Micro- and macro-economic evaluation of reductions of social insurance contributions in Belgium

Synopsis and policy recommendations

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The measures adopted in Belgium aiming at alleviating labour costs and stimulating job search are many and varied (in terms of targeting and whether they are temporary or not). We assess them from two aspects. In *micro-economic* terms, we assess these tax relief measures from the point of view of *the integration of job seekers* (moving from unemployment to employment and the length of the employment spell). In *macro-economic* terms, the aim is to assess the effects of these various measures on the job creation processes, bearing in mind wage negotiations, the heterogeneous nature of qualifications on the Belgian labour market, technological choices and the existence of other labour market policies (unemployment insurance, active labour market policies).

Chapter 1 traces the broad outlines of the policies designed to alleviate labour costs (for low-paid workers) and subsidise recruitment. The analysis of Chapter 2 concerns the effect of the PAE, the *Plan Avantage à l'Embauche, a* recruitment promotion plan. This measure no longer exists. However, the measures that have replaced the PAE do show similarities with this plan. Lessons concerning the measures currently in force can therefore be learnt from an analysis of the PAE.

In addition to mechanisms designed to grant temporary subsidies for the recruitment of workers belonging to various groups, Belgium has, for many years, implemented measures

designed to bring about a structural reduction in labour costs, particularly for low-paid workers. Chapter 3 assesses the effectiveness of structural relief of social insurance contributions, in particular for 'low-wage' workers, in terms of their effects on employment duration.

Quantitative assessments of the effects on employment of structural reductions in social insurance contributions converge on at least two points: (i) the measures targeting low wages have a positive effect on employment that are clearly greater than non-targeted measures; (ii) their effect on employment is all the greater if the elasticity of negotiated wages with respect to the unemployment rate is small. Chapter 4 summarises the situation as regards knowledge in Belgium.

Chapter 5 assesses to what extent the effects of structural reliefs of social insurance contributions on employment and on the well being of the various categories of workers are sensitive to the targeting of the reduction in contributions and to the variation in the rate of job destruction. Contrary to the following chapter, Chapter 5 also pays particular attention to taking account of the effects of competition between workers with different qualifications (labelled *crowding-out* and the *ladder effect*). It looks at the impact of these competition effects on the effectiveness of a policy designed to reduce contributions. The increase in unemployment among unskilled workers is often the consequence of investment in new technologies and the complementarity between capital and the skilled labour force. Chapter 5 assesses the extent to which the trends observed in employment may be explained in terms of investment in new technologies and the impact of this on the appraisal of reductions in contributions. .

Reductions in labour costs are not implemented in isolation in Belgium. They are part of a labour market governed by institutions. The forms taken by wage negotiations, unemployment insurance, and active labour market policies (support plan for the unemployed, etc.) are all examples of these institutions. Chapter 6 presents a model created to study the effects of policies that lower the cost of labour and certain forms of interaction between these policies and the institutions mentioned just now. In some respects, this model is a simplification of that presented in Chapter 5. These simplifications are rendered necessary by a concern to develop other dimensions, in particular behaviour as regards participation in the labour market, the unemployment insurance mechanisms and certain forms of active policies.

Recruitment subsidies: positive results for young long-term unemployed beneficiaries

Summary

Chapter 2 looked in greater depth at the assessment of a formula designed to reduce employers' social security contributions granted when recruiting young people who have been unemployed for long periods. The measure under consideration, the PAE or *Plan Avantage à l'Embauche* (recruitment promotion plan) granted a substantial reduction in employers' contributions during the quarter of recruitment and for the following eight quarters. The extent of the relief declined after one year. The scope of the relief increased with the length of the period of unemployment prior to the recruitment. We only looked at young people who had been employed for a long period, were without prior professional experience and were in receipt of an allowance from the ONEM, the national employment office in Belgium, on the basis of the studies completed. A sample like this was followed from the beginning of 1998 until the end of 2001. The assessments undertaken here and during previous research (Cockx

et al, 2004) are micro-economic. They endeavour to quantify the effects of taking part in the policy from the point of view of the beneficiaries. The principal conclusions are the following.

