

**Reduction in the number of beneficiaries of subsidised contracts: what impact will it have on employment in the non-market sector?**

Between mid-2017 and mid-2019, the number of beneficiaries of subsidised contracts fell sharply. This had consequences for payroll employment, particularly in the non-market sector. Nevertheless, for some employers these subsidised contract schemes are believed to have had a certain “windfall” effect: if these contracts were not available, they would have needed to recruit anyway. When the measures come to an end, these employers should thus be capable of replacing subsidised jobs with non-subsidised jobs, which should attenuate the overall impact on employment levels. This capacity varies from one sector of activity to the next, and generally speaking it appears to be stronger in the private sector than in the public sector.

**The number of beneficiaries of subsidised contracts in the non-market sector fell substantially between mid-2017 and mid-2019**

Subsidised contracts, based on direct or indirect subsidies, reduce the cost to employers of hiring or training certain workers. Generally speaking these jobs are aimed primarily at those groups who are furthest removed from the labour market, helping them to enter the market or to return to employment. The volume of these subsidised contracts is determined by the government. They are often used to counteract the effects of the economic cycle: an increase in the volume of subsidised contracts is generally intended to mitigate the impact of a slowdown in activity on total employment.

Subsidised contracts, not including “sandwich training contracts,” are primarily concentrated in the non-market sector, with both public and private employers (Table 1). As for private employers, subsidised contracts are primarily concentrated in the field of social work. In the public sector, these contracts have primarily been used in the sectors of local government and education. In total, there were 132,000 beneficiaries in the non-market sector at the end of 2018, with 18,000 in the market sector. The non-market sector has access to three main types of

subsidised employment contracts. Integration contracts and employment support contracts (CUI-CAE), which accounted for the majority of such subsidised contracts until 2017, have since been gradually replaced by «employment skill programmes» (PEC)<sup>1</sup>. Meanwhile, “future contracts” in the non-market sector (EAV-NM) were introduced in 2012, taking the form of longer-term contracts aimed at young people with few qualifications. Since 2018, it has no longer been possible to issue new contracts on these terms: contracts currently in place will be allowed to run their course, but will not be renewed.

The number of beneficiaries of subsidised contracts in the non-market sector fell sharply between mid-2017 and mid-2019 (-201,000 beneficiaries over this period, Graph 1). This contraction may have contributed to the downturn in total non-market employment. But the scale of this contribution depends on the choices made by employers: have they replaced, and to what extent, their former subsidised contracts with new, non-subsidised jobs?

**The substitution effect mitigates the impact of subsidised contracts on total employment**

The use of subsidised contracts allows employers with considerable budgetary constraints to obtain

1. See the *Focus article “Subsidised contracts in 2018”* in *Conjoncture in France* March 2019.

**Table 1 - Employers using subsidised contracts in mid-2017**

Sector of activity	Private		Public	
	Number of contracts	Main employers	Number of contracts	Main employers
Central government	2 500	Social security (60 %)	81 000	Municipalities (70 %)
Teaching	20 000	Associations (95 %)	73 500	Local schools (100 %)
Healthcare	3 500	Associations (50 %) Foundations (20 %)	12 500	Hospitals (100 %)
Social outreach work	47 500	Associations (80 %)	19 000	Local social and medical-social institutions (40 %) Local centres for social action (35 %)
Art and entertainment	19 000	Associations (95 %)	Fewer than 500	-
Other service activities	30 500	Associations (95 %)	Fewer than 100	-

Champ : France hors Mayotte

Note : Mi-2017, il y a avait environ 12 500 contrats aidés en cours dans le secteur de la santé du domaine public et les employeurs de ces contrats sont des établissements d’hospitalisation.

Source : Dares, Agences de services et de paiement - Calculs Insee

extra manpower which they would not have been able to afford without this scheme. Nevertheless, if the scheme had never existed, some of the jobs in question would have been created anyway for two reasons:

- The subsidies provided for these contracts do not cover 100% of wage costs: for example, if an employer hires two employees on subsidised contracts with subsidies of 50%, if the subsidy is subsequently taken away the employer will still have the budgetary resources required to keep on one employee;
- The severity of the budgetary constraints involved differs from one employer to the next: by the time the scheme is stopped, some employers may have been able to find new resources to recruit more employees without subsidies.

