

Comment on "Unintended side effects of wage subsidies: Excessive rotation of permanent contracts?"

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The bottom line

Motivation

- García-Pérez and Rebollo (2008): regional subsidies to promote open-ended contracts (either from temporary contracts or from unemployment) have very small effects (Is a 10% increase in the probability of women to get an open-ended contract small?).
- However, firms are using intensively the subsidized contracts, Why?
- Answer: churning
- Methodology and data very similar to García-Pérez and Rebollo (2008, forthcoming in Investigaciones Economicas)

Some initial questions

Descriptive facts

- Increase of 4.2 percentage point in the stock of open-ended contracts in 10 years. Why aren't the last figures representative?
- It would be interesting to show also the evolution of the flow of new open-ended contracts over new contracts.
- It would be useful to have a table with the effect on the number of registries of the different criteria to homogenize contracts (for instance, how many registries have anomalous dates of beginning or end? How important is simultaneity? etc.)
- Table 4 is a bit confusing. Most regions do not consider eligible workers between 30 and 45 years old but the table shows lots of eligible in that age group.

Basic question I

Competing risks

- The paper presents three alternative models of competing risks with different definitions of transition to unemployment. But, how about transition out of the labor force? None of the three models of competing risks considers this possibility.

Participation rates

	40-44	45-49	50-54	55-59
• Males	93.7	91.9	88.3	75.4
Female	68.4	63.2	52.1	37.4

- Can this competing risk explain some of the figures for women above 45 years old?

Basic question II

Results seem very sensitive to sample

- Take Table 9 and 11 (case 2). Only difference: table 11 contains sub-sample of regions with information on the number of contracts (Canarias and Cantabria).
- Is this difference important? It does not seem so: Canarias only had subsidies for two years and very small size. Cantabria had more years of subsidies but also below the average in terms of its size.
- However, important effect in the results (specially for women). There should be a bit of explanation on that.

Basic question III

Potential versus actual

- The authors recognize that they are dealing with the effect of eligibility and not actual subsidies. Eligibility is potentially important but what really matters is actual use of the subsidized contract. There should be an additional effort to try to convince the reader that the results for potentially eligible hold for the actual too.
- Perhaps a small model could help to understand the issue of the identification of supply and demand of subsidies for permanent contracts. I am not sure that including the total number of contracts (supply) helps to identify separately both effects.
- Is it possible to construct a measure of "a priori" allocation to subsidies versus expenditure of those subsidies. If so, would it be any variation

- The strategy of showing only the summary tables (without the whole set of estimates) is very nice for exposition purposes.
- At times the comments on the tables do not clearly separate between statistical significance and economic significance. It makes some paragraphs difficult to read.
- The reader is mystified by some results that affect to particular age groups (or females only). It would be interesting to try to explain why the effect is concentrated on particular age groups (or females).
- It would be interesting to have the number of observations for each type of transition, if not in the summary tables at least in the tables of the appendix.