

Colloque sur les politiques actives du marché du travail
Conference on Active Labor Market Policies
organisé par la DARES / organized by the DARES

Job creation schemes in Germany: Design and evaluation results

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Les 14 et 15 février 2013 - Paris
February 14th and 15th, 2013 - Paris



What are job creation schemes supposed to do?

Contents

Subsidized work (\neq hiring subsidy)

Distinguishing features

- Targeted at very disadvantaged unemployed persons with severe difficulties of finding a regular job
- Mostly temporary, additional in nature, and of public interest

Aims

- Preserve employability
- Motivate and activate individuals
- Improve employment prospects
- “Relieve” regional labor markets

Evaluation questions

Program effects	<ul style="list-style-type: none">• What are the outcome variables of interest?• Is the program effective?• Is the program cost-efficient?• Why does the program (not) work?
Level	<ul style="list-style-type: none">• Individual (micro level)• Firm• Regional (macro level)
Potential unintended effects	<ul style="list-style-type: none">• Creaming• Lock-in• Stigma• Deadweight, substitution and crowding-out

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Institutional framework in Germany

German system of unemployment compensation

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

Unemployment benefits I (UB I)

- Unemployment insurance (UI) funded
- Duration depends on employment history
- Level depends on former wage

*No UB I or
UB I too low*

- Tax funded
- Means tested
- Unlimited duration

Unempl. assistance (UA)

Level depends on former wage

Unemployment benefits II (UB II)

Level does not depend on former wage

Social assistance (SA)

Level does not depend on wage

Major German job creation schemes

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

UB I

Traditional scheme (since 1969)
(Arbeitsbeschaffungsmaßnahmen)

UA

UB II

1-Euro-jobs
(Arbeitsgelegenheiten
Mehraufwandsvariante)

Workfare

UB II

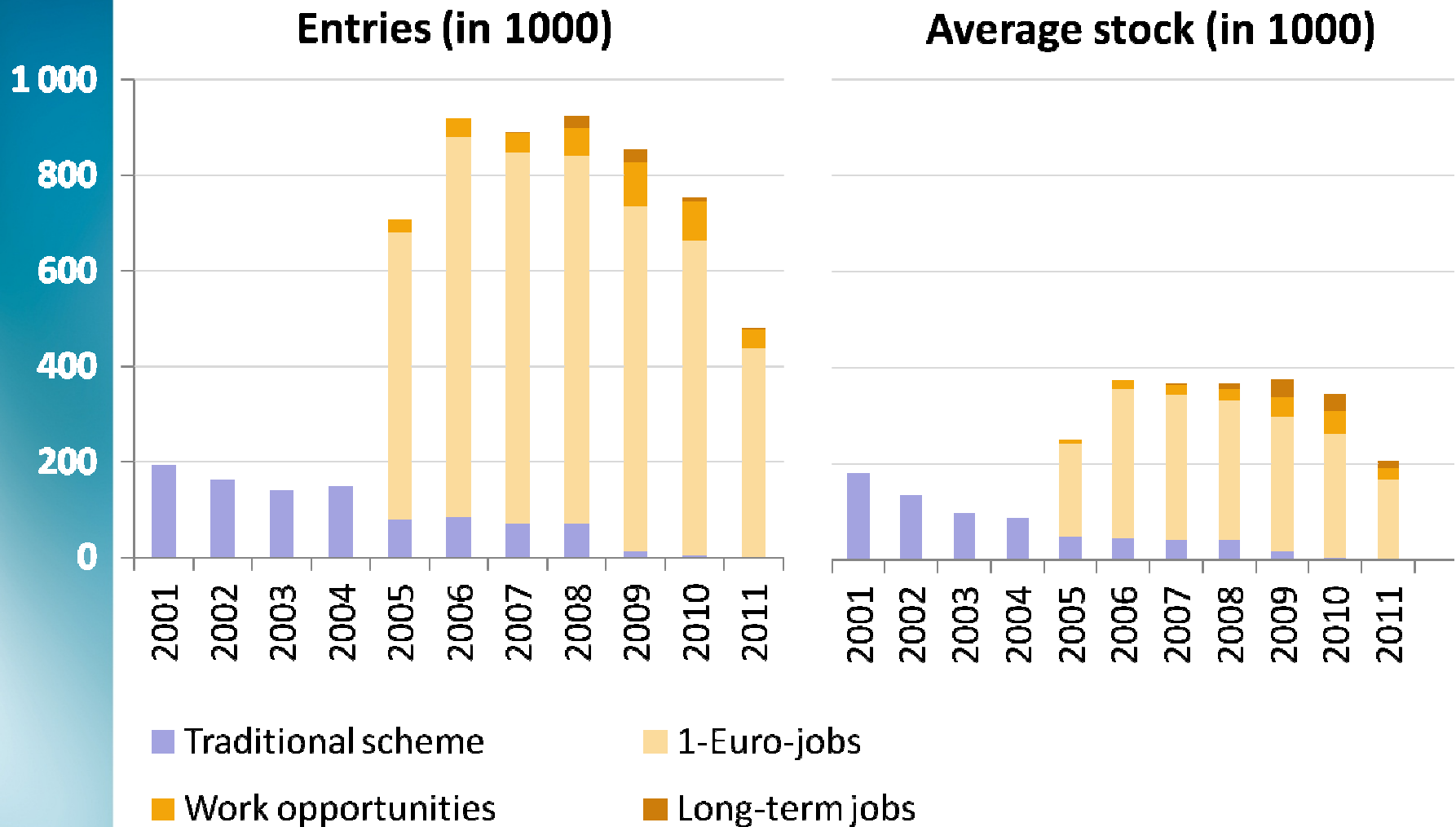
Work opportunities
(Arbeitsgelegenheiten
Entgeltvariante)