In the former scenario, we use the term substitution “at constant budget.” The latter phenomenon is referred to as substitution “independent of budgetary constraints.” Subsidised contracts thus have a certain substitution effect. Some of the subsidised jobs would have existed without the subsidies, being funded by employers who have instead been able to take advantage of the subsidy programmes. When these programmes are being wound down, a symmetrical effect (creation or preservation of jobs without subsidies) attenuates the impact of the reduction in the number of subsidised contracts on total employment.

Under the ‘constant budget’ hypothesis, the effect of subsidised contracts on payroll employment can be estimated fairly precisely: the share of jobs which would not have existed in the absence of these subsidies thus corresponds to the rate at which these contracts are subsidised by the government<sup>2</sup>. This method measures the effect of subsidised contracts on employment. For example, for a CUI-CAE contract subsidised at 70%, the effect of each new

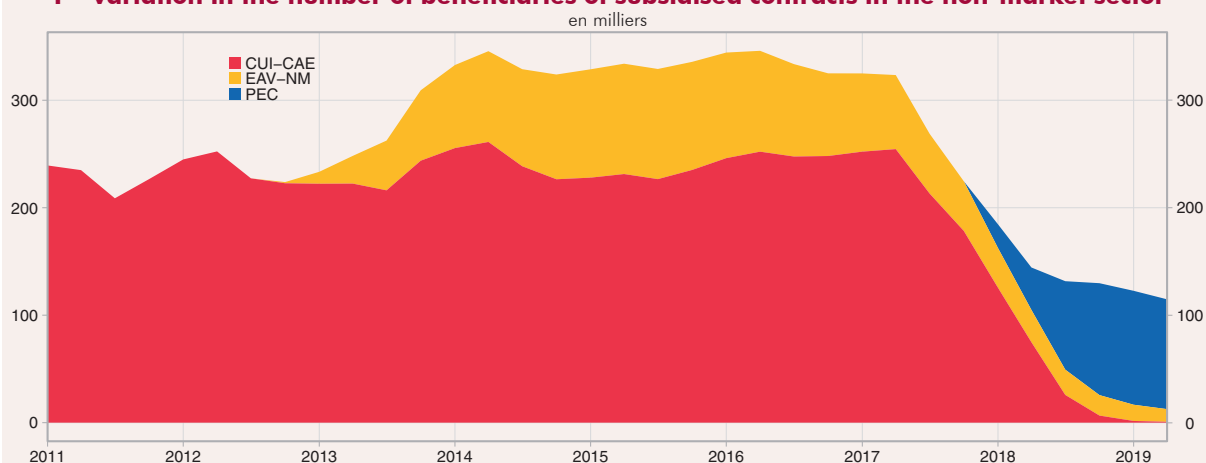
subsidised contract on employment is 0.7 and the substitution effect is 0.3. However, the effect on employment and the substitution effect ‘independent of budgetary constraints’ are difficult to estimate. In this article, the effect of subsidised contracts on employment presented in *Graphs 2 to 10* only incorporates the first component, assuming that employers in the non-market sector are operating on “constant budgets” in the short term. In practice, the scale of the total substitution effect appears to vary depending on the components of the non-market sector, and particularly depending on whether the jobs in question are in the public or private sector.

### In education and social work, private sector employment has continued to grow since 2017 in spite of the continual decline in the number of subsidised contracts

In education and social work, total private sector employment has proved to be relatively resilient to the decline in subsidised contracts since 2017. Payroll employment, excluding the effect of subsidised contracts ‘at constant budget’, has increased in both sectors at a rate slightly superior to the long-term trend (*Graphs 2 and 4*). In the public education sector, excluding the effect of subsidised contracts ‘at constant budget’, payroll employment was more dynamic in 2017 and 2018 than in 2016 (*Graph 3*). In particular, the creation of a significant number of non-subsidised jobs providing extra support for disabled pupils (AESH) has made up for the disappearance of former subsidised contracts fulfilling the same roles. In the public social work sector, however, the decline in total employment has been more closely linked with the end of subsidised contracts, with no apparent net compensation from non-subsidised employment (*Graph 5*).

2. The rate at which these contracts are subsidised is 70% for CUI-CAE signed before the end of 2016 (60% for CUI-CAE reaching their conclusion after 2016), falling to 50% for PECs. For future contracts in the non-market sector, the rate was 75% until the end of 2016, thereafter falling to 65%.

