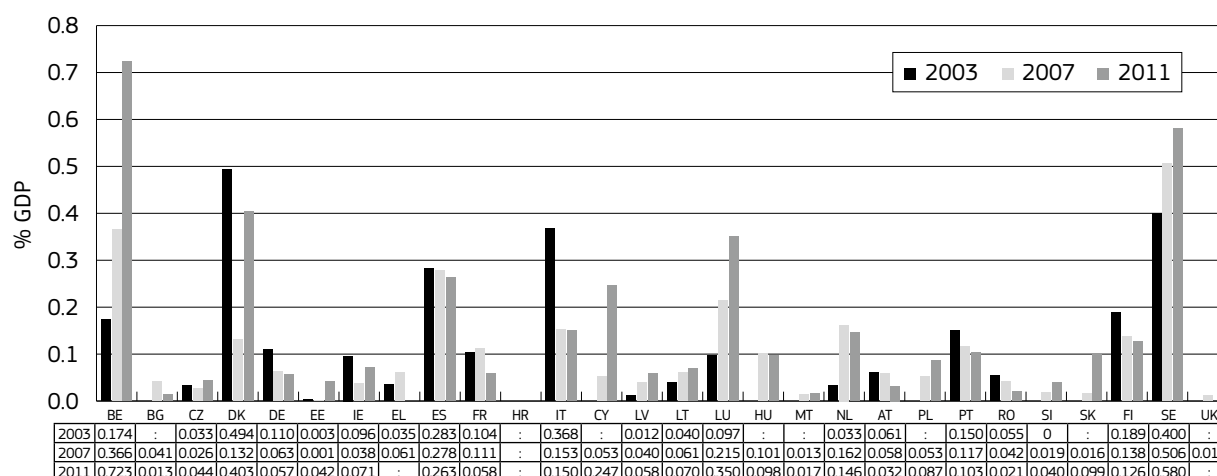
It is important to note that the table is based on Eurostat data for ALMP spending for Category 4 (Employment Incentives) and does not include hiring subsidies that might fall under other ALMP categories, such as start-up incentives or subsidised employment and rehabilitation. The table also includes subsidies for the maintenance of existing jobs which are not covered in the current review. Thus the figures here should only be seen as a proxy of how spending on hiring subsidies has evolved over recent years in the EU, comparing the 2003 situation with spending in 2007, before the crisis, and in 2011, the year for which latest data are available.

Relatively speaking, in 2011 spending on employment incentives was greatest for Belgium, accounting for 0.7% of GDP, followed by Sweden (0.5%), Denmark (0.4%), Luxembourg (0.3%), Spain (0.2%) and Cyprus (0.2%). Italy, the Netherlands, Portugal and Finland had GDP spending shares of around 0.1% each. Countries at the lower end of the spending scale as a percentage of GDP include the UK, Poland, Slovenia, Malta, Latvia and Germany.

Countries experiencing the biggest spending increases as a percentage of GDP, pre- and post-crisis, that is, between 2007 and 2011, include Belgium (rising from 0.3% to 0.7%, Denmark with the spending share increasing from 0.1% of GDP to 0.4% of GDP, Cyprus from 0.0% to 0.2% and Luxembourg 0.2% to 0.3%.



Figure 2.1 Total spending on employment incentives (LMP Category 4), in 2003, 2007 and 2011 (as % of GDP)



Source: Eurostat, LMP expenditure by type of action — summary tables (source: DG EMPL) [lmp\_exsumm].

NB: The chart has been created based on data on expenditure for LMP Measures 4 — employment incentives. The Employment Incentives category includes recruitment incentives for both permanent and temporary jobs, as well as incentives for the maintenance of existing jobs. The latter are not covered by the current review. A zero (0) value indicates that data are not available.

**Hiring subsidies have been a key feature of labour market measures in many Member States** particularly in Denmark, Spain, France, Croatia, Malta, the Netherlands, Poland, Romania and the United Kingdom, according to national articles.

In Denmark, hiring subsidies for employing the long-term unemployed by public and private employers exist today as important programmes within active labour market policy. Nearly a quarter of full-time ALMP participants were employed with a standard hiring subsidy in 2013. In Spain, during the period 2005–2011, around EUR 3 billion — between 35 % and 50 % of total ALMP spending — was annually delivered in subsidising recruitment and in the transformation of temporary to open-ended contracts. France has also seen a proliferation of hiring subsidy measures. Different kinds of hiring subsidies have been implemented over the last 30 years to stimulate job demand. The current subsidies are mostly dedicated to combating the dramatic increase in the long-term unemployment rate.

Hiring subsidies and their functional substitutes have been used regularly by subsequent Maltese governments since the early 2000s and have always been present in active labour market policy in Poland. In Finland, by far the most used direct job creation measure is a wage subsidy, used both in the private and public sector, which constitutes about 17–20 % of the total ALMP measures. Over the last few decades, the Netherlands has experimented repeatedly with hiring subsidies as well as tax rebates for vulnerable groups while the UK has a long history in the use of hiring

subsidies, which have taken on various forms. In the 2000s, as Romania broadly finalised major reforms designed to transform it from a centrally planned into a market economy, hiring subsidies have received ever-increasing attention.

**In some countries, hiring subsidies are slightly less prominent in the ALMP policy toolkit but nevertheless remain significant.**

The ‘subsidised employment for disadvantaged unemployed’ programme in Latvia represented 8.8 % of ALMP expenditure during the period 2007–2013. In Hungary, hiring subsidies have been part of the ALMP policy toolbox since their introduction in 1991 although public works have been the dominant approach since 2010; in 2012, 28 085 new participants were included in ALMPs — 54.5 % of them in direct job creation (public works) programmes, 19.4 % in traineeship arrangements, 13.3 % in subsidised employment, 8.3 % in education placements and 3.6 % in start-up incentives. In the former Yugoslav Republic of Macedonia, out of the total costs of active measures (employment services excepted) in 2013, 48 % was spent on different hiring subsidies programmes (EUR 4 million). About 11 % of the total participants in active programmes are part of a hiring subsidies programme (1 016 persons), with an average cost per participant of EUR 4 000.

**Hiring subsidies have not been a key feature of labour market measures in other countries**, for example in Ireland, Slovenia and Turkey. There has been relatively little use of hiring subsidies as a labour market activation tool in Ireland. The budgetary situation between 2000 and 2008 was one of surplus, which led to

expansionary budgets, with little policy movement in the areas of active labour market policy<sup>(29)</sup>. After the emergence of the financial crisis, the 2009 and 2010 budgets mainly focused on measures aimed at reducing the fiscal deficit; however, the change in government in 2011 marked a substantial ramping up of activity with respect to the introduction of active labour market programmes. In Slovenia, hiring subsidies, as an active policy to simulate job demand, are a relatively new measure. Similarly in Turkey, hiring subsidies only recently appeared alongside the investment incentives that have been prevalent in the country. Employment incentives were introduced in 2008, and after the start of the recovery in 2010, the government extended these employment incentives until the end of 2015.

**Over time hiring subsidies have become increasingly significant, particularly since the economic crisis,** in Belgium, Bulgaria, Estonia, Greece, Lithuania, Luxembourg, Austria, Slovakia, Iceland and Serbia.

In Austria, while the relative proportion of beneficiaries of employment promotion measures slightly rose in the period between 2007 and 2012, from 13% to 15%, the share of the budget expenditure was stable (25%). Within the group of employment promotion measures, hiring subsidies represent the majority of beneficiaries (56% in 2012), while their share of expenditure is less than 50%. In Bulgaria, participants in employment incentive measures as a proportion of total labour market policy measures increased from 9% in 2004 to 19.7% in 2011. In 2013, 15 national programmes and 19 measures, from a total of 20 programmes and 28 measures financed from the State budget, contained a component of subsidised employment. In the period 2010–2013, 9 of 11 programmes financed by the European Social Fund also included such a component.

In some countries, the increase is linked to the economic crisis and to rising unemployment. In Estonia, out of the total expenditure on active labour market policy measures, recruitment incentives accounted for 8% on average between 2003 and 2012, excluding the years 2010–2011 when wage subsidies were extensively used to alleviate the unemployment resulting from the economic crisis. Wage subsidy has been the largest recruitment incentive both in terms of expenditure and participant numbers. Hiring subsidies were and continue to be the main active measures in Greece. As a direct result of the crisis, expenditure on hiring subsidies has increased. The proportion of GDP devoted to

employment incentives was lower during the pre-crisis years (around 0.06% in 2006 and 2007, before dropping to 0.037% in 2008, and rising from there to 0.108% in 2010)<sup>(30)</sup>. The number of those benefiting from employment incentives increased during the pre-crisis years and especially after the start of the crisis. Prior to the economic crisis, Greece appeared to rely mostly on passive measures.

Hiring subsidies have also played an increasing role in Lithuania since the 2008 crisis while gaining significance in Luxembourg in line with rising unemployment. There is no indication presently that unemployment levels are set to fall, which means that the GDP share of hiring subsidies is likely to grow. Between 2007 and 2010, at a time when the impact of the crisis on unemployment levels was beginning to be felt more strongly, State expenditure on active labour market measures — including hiring subsidies — increased by 46% to one third of the 1.2% of GDP (EUR 514 billion in 2010) share spent on active labour employment policies. Hiring subsidies play an important role in the Slovak labour market policy context. Data on employment incentives indicates a distinct increase in participants and expenditures since the onset of the economic crisis. The number of participants in employment incentives as a proportion of total labour market measures increased from 5% to 34% between 2004 and 2011. Employment incentives expenditure as a proportion of total labour market measures increased from 11% to 44% over the same period. More recent national data suggests that the use of hiring subsidies has somewhat stagnated in the last two years. A recent revision of ALMPs has also restricted the number and provision of hiring subsidies.

In Iceland, hiring subsidies have been a part of the measures offered since the beginning of the crisis in 2008. The number of individuals hired under the subsidy scheme, rose from 1 109 in 2009 to 2 460 in 2013. In Serbia, in response to high and growing unemployment, hiring subsidy programmes have recorded significant expansion from 2000 to date. This expansion has included widening the spectrum of measures that could be classified as hiring subsidies and broadening the target groups, as well as expansion in spending, at least in relative terms (compared with other types of ALMPs).

**Over time, hiring subsidies have become less significant in Germany and Sweden.**

In Germany, participation in hiring subsidies in the context of job-creation programmes has decreased over time. Reduction in the use of hiring

<sup>(29)</sup> Kelly et al., 2012, see Ireland EEPO Review article for more details.

<sup>(30)</sup> Eurostat, 2012.



subsidies in Germany is linked to the growing popularity of workfare approaches. In Sweden, labour demand-orientated measures, such as recruitment subsidies and subsidised employment, were an important component of Swedish active labour market policy in the 1970s. The mid-1990s saw a re-orientation of the ALMPs, with an emphasis on labour supply-orientated measures. The shift of emphasis was particularly marked during the 2008 recession when traditional measures focusing on labour demand, such as wage subsidies, remained at a much lower level than during previous recessions.

The significance of hiring subsidies over time has changed in Croatia: hiring subsidies as an ALMP measure were extensively used in a first National Action Plan for Employment (NAPE) cycle (2002–2005), and almost 90 % of participants in ALMP programmes took advantage of hiring subsidy measures<sup>(31)</sup>. In the second ALMP cycle (2005–2008) the use of ALMPs in the Croatian labour market was significantly reduced<sup>(32)</sup>. Only around 1 % of the unemployed were covered by hiring subsidies programmes, whereas participation in education and training

measures and public works was higher<sup>(33)</sup>. In 2013, the number of ALMP beneficiaries significantly increased compared to the previous years. The number of new ALMP beneficiaries was 42 827 in 2013, out of which 6 282 were beneficiaries of hiring subsidies.

**Some countries report linkages between hiring subsidies and other measures.** There are ongoing efforts in Lithuania to align employment support measures with other ALMPs (vocational training, vocational rehabilitation and social integration, etc.). In Malta, hiring subsidies are sometimes combined with other interventions such as awareness campaigns, training programmes, free childcare and the covering of costs to improve workplace accessibility. In Portugal, regulation of the interaction of hiring subsidies with other types of active measures has been limited to whether or not subsidies can be accumulated. The Job Offer Stimulus programme created a common regulation for different job creation measures, namely hiring subsidies, local employment initiatives and employment projects run by the unemployed themselves, but the programme did not change this situation.

---

<sup>(31)</sup> Babić, 2003; Matković, 2008.

<sup>(32)</sup> Babić, 2012.

---

<sup>(33)</sup> Matković, 2008; Babić 2012.

## ■ 3. Mapping of existing measures

### 3.1. Types of hiring subsidy measures

This section outlines and groups the main types of employer incentive measures adopted across Member States, as well as the rationale for each type of measure, and the groups of unemployed people being targeted by each type of measure.

To begin, this section describes how hiring subsidies can fulfil different purposes, and explores the problems addressed by different types of subsidies. It looks at the different types of subsidies, approaches to targeting, and how subsidies are complemented or combined with other types of ALMP measures.

As mentioned earlier, a distinction can be made between three types of rationales for hiring subsidies, which are designed on the basis of:

- an **‘economic rationale’**: subsidies which support labour demand in general, and help to create jobs in the economy;
- a **‘social rationale’**: **supporting disadvantaged groups into jobs, aiming to shift recruitment in favour of specific groups** and overcoming potential productivity gaps among potential new recruits from certain groups;
- an **‘up-skilling’ rationale**: contribute to **enhancing the skills and employability** of workers and incentivise training to address employers’ and workers’ skills needs.

The scale and importance of different types of hiring subsidies as an element of active labour market policy varies greatly between Member States. There is a high degree of variation across a very wide range of measures within each category and the discussion below aims to draw out common features regarding how different countries have sought to achieve their particular objectives.

Of course, the functions of hiring subsidies as categorised above are not distinct and, to an extent, the compensatory aspects of hiring subsidies (i.e. to compensate for lower productivity among some groups of unemployed workers) emerge out of the first concern to create new jobs for the groups of unemployed people who need the most support. Hiring subsidies fulfil a dual role in the labour market: both as a *de facto* reduction in the cost of

employing workers at the company level, thereby affecting the demand for labour; and as a means of refocusing employment demand towards those with a productivity level below the prevailing wage and who might not otherwise be considered by employers. At the same time the distinction in terms of the purposes of different subsidies within these broad general categories remains a useful one, since the Review suggests that different types within these categories display various features and characteristics depending on the specific approach taken in each case.

#### 3.1.1. Subsidies to support labour demand

The primary purpose of supporting job creation in the economy appears to have been a key factor in the introduction of some of the longest-running and largest-scale hiring subsidies, as a response to the high prevalence of long-term unemployment linked to changes in economic conditions. For example, hiring subsidies in Denmark date back to 1979 with the rise in long-term unemployment following the first oil crisis. The response was to create relatively large-scale subsidy schemes for the employment of unemployed workers by public and private employers, and these subsidies still exist today as important programmes within active labour market policy (13 400 beneficiaries in 2013, 63% of whom were insured unemployed).

A key hiring subsidy in France is the Professionalisation Contract for unemployed adults. This is a supplementary ‘flat’ subsidy for all employers that recruit unemployed adults (aged over 26 years). Up to EUR 2 000 per contract can be added to the social security contribution reduction for those on low wages and there is an additional subsidy for older workers (aged 45 years or over), worth EUR 2 000, combined with a specific exemption from social security contributions. State funded, no evaluations of the measure have been undertaken.

Different types of approaches to hiring subsidies supporting demand for labour include:

- hiring subsidies to support job creation in the private, public and non-profit sectors;
- sectorally based hiring subsidies, i.e. directed towards more specific occupations in sectors

experiencing economic difficulties, or that need encouragement (green jobs, for example);

- geographically based hiring subsidies, i.e. focused on priority regions, sometimes along with investment incentives (e.g. Lithuania focuses subsidies on territories in which the unemployment rate exceeds the national level);
- support to improve demand for workers in the low-wage sector using a range of approaches (e.g. combining work with benefits, wage top-ups, direct subsidies, etc.);
- conversion incentives and mechanisms to support flexible forms of employment, or which encourage particular types of employment contracts;
- support for self-employment.

Such subsidies are often (but not exclusively) offered in the form of subsidising employer social security contributions, conversion subsidies and support to self-employment. The sub-sections that follow examine these in turn.

#### 3.1.1.1. Subsidising employer social security contributions

Targeted reductions in employers' social security contributions, are one way of incentivising employers, instead of or in combination with reductions in wage costs, and they have been used by countries either on their own or in combination with other incentives. However, subsidising employer social security contributions appears to be less effective than directly subsidising wage costs.

In Greece the Acquisition of Work Experience for New Entrants in the Labour Market programme provided subsidies to enterprises in the private sector for hiring unemployed workers aged 16–24 to attain work experience in exchange for 70–80% of social security contributions (corresponding to the minimum wage), with the possibility to expand the subsidy for a further 12 months if the work experience programme was transformed into a work contract. The practice was managed by the Manpower Employment Organisation of Greece (OAED) and was co-financed through the ESF. Independent evaluation identified that employer responsiveness was modest in spite of the programme offering generous assistance, and two years after its launch the programme had met only 25% of target outcomes.

Reductions in employer social security contributions are often used for specific groups (e.g. for women in Italy, for a number of groups in Belgium via the Activa plan). For example, Turkey supports employers hiring women, young people and those holding occupational certificates in this way. The reductions in contributions are available on a temporary basis (until the end of 2015) and are available for a significant duration of up to 48 months, on a decreasing scale (i.e. 100 % for the first year, 80 % for the second year etc).

Often, such reductions are combined with other incentives, such as tax cuts (e.g. for young people in Sweden) the reimbursement of training expenditures, wage costs, costs related to the reorganisation of the workplace for disabled workers and transport costs (e.g. Luxembourg).

Some countries have also experimented with general reductions of employer social security contributions, without specified target groups, rather targeting sectors (e.g. NGOs in Belgium) or company size (e.g. SMEs in Greece) have been used by a range of countries to support labour demand. While these general schemes to subsidise employer non-wage costs have the potential to be effective in the short run, especially in periods of falling output when fiscal stimulus is desirable, they can prove expensive in the long run, underlining the importance of ensuring that such reductions are temporary.

#### 3.1.1.2. Conversion subsidies

Incentives for transforming temporary contracts into permanent ones can be observed in only a couple of countries, such as Spain and Italy. Spain's Entrepreneurship Contract (*Contrato de apoyo a los emprendedores*, or CAE) is primarily a subsidy for the employment of young people. In addition, this measure is considered to normalise the use of 12-month open-ended contracts (when used in combination with measures to waive severance pay), thus having contributed to stabilised employment for target workers.

In Italy, the Ministry of Labour and Social Policies and the Ministry of the Economy and Finance has adopted the Interministerial Decree 243/2012 establishing a fund that provides financial support for the employment of young people and women, as described in the box below.

### Box 3.1.1.2 Italy — Interministerial Decree 243/2012

**Main aims:** Offer economic incentives to employers who hire women and young people.

**Details:** The measure, which had a sizeable budget worth around EUR 233 million funded through general taxation (EUR 197 million for 2012 and EUR 36 million for 2013), aimed to support employment activated or stabilised by the end of March 2013. Incentives were given to employers that hired people under 29 years of age and women of any age, and focused in particular on transforming a fixed-term contract into an open-ended one. Employers were provided with up to EUR 12 000 if they transformed a fixed-term contract into an open-ended one; with EUR 3 000 if they hired an employee under a fixed-term contract lasting between 12 and 18 months; with EUR 4 000 if they hired employees under a fixed-term contract lasting more than 18 and up to 24 months; and with EUR 6 000 for contracts lasting more than 24 months.