Long-term jobs
(Beschäftigungszuschuss)

(Förderung
Arbeitsverhältnisse)

	Target group	Compensation	Duration	Requirements
Traditional scheme	Unable to find other work & UB I (since 2009)	Wage, lump sum for employer, no UI contributions (since 2004)	≤ 12 months	Additional work & of public interest
1-Euro-jobs	Unable to find other work & UB II	UB II + 1 to 2 Euro/hour + lump sum for provider	Max. 2 of 5 years (since 2012, originally unlimited), φ 6 months	Additional work & of public interest
Work opportunities	Unable to find other work & UB II	Wage, lump sum for employer, no UI contributions (since 2009)	Unlimited, φ 6 months	---
Long-term jobs	Long-term unemployed & UB II, two further placement deficits	Wage, subsidy of up to 75% to employer, no UI contributions	After activation period of 6 months: ≤ 24 months, then unlimited	---

1-Euro-jobs were used most often



Source: Statistics of the Federal Employment Agency

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Micro studies and their findings

Estimating treatment effects on the treated

Common approach	Use non-experimental data and compare outcomes of participants with those of “statistical twins”
Outcomes	Usually employment / unemployment / benefit receipt
Parameter of interest	Average effect of participation on participants, compared to a state of “waiting”
Assumptions	<ul style="list-style-type: none">• Sufficiently rich data to identify “statistical twins”• No indirect effects• Participation not perfectly predictable
Data	Process generated data of German PES