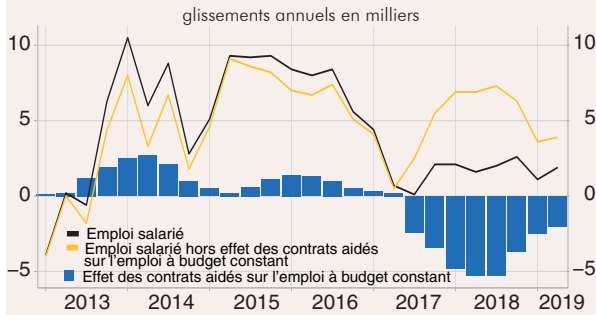
### 1 - Variation in the number of beneficiaries of subsidised contracts in the non-market sector



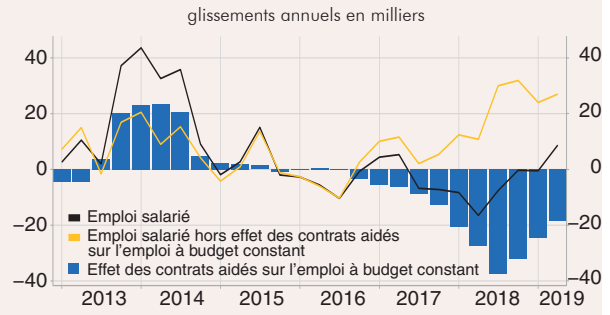
Focus : France excluding Mayotte

Source : Dares, Agences de services et de paiement, Calculs Insee

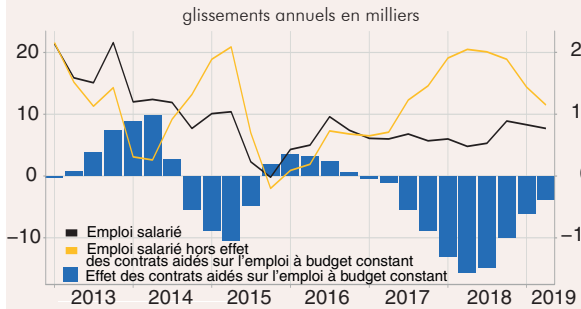
## 2 - Variation in private-sector employment of teachers



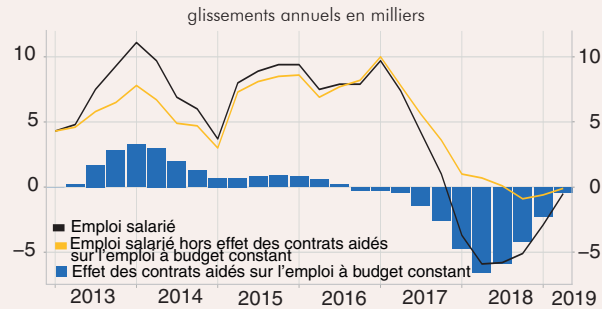
## 3 - Variation in public-sector employment of teachers



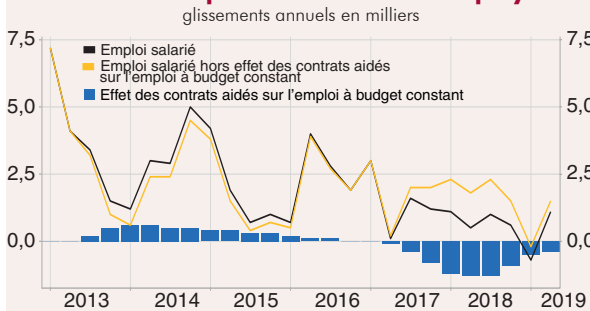
## 4 - Variation in employment levels in the private social work sectors



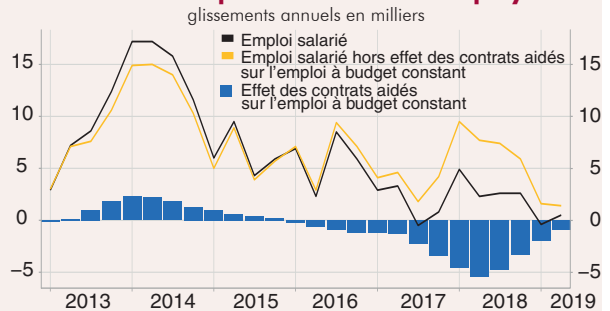
## 5 - Variation in employment levels in the public social work sectors



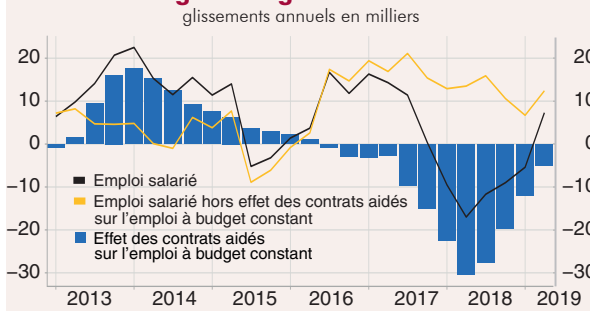
## 6 - Variation in private healthcare employment