**Target group:** young people (under 29) and women of any age.

**Budget:** EUR 233 million (EUR 197 million for 2012 and EUR 36 million for 2013), from taxation.

**Duration of the measure:** Temporary: from October 2012 until no later than March 2013.

**Evaluation findings:** Aspects of the measure have been evaluated positively. The measure was credited with delivering around one third of the conversions from temporary to full-time employment. In all, 9 793 fixed-term contracts were transformed into permanent ones. However, only about two thirds might have taken place without it.

The average cost of each contract transformation was around EUR 10 000, meaning that more than EUR 30 000 was needed for each extra open-ended contract.

There was no major impact on the recruitment of fixed-term employees.

**Policy lessons:** The largest subsidy (EUR 12 000) for conversion to permanent contracts of temporary workers was sufficient to deliver good results. Employers may have required bigger subsidies to motivate them to take on new recruits on fixed-term contracts.

**Reference:** Italy EEPO Article

Veneto Lavoro (2013), *'Monitoraggio del decreto interministeriale 5 ottobre 2012 l'impatto degli incentivi all'incremento quantitativo e qualitativo dell'occupazione giovanile e femminile'* (Monitoring of the Interministerial Decree of October 5, 2012: the impact of incentives for increasing the quantity and quality of youth and women's employment), available at [http://www.venetolavoro.it/c/document\\_library/get\\_file?uuid=b3ada8e7-5e4e-4b6f-84e5-d59abcb0263e&groupId=10180](http://www.venetolavoro.it/c/document_library/get_file?uuid=b3ada8e7-5e4e-4b6f-84e5-d59abcb0263e&groupId=10180)

#### 3.1.1.3. Job creation through support of entrepreneurship and self-employment

Subsidy schemes supporting entrepreneurship and self-employment can be observed across different countries, including Croatia, Latvia, Luxembourg, Hungary, Malta and Romania. These are generally smaller in scale than subsidies supporting the recruitment of workers in companies. Such schemes are often combined with measures such as entrepreneurship training, mentoring and assistance in the preparation of the business plan etc. Despite their relative smaller scale, they can have positive results. For example, in Germany evaluation results show that the Federal Agency of Labour's (BA) funding of individuals starting self-employment has not only helped them to enhance their employment status and earn more income, but has also saved money by reducing its spending on unemployment benefits<sup>(34)</sup>. Important deadweight effects could not be excluded however, as there were indications that a share of

the unemployed would have set up a business anyway even without receiving incentives.

Other examples include:

- In Croatia, two self-employment subsidies will be implemented in 2014 (Your initiative — Your workplace), which aim to support the development of new business ventures. The subsidy aims to 'pump-prime' entrepreneurship by offering subsidies worth up to 50% of the annual costs of a person who is self-employed, with one of the measures focused solely on supporting entrepreneurship among women. Subsidies cannot exceed 12 months except in the case of unemployed women, where subsidies can last for 24 months.
- Malta implemented the MicroInvest scheme in 2010 (managed by Malta Enterprise). Originally it consisted of a 40% tax credit given to the self-employed and enterprises employing 10 persons or fewer to refurbish, upgrade or

<sup>(34)</sup> Caliendo and Künn 2010, Baumgartner and Caliendo 2007.

invest in premises, machinery and technology, or create new jobs. This tax credit increased to 60% for businesses operating in Gozo. In January 2014, the scheme was relaunched after being broadened to include businesses employing up to 30 persons, with the subsidy available for wage costs covering a 12-month period (new jobs) and apprenticeships (as long as this constitutes a net increase in the total number of employees). This scheme forms part of a range of measures designed to help small entrepreneurs, including the Business Advisory Services scheme, which assists consultancy services to all types of business in areas such as energy audits, business start-ups, industrial space utilisation and quality management, and the Quality Plus scheme, which helps SMEs to improve the quality of their processes, products and services through a fiscal incentive that may cover expenditure up to EUR 20000. It has not been evaluated and, unlike other subsidies, does not focus on any particular disadvantaged group, making it more likely to suffer from deadweight, replacement and/or substitution effects.

### 3.1.2. Supporting disadvantaged groups into jobs

The second type of subsidies are characterised by targeting specific groups. These ‘marginal’ employment subsidies aim to raise net employment by targeting disadvantaged groups. They also seek to improve the long-term employment and earnings prospects of groups that face structural barriers in the labour market. Good programme design impacts on the performance and ability of subsidies to strengthen job creation. Typically, this entails careful targeting of disadvantaged groups and the use of controls to prevent employers from exploiting the subsidy and ‘churning’ workers.

There are differences in terms of the groups that the measures seek to assist, although most have in common a general concern for those most at risk of long-term unemployment or exclusion from paid jobs and a focus on vulnerable workers, or a view to addressing the distribution of jobs, including between skilled and lower-skilled employees.

Although subsidies are mostly financed by national government, the European Social Fund represents a substantial source of funding in some countries (Greece, Lithuania and Malta).

In addition to these general controls, in some countries there are more specific conditions imposed on employers. For instance:

- In Estonia, in order to qualify for the subsidy, the unemployed worker must be offered an

open-ended contract or a fixed-term contract for a period of at least six months. Counsellors are responsible for monitoring the employers and employees during the subsidy period and — while there are no conditions imposed in the form of training — beneficiaries can participate in other active labour market policy measures, including training programmes.

- In the former Yugoslav Republic of Macedonia, State-funded wage subsidies have been increasing since 2007 and now cover a range of vulnerable groups (older workers, young people, victims of domestic abuse and the Roma). The subsidy provides a non-refundable (monthly) lump sum to the employer of EUR 210 (almost equivalent to the gross national minimum wage) for six months, with an employer requirement to keep subsidised workers employed for an additional 12 months after the subsidy expires.
- In Denmark, the maximum duration of the hiring subsidy is six months with a public employer and one year with a private employer; in both cases, the hiring subsidy must not reduce the number of ordinary employees.

As mentioned, these new hiring subsidies generally aim to increase the net employment level of disadvantaged groups. However, in some cases there is more of a focus on employability and the upgrading of skills. For instance, Malta’s Employment Aid Programme is an ESF-funded wage subsidy programme that provides assistance for upgrading the skills of those furthest away from the labour market through work experience. As well as boosting employability, some schemes seek also to improve working conditions. In Austria, the wage top-up scheme, implemented in 2006, serves to ensure a higher income for those taking a job in a low-paid sector. Beneficiaries are mainly women (62%) and people aged 45 years or more (58%). People with disabilities (as defined by the Disability Employment Act or the applicable disability legislation of the provinces) are a specific target group and account for 25% of all beneficiaries.

The vast majority of countries reviewed (27 out of 32 countries)<sup>(35)</sup> have used hiring subsidies, at least partly, as a demand-side strategy to overcome the barriers to employment faced by

<sup>(35)</sup> Including Belgium, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Sweden, the United Kingdom, the former Yugoslav Republic of Macedonia, Serbia and Norway.

the most disadvantaged groups, or are moving in that direction. As indicated, the main beneficiaries have been those who face difficulties in [re-] entering and remaining in the workforce, including women, older workers, young people, the low-skilled, those without work experience, single parents, ex-convicts, the long-term

unemployed, employees with disabilities, abuse victims, the Roma and other minority groups.

The matrix below offers an overview of the types of measures adopted across the EU in the period 2000–2013, and maps them across the main target groups of the measures.

**Table 3.1 Groups targeted by different types of hiring subsidies**

	<b>Young people</b>	<b>Long-term unemployed (LTU)</b>	<b>Older workers</b>	<b>People with disabilities</b>	<b>Women</b>	<b>Ethnic minorities (e.g. the Roma)</b>	<b>Immigrant background</b>	<b>Other</b>
Subsidies for new hiring	EE (1) EL (1) FR (4) HR (7) IT (1) CY (2) LV (1) LT (1) LU (1) HU (7) MT (1) NL (1) AT (1) PL (1) SE (1) UK (1) FYROM (3) NO (1)	DK (1) DE (1) EE (1) EL (1) FR (1) HR (2) LV (1) LT (2) HU (6) MT (1) NL (1) AT (1) PL (2) SI (1) SE (1) NO (1)	DE (1) EL (1) FR (1) HR (3) LV (1) HU (7) MT (1) NL (1) AT (1) SE (2) PL (2) IS (1) FYROM (1) NO (1)	DE (2) HR (2) LU (1) HU (3) MT (1) NL (1) AT (1) PL (1) SE (2) FYROM (1) NO (1)	EL (1) HR (2) PL (1) AT (1)	HR (3) HU (1) MK (1)	HR (2)	EE (1) EL (2) HR (2) LV (2) LT (3) HU (2) MT (1) FYROM (2)
Subsidising employers' social security contributions	BE (1) ES (1) FR (1) PL (1) SE (1) TR (1) NL (1)	BE (4) IT (1)	BE (1) IT (1)	BE (1)	IT (1) TR (1)			BE (2) EL (2) ES (1) IT (1) AT (2)
Conversion subsidies	ES (1) IT (1)	MT (1)	ES (1)		IT (1)			
Support to entrepreneurship and self-employment		HR (1) LT (1) HU (2)		LT (1)	HR (1)			MT (1) FYROM (1)
Voucher schemes	EL (1) PL (4) FI (1)							BE (1) EL (1)
Direct job creation/ Public works	BG (1) FR (1) HR (9) PL (1)	CZ (2) DE (3) HR (2) LV (2) LT (1) AT (1) PL (1) IS (2)	BG (1) HR (3) AT (1) PL (1)	BG (1) CZ (1) HR (2) LT (1) AT (1) PL (1)	BG (1) HR (4) PL (1)	HR (3)	HR (3)	HR (4) PL (1)

NB: The numbers in brackets indicate the number of relevant measures covered in the national articles, in each category and for each country.



The above matrix indicates that the primary target groups, in order of frequency, are young people, the long-term unemployed, older workers and people with disabilities. These groups are followed by women and people from an ethnic minority or immigrant background, in terms of how frequently measures are targeting them. The approach in Romania is a preference towards those at the two ends of the labour market, i.e. young people entering the labour market and older workers exiting the labour market. 'Other' target groups include a focus on the low-skilled in Spain, Malta, the Netherlands and Poland. Poland and the United Kingdom have focused on unemployed lone parents. In France, the emphasis for hiring subsidies is on people in the social assistance system (*revenu de solidarité active* (RSA), specific solidarity benefit, isolated parent benefit or disabled adult benefit) and on some specific groups defined at regional level.

In several cases, the narrative relating to examples of the types of hiring subsidies identified in the review, i.e. those designed to overcome productivity gaps among new recruits, explicitly refers to the social benefits of these types of schemes (e.g. schemes for disabled workers and special groups such as refugees, orphans and so on). Employment of young people and older workers also appears to be related to some extent to social cohesion objectives or concerns about the dependency ratio in the context of an ageing

workforce, backed up by arguments about productivity. As well as new jobs, these measures include some incentives to maintain employment/prevent unemployment (e.g. to support continued employment for vulnerable groups, especially older workers close to retirement).

### 3.1.3. The employment of young jobseekers

Most of the countries participating in this Review (21 countries have reported specific hiring subsidy measures for young people), are placing emphasis on using hiring subsidies to combat the problem of youth unemployment.

In France, the situation of young people is increasingly fragile: high unemployment; continued high levels of failure in the educational system; and a high number of low-paid internships. In Luxembourg, crisis-related amendments to the Code of Work were conducted in 2013 in the context of rising youth unemployment, with modifications to the law enforcing employment maintenance contracts for young jobseekers. Other problems are identified in respect to higher-education graduates (Poland), young people aged below 30 with at least secondary education and no significant work experience (Serbia) and highly educated people with very little or no working experience (Croatia).

#### Box 3.1.3i UK — Youth Contract, including wage incentives for employers

**Main aims:** Support the inclusion of young people in the labour market

**Details:** Started in April 2012; available for the planned duration of the Youth Contract (up to March 2015). It provides a wage incentive for employers to take on young people, available for up to six months. The maximum subsidy over six months is GBP 2 275 for full-time work and GBP 1 137.50 for part-time work. There is an extra incentive for recruiting a young disabled person from the Work Choice programme.

**Target group:** Unemployed young people (aged 18–24)

**Budget:** GBP 1 billion (Youth Contract)

**Duration of the measure:** Temporary: April 2012 to March 2015

**Complementary measures:** Work experience placements, job interview, apprenticeship support for employers

**Conditionality:** Payment in arrears to promote the entire six months.

**Evaluation findings:** In 2013 the Department of Work and Pensions commissioned an evaluation of the wage incentive scheme. The main results were as follows:

- Mostly small, private enterprises make use of the scheme: 76% of participating employers have fewer than 50 employees. 84% of employers were in the private sector. Over of a third of participating organisations were micro-businesses.
- Currently, the subsidy has good conversion rates for permanent contracts: more than three fifths of positions were filled permanently, and in most of the remaining cases employers envisaged offering employment for six months.



- There were signs of a high deadweight effect: over 90 % of the jobs were existing vacancies. At the same time, this was potentially offset by the gains of enabling young people to get greater work experience.
- There were some issues in terms of communication with employers: employers did not always know about the scheme, which damaged take-up rates.

**Policy lessons:** Risk of high substitution and deadweight effects. This is less problematic if employers plan to keep on young people after the subsidy period. However, it is negative if employers (particularly micro-businesses) see young people as a source of temporary, subsidised labour.

**Reference:** United Kingdom EEPO article; Department for Work and Pensions (2013) *Early evaluation of the Youth Contract wage incentive scheme* (Research Report No 828)

### Box 3.1.3ii France — Jobs for the Future (Emplois d'avenir)

**Main aims:** To tackle youth unemployment in urban or suburban sensitive areas, rural revitalisation zones, or in DOM and TOM.

**Details:** These are subsidised work contracts in the private and non-profit sectors. The employer hiring subsidy is based on the wage aid, calculated as a percentage of the minimum wage (75 % of minimum wage in case of non-profit organisations and local authorities' entities, 35 % in case of enterprises). It comes to between EUR 500 (35 %) and EUR 1 000 (75 %) per month, based on 35 hours.

**Target group:** Non-qualified young unemployed (16 to 25 years old) and unemployed people with disabilities under 30 years. Exceptionally it applies to unemployed young graduates (maximum three years at university) living in disadvantaged areas.

**Budget:** The total cost is EUR 2.3 billion in 2013 and will reach EUR 3 billion for 2014. This budget does not take into account social contribution reduction or exemptions linked to 'Jobs for the future' in enterprises.

**Duration of the measure:** Temporary, has been implemented since the end of 2012.

The working contract can be a permanent one or a short-term contract (three years maximum). In practice, 50 % of contracts are signed for a maximum of two years, of which the majority of young people sign for one year.

**Complementary measures:** The work contracts are complemented with training and counselling. In some regions, the regional or local authorities could have complementary aids and, in this case, the working contract can be entirely supported.

**Conditionality:** Cumulative unemployment of at least six months for 16–25 unqualified and disabled people (or 12 months in the case of older graduates)

**Evaluation findings:** The volume of recruitment has been relatively high since its introduction at the end of 2012 and, although use by private sector employers is below that of non-profit and public sectors, it is still higher than for hiring subsidy measures for adults.

A first evaluation report suggested more flexibility of the measure, notably by introducing modulation according to the young education profile. However, this proposal has not progressed. More recently, evaluation work suggests that there has been a possible displacement effect. In addition, other supported working contracts like professionalisation and apprenticeship have been used less over the past year, suggesting a possible deadweight effect.

**Policy lessons:** This measure was designed to address the lessons of previous similar measures — in particular their insufficient targeting of young people with the lowest qualifications, their poor skills training content, the short duration of the contracts, on average equal to eight months, and their part-time character.

The Missions locales (specific agencies which are part of the public employment service and are dedicated to delivering services to young people) have been entrusted with the practical implementation of the EA. The implementation faced several difficulties in the first months. The major difficulties in the implementation concerned the joint elaboration of a training plan with the employer. On the one hand, it is complex to anticipate both the needs of the employer and the employee in terms of training and to formalise a comprehensive action plan over a three-year

period. On the other hand the training system is complex in France and actors in the training field have not been associated enough with local operators.

Employers were quite reluctant to take part in the first months and many adopted a wait-and-see attitude. Public authorities pragmatically made some rules evolve. Some rules were progressively relaxed (for instance regarding the duration of contracts) so as to facilitate the negotiation with them. In addition, some eligibility criteria have been relaxed to help the Missions locales identify more young people.

Engagement of private sector employers may need particular attention due to low interest from this group compared to take up by non-profit and public sector employers, especially where measures have focused hiring subsidies on geographical areas and employment sectors targeted as needing special assistance.

**Reference:** France EEPO Article; Host Country Discussion Paper, Peer Review on Emplois d'Avenir, Paris, 10–11 February 2014, Nicolas Farvaque in collaboration with ICF GHK

#### 3.1.4. The employment of primarily older workers and the long-term unemployed

Older workers also appear to be a group for which hiring subsidies have been brought to bear<sup>(36)</sup>, in the context of ageing populations and rising dependency ratios in many countries (including Germany, France, Malta, the Netherlands, Austria, Poland, Romania and Slovenia). Subsidies can target older workers already in employment or unemployed older workers (or both). Evaluation results show a positive effect in the sense that layoffs of older workers can be reduced. However, when the measures do not include an obligation for employers to keep older workers on after the subsidy period (as for example in Germany, below), there is danger of a greater deadweight effect.

Particular attention to the situation of older workers has been a feature in Austria: from 1996 to 2009 a bonus-malus system for older workers was in place. This measure reduced the employer's financial burden when recruiting persons aged 50 years or older (bonus), and on the other hand imposed a financial burden when dissolving long-term employment relationships (minimum 10 years) with older workers (50 years or older) (malus). Recently, the new government agreed in their working programme (2013–2018) on the introduction of a recruitment bonus for employers hiring workers aged 50 years or more.

Other examples include:

Germany has implemented wage subsidies for older workers aged 50 and above and an integration wage subsidy voucher (*Entgeltsicherung für ältere Arbeitnehmer, Eingliederungsgutschein*).

Recruitment of older workers can be subsidised for 12 to 36 months (those unemployed below 50 years of age can be subsidised for only 12 months). The subsidy level ranges between 30% and 50% of wages. In contrast to wage subsidies for recruiting workers below the age of 50, the older worker subsidy is not linked to the condition that employment has to be continued for at least 12 months after termination of the subsidy period. The participation in wage subsidy measures for recruiting older unemployed people has strongly increased between 2007 and 2010, from 38 400 to 51 500. The subsidies have been subject to several evaluations, which have demonstrated a positive employment effect — providing an important stepping stone into stable unsubsidised employment for disadvantaged groups — although having little impact on the recruitment strategies of enterprises overall. Moreover, there would be leeway to impose more conditions on employers to retain older workers after the subsidy period, in order to reduce deadweight effects.

- In the Netherlands from July 2009 the Sickness Benefits Act (*Ziektewet*, article 29d) has been altered to give more incentives to employers to hire older workers. Currently, employers are obliged to keep paying the wages of personnel on sick leave for two years, after which these people may flow into a national disability benefit. This long-lasting obligation to pay for sick employees represents a potentially (large) obstacle for employers to hire older workers, and has resulted in a **no-risk policy wage cost scheme for older workers** being implemented that provides payment of wage costs; sickness benefits in these cases are also paid for by the State and arranged by the Dutch PES. The Act is temporary and ends in July 2019 (as the government expects that by that time there will be a labour shortage). Evaluation identifies little impact on employer behaviour to date.

<sup>(36)</sup> An example is provided by Romania, where a hiring subsidy has been applied to older workers five years before statutory retirement age (i.e. to maintain the worker in employment for five years until retirement age).