- The PAE that targets job seekers who have been unemployed for at least one year and the version that targets job seekers who have been unemployed for at least two years do not appear to have different effects. As the young people were observed for a limited period, this finding must be interpreted with caution. However, there is reason to think that two aspects offset one another: the targeting on unemployment spells of different length and the extent of the reduction in labour costs.
- Thanks to the PAE, virtually all the beneficiaries were integrated more quickly: 98% of men and 97% of women. Speeding up the integration should be understood to mean a reduction in the period of time needed to move from unemployment benefit to a 'regular job' (that is work on a self-employed basis or salaried employment for which the employer does not benefit from a temporary federal recruitment subsidy). The increase in speed is measured against a scenario in which the same young person remains unemployed and in search of *regular* job offers *only*. The median [1] acceleration is 9 (7) months for men (women). However, the measurement of these effects involves a certain amount of imprecision. This means that with a margin of error of 5% at the most, the reduction in the period of time needed for the average beneficiary to move from unemployment to a regular job lies with an interval ranging from 2 to 25 months for men and 1 to 20 months for women.
- The increase in the speed of integration is particularly spectacular for workers - just 28% of the sample of beneficiaries - whose employer benefits from relief until the end of the period covered by the grant. It may be thought that the transition to regular employment would also have been achieved if the relief had ended earlier. *For the population group in question*, the financial resources of the authorities would therefore have been allocated more effectively if the subsidy period had been shorter.
- The results summarised so far indicate that a young worker moves into regular employment more rapidly if he or she accepts a subsidised job offer (in the context of the PAE). This is basically because of the low level of regular job offers coming in for the population being studied. In fact, this rate is probably underestimated. Our data are inescapably relative to a labour market in which the PAE exists. However, the introduction of the PAE may prompt employers to substitute subsidised jobs (in the context of the PAE) for regular jobs. To measure the net effect of the PAE on the beneficiaries, we would have to look at what would have happened to them if the PAE had not been introduced. With substitution, the rate at which regular job offers came in would have been higher in this case. We have therefore attempted to calculate a lower bound for the effect of the PAE. For this calculation, we took the most pessimistic hypothesis, that is that every job subsidised by the PAE takes the place of a regular job. On the basis of this extreme hypothesis, the average impact of the PAE on integration into regular employment is far smaller, but remains significantly greater than zero. The fact that the recruitment takes place in the context of the PAE increases the chances of being in regular employment nine quarters after recruitment by 12%. This difference in the transition rates is far lower than the 26% and 28%, for men and women respectively,

[1] For half of the PAE beneficiaries, the acceleration is lower than the median acceleration : for the other half, it is higher.

which we reported above in the absence of substitution. The 'true' impact on integration probably lies between these rates.

- Even if this still requires confirmation, we have found some empirical evidence that the PAE was more effective (from the point of view of integration into regular employment) for workers who have less chance of integration in the absence of assistance: women, workers in regions with a high rate of unemployment and unskilled workers. This evidence suggests that temporary subsidies should be targeted more at these disadvantaged workers.
- Cockx *et al* (2004) wondered about the effect of the PAE not on the transition from unemployment to employment but on the time spent in employment once in a job. As long as the relief is granted, passing through the PAE also has a positive effect on the time spent in employment. The effect is clear (significantly higher than zero) when the relief is greatest. Thereafter, when the relief on the contribution ends, there is a clear and significant increase in the probability of leaving employment for non-employment (unemployment or lack of activity). This is true of men. As regards women, the results are qualitatively similar, but are not significantly different from zero. The increase in the transition to non-employment only appears to be observed immediately after the end of the period in which the relief is granted. However, the initial effect, which favours the lengthening of the period of employment, predominates for most of the PAE beneficiaries. Only 26% of male participants and 6% of female participants in the PAE are said to have shortened the period of recruitment (by comparison with what would have happened to them if they had been in regular employment since they were first recruited).
- The effects on reintegration and on the lengthening of employment therefore co-exist. This suggests the existence of two target groups among these young people. On the one hand, there are those who have been unemployed for a long period due to a lack of recruitment opportunities. The PAE gives them this opportunity. Thanks to this, they prove that they are able to carry out a job and they therefore integrate into regular employment. This is the dominant effect. On the other hand, there are young people who have been unemployed for a long period for whom this subsidised employment experience is not sufficient to ensure them employment on a lasting basis.
- Finally, the assessment looked at the issue of the long-term effects. What happens to a PAE beneficiary who loses his or her job and returns to unemployment? Does having passed through the PAE help them to leave unemployment again and move to regular employment? We did not find any evidence of an impact significantly different from zero.
- Our conclusions do not imply that the PAE necessarily created more *jobs* in the economy: beneficiaries can be moved into employment more quickly at the expense of other workers who are not eligible to take part in the PAE (such as the short-term unemployed). The advisability of implementing this policy depends on value judgements on the (re)distribution of opportunities to access employment.

