

### 5.3 THE EFFECT OF THE JOB PROTECTION ACTION PLAN

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From 2013, the employment of several labour market groups with a low employment rate was supported by reliefs on the social contribution tax, offered by the job protection action plan. The main relief types were given for the employment of individuals under the age of 25 and above the age of 55, and unskilled labourers (ISCO-08 category 9). The amount of the reliefs was half of the social contribution tax of 27 percent, but capped at HUF 100,000 per month (which was more or less equal to the amount of the minimum wage at the time of the introduction). A new feature of the reliefs was that they could be applied not only to new employees, but without a time limit and also to staff already in employment. Additionally, no authentications were needed for the reliefs, they could be deducted from tax liabilities via the monthly employers' contribution declaration.<sup>1</sup>

A generally available tax relief that is independent of income level and that targets groups in disadvantaged labour market positions has never before been available in Hungary. The reliefs were applied to approximately 600,000 individuals in 2013, which grew to 900,000 in 2018. Youth-specific reliefs were applied to 110,000 individuals in 2013, and 170,000 in 2018. The range of reliefs was slightly expanded during this time frame, but the increase could be connected primarily to a rise in employment. Thus, the extent to which the expansion can be attributed to the employment incentive effect of the reliefs, and how cost effective such a targeted relief system is, are important questions of economic policy.

The employment-related effect of the tax reliefs was examined by *Svraka* (2019a). The study estimated the employment-related effects for the main target groups using econometric tools, on the basis of individual level, anonymised tax authority micro data from the 2009–2015 period. It can be seen from the nature of the reliefs that entitlement was established along a criterion that draws a sharp cut-off: everyone under the age of 25 was entitled, but no one was entitled above the age of 25.<sup>2</sup> Thus, from among individuals who were similar based on other features and their labour market chances, some could be employed with lower costs, while others could not. Taking advantage of this quasi-experimental setup, we can compare the labour market output of those on the two sides of the cut-off – those that the reliefs applied to and the control group. Also controlling for the effects of the differing economic environments before and after the introduction of the reliefs, via a difference in differences type econometric method, the employment-related effect of the reliefs can be established and separated from any other factors.

The results show that the effect of the tax reliefs has proven to be significant: the rate of employment increased in the three main target groups already in

1 Additionally, the action plan also included reliefs related to new employment. Up to HUF 100,000 per month, social contribution tax was not payable in the first two years of employment for those returning after long-term unemployment or childcare leave, and for youth with a work experience of up to 180 days.

2 There were no data available for an in-depth analysis of the relief for youth with work experience of up to 180 days, thus the effect of this is also visible in the general relief for youth.

the year of introduction, and these effects rose continuously until 2015. By 2015, the employment probability of those under the age of 25 rose by 2.6 percent compared to a control group of similar individuals to whom the relief did not apply.<sup>3</sup> Making an estimate for those above the age of 55 using a similar method, this change was 0.8 percent, and among unskilled labourers – using occupations requiring low educational attainment and offering similar wages, to which the relief did not apply, as the control group – it was 2.7 percent. Among youth and the unskilled, there was no significant difference between the changes in the employment chances of males and females, but among older age groups, the whole effect can be attributed to the higher employment rate of females.

As a result of the reliefs, due to the change in relative labour costs, employers might have employed individuals that the relief applies to, instead of individuals who do not belong to any of the target groups. Among youth and older age groups, *Svraka* (2019a) did not find any signs indicating such potential substitution, but the employment rate of individuals with low educational attainment to whom the relief was not applicable did decrease slightly. Considering this, by 2015, the reliefs generated an expansion in employment by 53,000 individuals, 16,000 of which were under the age of 25.

The effect of the excess budgetary income generated by a higher employment rate manifesting through taxes and contributions, calculated based on the abovementioned partial equilibrium results, without broader macroeconomic consequences, was HUF 55 billion in 2015 – which is 40 percent of the cost of the reliefs that year. This cost efficiency indicator was, however, different for different target groups: 42 percent for youth, 70 percent for the undereducated, and only 14 percent for the older generations, in 2015.<sup>4</sup>

<sup>3</sup> The Youth Guarantee Programme, which also targets youth aged under 25, was introduced in 2015: the effects estimated for the subsequent years may partly capture the impact of that Programme.

<sup>4</sup> This indicator does not account for potential deadweight loss and measures short term returns. In the long run, as costs increase (as the subsidy is also available to those already in employment), cost efficiency is likely to deteriorate.

## References

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