### Box 3.1.4i Austria — ‘Come Back’ employment integration subsidy<sup>(37)</sup>

**Main aims:** Support the employment of vulnerable groups.

**Details: Subsidy** for the employment of a number of older workers and long-term unemployed. For older beneficiaries, providing the opportunity to be employed again is more important than training measures, as many already have work experience and / or formal qualifications. ‘Come back’ is particularly helpful for older workers, as it negotiates for their participation in the labour market using ‘specific working time, and thus income, thresholds’. The minimum working time is 50% of a full-time job (based on an agreement or legal regulation). This enables older people to find work that is well-targeted to their skills.

**Target group:** Registered unemployed older people (women over 45 years and men over 50 years); Long-term unemployed (six months for those under 25; 12 months for those over 25); People at risk of long-term unemployment.

**Budget:** Expenditure (2012): EUR 68.3 million; expenditure per person (2012): EUR 2 045.

**Duration of the measure:** This is a permanent measure, first introduced in 1998.

The maximum duration of the subsidy is two years. During a probationary period of no more than three months (six months for people with disabilities) these subsidies may cover 100% of monthly gross pay.

**Complementary measures:** Individual support and supervision plans, as part of a well-defined consultation process.

**Conditionality:** Since 1998, there has been no ‘retention condition’ on employers.

There are ‘checks’ to stop misuse e.g. if none of those employed using the subsidy are employed after it expires, this is considered to be misuse.

**Evaluation findings:** Several positive evaluations have been conducted for this subsidy, including by BMASK (2013) and Eppel et al (2011). The second of these is particularly comprehensive, and found that the measure has the best effects for those from older age categories (45–54), in terms of funding period, unemployment time and income. This is after re-adjusting calculations for deadweight effects.

For instance, five years after the subsidy, income impacts were more than twice as great for older people compared to the middle age group (25–44) and three times as great for older people compared to the youngest group (15–24).

It has the best effects for those from older age categories. The deadweight effects for older people are approximately 44% (below the general average of 52%). Due to these signs of effectiveness, Austria’s austerity packages have increased the number of older unemployed people who can benefit from the measure by an additional 40 000 until 2016.

**Policy lessons:** This measure works best for older people, although others can benefit from it. It works well because it provides employment opportunities based on existing work experience and / or formal qualifications. ‘Come back’ is ‘innovative’ for older workers, as it negotiates for their participation in the labour market using ‘specific working time, and thus income, thresholds’.

**References:** Austria EEPO article

BMASK (2013): *Aktive Arbeitsmarktpolitik in Österreich* (Active labour market policy in Austria). 1994–2013, Wien.

Eppel, Rainer/ Mahringer, Helmut/ Weber, Andrea/ Zulehner, Christine (2011): *Evaluierung der Eingliederungsbeihilfe* (Evaluation of integration aid). Studie im Auftrag des BMASK, Wien.

Riesenfelder, Andreas (2010): *Evaluierung der arbeitsmarktpolitischen* (Evaluation of labour market policy measures), *Förderungsmaßnahmen des AMS Kärnten*, im Auftrag des AMS Kärnten, Wien.

Lutz, Hedwig/ Mahringer, Helmut/ Pöschl, Andrea (2005): *Evaluierung der österreichischen Arbeitsmarktförderung 2000–03* (Evaluation of labour market policy measures), Studie im Auftrag des BMASK, Wien.

<sup>(37)</sup> Sources of further information: Eurofound, *Come Back programme* (2013); EEO Review, *Austrian employment policies to promote active ageing* (2012).

### Box 3.1.4ii Slovenia — Zaposli.me (Employ.me)

**Main aims:** To stimulate job demand

**Details:** The objective of the new programme is to employ at least 1 000 unemployed persons by offering a subsidy of EUR 5 000 per employment (full-time employment for one year) or proportionally less in the case of employment of disabled persons.

**Target group:** Target groups varied over four rounds of funding, with a focus on hard to place unemployed people (50+, first-time job seekers, people with disabilities, low-skilled).

**Budget:** The amount of funds allocated for the programme Zaposli.me (on a cumulative basis for both subsidies for employment as well as to promote public tenders) is EUR 58.43 million, of which EUR 58.37 million are for employment subsidies. The programme costs are shared between the European Social Fund (85 %) and the State budget (15 %).

**Duration of the measure:** The measure has been subject to yearly renewal since 2009.

**Conditionality:** Participants have to be registered at the ESS for 12 months in the last 16 months, unless the person is involved in public works. Registered at the ESS for more than 24 months.

**Evaluation findings:** The data from the first two rounds of the programme shows that the retention rate a year after the expiry of subsidised employment is quite high (62 % in jobs after one year). The programme has generated lessons for improvements in the last five years in relation to the conditions, administration and enforcement of the hiring subsidy.

**Policy lessons:** The various rounds of this programme provide lessons on the best conditions, administration and enforcement of the hiring subsidy, based on the changes that the Employment Service of Slovenia (ESS) made. The following changes were made:

- Employers can apply for a subsidy for an unemployed person who was chosen before the application to the tender.
- The ESS made an effort to simplify and reduce the documentation required for applying for a tender.
- The ESS also significantly improved the information system (APZ.net), which enabled more efficient and quicker work of expert committees in deciding on applications for the tenders (the process from application to the actual employment took about a month at the beginning of the programme, but it was reduced to 16 days by the third round of Zaposli.me).
- There were controls on the payments to the employers: the employer had to ensure that the amount of public funds received (including the subsidy and EU funds) for each person did not exceed half of the costs incurred in relation to the employment.
- The monitoring of the status of unemployed persons at the time of the contract period improved (by sharing the information with the Tax Administration and The Health Insurance Institute of Slovenia), as well as enforcement in the case of their employment being ended prematurely.

**References:** Slovenia EEPO article; Internal evaluation by Employment Service of Slovenia (2012).

#### 3.1.5. The employment of people with disabilities and reduced capacity for work

**There is a noted trend for countries to streamline support for the employment of people with disabilities and reduced capacity to work** (e.g. Denmark and the Netherlands). In the Netherlands, the Participation Act (*Participatiewet*) was recently approved in the second chamber of Parliament, merging three existing acts. The act is intended to be a

permanent incentive and places a requirement for companies to employ a certain percentage of disabled employees providing a range of support subsidies to assist this. The future hiring subsidies under the Participation Act have been tested as part of a pilot project under the Act on Wage Dispensation (*Pilot loondispensatie*, 2010), which identified employment barriers related to the low productivity of newly hired workers, and the support (sometimes specialist) required for disabled employees in the workplace.

Several Nordic countries (Denmark, Sweden and Norway) as well as the Czech Republic, Germany, Estonia, Luxembourg, Malta, the Netherlands and the former Yugoslav Republic of Macedonia) promote the employment of people with disabilities and reduced capacity to work. Measures combine subsidies of wage and non-wage costs, with quotas for employers to employ proportions of the target group, as well as with other support for workplace alterations and transport costs etc. In Sweden and in the Netherlands, the size of the subsidy depends on the extent of the individual work capacity and cannot exceed certain limits.

In Denmark, there is a particular concern for individuals with permanent employability problems and who thus face the risk of entering the disability pension. A State-funded scheme known as Flexi-jobs has been in place since 1998 to support individuals with a permanent disability and/or reduced working capacity; it provides a subsidy to employers to retain such persons in the labour market. When the scheme was introduced, it was expected that the number of people on disability pension would be reduced as the weakest citizens now had the opportunity to stay in the labour market in a Flexi-job. However, this did not happen and as part of a large reform of both the disability pension and the Flexi-job scheme in 2012, the Flexi-job scheme was changed in a number of ways, a key element of which was changing how the subsidy would be delivered — subsidies under the current scheme are now paid directly to the employee rather than the employer. No evaluations of the recent reform of Flexi-jobs have occurred; however, the number of recipients remains stable and to this end the scheme seems effective in keeping a large number of disabled persons in employment despite the high cost for the public purse.

There are few studies of the employment impact of wage subsidies, and those that exist are sometimes contradictory, fewer still have tried to assess the relative efficiency of employment subsidies. For example, in Norway evaluation results available for the subsidy of persons with a reduced capacity to work indicate that the measure has the best results when combined with workplace training. The measure is found to extend the participation in employment of those with reduced capacity to work. However, longer-term employment effects and whether the subsidy helps avoid disability benefit are unclear.

### 3.1.6. Voucher schemes

Voucher schemes imply the use of vouchers attesting that part or all of the cost of training and/or employing the voucher-holder is subsidised by the state. Countries such as Greece, Poland and Finland are using vouchers entitling employers who recruit voucher-holders to a subsidy. In such cases, vouchers are seen as an effective way of administering the subsidies by simplifying administrative procedures and bureaucracy for the employer.

Poland is introducing a range of new measures targeted at unemployed young people (aged under 30)<sup>(38)</sup>. These include **reductions in social security contributions** for six months for employers hiring young people (on condition that the employer retains the young person in employment for a minimum of six months after the subsidy period ends). Measures also include a range of voucher schemes paid directly to the individual including an **internship voucher**; a **training voucher** (similar to the internship voucher but requiring an individual action plan with progression to employment); a **relocation voucher** paying a lump sum worth a maximum of two monthly (national average) wages (if the place of work is at least 80 km from an individual's place of residence); and an **employment voucher** (for those that have completed higher education), which pays a wage subsidy and social security contributions up to a value of EUR 195 per month (equal to the national minimum wage) for a period of 12 months. The measures have been monitored but few have been evaluated. The service voucher sector has had a dramatic growth (although has proved to be costly for the government and will be transferred to the regions).

In Finland, the voucher scheme, introduced in 2010 and planned to be permanent, entitles young unemployed jobseekers aged 17–29 years to a hiring subsidy. The measure has had clear effects on positive-attitude levels, has increased the use of hiring subsidies<sup>(39)</sup> and may have sped up the employment of young people, although further evidence of net effects is needed. In Greece, a similar voucher scheme, the 'Voucher for the entrance of 35 000 unemployed young people to the labour market' provides subsidies to young people in order to acquire work experience and develop the necessary skills required for labour market entry, as described in the box below.

<sup>(38)</sup> These changes are now being introduced but have not yet come into force. Parliament accepted the Act on 14 April 2014 and it has now been sent to the President for signature.

<sup>(39)</sup> Pitkänen et al. 2012.

### Box 3.1.6 Greece — Voucher for the entrance of 35 000 unemployed young people to the labour market

**Main aims:** Help graduates (at various levels) under the age of 29 to acquire their first work experience and develop the necessary skills required for their labour market insertion.

**Details:** The measure provides subsidies to young people in order to acquire work experience and develop the necessary skills required for their labour market insertion. The traineeship is funded through a voucher for entrance to the labour market, which represents a specific financial value and can only be exchanged for the provision of training services, guidance/educational mentoring and traineeship.

**Target group:** Young people (a. tertiary education graduates, b. compulsory, secondary and post-secondary education graduates).

**Budget:** The total budget of the measure is EUR 130 million.

**Duration of the measure:** This is a temporary measure.

The programme was open to applicants from mid-April until 22 May 2013. Training programmes were available for up to 80 hours, and trainees could be placed in private sector enterprises for up to five months.

**Complementary measures:** In combination with guidance/educational mentoring and placement of trainees. On completion of the traineeship, the enterprises offering traineeship may be subsidised for the creation of new work positions.

**Conditionality:** Based on a combination of social and economic criteria (e.g. family income, duration of unemployment, qualifications, etc.).

**Evaluation findings:** The approach appears to tackle underlying structural barriers to a better insertion of youth in the labour market (through up-skilling). The measure has enabled the unemployed to exercise more freedom of choice as regards the place, the duration, the subject of training and the enterprise where the practical training takes place.

There is no detailed evaluation available yet, although the Ministry of Labour has recently commissioned an operational evaluation study of the programme with a view to identifying design and organisational problems in order to propose improvements.

**Policy lessons:** The approach appears to tackle the underlying structural barriers to a better insertion of youth in the labour market (through up-skilling) as well as a response to the crisis-driven rise in youth joblessness. The measure has enabled the unemployed to exercise more freedom of choice as regards the place, the duration, the subject of training and the enterprise where the practical training takes place.

**Reference:** Greece EEPO Article

Service voucher schemes, such as the one that has been implemented in Belgium since 2004, are mainly a tool for turning undeclared low-skilled service jobs into regular employment, and in this sense, are not directly relevant to the remit of the current EEPO Review. The principal aim of the Belgian service voucher scheme is to create jobs and combat undeclared work. To achieve this, the state doubly subsidises the system: there is a direct subsidy to companies, used to cover the cost of wages and social security contributions, operating costs and a possible profit margin. Users are also subsidised, benefiting from a 30% tax exemption on the value of the service voucher. The scheme is resource intensive: in 2012 expenditure amounted to nearly EUR 1.6 billion for 151 137 workers, representing an annual average cost of EUR 10 553 per job.

#### 3.1.7. Direct job-creation subsidies/public works

Direct job-creation schemes have frequently been used in recessions. While they present a risk in terms of assisting the unemployed to find sustainable employment, they also provide a potentially useful way to help prevent the hard-to-place unemployed from becoming disconnected from the labour market. They may also provide an essential source of income support to those at risk of poverty in emerging economies where social protection systems do not cover the vast majority of unemployed people. However, it is not in the remit of the current Review to explore public works measures in detail.

**Direct job-creation and public works schemes have been implemented extensively**



**in several countries**, including Bulgaria, the Czech Republic, Greece, Latvia, Lithuania, Malta and Poland, among others. Public works have been the key focus of ALMPs in Croatia (where 14 public works programmes are currently being implemented), and in Hungary. Further details on such measures can be found in the respective national EEPO Review articles.

In Germany, two job creation schemes ended in 2012: the traditional job creation scheme (*Arbeitsbeschaffungsmaßnahmen*) and a smaller programme (*Kommunal Kombi*). The latter was a federal programme co-financed by the ESF and focused on job creation for the long-term unemployed in regions with exceptionally high unemployment rates. A new type of subsidy replaced these, known as **One-Euro-Jobs**. This is designed for Unemployment Benefit-II recipients (i.e. those who can work at least three hours a day). In addition to a means-tested benefit, beneficiaries are paid EUR 1–2 per hour for between 3 to 12 months, and municipalities are paid an average monthly sum of EUR 280 (as a mentoring fee for participants). The aim of the subsidy is to increase employability, especially among those detached from the labour market, and to boost access to permanent employment by encouraging initial probation periods. The measure has been subject to several evaluations, and, while the employment impact is not large, there are positive temporary employment outcomes for some groups (i.e. women in West Germany). However, problems have been identified in terms of ‘creaming’ and ‘dead-weight’ effects.

So far, Croatia has implemented 14 **public works programmes** that directly create jobs. Under these, subsidies are open to all national employment policy target groups (youth, the long-term unemployed, older workers, people with disabilities, the Roma and other vulnerable groups). These cover between 50% and 100% of gross salary (plus transport); and can last between 6 and 36 months. The jobs must be non-profit and non-competitive to the existing local economy, with priority for the fields of social welfare, education, environmental protection, maintenance and utility works. All measures last until at least the end of 2014. Few have been evaluated, although the Croatian Employment Service (CES) publishes monthly data on the number of beneficiaries.

Malta has implemented a government-funded **community works scheme**. This is administered by the Employment and Training Corporation and provides the long-term unemployed with the chance to do community work under the direction of local councils, non-government

organisations (NGOs) and government entities. Beneficiaries work for 30 hours per week and earn 75 % of the national minimum wage for a period of six months. The most recent version of the scheme (announced 2009) targets those who have been unemployed for five years or more, and the target group is gradually being expanded. The scheme has not been evaluated but has been subject to criticism, due to a shortage of placements; the need for more off-the-job training; and, more recently, concerns over the creation of an unemployed ‘underclass’, as those who refuse to participate are struck off the unemployment register.

### 3.1.8. Supporting up-skilling

The third type, subsidising employment in the context of training to enhance skills and employability, appears to be most prominent in countries where there is a stronger tradition of employer-led training/embedded apprenticeship systems. The progression towards the third type of hiring subsidies, i.e. linked to training interventions, is perhaps a further development of the underpinning rationale to address the labour market disadvantages of certain groups at risk of long-term unemployment or exclusion from the labour market. However, this third approach appears to bring with it concerns that are more structural in nature, i.e. related to the changing nature of employment demand (particularly the increasing demand for higher-level skills), which increasingly puts workers at the ‘lower end’ of the labour market at a disadvantage as well as creating skill shortages/employment gaps.

Approaches to the implementation of subsidies to enhance the skills and employability of workers were observed across the countries considered in this Review, and include the following <sup>(40)</sup>.

- Approaches encouraging employers to deliver on-the-job training to subsidised employees.
- Approaches incentivising employers to take on a trainee in an existing training scheme.
- Linking employer training activities to job openings for subsidised workers (i.e. job rotation-type schemes). In Denmark there is a hiring

<sup>(40)</sup> One example was also found of subsidies supporting retraining (as opposed to up-skilling). A recently announced programme running between February and May 2014 will be managed by the Higher Hotel Institute of Cyprus (HHIC) and aims to train up to 1 500 long-term unemployed individuals to work in the hospitality industry instead of their previous area of work. It remains to be seen how much interest there will be by employers, as the incentive is low and there are already a large number of unemployed hospitality sector workers.



subsidy in relation to the job-rotation scheme. This subsidy is paid to employers, who send their employees to further training or education, while hiring an unemployed substitute for the same number of hours. Both the substitute and the employee will receive a normal wage during this period.

- Schemes focusing on internships and employment placements as the key aspect of skills and employability enhancement for

individuals. These types of subsidies focus more on strengthening work experience and general employability (as opposed to formal training and qualification development). The duration of the measures varies — as an example, internships are supported for 4–13 weeks in Denmark, 1–3 months in the Czech Republic, and 6–9 months in Ireland.

The table below summarises the main up-skilling measures reported in the national reports.

Table 3.2 Up-skilling hiring subsidies and groups targeted

	Young people	Long-term unemployed (LTU)	Older workers	People with disabilities	Women	Ethnic minorities (e.g. the Roma)	Immigrant background	Other
On-the job training	CZ (2) HR (1) NL (1) AT (1) IS (1) FYROM (2)	CY (2) LT (1) FYROM (2)	IS (1) FYROM (2)	EE (1) AT (1) IS (1)	CY (2)	FYROM (2)		DK (1) HR (3) CY (1)
Job-rotation schemes								DK (1)
Adult apprenticeships and internships		IE (1)	DK (1) IE (1) AT (1)		AT (1)			

NB: The numbers in brackets indicate the number of relevant measures covered in the national articles, in each category and for each country.

In Austria in recent years, fewer and fewer companies have been prepared to offer apprenticeship places. To create incentives for employers to hire apprentices, the system of subsidies for company-based apprenticeships has been developed. Given the very high level of secondary-education attainment in the Czech Republic, the least educated workers are particularly unemployable. In Finland, young people experience major difficulties in the transition from education to employment, and therefore speeding up the transition from education to employment is an important challenge. The transition from school to working life is also a major challenge for young graduates in Portugal. France is addressing deteriorating employment opportunities brought about by prolonged distance from the labour market and which leads to poorly adapted skills. Measures in the Netherlands have aimed at facilitating training and schooling of vulnerable groups while being in a regular job.

#### 3.1.8.1. Adult apprenticeships and internships

The importance placed on skills enhancement in the framework of hiring subsidy measures appears to vary within and between countries.

