The effects of reductions in social security contributions of employers in Spain during the Great Recession

Topic: CGE and econometric input-output modeling 3
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The aim of this paper is to quantify the impact of the reduction on social security contributions (SSC) of employers recently claimed by the main enterprisers' organization in Spain on the main macroeconomic variables. The effects of this tax reform are evaluated with a Computable General Equilibrium (CGE) model under the neoclassical closure rule. The model is calibrated with a Social Accounting Matrix for the year 2000 (SAMES-00) elaborated by the authors. The results show that lower SSC of employers raise employment, households' welfare and real GDP but also increase public deficit. These positive effects remain when the reduction is compensated with personal income tax, such as public deficit-GDP ratio keeps constant, and to lesser extend when the compensating variable is value added tax. However, the most positive effects are obtained when the lower public revenues are compensated with a lower percentage of unemployment benefits.