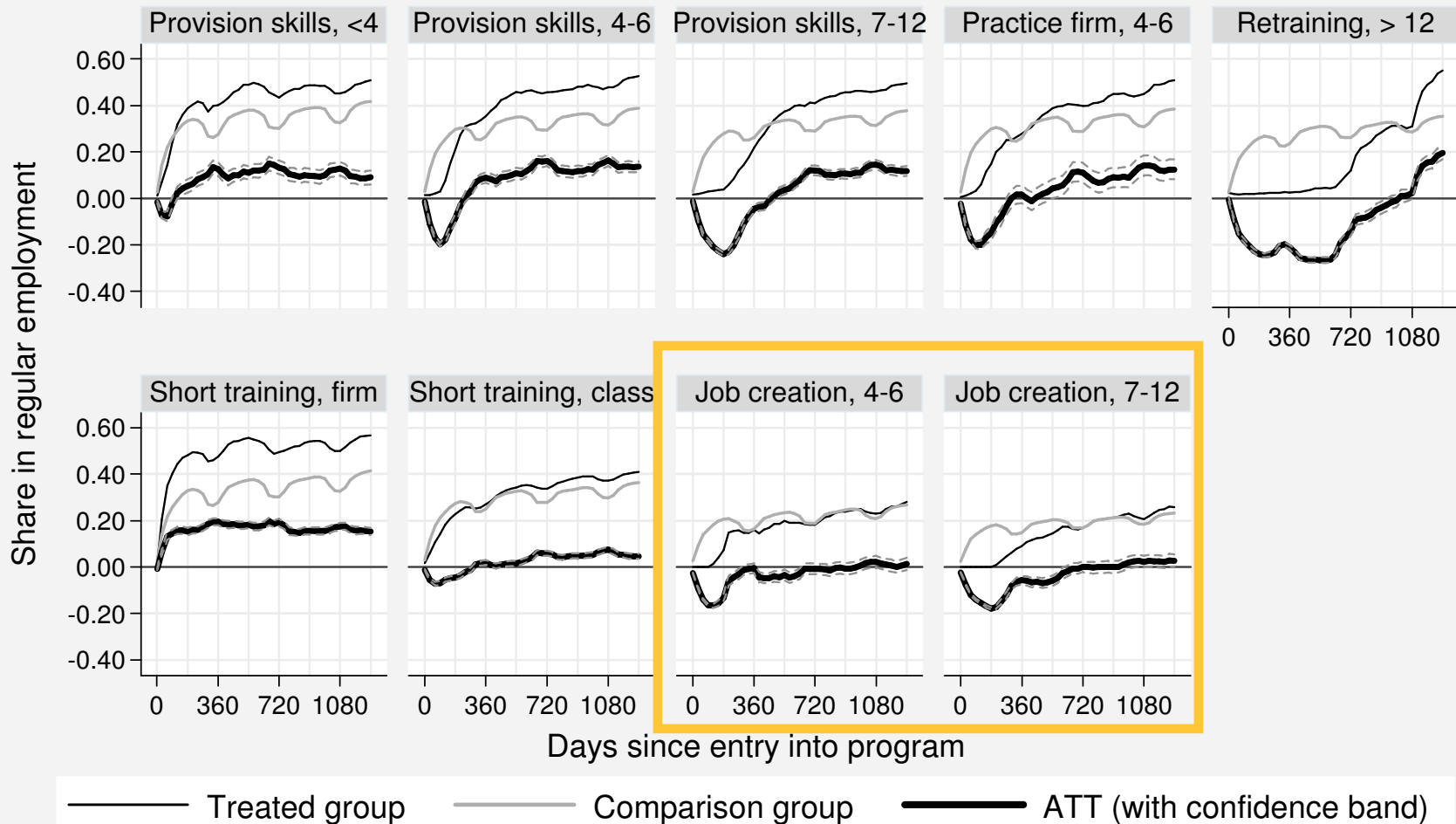
Broad literature on micro effects (selection)

Traditional scheme	<ul style="list-style-type: none">• Entries 2000/2001: Caliendo et al. 2004, 2006, 2008a, 2008b, Hujer/Thomsen 2010• Entries 2000/0022: Lechner/Wunsch 2009, Wunsch/Lechner 2008• Entries 2003: Stephan/Pahnke (2012)• Entries 2005 (UB II): Hohmeyer/Wolff (2010b)• Meta-analysis: Card/Kluve/Weber (2010)
1-Euro-jobs	<ul style="list-style-type: none">• Entries 2005: Hohmeyer/Wolff (2007, 2010a), Wolff/Hohmeyer (2008), Wolff et al. (2010) for age<25• Entries 2006: ZEW et al. (2008)• Entries 2008: Apel et al. (2011)• Effects on life satisfaction: Wulfgramm (2011)
Work opportunities	<ul style="list-style-type: none">• Entries 2005: Hohmeyer/Wolff (2010b)
Long-term jobs	<ul style="list-style-type: none">• Entries 2008: ISG et al. (2011)

Effects on employment rates of participants

	Lock-in	Overall effects	Subgroups
Traditional scheme	Large	Not positive (before 2005); hints that inferior to training	Positive for long-term unemployed and UB II recipients
1-Euro-jobs	Very modest	Very modestly positive after 1-2 years	Harmful for young persons and short-time unemployed; strong differences by provider!
Work opportunities	Modest	Positive and rather quickly	---
Long-term jobs	Large	Not available yet (positive on social participation)	---