**Training- and employability-related subsidies are not limited to young people alone. Even though adult apprenticeships and internships are not technically hiring subsidies, they support the improvement of employability and occupational mobility.** Several countries (Denmark, Ireland, Croatia and Iceland) have implemented on-the-job training measures for adults, such as apprenticeships and internships, to increase the employment opportunities of the unemployed. For example, Iceland has implemented a permanent programme of **traineeships/apprenticeships** to provide unemployed people with the opportunity to get training in industry to improve skills and employment opportunities. In the case of **trial periods**, the firm in question pledges to hire the individual for an equal number of months to the trial period. **Innovation contracts** can also be signed for arrangements that are considered likely to lead to permanent employment; all projects have to be accredited by Innovation Centre Iceland (Nýsköpunarmiðstöð Íslands). Data identified that 85% of those that took part in employment-related measures in 2013 were not registered unemployed three months after their employment period came to an end.

The main aim of hiring subsidies in Denmark is to allow unemployed people to receive on-the-job-training and overcome the hiring barriers that are usually faced by individuals who have been away from employment for a long period. In Denmark the subsidy for adult apprenticeships is paid to employers that take on adults workers while they study to become skilled workers. The employer does not pay wages during the training period; participants receive a benefit from their unemployment fund or the

municipality (equal to the benefit to which they would otherwise be entitled), as described in the box below. The effects of unpaid internships are generally less evaluated than the effects of other hiring subsidies in Denmark. However, there is indication that internships have positive employment effects, partly linked to their relatively short duration, with retention effects remaining relatively small and offset by the positive programme effects for unemployed individuals.

### Box 3.1.8.1 Adult apprenticeships — Denmark

**Main aims:** Support unskilled workers without formal school qualifications to get a vocational education.

**Details:** Subsidy (DKK 30 (EUR 4) per hour) for employers who take on adult apprentices that lack qualifications.

**Target group:** Adults aged 25 and over who did not receive a formal education or who are in receipt of social assistance benefits.

**Budget:** DKK 90 million.

**Duration of the measure:** It is a permanent measure. The subsidy is available for up to two years.

**Complementary measures:** Complementarity with the general vocational education system.

**Conditionality:** The apprentice must meet target group conditions and receive a salary at least as high as that of the lowest wage of an unskilled worker in that sector.

**Evaluation findings:** The measure has been evaluated positively. For instance, it has positive effects on the employment of adults without formal qualifications (results taken one year on from the apprenticeship). Participants have improved short-term employment prospects after completing their apprenticeship. A recent evaluation shows that the insured unemployed and social assistance recipients who are trained as adult apprentices have a significantly better chance of finding a job in the first years after graduation compared to unemployed people who have participated in normal adult education courses. One year on, 70 % of participants are in work, against 58 % in the control group. The effects are particularly significant for former recipients of social assistance. The positive effects apply to both unemployed people who have already received vocational education, and to the unskilled. Older unemployed people show the best results, and do not appear to have 'crowding out' effects for other apprentices.

**Policy lessons:** This is a good practice for enabling lifelong learning in the workforce, particularly in this time of ageing societies. It does not appear to bring crowding out effects for other apprentices.

However, there is a 'bottleneck' in terms of setting up contracts with employers.

**References:** Denmark EEPO Article; Deloitte (2013): *Evaluering af voksenlærlingeordningen — Effekter, anvendelse og incitament* [Evaluation of the adult apprenticeship scheme — Effects, use and incentives], København (www.ams.dk)

## 3.2. Targeting of hiring subsidies

This section explores how Member States target and design hiring subsidies to meet their priorities and the needs of particular groups of workers.

The issue of tailoring measures to the needs and circumstances of specific groups appears to be

one that many countries have sought to address. Debates in several countries have focused on the key barriers to employment that hiring subsidies should target, and lack of skills emerges as a high priority in several cases. The focus of hiring subsidies and job-creation programmes has been changing from the main objective of combating mass unemployment and mass long-term unemployment towards more targeted measures

to tackle employment barriers among disadvantaged groups<sup>(41)</sup>.

In some countries, a consequence of this trend to closer targeting has meant that hiring subsidies programmes have become characterised by more variation, being differentiated by the target groups, incentives used and employer obligations. An example is the former Yugoslav Republic of Macedonia after 2010, where besides the typical hiring subsidy programme targeting almost all categories of workers, specific programmes have been introduced focused on young workers, both in tertiary education and lower levels of education, as well as social financial assistance (SFA) beneficiaries, orphans and others.

Other countries have maintained a smaller number of measures with a close focus on eligible groups. In most cases the target groups for hiring subsidy schemes are set nationally, although it is interesting to note that this is not universally the case. In Lithuania, the Labour Exchange has the right to set priorities in terms of the target groups and the duration of wage subsidies, after analysing the local labour market situation and consulting social partners.

A common approach to the targeting of hiring subsidies appears to be a process of identifying the groups considered most structurally disadvantaged in the labour market context. As a general rule, the background to targeting, in the context of high unemployment, is that when there are many applicants for a job, certain disadvantaged labour market groups may have very low chances of successfully competing for that job (e.g. compared to those with more qualifications or skills). Some hiring subsidies in national and local labour markets are the result of a concern about the differing labour market prospects for different groups of unemployed workers, and the barriers they face to employment — particularly their relative disadvantage in relation to other unemployed groups with whom they are competing for jobs. A wide range of groups were noted across the countries included in the Review. For example, in Bulgaria the subsidies are granted mainly to assist the employment transition of the following groups: young people

(including young people leaving social institutions; early school leavers; youths with secondary and university education without work experience); older workers over 50 years; people with reduced workability, including military invalids; the long-term unemployed and persons receiving social benefits; women (including unemployed single mothers; women returning to work after maternity leave); and unemployed people in regions with deficient labour demand. In Estonia, one of the main goals of recent renewed legislation was to put more emphasis on the active inclusion of disabled persons in the labour market from 2011 onwards.

In this context, hiring subsidies fulfil the function of motivating employers to consider particular groups of workers through job creation and boosting the employment prospects of these groups, through compensating employers for potentially lower productivity. Measures to compensate for the productivity gaps of workers can be relatively large scale in some national contexts: in Sweden, for example, it is estimated that 75 % of the cost of subsidised employment within the framework of active labour market policies administered by the PES can be ascribed to employment subsidies targeted towards workers with reduced work capacity due to functional impairment<sup>(42)</sup>.

The labour market context has also had played a role in debates around the targeting of hiring subsidies. Rises in youth unemployment across Europe, and very high numbers of unemployed young people in some countries with low overall employment growth in recent years, have shifted the focus towards younger workers as a priority group for whom jobs may need to be created to avoid the social as well as economic problems associated with very high rates of youth unemployment. Hiring subsidies for young people were found in 24 countries.

New groups identified in more recent subsidies include relatively well-educated younger workers whose employment prospects are limited through poor labour market conditions in the global recession. Changing labour market contexts, specifically structural changes designed to increase the proportion of unemployed people with secondary or higher-level education qualifications, puts the focus on motivating employers to recruit the relatively advantaged unemployed<sup>(43)</sup>. In some cases, for example Bulgaria, hiring subsidies for

<sup>(41)</sup> The case of France most clearly demonstrates an approach of successive targeting over time over rounds of subsidies at the groups most in need of support into jobs. This was in view, on the one hand, of a trend towards easing the high level of general unemployment and on the other hand, a shift from conjunctural unemployment to structural unemployment. The latter shifted the focus of concern onto deteriorating employment opportunities for those people currently facing difficulties in returning to work: over the last three years several new types of hiring subsidies were introduced with a tighter focus on disadvantaged groups.

<sup>(42)</sup> Sweden EEPO Review national article.

<sup>(43)</sup> For example, in Croatia, a new package of measures from 2012 called 'Young and Creative' started providing support for young, highly educated people with no or very little working experience who encounter difficulties while searching for a job.

these groups of more educated unemployed youths could also be a way of preventing their emigration to other countries. This appears to be the reason why hiring schemes in Bulgaria have become more proactive and strategically orientated, to prevent the brain drain.

### 3.3. Duration of hiring subsidies

There are many controls in place to regulate the subsidies. **There are often limits to the maximum duration of wage subsidies, which typically range from six to 12 months.** In some cases, subsidised employment can last for longer than one year. For instance, in Croatia, severely disadvantaged groups can be subsidised for up to 24 months; in Hungary, subsidies are available over a period of six to 24 months; in Latvia and Norway, they can last between 12 and 36 months.

As well as time limits, **there are restrictions to the proportion of a wage that will be covered by the subsidy.** For instance, the schemes in Germany, Estonia, Croatia and Latvia cover up to 50% of the monthly salary or wage (in Estonia and Latvia this amount cannot exceed the statutory minimum wage). In Norway, subsidies can be worth 50% to 60% of an employee salary and in Lithuania they are between 23% and 75%. In Hungary they can cover up to 100% of total wage costs, although there are several subsidies

in place and the amount can vary. Unusually, in Denmark, the wage paid to employed people is determined by collective agreements, although in the public sector, the total wage (with subsidy) may not exceed the amount of the unemployment benefit.

More generally, **the ‘economic’ rationale measures are naturally, in their majority, temporary in nature, since they are responding to particular economic circumstances.** Most have a definite end date and the duration of measures can range from a couple of months (e.g. transition of workers into the hospitality industry in Cyprus) up to three years, or sometimes longer.

**On the contrary, measures targeting specific disadvantaged groups are often permanent in nature.** This includes: measures for workers with disabilities in the Czech Republic, Denmark, Sweden and Norway, or for older workers such as Austria’s ‘Come back’ programme since 1998 or Romania’s employer subsidies for those aged 45 plus. Permanent measures targeting the long-term unemployed, include France’s Contrat Unique d’insertion (CUI) targeting the long-term unemployed (LTU) and hard-to-place — introduced in 2010. As for young people, examples include the reduction of employers’ social contributions targeted to young people in Sweden, permanent since 2007, modified in 2014 on a permanent basis.

## ■ 4. Comparative analysis

The national experts' review articles were analysed in order to draw conclusions about the purpose and rationale for subsidies in different labour market contexts, to assess the types of measures that are currently being used, gather the evidence of which measures are viewed as successful and identify the factors underlying the most successful measures. The results of this analysis are presented here with some general conclusions emerging about the extent to which hiring subsidies have supported national labour market developments and the potential role and future development of hiring subsidies as part of achieving future employment objectives.

### 4.1. Complementarity with other measures

Although practices vary between countries, hiring subsidies are usually introduced in the context of other measures and priorities in place to tackle unemployment and boost employer demand. Complementarity can exist in a range of areas as shown in Box 3.1, and in some cases, hiring subsidies have been actively combined with other measures. The links between complementing and combining measures may not be clear-cut, especially in the case of linkages between hiring subsidies and training. For example, in Estonia there are no training conditionalities imposed on firms; however evidence suggests that roughly 50% of the participants in wage subsidy schemes had taken part in other active labour market policy measures (mostly training, career counselling or work practice)<sup>(44)</sup>.

#### Box 4.1 How hiring subsidies are complemented and combined with other measures

Measures complementing hiring subsidies (and some examples of where these are being applied) include the following:

- consultation with a PES caseworker/dovetailing with PES activity (Hungary, the UK, Iceland etc.);
- mediation (Belgium);
- on-the-job training/in-work training provided by the employer (Cyprus, Serbia);
- business support services applicable to companies (Malta); activities to support sector employees (e.g. tourism and retail sectors in Cyprus); enterprise training for employers (Romania);
- employer subsidies (e.g. not-for-profit sector in Belgium).

Combined measures include:

- combining a hiring subsidy with training (Denmark);
- covering (some) non-wage costs for employers;
- other employer costs (e.g. aids and adaptations when employing people with disabilities);
- incentives for workers e.g. financial support to commute (Hungary) or free childcare (Malta);
- linking hiring subsidies to changes in employer employment regulations e.g. wage subsidies coupled with changes in employment regulations regarding dismissal (Spain).

<sup>(44)</sup> Anspal et al., 2012

Using active labour market policy measures in combination is a relatively new phenomenon in some instances. For example, in Bulgaria the programme for hiring subsidies was combined with training in 2013 (so far this measure has proved to be successful and is also planned to be implemented in 2014). However, other countries have a longer tradition of complementarity in ALMPs<sup>(45)</sup>.

Key messages emerging from the national reports include the following:

- Accompanying **support and preparation** measures complementing the subsidy schemes have been shown to have a key role to play among some groups (as shown, for example, in Austria). These supporting measures help to prevent participants dropping out at an early stage of the subsidised employment or apprenticeship contracts<sup>(46)</sup>.
- **Company-based** support mechanisms have a key role to play (as shown, for example, in the evaluation of workplace coaches for older workers in Austria)<sup>(47)</sup>.
- A targeted **follow-up strategy** can be important. Given the employers' obligation to keep the subsidised workers in a job for a certain period of time, many participants in the programme lose their jobs over time. This might raise a need for 'preparatory' training for each programme participant in terms of job-search skills and follow-up by employment services, etc. Data from Slovakia's Central Labour Office suggests that early placement in the open labour market after the subsidy period increases the chances that the person will retain employment for a longer period<sup>(48)</sup>.

The lack of complementary services offered to programme beneficiaries in Bulgaria were cited as leading to long unemployment spells among the participants at the end of the programme, or when the subsidised worker was subsequently

dismissed<sup>(49)</sup>. A strong recommendation emerging from evaluating the hiring subsidies programme would be that it should be combined with PES measures.

In Finland, effort has focused on the creation of intermediate labour markets (ILM) and cooperation between key actors in ILM (municipalities, PES, private companies, third sector). A significant part of the country's ESF structural funds (2007–2013) was used to create and enhance ILM, and the combination of inter-agency cooperation in ILM and wage subsidies is considered a success factor. Restructuring local services and creating new forms of multi-professional and multi-actor services are closely connected to the above as a response to the challenges of the economy and labour market in terms of stimulating demand and using wage subsidies in this framework<sup>(50)</sup>.

## 4.2. Combining hiring subsidies with training

There are a variety of ways in which hiring subsidies that combine training and employment function operate. For example, the former Yugoslav Republic of Macedonia approach operates by combining two different activation programmes: training is either organised for employers, who have an obligation to retain a certain share of the trained workers, or is focused on deficient skills (after training, workers search for jobs in the labour market). There is a trend towards hiring subsidies linked to the national training systems in some countries, which is probably underpinned by some general and specific developments in the countries concerned. These include structural changes in the economy: specifically, falling demand for low-skilled employees has led to changes in the situation of the unemployed, their skills not being adapted to labour market needs. Up-skilling to meet the emerging skills needs of employers is a policy priority (for example in France). The existence of skill shortages issues within some regions of Germany is now a major concern of labour market policy<sup>(51)</sup>. There have also been changes in training provision, in countries with traditional apprenticeship programmes, shifting the focus on ways of engaging employers in training. For example, in the Czech Republic internship programmes are seen as a relatively low-cost way of addressing the

<sup>(45)</sup> A mix of approaches is observed. For example, in Bulgaria almost all programmes and measures combine recruitment with attendance of vocational training courses, studying key competencies and literacy courses, and on-the-job training (apprenticeships) under the guidance of a mentor and/or internships for unemployed with secondary or higher education. The concrete parameters of the programmes and the measures are specified in the annual employment action plans after coordination with social partners and their approval.

<sup>(46)</sup> 'Education fit' is a new programme that supports young people with learning difficulties and social problems to get prepared for apprenticeship training. See the EEPO Review national article for Austria.

<sup>(47)</sup> Workplace coaches give support to older workers, who receive a hiring subsidy and are helped to adapt to the new challenges in companies. See the EEPO Review national article for Austria.

<sup>(48)</sup> Slovakia EEPO Review national article.

<sup>(49)</sup> International Labour Organisation-ILO, 2012 Performance Monitoring of Active Labour Market Programmes implemented in 2007–2010: Key findings. International Labour Organisation.

<sup>(50)</sup> At the same time, coordination of actors and measures still remains a major challenge and the reshuffling of local authorities and services is only partly established.

<sup>(51)</sup> Germany EEPO Review national article.



separation of apprenticeship programmes from companies since the early 1990s. In Austria in recent years fewer companies were prepared to offer apprenticeship places. The system of subsidies for company-based apprenticeships is designed to create incentives for employers to hire more apprentices (this includes a general subsidy system and a subsidy system for disadvantaged young apprenticeship-seekers). A minority of schemes linking to national training schemes (i.e. in the case of subsidies attached to participants in existing training schemes) included some sector-based measures. For example, in Cyprus subsidies are linked to training in emerging areas that will be supported by the natural gas discovery.

### 4.3. Evidence of successful approaches

#### 4.3.1. Effectiveness of hiring subsidies — findings from existing literature

According to existing literature, there are a number of ways in which hiring subsidies can be made more effective, including:

**Targeting:** Hiring subsidies should be primarily focused on the most vulnerable group of workers. For example, a paper by the Heads of Public Employment Services (HoPES)<sup>(52)</sup> suggests that the sustainable and long-term integration of young people requires targeting that is productivity-related, meaning higher subsidies for young jobseekers with clear productivity deficits so that subsidies incentivise employers to take on young people who might otherwise be rejected. Targeting may also occur towards struggling industries, although identifying deserving industries is problematic, especially in respect of perceived protectionism. Targeting through ceilings on total-firm or per-worker subsidies tends to favour smaller firms, as they are more likely to be credit-constrained than large firms. Ceilings on subsidies per worker encourage low-skilled employment and part-time jobs<sup>(53)</sup>.

- **Stricter conditions for employers:** ‘net hiring subsidies’ (or ‘marginal stock subsidies’) rather than ‘gross hiring subsidies’ should be used, to avoid displacement effects. The OECD cites the work of Knabe et al. (2006) to

highlight the idea of ‘double marginal subsidisation’, whereby a firm hiring a new worker and raising employment above its reference level receives subsidy payments for both the new worker and one incumbent worker. This strengthens incentives for net job creation, while reducing incentives for gaming the subsidy scheme via outsourcing<sup>(54)</sup>.

- **Temporary time frame:** hiring subsidies should be temporary and targeted at firms for whom demand is only depressed temporarily and terminated as soon as the economy improves in order to shift focus to re-employment in regular jobs<sup>(55)</sup>.

#### 4.3.2. Limitations and challenges — findings from existing literature

On the basis of existing literature, there are a number of limitations and challenges to consider when designing and implementing hiring subsidies:

- Hiring subsidies are limited in effectiveness in improving net employment<sup>(56)</sup>. The number of additional subsidised jobs is likely to be small in comparison with the large increases in unemployment and long-term unemployment experienced throughout the EU.
- Employment incentives appear more effective in promoting the employment of specific groups than in increasing overall employment.
- Subsidising more permanent jobs compared to temporary jobs seems to be effective in the short run but not in the long run. More structural solutions should be sought to address labour market segmentation between temporary and open-ended contracts (e.g. reducing the legal differences between different employment contracts).
- In the context of high inflows into unemployment leading to increased competition for new jobs, simply expanding the number of subsidised jobs is unlikely to be enough to help all the target groups get back into work<sup>(57)</sup>. The amount of the subsidy may also need to be increased for hiring subsidies to be effective in a steep downturn.

<sup>(54)</sup> *ibid.*

<sup>(55)</sup> Ecorys/IZA, *Analysis of costs and benefits of active compared to passive measures*, final report, European Commission, DG Employment, Social Affairs and Inclusion, Rotterdam, 2012.

<sup>(56)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(57)</sup> *Ibid.*

<sup>(52)</sup> HoPES, *HoPES Note on Criteria for sustainable wage subsidies, A response from the European network of Heads of Public Employment Services (HoPES) to calls for action agreed at the Berlin Conference on Youth Employment on 3<sup>rd</sup> July 2013*, October, 2013.

<sup>(53)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.