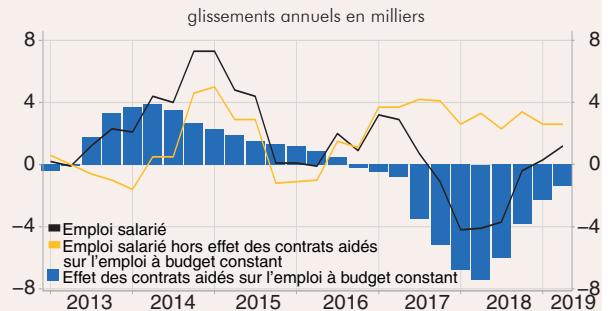
## 7 - Variation in public healthcare employment



## 8 - Variation in public sector employment in "general government"



## 9 - Variation in private sector employment in "entertainment and the arts"



## 10 - Variation in private sector employment in "other service activities"



Champ : Metropolitan France

Reading : In the second quarter of 2019, public employment in the General Administration increased despite a decrease in the number of beneficiaries of assisted contracts, which would have a negative impact on employment, "on a constant budget". Excluding the effect of assisted contracts on "constant budget" employment, employment would increase.

Source : Dares, Agences de services et de paiement, Insee calculates

In education and social work, once the effect on employment “at constant budget” has been taken into account, the private sector appears to have compensated for the disappearance of subsidised contracts more than the public sector, via different types of contract. Budgetary constraints thus appear to be less of a problem in the private sector, meaning that the substitution effect is stronger. Moreover, each sector may also be subject to its own short-term dynamics, linked to factors not observed here.

In the healthcare sector, the effect of the disappearance of subsidised contracts has been, as a proportion of total employment, more limited than the effect observed in education and social work. Contrary to social work, in this sector there is no clear difference between the public and private sectors in terms of substitution behaviours (*Graphs 6 and 7*).

**In the ‘general government’ sector<sup>3</sup>, the dynamism of public sector employment appears to have been directly affected by the decline of subsidised contracts**

Between H2 2017 and H1 2019, employment fell in the ‘general government’ sector, in year-on-year terms. This decrease appears to be directly linked to the disappearance of subsidised contracts (*Graph 8*). Put differently, without the effect of subsidised contracts the trajectory of employment has not substantially deviated from its long-term trend. As such, it appears that in this sector there is no substitution effect other than the “constant budget” effect.

**Private sector employment in entertainment and the arts and “other service activities” appears to have been directly affected by the decline of subsidised contracts**

In the private sector, a similar situation can be observed in entertainment and the arts, as well as the

“other service activities” sector (primarily comprised of charitable associations)<sup>4</sup>. The dynamism of employment in these sectors appears to be more closely linked to the fate of subsidised contracts than it is in other private non-market sectors, with a smaller substitution effect (*Graphs 9 and 10*).

**Overall, non-market employment appears to be more resilient in certain areas of the private sector**

Between Q2 2017 and Q2 2019, the total number of beneficiaries of subsidised contracts in the non-market sector<sup>5</sup> fell by 201,000. Over the same period, the overall decline in salaried employment in the non-market sector was much smaller (-22,700). This difference can be largely attributed to the upwards trend of non-market employment over the period (independently of subsidised contracts), and to a lesser extent to the replacement of subsidised jobs by non-subsidised jobs. In the public sector, as well as the private entertainment and arts sector and “other service activities,” budgetary constraints appear to be strong. As such, the trajectory followed by total employment in these sectors is more closely linked to the level of subsidised contracts. At the other end of the scale, in the private education and social work sectors, the presence of a substitution effect should mitigate the effect of the disappearance of subsidised contracts on total employment. ■

### Bibliography

« Assisted contracts in 2018 » (2019), *Dares Résultats* le 15/11/2019 ■

3. “Public administration and defence; compulsory social security” in the French classification of activities. Only contract covered by public law are counted here; they represented almost 94% of jobs in this sector in Q2 2019.

4. In the standard classification of activities, these sectors are considered as being “mainly market sectors,” but they share many properties with the non-market sector, in particular a high rate of uptake for subsidised contracts.

5. Including the “entertainment and the arts” and “other service activities” sectors.