Policy recommendations

The PAE now no longer exists. It was replaced by the ACTIVA measure in 2002. On 1 January 2004, the ACTIVA measure in turn disappeared when a simplified system of reductions of social insurance contributions was put in place. As regards the long-term unemployed, the ACTIVA measure was replaced at this time by the "Recruitment plan for long-term job seekers". Please refer to Chapter 1 for further details.

The mechanism in place now presents certain similarities with the PAE. It, too, temporarily reduces labour costs when recruiting the long-term unemployed. The main differences are (i) the flat-rate relief on contributions, (ii) the modifications in the duration of this relief (shorter for workers with an unemployment duration between one and two years, longer after three years of unemployment) and (iii) the possibility of combining this relief with structural reductions and in certain cases adding to this an 'employment allowance' funded by the ONEM - the National Employment Office. This means that the amount of the relief can exceed that granted under the PAE.

Our results have shown that shortening the period during which the subsidy is allocated could increase the effectiveness of the PAE, at least as regards the part of the plan aimed at those who have been unemployed for a period between 12 and 24 months. The new policy measure has been adapted precisely along these lines, as the subsidy period for this group has been reduced from 24 to 12 months.

Permanent relief on employers' and personal contributions severely curb the transition from salaried employment to unemployment

'Permanent' relief as referred to in Chapter 3 is understood to mean relief on employers' contributions granted under the terms of the Maribel plan and the plan for relief on employers' contributions on 'low wages', and then the 'structural' relief. Pierrard (2004a, 2004b), for Belgium, and Crépon and Desplatz (2001), for France, conclude that the relief on employers' social security contributions targeted at the low-paid have extremely beneficial effects on employment. Highlighting the phenomena of job creation and destruction, the general balance established by Pierrard leads to the conclusion that structural relief affects mainly the rate of job *destruction*. The study carried out here on individual data therefore aims at checking whether these conclusions, resulting from simulations, are corroborated if one focuses on a sample of young, long-term unemployed people without any work experience, already used to quantify the effect of the PAE. The indicator of the level of social insurance contributions here is the ratio between wage costs and pre-tax earnings (defined as wage costs less all employers' and personal social insurance contributions). This ratio does not measure the 'fiscal wedge' as it does not take account for income tax. It may, however, be labelled as the 'social wedge'.

The method developed can be used to estimate the impact of a 1% increase in the 'social wedge' on the probability of moving from salaried employment to unemployment. This impact is expressed as a percentage and is therefore an "elasticity". When appropriate adjustments are made, the conclusion is very strong and very simple: for the sample of young men and of young women, bearing in mind their observed and unobserved characteristics, an increase of 1% in the 'social wedge' increases the risk of returning from employment to unemployment by 1%. The estimate is not very precise, but it clearly means that the hypothesis of no impact at all can be rejected.

The success of the PAE and that of the permanent forms of relief are not in any way two contradictory phenomena. A structural subsidy makes up a structural deficit between the productivity of the worker and the labour costs incurred. A temporary subsidy, on the other hand, resolves above all temporary problems. For instance, it can offer a second chance to workers who are sucked into unemployment through bad luck and not because of an intrinsic productivity problem.

Macroeconomic evaluation of reductions in social security charges

The previous studies were devoted to the analysis of individual data and were microeconomic in nature. We now turn to a macro-economic, general equilibrium analysis of the effects of reductions in social security charges. The objective is no longer to measure the effects of such policies on individuals but rather to look at economy-wide effects, including all indirect effects coming from government budget constraints and market interdependences.

Context

Micro-econometric studies (see in particular Laroque and Salanié (2000) and Crépon and Desplatz (2001)) suggest that permanent reductions in social security charges targeted on low-productivity/low-wage jobs can considerably reduce the rate of job destruction. Macro-economic studies, on the other hand, suggest a moderate effect on employment. Some people have explained this contrast between macro- and micro-econometric studies by a misleading extrapolation of the micro-economic results.