- Subsidies tend to focus on short-term job-specific training, which may not be consistent with labour market-skills demand over the long-term<sup>(58)</sup>.
- Hiring subsidies are associated with potential deadweight, displacement and substitution effects<sup>(59)</sup>. For example, firms may hire target-group workers for the duration of the subsidy and then replace them with other target workers; or firms may use subsidised hires to replace existing workers. The risk is that that on balance, the net employment gains may be limited and employees may be allocated to less-productive activities. A 2010 Hungarian study showed that half of the surveyed unemployed job finders indicated that they would have been hired even without the subsidy<sup>(60)</sup>. Effective targeting and conditions for employers can help to minimise this risk. Aiming employment incentives at the long-term unemployed reduces the risk, since the long-term unemployed have a smaller chance of finding a job without help.
- Targeting disadvantaged groups, such as those at risk of long-term unemployment, can be effective, but risks being counterproductive when it increases administrative burdens, reinforces the negative stigma associated with disadvantaged groups and suffers from limited awareness among employers<sup>(61)</sup>. Also, wage subsidies targeted at low-skilled workers will reduce the relative wage gap with more highly skilled workers leading to a disincentive for skills development among the low-skilled<sup>(62)</sup>. However, this would depend on the duration of hiring subsidies.
- Where social security contribution rates have been lowered, employment incentives have often been provided to keep existing employees, not only to recruit new workers. Such measures have a serious risk of becoming 'deadweight loss' (they apply to workers who would have been dismissed and workers who would have been retained alike)<sup>(63)</sup>.
- The case for hiring subsidies is strongest in times of crisis, when employers are more reluctant to hire workers. Employment incentives can also provide young workers with work experience in times of crisis, although the focus on youth should also transcend economic cycles. In times of low unemployment there is no strong rationale for subsidies to employees or in-work benefits, unless as a means to combat informal work<sup>(64)</sup>, as illustrated by the Belgian service voucher scheme<sup>(65)</sup>.
- Impacts vary depending on the state of the labour market<sup>(66)</sup>. Hiring subsidies may become less effective in periods of relatively slack labour markets, while training programmes may become more effective.
- Subsidies can also distort market decisions as they affect the cost and benefits of hiring<sup>(67)</sup>.
- There is risk of programme abuse by employers, and monitoring of employers to counter this may introduce prohibitive administrative burdens, especially for SMEs<sup>(68)</sup>.

#### 4.3.3. Effectiveness of hiring subsidies — findings from the current Review

The current Review of hiring subsidies measures across the EU confirms the above picture painted by existing literature, as discussed below. In the subsequent sections, the effectiveness of national hiring subsidy programmes is explored in relation to the success factors underpinning those schemes that are considered most effective.

The extent of formal evaluation evidence of national measures is limited. The country reports suggest that as a general rule evaluation of hiring subsidies is based on use of internal monitoring data. The

<sup>(58)</sup> European Commission, *Employment in Europe 2010*, Directorate-General for Employment, Social Affairs and Equal Opportunities, Brussels, 2010.

<sup>(59)</sup> Deadweight effect refers to subsidising jobs for unemployed persons who would have found a job anyway, even without the subsidy. The displacement effect occurs where the subsidy causes job losses through distortion of competition. Job losses are caused in enterprises that do not receive subsidies. The direct substitution effect occurs when the subsidy causes an existing job to be replaced by a subsidised job, for example, an older worker being replaced by subsidised younger workers. Without the subsidy, the regular worker would continue to be employed. Indirect substitution occurs when an existing vacancy is filled with a subsidised worker that, without the subsidy, would have been filled by a different applicant. Non-subsidised workers may be excluded or not recruited in favour of cheaper, subsidised workers.

<sup>(60)</sup> Ecorys/IZA, *Analysis of costs and benefits of active compared to passive measures*, final report, European Commission, DG Employment, Social Affairs and Inclusion, Rotterdam, 2012.

<sup>(61)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(62)</sup> European Commission, *Employment in Europe 2010*.

<sup>(63)</sup> Ibid.

<sup>(64)</sup> Ibid.

<sup>(65)</sup> See Belgium EEPO Review national article for further details.

<sup>(66)</sup> OECD, *OECD Employment Outlook: Tackling the Jobs Crisis*, OECD Publications, Paris, 2009.

<sup>(67)</sup> European Commission, *Employment in Europe 2010*, Directorate-General for Employment, Social Affairs and Equal Opportunities, Brussels, 2010.

<sup>(68)</sup> Ibid.

difference made by hiring subsidies to the employment prospects of the groups involved is assessed in the first instance with a focus on the take-up of the measures (i.e. the volume of places supported and cost per job), combined with a longer-term perspective about whether the individuals were kept on in employment beyond the subsidy period (and, if tracking is part of the model, whether the jobs are sustained over time). Few evaluation studies were noted in the country reports that gave any sense of comparative evaluation (i.e. to assess whether the supported workers did any better than might otherwise be expected/or could be secured for the same cost), and of the extent of the positive (job creation) and the potential negative effects (deadweight, substitution and displacement).

However, more detailed evaluations have been carried out in Denmark, Germany and Greece, which provide lessons for future programme design.

- In Denmark, there have been several evaluations of the effect of hiring subsidies. The main conclusion from these evaluations is that the effects of the hiring subsidies largely depend on whether they are applied to private or public jobs; however, both are associated with locking-in effects. For private subsidised employment, these are outweighed by the subsequent effects of improved qualifications, although this has been shown not to apply to subsidised employment in the public sector.
- In Germany, integration wage subsidies (*Eingliederungszuschüsse*) for employers have been subject to several evaluations, which have demonstrated a positive employment effect — providing an important stepping stone into stable, unsubsidised employment for disadvantaged groups — although having little impact on the recruitment strategies of enterprises overall.
- In Greece, the principal subsidy programme, *New jobs for the unemployed*, has been implemented since the 1980s. It has been subject to several evaluations, with the most recent (2008) identifying that subsidies had been successful in promoting employment, especially among vulnerable groups (women, older workers, low-skilled workers and new entrants without work experience), although net positive gains have been achieved at a high financial cost, with organisational inefficiencies and market-knowledge weaknesses restricting the full potential impact.

The elements of effectiveness by which subsidies are judged include success in terms of generating placements, including jobs for the most vulnerable workers, and longer-term jobs and employment

opportunities. There is also a concern to minimise the extent of deadweight and the substitution/displacement of workers, or of subsidised jobs for ordinary jobs. When considering the success of measures, the wider context appears to be a factor in the assessment of the risks of the potential negative aspects associated with hiring subsidies for job creation. Hence there appeared to be a general consensus emerging from the experts' narrative that in tight labour market conditions, deadweight effects (i.e. the potential for subsidising jobs for unemployed persons who would have found a job anyway, even without the subsidy) would be minimised because it is unlikely in these conditions that the vacancies would otherwise exist.

In this respect the perceived success of particular schemes in avoiding dis-benefits relates to the context in which they have been implemented. For example, indirect substitution effects are generally considered a potential downside of hiring subsidies (i.e. indirect substitution occurs when an existing vacancy is filled with a subsidised worker that, without the subsidy, would have been filled by a different applicant, so non-subsidised workers may be excluded or not recruited). However, to an extent the function of some targeted schemes is to secure preferential treatment for a priority group over other applicants. The assessment of the subsidised employment of young workers in the former Yugoslav Republic of Macedonia, for example, was seen to take into account that youth unemployment is a priority for the government, especially given the youth unemployment rate of around 50%.

In a similar vein, other problems associated with subsidy schemes around distortion of competition (displacement) may depend on a judgement of how a scheme or schemes are applied across the labour market. Having different schemes for small and large employers and a sector approach, in Cyprus for example, was held up as a means of minimising displacement effects, and elsewhere the broad coverage of schemes with few employer exclusions was also cited as leading to lower displacement effects.

The preceding examples show that the specific priorities and objectives for different schemes also need to be taken into account when judging the success of different initiatives.

#### 4.3.4. How hiring subsidies are judged

**Some schemes that have been judged to be effective are judged so on the basis of securing short-term employment opportunities for unemployed people.**

Turkey is one example of where wage subsidies have gone some way in addressing long-standing employment problems for women and young people (although the longer-term benefits and displacement and substitution effects have yet to be evaluated).

**The size of the scheme (and budget) comes out as the most important success factor for wage subsidy schemes in terms of assuring sufficient take-up to be seen to make a difference.**

- The importance of the scale of schemes to perceptions of their effectiveness is illustrated in the example of Austria. Subsidies in the vocational training system, especially the basic subsidies, show a very high take-up rate as there are no specific conditions for the employers, but the estimated employment effect is rather limited. In Austria the reduction of non-wage labour costs is an approach that has been implemented for target groups — apprentices, business start-ups and employees in low-wage occupations — but the scope of the reduction of non-wage labour costs was considered too limited, and no significant employment is expected.
- In Denmark the flexi-job scheme, measured by intake, seems to be considered successful in keeping a significant number of people with disabilities in work (despite the costs for the public budgets being rather high and the potential problems with deadweight).

Scale and take-up is an insufficient basis on which to judge the longer-term success of measures. A stronger measure of success is whether the recipients sustain employment after the subsidised period (whether with the same or another employer). However, evaluation evidence is less available on this issue because a degree of longitudinal tracking is required. It is likely that the impacts will vary, and targeting issues and the wider economic and labour market context may play a part in boosting employment prospects. Examples of evaluations undertaken in different Member States, and results, are outlined in Annex 1.

**In comparative studies of a range of ALMPs, wage subsidies tend to come out as one of the most successful in terms of the chances of recipients progressing into jobs, as shown in the following examples:**

- An evaluation of the relative efficiency of six types of measures in Sweden rates employment subsidies as most likely to result in jobs

in the short and long term, and as more effective than labour market training<sup>(69)</sup>.

- In Denmark, an evaluation study<sup>(70)</sup> found that unemployed and social assistance recipients who are trained as adult apprentices have a better chance of being employed after a year than unemployed people in other adult education courses. However, the results are not consistent.
- In Finland, the hiring subsidy programme was found to be more costly than training, and with smaller effects (when taking into account the longer-term labour market prospects of the participants), though more cost-effective than the self-employment programme. In addition, the downside is that employment subsidies tend to be most often associated with crowding out ordinary jobs compared to other programmes.

**In practice it is likely that only a minority of subsidised places may lead to ongoing employment.** A study in Belgium<sup>(71)</sup> by Cocks et al. (2004) found, for the 'Recruitment Advantage Plan', that the exit rate of employment in the period after the end of the subsidy was relatively high, especially for men. This shows that the rate of productivity growth of beneficiaries was too low to compensate for the lower level of the subsidy and suggests that, for certain target groups, a more sustainable integration in employment requires a structural reduction of labour costs or other policies that can increase productivity.

The effects may be even lower for disadvantaged groups. In relation to hiring subsidies for people with disabilities, the effects on sustained employment opportunities are considered to be generally fairly low (for example, only less than 5% in a Swedish scheme for people with functional impairment<sup>(72)</sup>). However, the consensus is that these individuals would be out of the labour market in the absence of such schemes (although the jobs are secured at a relatively high cost).

#### 4.3.5. Deadweight effects of hiring subsidy measures

Evaluation of the extent of inefficiency in the application of subsidies (i.e. deadweight) is key to the assessment of the job-creation benefits of hiring subsidies, although the reports from national

<sup>(69)</sup> Saniesi, 2007.

<sup>(70)</sup> Deloitte, 2013. See the Denmark EEPO Review national article for further details.

<sup>(71)</sup> Cocks et al., 2004.

<sup>(72)</sup> Sweden EEPO Review national article.

experts highlighted a general lack of information on this, possibly due to the complexity involved in setting up rigorous evaluation models to capture the effect. There are few case control studies to provide a counter-factual scenario against which the deadweight effects can be assessed (see Annex 1 for examples of national evaluation studies of hiring subsidies and their results).

As a general rule, the extent to which hiring subsidies create deadweight effects appears to depend on a combination of the following factors.

- **Targeting:** expansion of the wage subsidy scheme to less disadvantaged groups during the economic crisis may have led to higher substitution and displacement effects.
- **Recruitment demand:** in tight labour markets, deadweight and substitution effects would automatically be reduced because employers were less likely, in this context, to employ workers <sup>(73)</sup>.

As far as targeting is concerned, several of the national experts assert that the highly targeted nature of some hiring subsidies plays an important role in preventing some of the ‘cream-skimming’ effects that might be associated with more general non-targeted wage subsidies. Hiring subsidies targeted at the most disadvantaged groups of long-term unemployed are considered to minimise the deadweight and substitution effects (as discussed further below) associated with broader general subsidies (i.e. based on the assumption that if subsidies are applied to a narrower group of the most disadvantaged workers, they would have been less likely to get into the job without the subsidy). However, where labour markets were very depressed with very low levels of jobs growth, issues about potential deadweight effects from general subsidies appeared to be less relevant. Moreover a degree of deadweight may be tolerated given the positive shift towards priority groups <sup>(74)</sup>.

The argument that the efficiency of hiring subsidies can be improved by focusing them on

particular groups is apparent in current debates on hiring subsidies in Spain, for example, with the potential to minimise the deadweight effects without any budget increase <sup>(75)</sup>. Debates in Croatia also focus on the potential efficiency gains if target groups are streamlined and defined based on multiple employment barriers instead of a single one (in the context of a relatively large cost per participant) <sup>(76)</sup>.

Importantly, the issue of targeting brings under consideration the extent to which hiring subsidies address the needs of specific groups of unemployed workers. However, there was little evidence of what works for different groups. General findings included that for some groups, especially those with a history of long-term unemployment/worklessness and whose skills have depreciated, employers hesitate to hire them even when the employment is subsidised. Hence, a combination of services might be needed to increase their short- and long-term employment prospects (see below) <sup>(77)</sup>.

The national reports identified the risks associated with the trend to more targeted approaches include risks of saturation in jobs offered and crowding out of some groups of unemployed persons. In France, for example, jobs offered by non-profit organisations and local authorities are primarily used for young people in ‘Jobs of the future’ contracts. Other categories, especially those facing great difficulties in terms of entering the labour market, like the long-term unemployed, are not able to access these contracts <sup>(78)</sup>.

#### 4.4. Evidence of successful/detrimental factors

The aspects of hiring subsidies that were identified from the Review as contributing to success or detrimental to success are explored here. These include the way in which employers are refunded (type of incentive offered), the level of incentive/subsidy and the conditions placed on employers for their participation in measures. Last but not least, effectiveness is influenced by the broad sector in which the job opportunities are offered (public, private or third sector).

<sup>(73)</sup> Deadweight becomes more of a problem in growing labour markets. According to an article by the Institute for Sustainable Development, one sign of the significance of the ‘deadweight effect’ of activation measures such as Activa Win Win in 2010 and 2012 was the weak growth in ordinary employment over a period which was otherwise marked by economic recovery.

<sup>(74)</sup> In some countries (e.g. Austria), subsidies for company-based apprenticeships show relatively high deadweight effects, but evaluations also demonstrate positive integration effects for specific target groups, such as older workers or disadvantaged young apprenticeship-seekers. Findings recommend, in the case of apprenticeship subsidies, to further target the subsidies based on qualitative criteria such as special company support for apprentices with learning difficulties.

<sup>(75)</sup> Spain EEPO Review national article.

<sup>(76)</sup> International Labour Organisation, 2012.

<sup>(77)</sup> Ibid.

<sup>(78)</sup> This issue has emerged in France due to the targeting of the single insertion contract — accompanied employment contract (CUI-CAE). The issue is exacerbated by low employment growth. There is a perception that enterprises will certainly prefer to recruit the non-qualified young than the very long-term unemployed, most of whom are over 45 years old.

#### 4.4.1. Types of incentive

The mapping of subsidies illustrated the diversity of mechanisms by which hiring incentives can be operationalised in practice and the payment mechanisms, which could be:

- a general reduction of employers' social contributions (i.e. 'stock subsidies');
- part-subsidising employers' wage costs for individuals (e.g. refunding based on a set amount per new employee, or a proportion of the actual wage costs, or an amount relative to a nominal value such as the national minimum wage);
- effectively transferring wage costs from employers (e.g. through employers receiving access to non-waged employees who continue to receive benefits);
- voucher schemes.

**The refund mechanism applied appears to play a role in relation to incentivising employers to get involved. Direct subsidies of wage costs appear to be more attractive to employers than other mechanisms, such as subsidies of non-wage costs. However, the size of and scope of the incentive is also likely to come into play.** The level of incentives varies between schemes, although a fairly common approach is to base hiring subsidies on the level of the minimum gross wage. Some programmes provide payment for other expenses, such as in Bulgaria, where the subsidy is topped up by monthly payments of about EUR 50 to cover the initial on-the-job training of workers or the costs of the materials used.

**Incentives based on subsidising employers' social security contributions, have been found to be problematic.** Evaluation evidence on experiments in Finland, for example, to lower social security expenditures for employers to incentivise hiring were shown to have no real effect<sup>(79)</sup>. The introduction in Spain of the social security contributions flat-rate scheme has been criticised because it favours high-earners (because the incentive becomes more relevant as the salary gets higher), and the concern is that the measure will increase the gap between high- and low-paid workers, as well as diverting resources from ALMP measures for vulnerable groups. Research in Bulgaria highlighted that payroll tax deductions and policies centred

on labour turnover costs are not popular with employers (although the reasons are not clear).

#### 4.4.2. Level of incentive

**The size of the subsidy for workers relative to the costs incurred by employers for the workers has a clear link to take-up, affecting not only the attractiveness of the measures to employers but also potentially the profile of the employers involved.**

Lower-level subsidies with high admin costs are perceived to be relatively less attractive especially to larger employers. An evaluation by the Department for Work and Pensions (DWP) in the United Kingdom linked the relatively small level of incentive of hiring subsidies (which equate to at best half the youth national minimum wage, or two fifths of the adult minimum wage) to the bias towards smaller companies. Some three quarters of employers (76%) had fewer than 50 employees and a third (34%) had less than 10 employees<sup>(80)</sup>.

**Targeted schemes with low financial rewards to employers have proved less effective.**

For example, measures in France for young workers (Generation Contract) and for older employees ('Franc' Jobs) have seen less take-up than other measures associated with higher financial incentives (single insertion contract — accompanied employment contract CAE CUI), Jobs of the future). Experience in Slovakia and elsewhere suggests that incentives below a certain level do not suffice to encourage employers to take on long-term unemployed or hard-to-reach groups. A further negative aspect related to the size of subsidy, in Slovenia, has been identified as the high share of low-paid jobs produced due to the relatively low level of the subsidy, which does not motivate employers to create jobs that offer better working conditions for higher payment.

In some countries a variable level of subsidy applies. In Croatia for example a series of schemes are in place and the amount of the subsidy (which is a fixed amount, not a proportion of salary) varies by the size of the employer or by the group of disadvantaged workers covered in each case. Level of education is another factor affecting subsidy levels in the case of some schemes. Several of the schemes are targeted at the most vulnerable groups including people with disabilities and Roma workers. Denmark appears to be another example where the subsidy is calculated on the basis of the productivity of the worker for the flexi-jobs

<sup>(79)</sup> For more details, see the Finland EEPO Review national article.

<sup>(80)</sup> DWP, 2013.



scheme for disabled people. The PES has a key role to play in case-by-case agreement of tailored and targeted subsidies. In Sweden the relative success factors of schemes targeted at vulnerable groups were attributed to the fact that the final agreement regarding the length and level of subsidy is the result of dialogue between the PES, the employer and the trade union representative at company level<sup>(81)</sup>.

The argument has been made that subsidies should be set at different levels to differentiate between groups — e.g. by length of unemployment, educational attainment and possibly work experience. In Finland, findings from the several years of implementation of programmes showed that employers hesitate to hire workers from the most vulnerable groups even when those workers are subsidised. Here the subsidies for these workers were subsequently raised: jobseekers with lengthy unemployment facing particular barriers can attract a higher subsidy — a so-called add-on<sup>(82)</sup>.