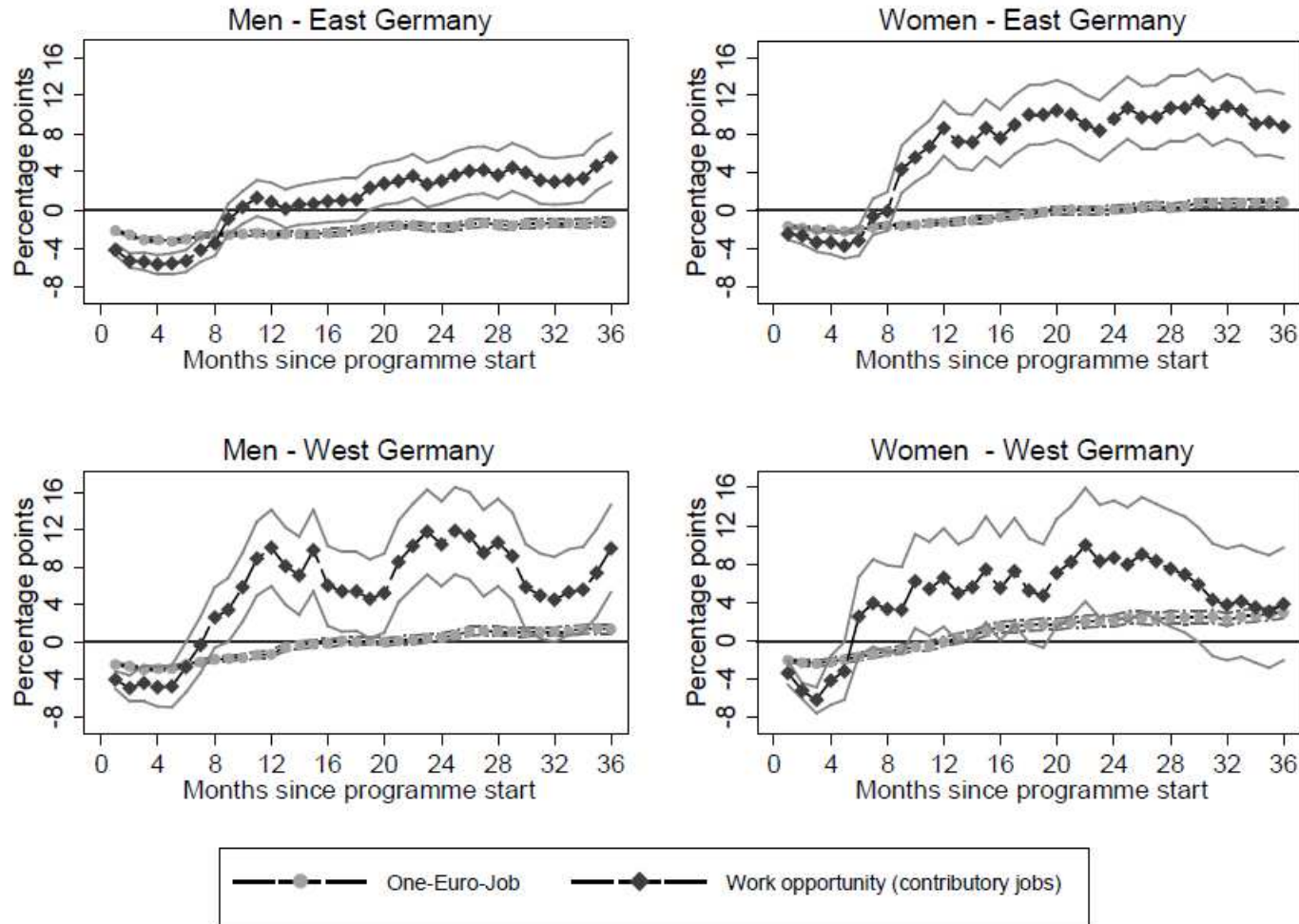
For the traditional scheme, “joining” hurts



Regular employment rate: Average treatment effects on the treated (in percentage point), compared to “waiting”, and 95% confidence intervals

Source: Stephan/Pahnke (2012), Figure 1, Program entries during March 2003

Positive results for work opportunities



Regular employment rate: Average treatment effects on the treated (in percentage point), compared to “waiting”, and 95% confidence intervals