However, macro-economic assessments are limited by the availability of relevant data to take into account all the potentially important aspects. In this study, we have opted in favour of a quantitative assessment based on the use of dynamic general equilibrium models, calibrated on the Belgian economy and simulated to assess the impact of various scenarios involving labour tax exemptions. In this context, a distinction will be made between different types of jobs and different types of skills.

The analysis is developed in three parts. Our first scenario assumes a perfectly segmented labour market. We assess in that context the effects of various ways of targeting the labour tax exemptions. We next introduce job competition and ladder effects (skill downgrading) and its impact on the effects of tax exemptions. We close with a brief discussion of the effects of different modelling strategies regarding the nature of technical progress (embodied vs disembodied technical progress and capital-skill complementarity).

Effects of reductions of social security charges in the absence of ladder effects

Various scenarios of reductions in social security charges are considered. In each case, the *ex ante* cost of the measure (as a % of GDP) is identical. The narrower the definition of the targeted group, the larger will be the reduction in social security charges. These reductions are financed by taxes (lump-sum or proportional) on the income of high skilled workers. The main results obtained in this scenario can be summarised as follows:

- Targeting on the minimum wage category (approximately 10% of total employment) is crucial for the success of a policy of permanent reductions in social security charges. Many jobs can be created, on this segment of the labour market because:
  - (i) The wage cost is not very sensitive to variations in the level of social security contributions;
  - (ii) The available (unemployed) labour supply is abundant (implying low recruitment costs);
- When the target group is not so narrowly defined and is extended to the 35 % least-paid workers (the size of this group corresponds, in terms of education level, to workers with a primary or a lower secondary certificate of education), the percentage reduction in social security charges falls; for workers not on the

minimum wage, a considerable proportion of the subsidy is absorbed by net wage increases; the result is a much smaller impact on employment;

- A reduction targeted on high skilled workers (i.e., high wages) has a negative effect on employment, both because the effect of the subsidy is absorbed by net wage increases and because unemployment in this segment of the labour market is far lower. Stimulating the demand for this type of labour comes up against supply constraints, implying long vacancy durations and high recruiting costs;
- A reduction targeted at the minimum wage level, is largely self-funding, even if all employer social security charges are abolished; because it is self-financing and increases net output, the reduction actually benefits to all skill-categories;
- With a less narrowly defined target group (encompassing all workers in the 35% - rather than 10%- bottom wage group), the reduction is no longer self-financing; the *ex post* cost per job created is estimated at around € 15,000/year. This estimate is an upper bound to the extent that we do not take account of the (potentially large) beneficial effects coming through lower job destruction rates (Pierrard (2004a, b)).

The case with job competition and ladder effects

When ladder effects are taken into account, our conclusions are not so sharp anymore, except to emphasize again the importance of targeting:

- As before, targeting the lowest wages is the only method that yields substantial effects on employment; although the overall employment effect is similar to the one obtained without job competition, there is a sizeable composition effect: a considerable proportion of the jobs created in the low productivity sector are held by over-qualified workers; in other words, stimulating the demand for labour in that sector attracts workers from other sectors);
- These ladder effects lead to efficiency losses; more workers find a job, but for a fraction of them, the job is not so well paid because they accept jobs for which they are overqualified; this mismatch reduces the effect of employment changes on output and tax changes; it is thus more difficult to obtain self-financing scenarios; the cost per job created nevertheless remains relatively small (0.22% of GDP when all employer charges on low wages are eliminated);
- Because of the mismatch induced by job competition and ladder effects, and even though employment increases for each skill category, only the welfare of unskilled workers improves; the welfare of the other two groups (85% of the working population!) declines, both because some of them find themselves in low-paid jobs for which they are over-qualified, and because they pay the cost of the reduction in social security charges on low wages; this contrast between the effects on employment (positive across the board) and the effects on welfare (negative for 85% of the population) shows that assessment criteria based on budget costs or employment levels only provide partial information;
- The conflict of interest between high and low skilled workers inevitably raises the question of the decision-making process (political economy aspects);
- The loss of efficiency implied by ladder effects occurs because the choices that seem optimal at the individual level (I apply for a job for which I am over-qualified in order

to maximise my chances of leaving unemployment) lead to non-optimal macro-economic outcomes.

Incorporated technical progress and complementarity between capital and skilled labour force

To the extent that unemployment among the unskilled is the result of a biased technological progress resulting itself from capital-skill complementarities embedded in new technologies, it is interesting to extend the previous framework to include explicitly these mechanisms and assess the effect of targeted labour tax cuts on investment and growth. The stimulation of growth through investment in new technologies is one of the arguments put forward in support of subsidies targeted at highly skilled rather than the least skilled workers.