In some cases subsidies can be used in combination with other types of financial support, thus increasing the attractiveness to employers (see below), by subsidising employers' non-wage costs (incidental expenses, training costs and other costs)<sup>(83)</sup>. In Estonia one of the measures planned in the context of the Youth Guarantee is a combination of a wage subsidy for the employer and reimbursement of training costs. Examples of different types of schemes are present within countries. For example, in Denmark, for most hiring subsidies, the instrument applied is a wage subsidy paid to the employers, but other programmes, like flexi-jobs which target disabled people, have a more complicated structure in which the subsidy is linked to the specific objectives for these groups (which includes payments for aids and adaptations).

The take-up of unpaid work/internships has been included in this category. Effectively these are

schemes that give employers access to workers 'free of charge' through internship placements. For example, the unemployed person receives his or her normal benefits (unemployment or social benefits) and thus receives no pay from the employer, who therefore receives the equivalent of a full hiring subsidy during this time<sup>(84)</sup>. The advantage of these schemes is that they are a relatively low-cost mechanism.

In some cases the payment schedule has been used to promote continued employment. In the United Kingdom payment is made in arrears to encourage the employer to keep on the young person for six months. Elsewhere, phasing is considered to help employers and employees to better adapt to post-programme conditions with a view to supporting sustainable employment. Hungary has a graded scheme<sup>(85)</sup>. In Cyprus different schemes apply<sup>(86)</sup>.

#### 4.4.3. Conditionality placed on employers to be involved

Conditions placed on employers range from those with no specific conditions to those set by the particular legislative basis of measures or Operational Programmes, and those subject to agreements (such as agreements between employers and the Public Employment Service in Austria or ad hoc agreements with the District Labour Office in the Czech Republic).

#### **Conditions are the main way in which the design of subsidies has sought to minimise potential negative displacement and substitution effects and to maximise the employment creation potential of schemes.**

Conditions are applied both to the employers to be included, the jobs/employment arrangements, and the ongoing obligations placed on employers following the end of the subsidy period, as shown in the Box below<sup>(87)</sup>.

<sup>(81)</sup> Other factors include agreement on working conditions and work tasks to be performed, supervision and on-the-job training, and adaptation of working conditions.

<sup>(82)</sup> The subsidy consists of a basic portion (EUR 32.66 per day) and the add-on, which can be up to 90% of the basic portion. The add-on is meant to compensate productivity losses in the case of a disabled or otherwise low-productivity employee.

<sup>(83)</sup> In the Czech Republic, for example, employees involved in the Operational Programme Human Resources and Employment- funded (OP HRE) programme receive commuting support, and the company receives support for providing a mentor to the intern.

<sup>(84)</sup> In some countries both paid and unpaid approaches exist. For example, in the Czech Republic the recent OP HRE-funded programmes, 'Internships in Companies' and 'Internships for Youth', support internships of one to six months for apprentices who have recently finished their studies or are in the process of finishing their apprenticeship programmes. Internships in Companies is for unpaid work while Internships for Youth carries an hourly wage similar to the minimum wage.

<sup>(85)</sup> 100% wage costs for three months then 50% for another three months.

<sup>(86)</sup> (i) 40% of the wage cost for the first eight months and only if employment lasts for 12 months. (ii) 30% of wage cost for the first 5 months and only if employment lasts for seven months.

<sup>(87)</sup> Specific rules and regulations were found to be applied to schemes for the self-employed but are not dealt with in detail here.



### Box 4.4.3 Conditionality associated with hiring subsidy measures

The measures reviewed impose various types of conditions on employers both pre-subsidy and post-subsidy, as described below.

#### Pre-subsidy

- **Involvement in other schemes:** limitations for employers include for example, no other apprenticeship at the same time, or in the same field and occupation; limit on the number of subsidised jobs in the company; support can be granted to a maximum of 50% of the average number of employees over the last 12 months; no subsidy granted to employers who have previously received a subsidy (e.g. in previous ESF programming periods);
- **Job-creation aspects:** the subsidy has to lead to a net increase in employees in relation to the average number of employees in the last 12 months (Croatia); recruitment must represent a net increase in the number of employees (Malta);
- **Substitution aspects:** conditions on business-related redundancies e.g. no redundancies in the last six months (Croatia), no layoffs within nine months (Sweden); employers are not allowed to dismiss people during the period of the subsidy (the former Yugoslav Republic of Macedonia);
- **Job/working arrangements:** length of employment contract (e.g. job offer of at least 365 days and for at least four hours a day (Hungary);
- **Type of employment contracts:** full-time open-ended employment contract; permanent, full or part-time contracts.
- **Conditions on earnings:** employed above the marginal earnings threshold (Austria); wage and working conditions in accordance with prevailing collective agreement (Sweden);
- **Support measures:** provision of mentors; training plan of professional training (Croatia);
- **Competition aspects:** competition within the industry not threatened (Iceland); work cannot be in activities subject to competition (Sweden);
- **Conditions on size of firm:** at least one worker (Croatia); fewer than 50 (Spain);

#### Post-hiring subsidy

- **Guarantee of work post-subsidy:** Conditions for employers to continue to employ workers after the end of the subsidy period range from two months to three years (two months in Cyprus, four months in Malta, six months in Poland and Slovakia, 12 months in FYROM (twice the period of the subsidy), 18 months in Romania, two years in Serbia in the case of parentless children, three years in Spain for older workers; at least half of the agreed subsidy period in Slovakia.

Findings emerging from the experience in the national contexts suggest that potential negative effects of displacement (i.e. where the subsidy causes job losses through distortion of competition) tend to emerge in relation to those subsidies that are only available to some employers, i.e. that may gain an advantage compared to others within the same industry sector for whom subsidies are not applicable. Coverage of measures becomes a key issue in this context. On the other hand, deadweight effects are potentially greater from general subsidies with few conditions on employers and employees to be involved.

Substitution effects may be avoided due to the restrictions on redundancies/layoffs (e.g. that participating employers must not have laid off workers in the relevant positions for a specific

period prior to the programme). Some concerns have arisen about employer overuse, and potential abuse, of measures, particularly the vicious cycle of temporarily dismissing workers for a period when they can use unemployment benefit and recruiting them afterwards through hiring subsidies, thus accumulating a new period of entitlement to unemployment benefits<sup>(88)</sup>.

<sup>(88)</sup> Evaluation of the Plus One, Plus Two and Plus Three plans found that almost half of workers benefiting from this device had worked at least once in the quarter prior to hiring. Thus, it is possible that some of this short unemployment duration had the sole objective of obtaining the subsidy, the worker having previously been selected for the new job. The author also notes a relatively low rotation effect for the plans as for another measure under consideration: the exit rate (dismissal or voluntary departure) does not appear to increase once the subsidisation period ends (Lopez- Novella, Spain EEPO Review article).

**Putting ongoing requirements onto employers aims to promote the sustainability of employment after the expiry of the subsidised period.** There is some suggestion that there is a trade-off in terms of potential dead-weight effects and between the nature of the unemployed workers targeted and the conditions for employers/employment, and varying the obligations is a possibility to balance the conditions against the attractiveness of the scheme to employers. In Bulgaria, for example, the obligation has recently been adjusted to the vulnerability of the target workers<sup>(89)</sup>. There is some suggestion in Finland (where higher subsidies for less productive workers carry the same criteria as general subsidies in terms of the period in which the employer has to keep the workers on the job), that conditionality on the length of the period after the programme ends might present a burden to employers<sup>(90)</sup>. Eligibility rules for hiring subsidies for disadvantaged workers in the former Yugoslav Republic of Macedonia, including employer obligations, are less strict compared to the general hiring subsidies programmes. This reflects the less favourable employment prospects of these workers.

Economic conditions may have a role to play. It is interesting to note that in Spain under entrepreneurship contracts, a sizeable share of the available subsidies were not applied to new recruitment under the scheme (60% of those taken on were not subsidised). The reason could be due to the fact that employers do not want to make use of this possibility until the economy recovers because they may not want to reimburse the incentives in cases where they cannot maintain their employment levels.

**The effectiveness of the conditions depends on the scope for follow-up, including in the case of abuse of the conditions.** This emerged for example in the Belgium context where the anti-fraud measures anticipated in the Activa and Activa Win Win plans were extended in August 2011<sup>(91)</sup>. Qualitative research as part of the mid-term evaluation of Employment Strategy 2004–2010 in Bulgaria highlighted that applying strict

access criteria to employers is important as a corrective tool, but its application accumulates high administrative costs.

#### 4.4.4. Sectors where job opportunities are offered

Sectoral differences have been identified in the effectiveness of subsidies in generating sustained employment opportunities. In Denmark schemes have been in place over a number of years and have undergone a number of evaluations. The effects of the hiring subsidies have been shown to depend on whether they are applied to private- or public-sector jobs. In the evaluation literature, subsidies for private employers have a more positive employment effect than in public jobs (leading to a more rapid return to stable ordinary employment and higher salaries). There is also some evidence that employment with a hiring subsidy in the public sector actually increases the duration of subsequent unemployment. The reasons are unclear, but it is hypothesised that private employers have greater flexibility in recruiting qualified participants into ordinary jobs within the same company, while in the public sector they only fill marginal functions in the workplace, before they are replaced by a new unemployed person. The quota system which operates in the public sector may exacerbate this effect.

**It is suggested that hiring subsidies for employment in the public sector should be focused on ensuring the quality of the on-the-job training provided, and that quota systems that force public employers to take on unemployed persons without having any meaningful tasks to offer should be avoided.**

Schemes that operate across sectors in France have been criticised for lack of penetration into competitive/for-profit sectors: only 15% of participants in the Jobs for the future measure for young people, and 10% of single insertion contract — employment initiative contract (CUI-CIE) participants (for adults), are in jobs outside the non-profit sector or local authorities. However, these measures have been maintained (with some rationalisation) by successive governments in view of their role of social cohesion, despite the perceived lower effectiveness in improving the employability of people, while they are mostly positioned in non-profit sectors.

**Evaluations support the view that having an experience of real employment is a key factor in increasing the chances of the person being retained or finding another job.** An evaluation of the JobBridge national internship programme in Ireland found that 52% of participants were in employment following completion

<sup>(89)</sup> So that for some programmes the obligation to keep the subsidised workers on the job is the same as the duration of the subsidy, whereas in the case of the hiring subsidies for orphans, employers should keep the workers on the job only during the period in which they receive the subsidy.

<sup>(90)</sup> Previously set at twice the duration of the subsidy, but the new hiring subsidies programmes reduced the length of this time period for specific groups of workers.

<sup>(91)</sup> The National Employment Office (ONEM) can now conduct an investigation without a prior complaint having been made and any employer that hires someone who has already worked for the company (or group to which it belongs) in the six months prior to his or her appointment can no longer benefit from the scheme.

of their internship (29% employed within the internship host organisation) and that participants had employment rates substantially higher than in comparison groups of claimants with similar age and unemployment duration profiles. Indeed, supporting young people to get work experience and overcome barriers to their entry into employment, including as part of the Youth Guarantee, comes out as a particular success of hiring subsidies (regardless of longer-term job creation benefits). A recent DWP evaluation of hiring subsidies in the UK (Youth Contract) found that over three fifths of places were filled on a permanent basis and four out of five were full-time<sup>(92)</sup>. This measure is seen as a relatively successful example of an intervention that supports the levelling of the employment playing field — the purpose has been to encourage employers in the UK to look more favourably on the unemployed, particularly those with long-term unemployment. The employment creation effects however were low: employers were unlikely create new jobs (9%), although it should be noted that the level of incentive is rather low. Cyprus is a particular case where young people enter the labour market with difficulty. Two programmes under the Youth Guarantee umbrella are held up as good examples of how policy might help to ameliorate problems that new entrants face, including obtaining their first work experience and establishing unemployment insurance (UI) eligibility, particularly in the current economic condition<sup>(93)</sup>. Although lack of evaluation is an issue, in general the view emerges from the national reports that subsidising brief internships is likely to be a less costly form of supporting employer-employee matching and providing work experience for recent graduates than subsidised jobs. On a less positive note however, in the former Yugoslav Republic of Macedonia young workers tend to be over-represented among participants in the most active programmes compared to their share in total unemployment, reflecting both the target groups defined and the preference of

employers to take up younger workers. Given that these workers had just completed their formal education, it was noted that society has to pay twice for the same 'service' due to the low quality of formal education<sup>(94)</sup>.

#### 4.4.5. Other design features

Other features of hiring subsidies identified in the Review are worthy of mention since they seek to enhance effectiveness and success, especially in relation to maximising take-up by employers. These include:

- **Improvements in information provision on hiring subsidies:** there is a general concern about employers being able to understand the variety of schemes available to them (and identify the best option for them when they are in a recruitment situation), especially in countries that have large numbers of schemes based on different criteria. In Spain an online platform is being created to help employers to choose from five different schemes.
- **Minimising risks for employers:** a scheme for young people in Slovenia ('First challenge') is for an extended 15-month period but includes a trial (three months).
- **Minimising bureaucracy:** Finland provides an example where measures available both in the public and the private sector have faced criticism due to the 'paperwork' involved in obtaining and reporting them, and the somewhat complicated allocation system. This has been addressed, to an extent, in practical terms through setting up an online application process on the Internet, and streamlining the number of measures (which are to be further streamlined).

<sup>(92)</sup> DWP, 2013.

<sup>(93)</sup> Acceptance into these programmes is more likely under adverse family circumstances, disability or long-term unemployment.

<sup>(94)</sup> The former Yugoslav Republic of Macedonia EEPO Review national article.

## 5. Conclusions and recommendations

This concluding section outlines the success factors or shortcomings which characterise the formulation and/or the implementation of the described measures. The section also attempts to identify preconditions for strategies/measures to be replicated successfully in other national or regional contexts, drawing lessons for mutual learning between countries and recommendations for the Commission's consideration.

for the development and implementation of hiring subsidies.

The success factors identified in Box 4.1 were selected on the basis of the national reports. In the face of rather limited evaluation evidence, they were chosen on the basis of meeting one or more of the following requirements (either as judged by experts or as a result of evaluation of the programmes).

### 5.1. Emerging conclusions on the features of successful hiring subsidies

This section presents seven key features of hiring subsidies that have emerged from the analysis of national sources. These features are based on the perceptions and evaluations at national level of the factors that appear to be beneficial in order for hiring subsidies to be considered effective. These features should be considered by policymakers when setting up arrangements

- The factor was clearly identified as a success factor for the hiring subsidy programmes in multiple countries;
- Failure to meet the factor was considered to have damaged the success of the hiring subsidy in any particular national context;
- The factor was in place in all countries and can reasonably be said to have been significant in sustaining the hiring subsidy programme, even if it was not explicitly identified.

#### Box 5.1 Success factors

Design:

- 1. Type and level of incentive.** There are various mechanisms through which the hiring of employees is subsidised by national governments: the EEPO Review highlighted not only a diversity of approaches across countries but a high degree of complexity within specific schemes, with the potential for support across different aspects of employers' recruitment costs. As a general rule, larger subsidies with lower administration costs provide the best incentive for hiring. Subsidies need to be at a sufficient level to incentivise hiring (in relation to employer costs). It appears that in practice subsidies exist at varying levels, and there is scope to put more emphasis on the relationship between the hiring subsidy and the level of compensation that may or may not be required to cover productivity gaps for the targeted workers (e.g. compared to hiring workers in the open labour market). The type of incentive can impact on take-up, although the reasons for this are unclear. Direct wage subsidies appear to be more attractive to employers than other mechanisms.
- 2. Conditions placed on employers (supported by a defined accountability body with a monitoring and evaluation function, and the security that it has the resources to be effective).** Conditions placed on employers, jobs and ongoing obligations are considered good practice with a view to ensuring appropriate use and minimising the potentially negative implications of hiring subsidies. However, there is a balance to be achieved between the perceived burden and attractiveness of the subsidy, which can affect take-up.
- 3. Targeting of schemes (where this supports the national objectives and rationale for hiring subsidies).** Closer targeting of schemes at particular disadvantaged groups can address the potential negative aspects of hiring subsidies, thus increasing their efficiency, and it will also have the beneficial impact of addressing the needs of the groups in greatest

need of integration into the labour market. A clear conclusion to emerge is that the negative side effects of hiring subsidies depend on how the programmes are designed and targeted <sup>(95)</sup>.

- 4. Measures to facilitate employer involvement.** Other design features can play a role when they are designed to support take-up by employers (information provision on hiring subsidies, minimising risks for employers through a trial period, minimising bureaucracy). Schemes which take into account the information needs of employers and promote ease of access to subsidies can provide lessons (e.g. using the Internet to streamline administration aspects).

Coordination and delivery of hiring subsidies:

- 1. Job opportunities in the private sector.** Where possible subsidies that maximise 'genuine' jobs with employers in the open market are preferable from the point of view of enhancing the longer-term employment prospects of participants.

- 2. Complement hiring subsidies for the unemployed with wider active labour market measures, especially counselling support.** The impact of subsidies can probably be enhanced by using complementary measures, or combining measures, particularly where these meet the needs of the targeted groups involved e.g. supporting the needs of those most at a disadvantage in the labour market (job search, counselling, etc.); easing access into jobs (e.g. transport, childcare); and helping businesses to thrive in order to underpin their employment prospects (e.g. business support, linking sector initiatives).

- 3. Combine hiring subsidies with training where the objective is to address skills needs.** Depending on national priorities, there could be benefits in addressing the low-skills issues of some groups in relation to employer demand (e.g. combining subsidies with access to training).

---

<sup>(95)</sup> Forslund and Vikstrom, 2011.

In addition the Review has highlighted good practices in relation to developing new measures. The piloting of new measures, prior to their implementation on a broader scale, can help to ensure that unintended effects or disadvantages due to poorly planned actions are minimised in subsequent years.

## 5.2. Employment benefits of hiring subsidies

This section considers the extent to which national governments have consciously used hiring subsidies to prop up the demand for labour. It includes some discussion of whether, if the EU moves into growth, hiring subsidies could contribute to job-rich growth and help avoid jobless growth and/or increasingly focus on groups failing to enter the labour market (e.g. the current youth situation).

### 5.2.1. Hiring subsidies and job creation

The starting point for the development of hiring subsidies based on the rationale of job creation is likely to be the prevailing labour market conditions. Unemployment, and specifically trends towards long-term unemployment, appears to have been a direct driver of expenditure on hiring subsidies in several of the countries covered by the EEPO. Examples include France, where the increasing number of the hiring subsidies is

considered to be a definite consequence of the increasing number of unemployed <sup>(96)</sup>. In Estonia the share of ALMP expenditure on recruitment incentives increased to 42 % after 2009 when wage subsidies were extensively used to alleviate the unemployment resulting from the economic crisis (compared to 8 %, on average, in the period 2003–2012, excluding the years 2010–2011). From the perspective of a concern to create jobs, and based on the rationale that the state would have to support unemployed people through the provision of benefits, it can be argued that hiring subsidies appear to be a relatively cost-efficient way of boosting employment growth among unemployed people.

#### **Differentiated hiring subsidies to support job creation in the public or non-profit sectors are a feature in some countries.**

Although not explicitly identified in the expert narratives submitted for this review, it can perhaps be assumed that making a distinction in the implementation of hiring subsidies between the profit and non-profit sectors may be an attempt to minimise potentially negative displacement effects where subsidised jobs dominate ordinary jobs. Approaches include identifying differential rates for different types of employers or putting in place special schemes which apply to certain types of employers or types of employment (e.g. socially beneficial work). In Belgium, for example,

---

<sup>(96)</sup> France EEPO Review national article.