Source: Hohmeyer/Wolff (2010), Figure 2, Program entries during May/June 2005

Excursus: Regional and firm level results

Traditional scheme	<p>Regional data:</p> <ul style="list-style-type: none">• No positive effects of program intensity on job search (Hujer et al. 2004, Hujer/Zeiss 2003, 2005, RWI/ISG 2006)• Negative effects on firm performance (Lechner et al. 2012)
1-Euro-jobs	<p>Firm panel data (Hohendanner 2011):</p> <ul style="list-style-type: none">• Partly the same tasks as regular workforce• No evidence of substitution or displacement
Long-term jobs	<p>Firm survey and panel data (ISG et al. 2011):</p> <ul style="list-style-type: none">• Evidence of deadweight• No evidence of substitution or displacement

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Lessons learned - and open questions

Results and policy reactions

Effects on
employment
rates

- Overall negative results for traditional scheme (creaming and/or stigma?)
- Positive results only for unemployed with very severe difficulties of finding a regular job
- For UB II recipients, better results if a wage is paid and work is not necessarily additional & of public interest

Important
policy
reactions

Traditional scheme

- Since 2004: Less attractive (no UI contributions)
- Since 2009: Restricted to UB I recipients
- Since 2012: Program completely abolished

1-Euro-jobs

- Since 2012: Less use for young persons

Outlook

Open
question
s

- More positive direct effects when paying a wage and subsidizing commercial jobs: Offset by unintended effects?
- Why are some providers so much better than others?
- Effects on social participation / employability?
- Comprehensive cost-benefit analysis?

To keep
in mind

- Majority of participants find their work meaningful (appreciate in particular regulated routine of the day)
- In Germany: Potential of around 130,000 persons with virtually no placement prospects for “social labor market” (Koch/Kupka 2007)

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Backup

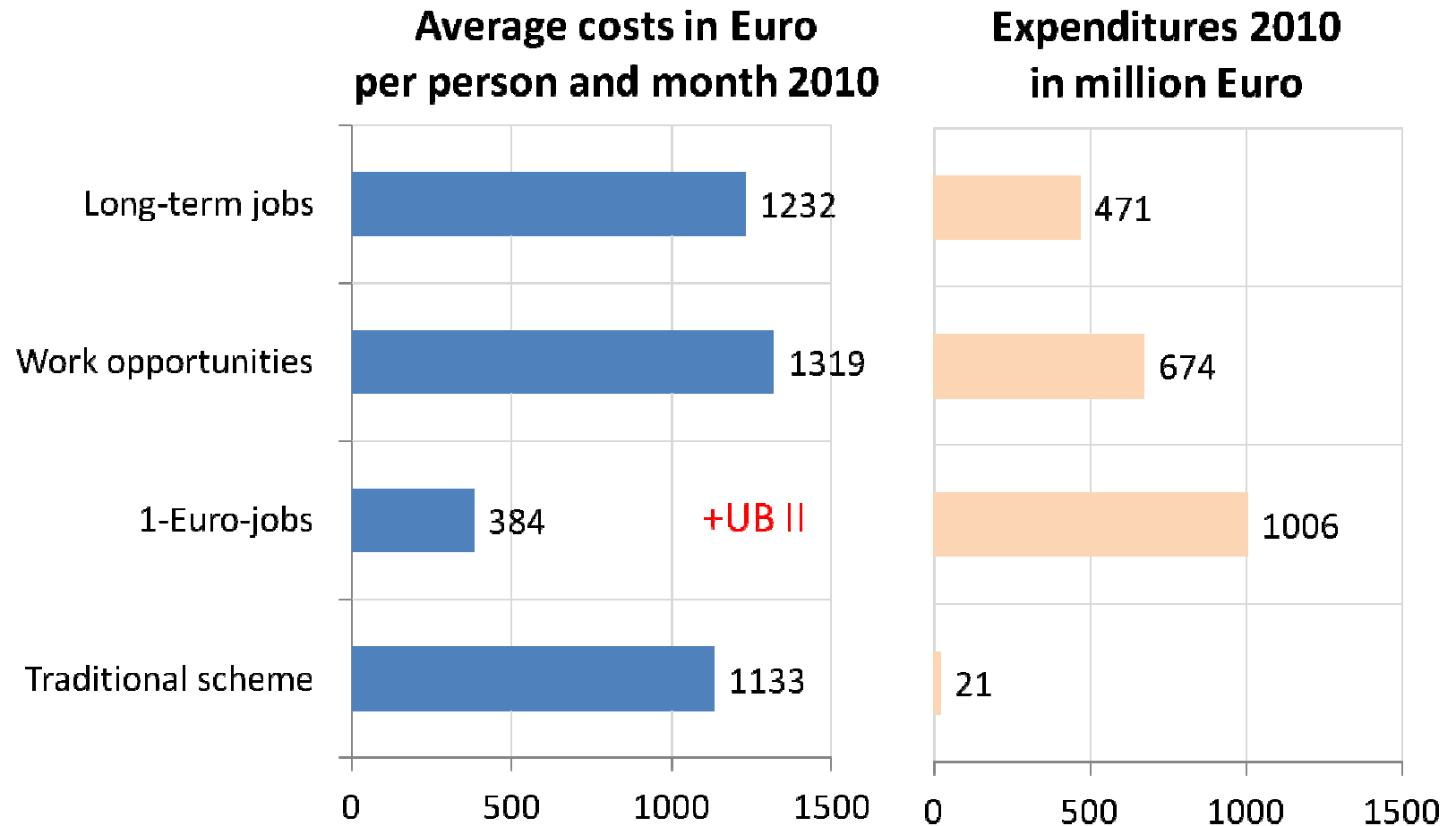
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Expenditures have been highest for 1-Euro-jobs