To introduce these effects, we use the modelling strategy adopted by Boucekkine et al. (2003), and extend it to introduce labour market frictions and different skill groups. The capital-skill complementarity is introduced in the previous setup by making the coefficients of the Cobb-Douglas production function depend on the accumulation of capital. The parameters of this extended model are calibrated to reproduce the employment trends (proportion of low versus high-skilled workers in total employment) observed over the period 1977-1997. These extensions have however negligible effects on the results reported above.

Interaction between reductions in contributions and 'labour market institutions

Chapter 6 deals with the impact of a *constant* reduction of payroll taxes on unskilled labour (diploma no higher than lower secondary education). More precisely, the tax component $\tau_{0,l}$ becomes negative. In this chapter, we looked at the *long-term* effects when the economy has reached a '*stationary state* (in which population stocks in the various positions on the labour market are constant). The model has been calibrated for Belgium. This means that a series of statistics (from the period 1997-1998) as well as properties taken from the literature have been combined with the properties of the model itself to set the value of a wide range of so-called 'structural' parameters. A sensitivity analysis has shown that the model's simulation properties are robust to changes in the specification.

A range of indicators has been established to gauge the impact of reforms both as regards the performance of the labour market (employment, unemployment, etc.) and as regards income (net salaries and intertemporal income). This latter indicator takes account of the distribution of the states which an individual, in a given position, may occupy in the future. It also takes account of the cost of looking for work (the monetary cost and disutility due to the effort and time put into this activity are taken into account on a non-differentiated basis and expressed in monetary terms).

A constant (or flat-rate) reduction of € 300/month, targeted on low-skilled work in private companies (slightly less than 800,000 workers), would entail a gross annual cost ex ante - that is before adjustments in wages and employment due to the policy - of 2.9 billion euros, similar to that of the so-called 'structural' relief in 2003. With unchanged net salaries, the fall in the wage cost of unskilled labour would be approximately 12%. This would be equivalent to a reduction of almost half in 'normal' employers' social security contributions on this type of labour. All the effects summarised here are measured in relation to a situation without constant reduction in payroll taxes. Such tax relief of € 300/month would generate approximately 94,000 low-skilled salaried jobs and 14,000 additional skilled salaried jobs. As

the level of participation in the labour market would also increase, this measure would entail an additional participation estimated at almost 85,000 units. The fall in the total number of unemployed people would therefore be limited (40,000 or 23,000 units, depending on whether there is any upward adjustment in self-employed work). Taking into account behaviour in terms of participation in the labour market leads to the conclusion that flat-rate relief on employers' contributions promotes the increase in the level of employment considerably more than it contributes to the reduction in unemployment.

Owing to wage negotiation, approximately half of the € 300 in monthly relief per unskilled worker is transformed into a rise in net wages for the unskilled (amounting to € 90) *and* the skilled (amounting to € 60). This calculation is true for a company that employs unskilled and skilled workers in proportions that are equal to the average proportions in the private sector. The discounted intertemporal income increases very considerably. With an annual discount rate of 5%, the increase in this income is approximately 10% for unskilled workers and approximately 2% for skilled workers. In all states on the labour market (both employment and unemployment) each type of worker gains from the introduction of flat-rate relief. This remains the case as long as the relief does not exceed a sum of approximately € 600/month (which corresponds to the disappearance of 'normal' employers' contributions on unskilled work).

Confirming the other studies undertaken in Belgium, we show that targeting is very important. For instance, on the basis of the main features of the mechanism in force since 2004, a formula that would consist of granting a flat-rate subsidy of €110/month on low-skilled work and another of €81/month on skilled work would result, *ex ante*, in the same gross cost for social security as relief of € 300/month targeted exclusively on the unskilled. The impact on employment would, however, be considerably less. Instead of creating 108,000 jobs, this would only create 65,000. *The current profile of relief on employers' contributions therefore appears sub-optimal from the point of view of promoting employment.*

These results are obtained when no constraints are imposed in terms of balancing the public budget. However, according to our simulations, flat-rate relief on low-skilled labour generates *a budgetary surplus.* This result, like the others, should be seen in the long term in a stationary state.