40% of the beneficiaries of the Social Insertion Economy (SINE) scheme in 2006 were local employment agencies aimed at ‘meeting the demand for a certain number of activities that are not found on the normal labour market and that do not compete with it’. Relatively few countries had hiring subsidies for public or non-profit-sector employers (Czech Republic), and some of these have different rates of subsidies between sectors. Another illustrative example is Germany, where municipalities or *Länder* can run their own hiring subsidy-based job-creation programmes (in the area of job creation these ‘additional jobs’ are for unemployment-benefit recipients based on an employment contract with some social or ecological utility). It is interesting to note that in the Belgium context, a hiring subsidy (APS Activa Plan) has led to new roles being created, since the measure subsidises the prevention and safety policies of the local municipal authorities, and without this plan the posts might not exist.

**Sectoral and geographical** objectives appear to be more likely to come into play in relation to hiring subsidies with a job-creation function compared to the other types of subsidies. In Turkey, during the 1980s and 1990s hiring subsidies appeared alongside investment incentive programmes in ‘priority development areas’. Examples of both sectoral and geographical hiring subsidies were found, for example, in the Czech Republic. Area-based targeting in the Czech Republic within the scope of the Employment Act allows for job-creation support through foreign direct investment (FDI) incentives in areas where the unemployment rate is at least 50% higher than the national average<sup>(97)</sup>.

**Localised economic conditions appear to be the backdrop to some of the more recent hiring subsidies that have been introduced.** For example, a new scheme has been introduced in priority areas in Latvia in the period 2013–15. In Bulgaria, unemployed persons are being directed towards more specific occupations in sectors experiencing economic difficulties, or that need encouragement (in green jobs, for example), which is also an objective of subsidies granted to programmes. The local labour market context has a role to play in how hiring subsidy measures are formulated, as shown in the example of Cyprus, where targeted hiring subsidies are designed to address seasonal unemployment in some sectors. This concern for the ‘smoothing’ of employment is something rather unique to the Cyprus economy, and sets the measures somewhat apart

from those in other countries<sup>(98)</sup>. Another scheme has been introduced in Cyprus for small retailers who have experienced a documented fall in demand, to subsidise the continued employment of existing employees<sup>(99)</sup>. Other new measures for maintaining employment and preventing unemployment have emerged from the prevailing poor economic conditions in other countries. For example, in Croatia, subsidies have been brought in for job-sharing and topping up wages for employees with reduced working hours (these are limited in scope, coverage and financing). In some countries job-creation aspects targeted by hiring subsidies operate in relation to situations where employers create new positions through a redistribution of work. An example is the ‘Solidarity bonus model’ in Austria<sup>(100)</sup>.

Although there are different approaches, **hiring subsidies in a number of cases have supported the development of the low-wage sector.** In Germany, through the development of a low-wage sector for means-tested unemployment-benefit recipients, it is possible to combine work and the receipt of unemployment benefit up to a certain threshold<sup>(101)</sup>. This can be regarded in a very broad sense as a disguised wage subsidy for means-tested unemployment-benefit recipients, as the wages accepted by the workers may be lower than without the measure and employers take advantage of this situation. Other hiring subsidies take a particular approach in terms of how they seek to deal with the low-wage sector (and at the same time combat undeclared work). In Austria since 2006, a wage top-up scheme has raised the incentive for jobseekers to take up jobs in the low-wage sector.

Some job-creation subsidies aim to influence the nature (as well as volume) of jobs created for unemployed workers going into jobs and for other workers. Indeed, some of the newer types of subsidies observed in the EEPO Review appear to seek to intervene in the labour market in relation to the types of work that best support the objectives of a country’s active labour market policies within the context of debates about **flexicurity** (i.e. balancing labour market flexibility in terms of the ease with which employers can hire and fire people and

<sup>(97)</sup> This is a small programme. In terms of sector-based support, there is a separate programme incentivising large, typically manufacturing FDI projects.

<sup>(98)</sup> The subsidy is targeted at hospitality workers on seasonal layoff, providing incentives for hotels to rehire them and shorten the period of winter closures at the same time. This policy dovetails with tourism policies that aim to extend the tourist season.

<sup>(99)</sup> This programme may be subject to deadweight losses as firms obtain a windfall for retaining employees that they had never intended to fire.

<sup>(100)</sup> This is a long-standing measure in place since 1998. A bonus is granted in the case of a working-time reduction for one person when at the same an unemployed person is given a job.

<sup>(101)</sup> See Koller, Rudolph 2011.



meet changing skills needs in a dynamic economy, and security for workers). However, there are different priorities in different labour markets.

**Flexible job support was a feature in a small number of countries**, including Cyprus and Germany, where the so-called Hartz reforms were justified by arguments highlighting the positive effects of new employment forms and higher labour market flexibility<sup>(102)</sup>.

**Reduction in the rates of temporary employment** is an important stated main aim of hiring subsidies in Spain. This has meant a bias towards general schemes that focus on incentivising employers to take people into permanent jobs through an associated relaxation of rules on dismissing workers (effectively the period of subsidised employment appears to be being used as a probationary period)<sup>(103)</sup>. However, clearly the rationale for particular types of subsidies varies between countries and in some cases less attention is paid to the nature of the employment contract since the rationale may be to boost the person's experience of employment rather than secure him or her into a permanent job. For example, it was noted that the introduction of new types of hiring subsidies in France in the last three years was done with a view to promoting more equal access to professional paths and giving unemployed people a foothold into jobs, rather than stimulating the transition from short-term to permanent working contracts.

**The generation of self-employment job outcomes** were also a feature of some job-creation-focused hiring subsidy schemes, especially under high unemployment conditions. It is a generalisation, but self-employment schemes appear to be smaller in scale compared to support for employment with existing companies. In some countries with restrictive labour market conditions the numbers in these types of schemes is growing and are considered to be a significant contribution to job creation (anecdotal evidence is positive although there is a lack of formal evaluation). There has been a particularly large increase in some schemes to support self-employment: in Croatia, subsidies targeting women into self-employment saw the number of new beneficiaries increase more than six-fold in three years (from 772 in 2011 to 4900 in 2013). However, deadweight effects may be significant, as some of the beneficiaries may have set up a business even

without the subsidy. Few evaluations exist that examine this aspect. One example is Germany's start-up scheme, which has been evaluated positively<sup>(104)</sup>, but where the evaluation nevertheless indicated that important deadweight effects could not be excluded.

#### 5.2.2. Using hiring subsidies to support labour demand

As already described earlier, hiring subsidies can strengthen employment in several ways: in the difficult financial conditions that characterise recessions, potentially providing enterprises with the opportunity to retain and hire more workers — the economic rationale; providing an incentive to firms to hire workers from particular groups (as they lower the relative cost of this labour to potential employers) — the social rationale; supporting positive permanent employment effects through subsidised employment that provides job experience and training opportunities (increasing employee skills and productivity) — the up-skilling rationale, which may lead to sustainable employment once the subsidisation period expires; and having the potential to lower structural unemployment, as wage subsidies reduce market segmentation.

It is clear from the above that some of the hiring subsidies are solely aimed at getting the unemployed into employment, while others aim to improve the prospects of particular groups. Others compensate for reduced productivity for some employees, or are linked to other priority objectives — i.e. either to the upgrading of formal skills or supporting employability and labour market transitions. A key question, as the EU moves into growth, is whether these types of measures could contribute to job-rich growth and help avoid growth in the amount of jobless.

A key conclusion from the expert analysis of measures was that simple subsidisation schemes without elements that stimulate quality changes in the workforce and the longer-term prospects of structurally disadvantaged workers are short term-orientated and questionable (even if some schemes are well received by stakeholders and target groups). Programmes that subsidise employment and training, or training followed by subsidised employment, have received positive support in the national reports, but their role and how they fare in relation to growing employment demand as part of the cycle of growth remains to be seen. Countries with embedded employer-led training appear to promote the benefits of hiring subsidies combined with training to address labour market issues facing

<sup>(102)</sup> According to the 'transitional labour market' concept developed by researchers of the Wissenschaftszentrum Berlin.

<sup>(103)</sup> The expert narrative suggests it has proved difficult in this context to avoid deadweight effects and has meant a low focus on harder-to-help groups.

<sup>(104)</sup> IZA, 2011, <http://ftp.iza.org/dp6035.pdf>

specific groups (e.g. disabled people, low-skilled adults and those not in employment, education or training (NEETs)).

The national-level narratives suggest that over the course of the years, variations of the typical hiring subsidies programmes have emerged, which are better fitted to the characteristics of the target groups of workers, as well as employers' specific needs. One of the underlying factors that has influenced the way that hiring subsidies are implemented is a concern to minimise some of the potential negative side effects associated with different types of subsidies (especially those associated with high-value general subsidies). Certainly, consideration of narrow rather than broader targeting comes out as the key recommendation of national experts (and is observed as a trend in practice in many countries. Some schemes include those groups of workers to meet a range of labour market objectives (e.g. women returners in Cyprus). In some countries there appears to be a rather flexible approach to the measures that can be applied (target groups, level of subsidy, conditions on employers, etc.)<sup>(105)</sup> to the groups involved, although the lack of evaluative evidence makes it hard to draw conclusions in this area.

In the current economic climate, a particular focus of attention concerns the potential benefits to companies' competitiveness of reducing labour costs (including through wage restraint), as highlighted in feedback to Member States in the country-specific recommendations of the European Semester. While the general consensus emerges that hiring subsidies may support the substitution of labour for capital to convert GDP growth into jobs as economies expand, there is also some suggestion that hiring subsidies are relatively expensive policies and in that respect appear to be commitments that governments may find it easier to make in periods of economic growth.

At the same time a cautionary note is also struck in some developing labour markets (such as

Slovenia). There is a worry that employers will become dependent on subsidies (i.e. demanding them as a condition for new employment).

It could be that the priority emerging in favour of young workers (and in the context of the Youth Guarantee and commitment to jobs and training, particularly for young people) means that there is a shift to 'mainstreaming' employment support for certain groups of workers. It is clear from the types of measures introduced that national governments are concerned about the strategic importance of this issue for the quality of employment (including jobs for young unemployed with secondary and higher education to gain experience). Hiring subsidies for young workers are planned to be used as part of the Youth Guarantee in several cases. In the United Kingdom the government plans to abolish employers' national insurance contributions for workers under 21 years (from April 2015). Whether this type of approach is successful could depend on the elasticity of demand for groups such as young workers. The experience of employment stands out as the main benefit of recent programmes, especially for priority groups of young people<sup>(106)</sup>.

Overall, there is little evidence of wage subsidies leading to any significant redistribution in jobs and incomes. Larger-scale schemes have been perceived as effective in tackling unemployment rates, and schemes which support disadvantaged groups are considered socially desirable (e.g. those for disabled people), in view of the social cohesion benefits. A proportion of those benefiting from hiring subsidies are likely to sustain jobs, but their level of productivity and wider economic conditions may play a role in the results. It could be argued that, to an extent, poor labour market and economic conditions in the last few years have not been conducive to producing an environment in which the positive aspects of hiring subsidies on labour market integration can be fully realised for particular groups, or for particular labour markets/local economies<sup>(107)</sup>.

<sup>(105)</sup> An example is Bulgaria where, within the framework of the Employment Promotion Act, subsidised employment programmes can be realised at national, regional and branch level by the specialised administration of the Employment Agency, the Ministry of Labour and Social Policy (MLSP) and other ministries and administrative bodies, in cooperation with social partners. Social partners and non-governmental organisations also may recommend specific employment initiatives organised as programmes. In 2013, 15 national programmes and 19 measures from a total of 20 programmes and 28 measures financed from the state budget contain a 'subsidised employment' component. In the period 2010–2013, 9 of 11 programmes financed from the European Social Fund through Operational Programme 'Human Resources Development' also included such a component.

<sup>(106)</sup> Employers' appetite for young people in the UK may be high. The Youth Contract may only be a small incentive in financial terms but proved popular with smaller employers, and in evaluation 71% of employers said they would still have been attracted to the scheme even if the wage incentive had been lower (Department for Work and Pensions, 2013).

<sup>(107)</sup> As part of recent initiatives to support regional economic development in the UK, cities were invited to bid for activities that could include local wage subsidies for young people (Cities Youth Employment Boost — CYEB). It is interesting to note that the first round of bids suggest that in higher-unemployment areas of the north of England, wage subsidies were considered less of a priority than the development of information, advice and guidance provision. The emphasis on creation of subsidised jobs for young people has come from lower-unemployment areas in the southeast.

Approaches targeted to disadvantaged groups appear to be favoured in current debates about hiring subsidies because they address the reality of the labour market opportunities for different groups and minimise potential deadweight effects<sup>(108)</sup>. Different countries are going forward in different positions. In some cases, designing and applying more diversified forms of assisting employers would probably have a positive impact on the overall effectiveness of the labour market measures and their long-term sustainability and usefulness among different groups of employers and workers. In other cases, a move to rationalise the number of subsidies is taking place.

### 5.3. Need for further research

There are several areas where further research would be required to examine particular aspects of hiring subsidy measures, as well as areas where the Commission could consider using the findings of the present Review further:

- A presentation of the EEPO Review Synthesis can be provided to the Commission to inform their ongoing dialogue with Member States.
- The Review has found that while there is some evaluation evidence for a small number of the measures, most measures are not thoroughly or longitudinally evaluated. The Commission could consider the value of funding further research to update or expand on existing research (e.g. OECD Employment Outlook 2009). Another avenue would be to consider

if questions could be added regarding the use of hiring subsidies into the proposed European employer survey.

- The skills driver for hiring subsidies is also a key area for the Commission to explore. The Commission could consider how hiring subsidies can act as a means through which skills mismatch can be addressed.
- There would also be scope to introduce some form of skills development coordination within the Commission addressing three key labour market issues: entrepreneurship (start up and business expansion); lifelong learning (poor among people with low-level skills) and the new skills and jobs agenda which focuses on understanding employers' needs.
- There is currently little evidence on the types of companies for which hiring subsidies work best. There is a need to further investigate the effects of hiring subsidies for different types of companies (i.e. SMEs, larger enterprises etc.) to understand which types of companies are most effectively targeted by such measures.
- There would also be merit for research to further explore the cost effectiveness of investing in hiring subsidies. This would entail researching the cost and sources of financing of subsidies, the effects of reductions in social security contributions, as well as the savings in benefits that hiring subsidies (and the measures combined with hiring subsidies to activate specific groups) may be giving rise to.

<sup>(108)</sup> The number and scale of hiring subsidy schemes is very large in some countries, reflecting the priority given to active labour market measures and the priority target groups in different countries. The downside of this is that in some cases there can be a huge plethora of measures (for example, 33 hiring subsidy measures were found in the case of Croatia, including several new measures for younger workers).

## 6. Annex: Findings of national evaluation studies

Table A: Effectiveness in supporting people into jobs through hiring subsidies: Findings of national studies

Country/ measures	Methodology	Results	Reference
<b>Belgium</b> Activation measures, including Activa, PTP and SINE	Analysis of the extent to which people who have benefited from an activation measure are still dependent upon unemployment benefit one year after the end of their activation period compared to a control group with similar characteristics (age, qualifications, etc.).	The probability of the activated group having moved into employment was higher than the control group, irrespective of the activation measure. This was particularly true for the Activa and SINE beneficiary groups: 40% of the former and 27% of the latter were more likely to have found work than the control group. As far as the career bridging programme was concerned, the results suggest that this group are more likely to go into other subsidised jobs. The net effect of activation measures in terms of finding a job was higher for the long-term unemployed, suggesting that the measures intended to support this target group have achieved their goal. The net effect of measures is also higher among people aged over 50. The authors note, however, that the basic characteristics on which the control group was established were insufficient to be able to fully ascertain the effect of activation on the probability of finding work. Other factors that are difficult to measure, such as motivation, state of health or professional experience, may lead to differences between the activated group and the control group.	ONEM (2013)
<b>Bulgaria</b> Various schemes as part of evaluation of ALMPs	Estimation of net employment effect.	'Jobs for unemployed youth under 29 years' was found to have the highest net effect of 41.9 percentages, followed by 'Assistance for retirement' with a net effect of 40.9; 'Jobs for unemployed women over 50 and men over 55' (35.9); 'Jobs for long-term unemployed' (32.8); and 'Promotion of entrepreneurship' (30.6). Other programmes and measures with had net impact effect lower than 30. The 'Computer training for young people' programme was found to have a negative effect.	WYG International, (2006)
<b>Denmark</b> Private and public sector hiring subsidies	Cost-benefit analysis where participants were followed over a ten-year period using administrative registers.	Showed that hiring subsidies in the private sector lead to a significant economic surplus for society as a whole. Public employment with a hiring subsidy also gives a significant surplus, but less than private hiring subsidies. In both cases, this is due to the fact that participants have higher incomes and receive less income transfers after the completion of the programme.	Jespersen et al. (2008)
<b>Germany</b> Start-up Allowance		The evaluation was positive but important deadweight effects could not be excluded. Federal Labour Agency funding of individuals starting self-employment had not only helped them to enhance their employment status and earn more income, but has also saved money by reducing spending on unemployment benefits. There are however indications that a share of unemployed would have set up a business anyway without the incentive.	IZA (2011)
<b>Germany</b> Hiring subsidies for older workers	Analysis of administrative data, comparing similar unemployed workers who gain or lose eligibility as a result of eligibility changes.	It found that firms' hiring behaviour is hardly influenced by the targeted hiring subsidies, which therefore mainly lead to deadweight effects.	Boockmann et al. (2012)
<b>Estonia</b> Wage subsidy measure 2008–11	Used exact covariate matching to analyse the impact of participation in the wage subsidy, from 2008 to the first half of 2011, on the future employment probability compared to the control group. The authors also conducted cost-benefit analyses.	Participants in the wage subsidy measure were 56 percentage points more likely to be employed six months after the expiry of the subsidy period, compared to the control group. 18 months after exiting from the programme, participants' employment rate remained over 30% higher than the control group. However, as programme entry was not random but determined mostly by the employer's selection, the treatment effect is likely to be overestimated due to creaming. Cost-benefit analysis showed that EUR 1 invested in wage subsidies results in EUR 7 of return, of which EUR 2.8 is revenue for the state from direct taxes. The results of the qualitative part of the study indicate that substitution and displacement effects were associated with the wage subsidy programme. Approximately 80 firms had more than 10 subsidised employees and one had more than 150 subsidised employees during the study period. Also, in many cases wage subsidies were used to employ seasonal workers. Furthermore, the employers claimed that wage subsidies enabled them to save labour costs and to pay higher wages for the existing workforce. The study focused on the time frame when wage subsidies were extended to cover less disadvantaged groups, so these conclusions cannot be expanded to other time periods.	Anspal et al. (2012)