Note: Costs for 1-Euro jobs do not include UB II

Source: Statistics of the Federal Employment Agency

Statistical matching in more detail

Most common approach	Use non-experimental data and compare outcomes Y_1 of participants with outcomes Y_0 of a comparison group of non-participants (“statistical twins”)
Usual outcomes	Times in regular employment / unemployment / benefit receipt (“employability” is more difficult to measure)
Parameter of interest	<p>Average effect of taking up treatment at time t ($D^t = 1$) on the treated, compared to a state of “waiting”, during different points of time $t+h$</p> $\theta^{t+h} = E [Y_1^{t+h} - Y_0^{t+h} \mid D^t = 1] = E [Y_1^{t+h} \mid D^t = 1] - E [Y_0^{t+h} \mid D^t = 1]$
<p>Impute unobserved outcome</p> $E [Y_0^{t+h} \mid D^t = 1]$	<ul style="list-style-type: none"> • Conditional Independence Assumption ($Y_0 \perp D \mid X$): Conditional on the variable vector X or the participation probability $\Pr(X)$, we expect the same outcome under non-treatment for actual participants and non-participants • Stable Unit Value Treatment Assumption: No indirect effects • Common Support $0 < \Pr(X) < 1$: Participation not perfectly predictable

Cross-program comparisons not always reliable

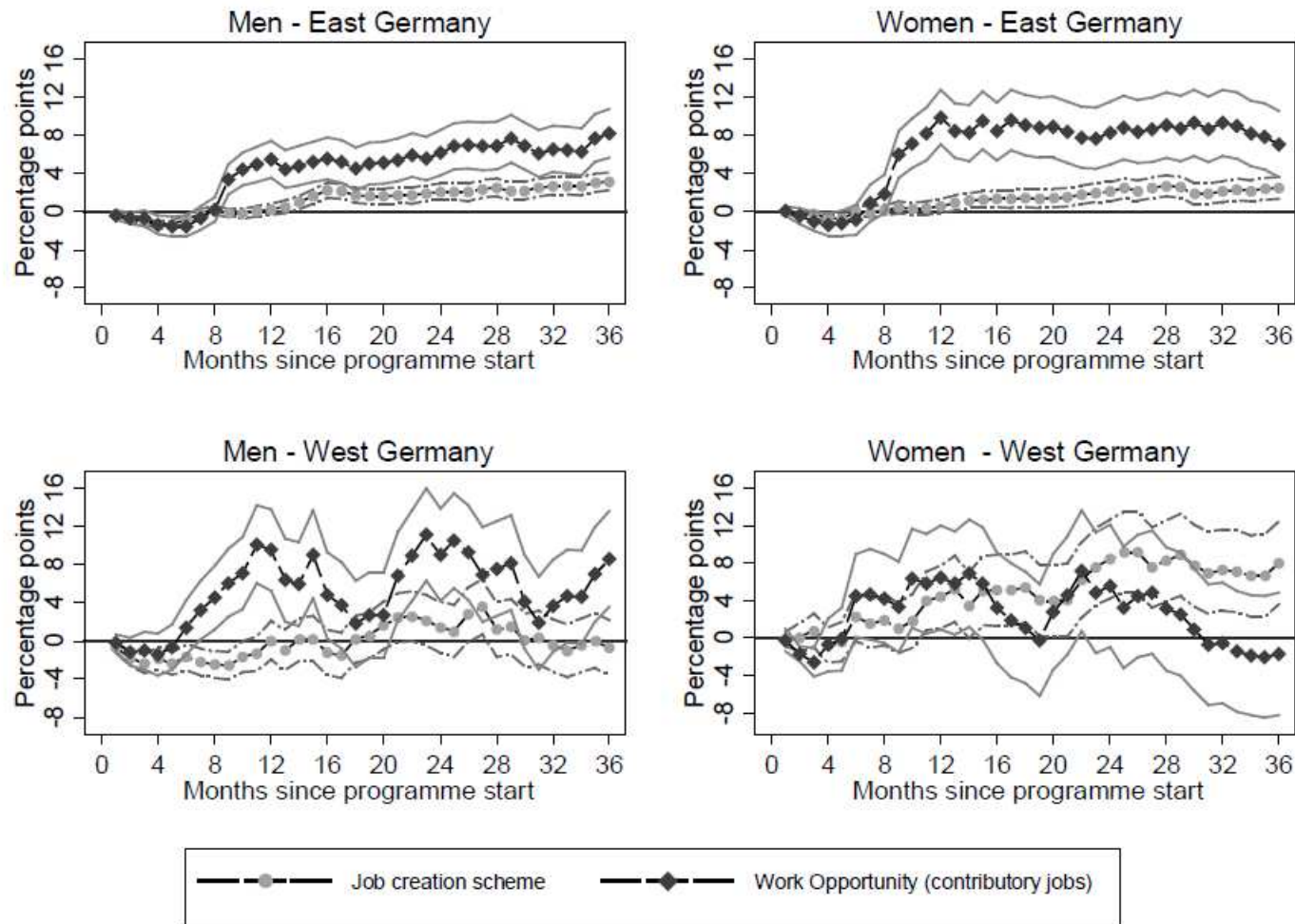
Treatment group J (type and duration in months)	Comparison group K (type and duration in months)									
	Waiting	Provision of skills			Practice firm	Re-training	Short training		Job creation scheme	