The results obtained from flat-rate relief on employers' contributions are better from the point of view of employment when the wages of unskilled workers are not negotiated but are proportional to the wages of skilled workers. The gain in terms of employment is in fact about 30% higher (without taking into account a constraint relating to balanced public finances). The interactions below were examined in a basic context in which all wages are negotiated freely.

The study of the interactions between employers' social security contributions and unemployment insurance looked successively at two *scenarios*:

1. Firstly, a reduction in the 'generosity' of the system involving a reduction from 12 to 9 months in the period during which the highest benefit is granted.
2. Secondly, a 10% increase in the replacement ratio during the first year of benefit and a 10% reduction of this thereafter.

These reforms alter incentives to seek employment and apply to both types of qualification. If behaviour remains unchanged, the immediate effect of the first scenario is, of course, to reduce the level of insurance protection for those who are unemployed for between 9 and 12

months. If behaviour remains unchanged, the immediate effect of the second scenarios is to provide better cover for the risk of unemployment in the first year and less good cover thereafter. However, we cannot confine ourselves to a short-term vision in which behaviour remains unchanged. The model can be used to look at the long-term effects bearing in mind adjustments in behaviour. The following conclusions hold firm when the discount rate is raised (in this case from 5 to 20% per year). *Employment* increases more when relief on social security contributions and one of the above reforms of the profile of replacement ratios is implemented simultaneously. The second scenario performs a little better in this respect (+13% in salaried jobs created) than the first (+10% in salaried jobs created). However, from the point of view of the *intertemporal discounted income* of unskilled workers, the reforms in unemployment insurance should not be added to the relief on employers' contributions. These conclusions are obtained by ignoring the public budget surpluses thus created. If these surpluses are offset by a fall in tax receipts, it is demonstrated that it is possible to plan reforms in unemployment insurance of the type referred to above which, combined with relief on employers' contributions, have better long-term effects on intertemporal income and on employment than relief on contributions granted in isolation. However, it is important to remain extremely cautious and also take account of the short-term effects on the unemployed population.

Finally, we looked at the coexistence of relief on employers' contributions and *certain* actives policies. Within the limits of the model developed, we were unable to consider (long) active policies designed to increase the level of qualification of workers. However, we were able to consider (short) active policies designed to make the unemployed more efficient in the matching process. This covers individualised support and advice polices, active job seeking clubs, and *very* short vocational training courses. Recall that the calibration is based on data at the end of the nineties. Moreover, the model does not deal with monitoring and sanctions. The following results cannot therefore be easily extrapolated to the counselling programme currently implemented in Belgium.

According to our calibration, the frequency of recruitment increases, for both groups of qualifications, by over 50% in the event of participation in the group of active policies considered. Given this very positive economic effect for the participants, the model looks at the *induced* effects of these policies. There are basically two types of effects. Firstly, the greater the interest in taking part in the active policies considered, the less daunting the prospect of moving to unemployment (and hence losing a job). Consequently, when wages are endogenous, the workers or their representatives negotiate higher wages. Secondly, when the active policy generates a surplus of intertemporal income compared with unemployment, it is rational to reduce the effort put into searching *before* participation, particularly since the probability of taking part increases. These effects – that could be quite different in case of monitoring of job-search effort and sanctions - are taken into account in the model developed. The *net* effect of *these* policies is a priori ambiguous. Previous studies (Van der Linden, 2005) suggest an *unfavourable* net impact on employment.

We wondered here whether the development of flat-rate reductions in employers' social security contributions produces better net effects *without these* active policies. When we take into account the effects induced, *even though they substantially improve the path followed by their beneficiaries,* the active policies that increase the effectiveness of the unemployed in the matching process *harm* (still in the long term) the effectiveness of the flat-rate relief on employers' contributions *in terms of jobs.* Wage pressure and the effects on the effort put into seeking work lie behind these unfavourable conclusions. The message is less clear if the

intertemporal income is considered as an evaluation criterion. Once again, if the public budget surpluses generated are reabsorbed by a fall in tax rates, intertemporal income and employment both evolve more favourably when *these* active policies are abandoned and the relief on employers' contributions is increased.

The study of the interactions between this relief and the institutions that govern wage formation, provide insurance against the risk of unemployment or develop active measures is therefore very important. These policies should not be devised or reformed without a high level of coordination. This requires in-depth cooperation among federal institutions and between these institutions and the community and regional entities.