Country/ measures	Methodology	Results	Reference
<b>Ireland</b> Intern programme for young people (JobsBridge)	Descriptive comparison of groups of claimants with similar age and unemployment duration profiles.	It found that employment rates were substantially higher than comparators (based on descriptive comparisons, as opposed to econometric techniques that measure the counterfactual using a properly constructed control group that is matched to the treatment group across a range of relevant characteristics and accounts for dynamic bias). Regarding deadweight, the evaluation found that host organisations were highly compliant with respect to the rules regarding not using the scheme to fill existing vacancies.	European Youth Forum (2011)
<b>Greece</b> Subsidisation of social security contributions		Almost two out of three of the participating enterprises (64% of the total) stated that they intend to continue employing some or all of the recruited workers, even without a subsidy. If this intention is realised then the programme would have contributed to the creation of approximately 20 000 new jobs. The deadweight, i.e., the share of the work posts that would have been created irrespective of the programme, is estimated at 48%. The evaluation concluded that the programme has had a significant impact on youth unemployment.	EEO Group (2013)
<b>Spain</b>		The effect of subsidies over total employment is poor, especially subsidised initial permanent contracts. Subsidised conversions of contracts have proved to result in more stable jobs than subsidised initial permanent contracts.  Permanent contracts which were transformed from temporary showed more stability than the rest. In any case, only 30% of conversions were 'alive' after five years (10 percentage points higher than the rest of permanent contracts). A ten-month 'probationary period' involving temporary contracts was found. During the crisis, women, young people and the low skilled were more likely to be dismissed from a permanent contract.	Cebrián, (2010), Cebrián and Moreno (2012)
<b>Spain</b>		Estimated that in 2007, the probability of access to a permanent subsidised contract was lower than that of non-subsidised. Hiring incentives have considerable deadweight effects. Firms which were not entitled to receive incentives decided to transform temporary to permanent contracts after the end of the extraordinary period of transformations. Moreover, many companies that could have received incentives did not benefit from them as in the case of 'entrepreneurship contracts'. Lump-sum incentives benefit harder-to-help groups, especially the long-term unemployed, older than 45, women and the low skilled. This also shows that the previous amounts of incentives were insufficient except for low-income workers.	AEVAL (2009)
<b>Spain</b>		The effects of hiring subsidies on the transition rates from unemployment to a permanent contract were even lower than for temporary workers. The impact of subsidies on the outflow to a permanent contract varied depending on workers' characteristics. However, it was only statistically significant for women aged between 30 and 45 under temporary contracts and young unemployed workers.	Rebollo & García Perez (2009)
<b>Spain</b>		Employees with permanent converted contracts have lower probabilities to lose their jobs in comparison to those under subsidised permanent contracts or non-subsidised conversions. Consequently, the survival rates of subsidised conversions were higher than that of non-subsidised ones and subsidised permanent contracts. It has been argued that the initial temporary contract was seen as a probationary period.	Toharia (2008)
<b>Croatia</b> Employment subsidies for youth, long-term unemployed and older workers	Used matching techniques to compare the employment outcomes of participants with a control group comprised of unemployed persons with similar observable characteristics who did not participate in the measures.	Participants in employment subsidies for young people with no employment experience, the long-term unemployed and older unemployed persons were less likely to be unemployed than controls during the first two years after the subsidies ceased, but the advantage of participation declined over time. The effect is likely to overestimate the effect of subsidies as it does not account for creaming (i.e. the selection of more employable candidates by employers).	Matković et al (2012)



Country/ measures	Methodology	Results	Reference
<b>Croatia</b> ALMPs in 2006-07	Qualitative study into the attitudes of 373 employers and 721 participants about their perception of the benefits of participation in active labour market programmes.	The majority of employers and participants had a positive perception regarding the benefits of participation in active labour-market programmes for employment (although overall the measures are considered to be marginal). The study suggested recommendations for improvement, such as the need for a greater appreciation of the regional dimension in the planning and design measures and the decentralisation of budgets according to regional needs and specific local labour market conditions.	Phare (2008)
<b>Italy</b> Cuts in social security contributions		It found that eligible redundant workers in ' <i>liste di mobilità</i> ' have a similar probability of transitioning to employment and obtaining comparable wages when hired as those of non-eligible workers with similar skills. Also showed that being more generous to older workers is of no help in getting them back to work sooner and that the provision of benefits for a longer period has a negative effect on re-employment probabilities. These findings suggest that it might be advisable to phase out cuts in social security contributions and to reduce the length of time that older workers are allowed to stay on the lists (note the studies use old data, covering the period 1995–2001, before the introduction of the 2011 pension reform which effectively postponed the retirement age, as recipients may now find it more difficult to use the income support element of the benefit as a bridge to retirement).	Rettore et al. (2008)
<b>Italy</b> Financial support for employment of young people and women		In the Veneto Region strong growth of converted and stabilised contracts was recorded for the identified target groups in the period October-November 2012. Nevertheless, almost one third of such changes could possibly have occurred in the absence of such incentives. Males over 30 (who can be used as a control group, as they were not targeted by the measure) did not display any change and at the beginning of 2013 (when the incentives were no longer available) the number of converted and stabilised contracts went back to the levels recorded before the launch of the incentives, thus confirming the success of the measure.	Veneto Lavoro (2013)
<b>Italy</b> Hiring subsidy schemes introduced in Turin (2007 and 2008), in the Marche region (2010–2012)	Counterfactual evaluations.	The subsidies did not affect the recruitment behaviour of employers in terms of the conversion of the contracts of workers with fixed-term or atypical contracts into open-ended ones in the Turin province, but increased it in the Marche Region. No impact was observed as for the hiring of new workers in the Marche Region.	Battiloro and Mo Costabella, 2011 Fondazione Giacomo Brodolini, Istituto per la Ricerca Sociale, (2014)
<b>Italy</b> Tax credit incentives		Provided evidence that the tax credit incentive on new hiring on an open-ended contract basis has not produced a significant increase in the overall employment probability. Nevertheless, companies have resorted to this subsidy to hire young and well-educated workers on a permanent basis rather than under a temporary one.	Cipollone and Guelfi (2003) and Cipollone et al. (2004)
<b>Latvia</b> Subsidised jobs for disadvantaged unemployed persons	Survey of employer opinions (2012 evaluation). Surveys the opinions of both employers and participants (2013 evaluation).	The survey of employers suggests that an important factor motivating employer participation in the scheme is financial, especially for smaller enterprises or those that have recently been founded. The analysis of employment impact does not use any counterfactual methodology but concludes that about 67% of participants are in a job five months after completing the measure (60% for those with special needs). According to the State Employment Agency this figure is actually about 80% for the measure that is financed by the ESF. However, there is no data on how long they stay in employment or whether their employment experience is better than that of similar unemployed who have not participated in the measure or who have participated in other measures.	State Employment Agency (2012, 2013)



Country/ measures	Methodology	Results	Reference
<b>Lithuania</b> Various measures	Sociological surveys of measure participants and employers.	The Subsidised employment measure was seen as positive by 75% of the participants and 64% of the employers. There is a risk for persons employed during the measures to be dismissed after discontinuation of the funding of the measure. The Support for acquisition of professional skills measure was seen as positive by 82% of the participants and 40% of the employers. The Job rotation measure was seen as positive by 65% of the participants and 40% of the employers. The Subsidised creation of new jobs measure has no significant effects on employment, but is beneficial for disabled persons who find it difficult to get employed. In relation to Local employment initiatives (LEI) it is extremely important that newly created jobs suit rural territories with underdeveloped infrastructure. Payback period of costs is three to five years.	ILSR (2007)
<b>Lithuania</b> Employment support measures 2007–13		The employment support measures applied in Lithuania in 2007–13 have been evaluated as positive. It is recommended to offer these measures only to disabled persons, long-term unemployed persons and youth without vocational education and training. It is necessary to improve inter-institutional cooperation (e.g. between the Lithuanian Labour Exchange and vocational training schools). It is also noted that more effective tackling of the undeclared work problems would improve the effectiveness of supported employment measures.	(2013) Evaluation of the HRD and social cohesion and assessment of the prospects for 2014–2020
<b>Luxembourg</b> CIE, CIE-EP, CAE contracts for young jobseekers		The study concluded that the measures augment the chances of finding a job in the first six months of the measure. The majority of participants are recruited by the tutor and the company. Employability is not increased for those participants who are not recruited by the company and who are again on the employment market looking for a new job or employment measure.	Brosius & Zanardelli (2012)
<b>Hungary</b> Hiring subsidies (SROP 1.3.1)	Assessing the administration of the projects and using simple statistics. Follow-up interviews with employers.	Evidence of a deadweight effect, since 20–25% of employers receiving wage support indicated in follow-up interviews that they would have employed the beneficiary anyway. Controlling for individual heterogeneity, the initially substantial effect of the programme decreases sharply, which suggests a significant role of selection.	Frey (2011)
<b>Hungary</b> SROP 1.1.1 (disabled people)	Econometric analysis and impact estimation based on administrative data.	A skimming/selection effect was found in the case of this programme targeted at disabled people undergoing rehabilitation (biased during delivery towards the somewhat more able). The high raw re-employment rates of 70–93% are largely driven by selection. Using a control group for the remaining differences, the estimated re-employment rates drop to 26–30%. As a robustness check, the authors look at returning rates to the unemployment register, considered to be a more precise success indicator. In this case the impact of the programme is a 4–17% decrease in the probability of return (gross effect with no adjustment for displacement or deadweight-loss).	Scharle et al. (2013)
<b>Hungary</b> Wage subsidies	A multi-variate comparison of exit probabilities, based on follow-up interviews of late 2009 participants of ALMPs (among them wage support recipients) upon exiting and also a suitable control group.	It found that the odds for a wage support recipient were 20 times larger than that of the control group. Even though the estimate uses a control group, we have to be careful when considering the robustness of the result, given that the authors note that there is not much difference between raw-odds ratios and those obtained by the multi-variate regression. The results are largely at odds, with great differences between raw and controlled results from other similar impact estimates, largely due to strong selection effects. Indeed, the same evaluation reports apparent selection effects.	Csoba and Nagy (2012)
<b>Hungary</b> Wage subsidies		Report that the prime age (30–40), women and the better educated are more likely to receive a wage subsidy. There is selection across programmes: those with less favourable characteristics participate in public works instead of wage subsidies.	Galasi and Nagy (2012)

Country/ measures	Methodology	Results	Reference
<b>Netherlands</b> SPAK measures (to help people who work in a sheltered work place)		The SPAK arrangement has been widely used but the deadweight was considerable, reducing the net effectiveness of the measure. The deadweight was high because the arrangement applied to all low-skilled workers, even to those who already had a job before the arrangement was introduced. Yet, it could be the case that the arrangement gave employers the financial means to reorganise their production process, thus creating jobs for low-skilled workers who are less productive. More specific arrangements are less likely to have this effect as companies are then obliged to hire specific workers to fill the newly created jobs. One of the largest obstacles is the ever-growing qualification demand for jobs. Looking at a broader group of people distant from the labour market, it concluded that there will always be groups of people who are unable to flow into regular employment, and having this as a policy goal is therefore questionable. For some groups social activation is the highest goal achievable, for instance becoming socially active, becoming engaged as a volunteer or working in a sheltered workplace. e.g. arrangements that were introduced to help people who work in a sheltered work place have not been very successful in terms of regular job inclusion. It concluded that if subsidised jobs are solely allocated to people who are unlikely to find a job in the market sector, the cost effectiveness is not necessarily negative. Among the advantages are people developing a social network as well as having better health due to inclusion in (sheltered) work. For other groups, who are less distanced from the labour market, such as welfare recipients, hiring subsidies might be a more effective tool.	De Koning (2012)
<b>Austria</b> Wage Top Up Scheme	Interviews with employers and beneficiaries.	It concluded that the wage top-up is an effective and targeted instrument, as employment rates after receiving the benefit are relatively high, and income prospects are positive. Around 45% of interviewed employers plan to pay wages higher than those they paid during the benefit phase. Strong motivation to hire beneficiaries can be seen in social commitment ('give them a chance'), using the duration of the subsidy as a probationary period. Around 80% of interviewed beneficiaries said that they would have accepted the job anyway, which indicates relatively high deadweight effects. But at the same time 40% said the income without the subsidy wouldn't have been enough to cover living costs. 80% believed that the benefit is an incentive to accept low-paid jobs.	Löffler & Schmid (2011)
<b>Portugal</b> Various ALMP measures		The statistical analysis of the effects of the hiring subsidies (aggregated with the support to entrepreneurship) 'present positive effects on the probability of employment in all sub-groups of participants taken into consideration' and 'are for all types of participants the most effective ones in terms of increasing the employability' (p. 133). In the authors' opinion one of the reasons for this positive effect is that these measures have little or no 'lock-in effect' (p. 144).	Dias/Varejão (2012)
<b>Romania</b> Subsidised loans		It showed that measure has performed relatively well with a certain majority of in-taking enterprises (above 50%) favourably speaking of its effects and displaying relative satisfaction.	Pasnicu et al (2006)
<b>Slovakia</b> Activation programmes (including wage subsidy)	Sample evaluation of 2009 data.	It showed that two out of three participants in the measure remained in the open labour market between one and two years after the subsidy period, while 9% of participants were not in employment. The authors suggest that the outcomes live up to the main objective, namely to improve placement and retention in the open labour market. However, ALMP statistics point to low take-up rates (less than 1% of the total number of jobseekers could be placed in an activation measure in 2012). Next to the relatively weak financial incentives (which are key), employers may find it difficult to comply with the obligation to preserve the stock of employees for a given period and hire disadvantaged jobseekers.	Borik & Caban, (2013)

Country/ measures	Methodology	Results	Reference
<b>Slovakia</b> Graduate work experience placements		It positively affects participants' work experience but participation in the policy does not substantially improve the employment prospects of young people and the net impact on employment tends to be very low.	Harvan, (2010)
<b>Finland</b> Hiring subsidies (set of different measures applied in the last decade)	Meta evaluation of evaluation results in employment experiments in Finland.	The lowering of social insurance was not found effective, whereas low-wage subsidies created employment, but mainly in the public sector. Subsidies for household work (reductions on having cleaning, care, renovation and ICT instalment work done in households) was successful in increasing employment and combating the grey market. The single-self-employment experiment (subsidising hiring the first extra employee) was also somewhat successful, but normal wage subsidy was deemed a better way for subsidies by a vast majority (over 80%) of the micro-companies. Job-alternation leave, although providing some demand to hire unemployed people, was not considered as a particularly successful measure, and is now under reconsideration. The Samsi-card (voucher to promote hiring young people under 25) was deemed to be positive in changing attitudes towards hiring young people, but hard evidence of net employment effects were not produced.	Räsänen (2013)
<b>Finland</b> Wage subsidies	Data analysis using difference-in-differences, with adjusted regression and matching methods to examine whether subsidised jobs contributed to employment in subsidised firms or merely substituted for non-subsidised ones (31 000 firms followed from 1995 to 2002).	The results indicate that the wage subsidies stimulate employment, and have no sizable effects on non-subsidised firms.	Kangasharju (2005)
<b>Sweden</b> New Start Jobs		The programme accelerates the transition from unemployment to employment but the deadweight effects are large. An estimated 63% of jobs would have taken place without the subsidy.	Lijeberg et al (2012)
<b>Sweden</b> Reduction of payroll tax targeted to young workers		Results show a small impact on employment and wages, implying that labour demand for young workers in Sweden is inelastic. No impact was identified for young foreign-born or registered unemployed young people. The costs are high and the research concluded that cuts in payroll tax are an inefficient way to increase employment for young people.	Egebark and Kaunitz (2013)
<b>UK</b> Youth Contract — wage incentive for employers		The study suggested that the jobs filled were not necessarily new or incremental jobs, though the availability of the incentive meant that they looked more favourably on the target group. The independent evaluation suggests a high substitution effect with employers simply filling vacancies they already had with subsidised young people. This is not so much a problem if the young job takers are kept on after the subsidy period of six months ends. The danger is that smaller employers may see this as a subsidy rather than a period when they can try out a young person with the prospect of a longer term (unsubsidised) job.	DWP (2013)

Country/ measures	Methodology	Results	Reference
<b>FYROM</b> Hiring subsidies	Comparison of employment outcomes of participants of hiring subsidies, self-employment programmes and training programmes.	It found that 57% of the participants who gained job within the programme lost their job afterwards. This might raise a need for 'preparatory' training of each programme participant in job search skills. The programme yielded high inactivity rates among participants after the programme end which was related to targeting older workers. In 2010, the upper age bracket for participation was reduced to 58 years of age. Throughout the years, the programme has improved both in terms of employment outcomes and earnings levels. In terms of cost-effectiveness, hiring subsidies fall somewhere between the training programmes (most cost-effective) and self-employment programme.	ILO (2012)
<b>Turkey</b> Employment subsidies	Uses micro-level data from the Household LFS for 2004–11, to evaluate whether the employment subsidies introduced in 2008 had an impact on the employment probabilities by demographic groups, using the difference-in-differences method.	Showed that the employment gap between the target group, which consists of males of age 18–29 and all females, and males above 30 years old has narrowed by 1.4 percentage points. In terms of the sub-groups, this aggregate effect mostly came from the narrowing between the employment probabilities of females above 30 years old and males above 30 years old by 2.6 percentage points. When improving the employment prospects of the groups with low labour market participation is the concern, they conclude that, in light of these results, the subsidy programme has produced satisfactory outcomes.	Balkan et al. (2013)
<b>Serbia</b> New employment subsidy scheme	Outcome evaluation (for the participants who entered the scheme in 2008).	While the results show that this programme was quite successful in providing jobs for participants, structural analysis by professions indicates that there might be a certain creaming effect. Although the unqualified and poorly qualified unemployed should be the target group, the better educated constitute the majority.	EUNES (2011)
<b>Norway</b> Flexible jobs (for workers with reduced work capacity)	Interview based.	Participants who were interviewed were very satisfied with the measure. They experienced that the long-term wage subsidy had made it easier to get integrated into the labour market. The wage subsidy gave increased flexibility by allowing the employee and employer a test period in which both parties assessed whether the employment was going well. However, the conclusion was that wage subsidies do not automatically give persons with reduced work capacity a permanent job.	Aetat (2005), Flexible Jobs
<b>Norway</b> Disability pension as wage subsidy		The evaluator concluded that the scheme had become far less extensive than anticipated, despite the fact that both Aetat and National Insurance Services devoted considerable engagement. The agencies cooperated well in terms of information, while cooperation in individual cases was hindered by a lack of resources locally. It was a major marketing activity in the counties, but responses among the disabled and employers did not materialise.	ECON Analyse (2008)
<b>Norway</b> Wage subsidies		Wage subsidies have a positive effect on labour market participation. The long-term effects are however poorly documented. A relatively small proportion of the participants had a disability pension when they joined the project. It is therefore reasonable to assume that the scheme only helped to a limited degree to reintegrate disabled pensioners into permanent employment.  A significant proportion of the participants in the project had a connection to the labour market before they entered the programme. A main conclusion of the evaluation is that a share of the participants' disability pension would have been a substitute for employment. The various evaluation studies do not provide a clear answer to the question as to whether subsidies help reduce the prospects of getting disability pension or not. However, the evaluations indicate that time-unlimited wage subsidies help to delay disability, that is, to extend the labour force participation of vulnerable workers.	Norvoll & Fossestøl (2010)

## HOW TO OBTAIN EU PUBLICATIONS

### **Free publications:**

- one copy:  
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:  
from the European Union's representations ([http://ec.europa.eu/represent\\_en.htm](http://ec.europa.eu/represent_en.htm));  
from the delegations in non-EU countries ([http://eeas.europa.eu/delegations/index\\_en.htm](http://eeas.europa.eu/delegations/index_en.htm));  
by contacting the Europe Direct service ([http://europa.eu/europedirect/index\\_en.htm](http://europa.eu/europedirect/index_en.htm)) or  
calling 00 800 67 89 10 11 (freephone number from anywhere in the EU) (\*).

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

### **Priced publications:**

- via EU Bookshop (<http://bookshop.europa.eu>).

### **Priced subscriptions:**

- via one of the sales agents of the Publications Office of the European Union  
([http://publications.europa.eu/others/agents/index\\_en.htm](http://publications.europa.eu/others/agents/index_en.htm)).

Hiring subsidies are an important measure, extensively used by Member States, to promote employment in disadvantaged-worker categories such as young and older people, the long-term unemployed and women. This review maps out the design of such subsidies, and identifies good and effective practices in targeting, funding, monitoring and integrating incentives with other policies. It is intended as a source of mutual learning and transfer of good practices between Member States.

This publication is available in electronic format in English.

You can download our publications or subscribe for free at  
<http://ec.europa.eu/social/publications>

If you would like to receive regular updates about the Directorate-General for Employment, Social Affairs and Inclusion, sign up to receive the free Social Europe e-newsletter at  
<http://ec.europa.eu/social/e-newsletter>



<https://www.facebook.com/socialeurope>



[https://twitter.com/EU\\_Social](https://twitter.com/EU_Social)