		<4	4-6	7-12	4-6	> 12	in firm	in class	4-6	7-12
Cumulated days in regular employment, 3.5 years after program entry										
Provision of skills, <4	112**	---	18	99**	87(**)	323**	-93**	92**	176(**)	199(**)
Provision of skills, 4-6	92**	-14	---	70**	60(*)	281**	-128**	68**	141(*)	130**
Provision of skills, 7-12	20*	-91**	-80**	---	-37	213**	-197**	-8	8	35
Practice firm, 4-6	38*	-65(*)	-51*	22	---	241(*)	-191**	19	11	105(**)
Retraining >12	-146**	-237**	-280**	-186**	-206**	---	-379**	-174**	-138(*)	-94(**)
Short training in firm	206**	113**	117**	194**	194**	430**	---	188**	264**	285**
Short training in class	27**	-71**	-65**	2	6	209**	-201**	---	57	97(**)
Job creation scheme, 4-6	-40**	-120**	-130(*)	-86**	-94	59(*)	-255**	-87**	---	48(**)
Job creation scheme, 7-12	-52**	-201**	-124**	-121**	-158(**)	-15	-292**	-93**	-45**	---

** (*): Significant at $\alpha = 0.01$ (0.05); effects on cumulated days in employment 3.5 years after program entry.

Asterisks in parentheses: "Lechner bounded" estimates span zero at an accordingly chosen confidence level.

Shaded: Significant taking into account Lechner-bounds and $MSB < 5$

More positive results for scheme with a wage



Regular employment rate: Average treatment effects on the treated (in percentage point), **compared to participation in a 1-Euro-job**, and 95% confidence intervals

Source: Hohmeyer/Wolff (2010), Figure 3, Program entries during May/June 2005