

The effectiveness of hiring subsidies to reduce unemployment among the older

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Motivation

- Relative unemployment duration of the older longer in Germany than in most other countries
- Evaluation of the impact of hiring subsidies on re-employment chances of the older
- Two “natural experiments”: extension of eligibility for hiring subsidies in 2002, abolishment of extension in 2004

Motivation

- Estimate deadweight effect of subsidy by comparing employment effect with number of subsidies disbursed
- Deadweight effect: enterprise hires the same employees it would hire anyway but gets subsidies for that

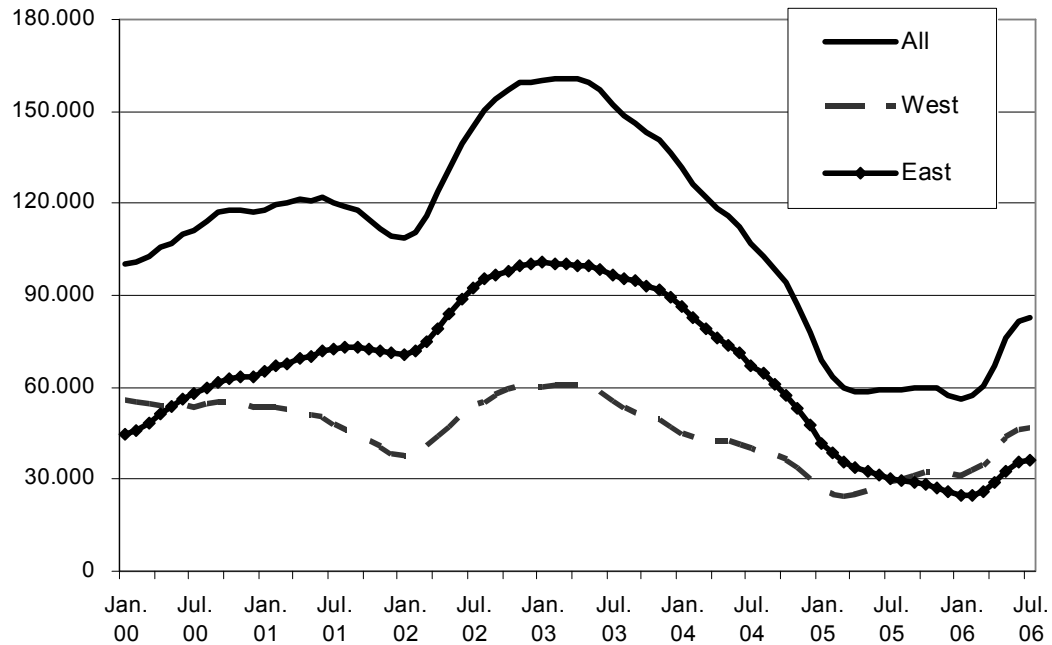
The Measure for Old Unemployed

- Integration allowance (Eingliederungszuschuss)
- Maximum: 50% of labour costs for 24 months (for older employees with disabilities: 70% for 70 months) for unemployed over 50 years
 - ▶ regional deviations in offer to enterprises
- Promoted by workplace-oriented rather than applicant oriented placement officers

The Natural Experiment

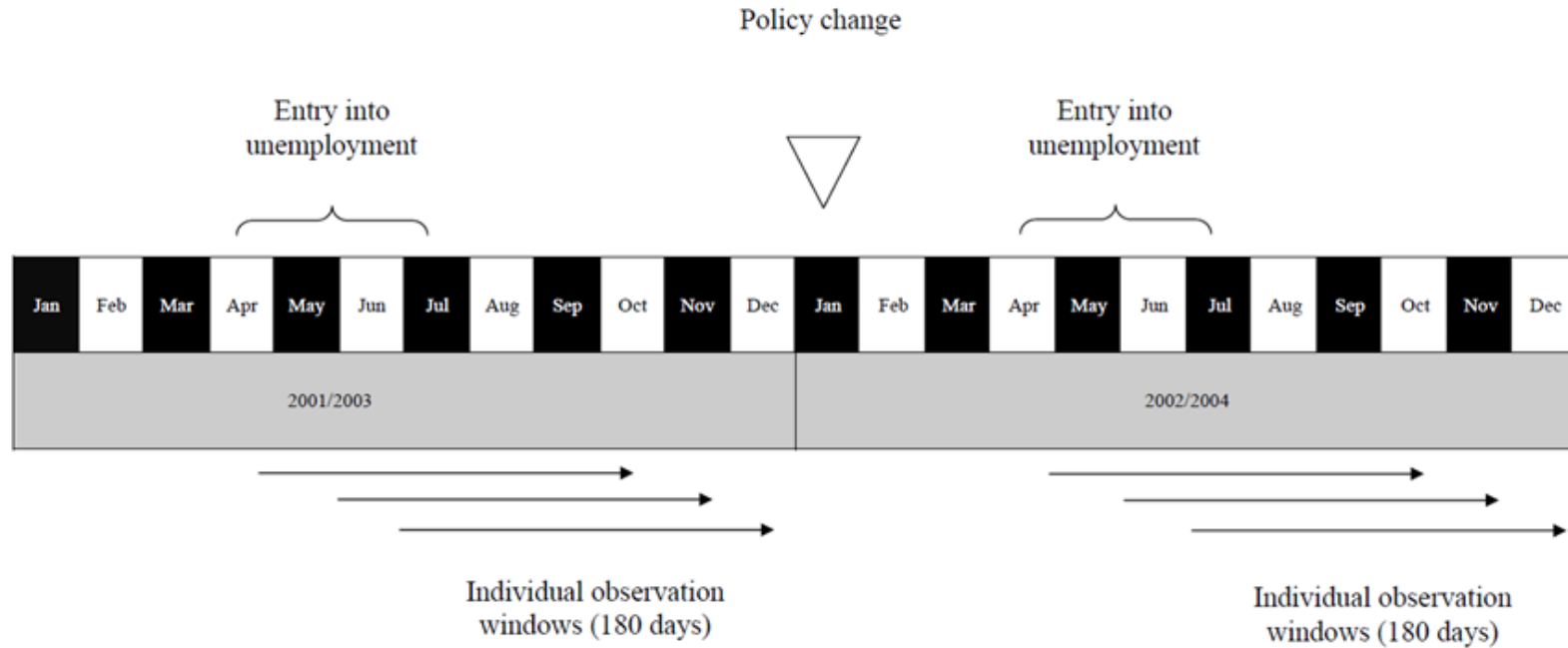
- Until 1 January 2002 only unemployed over 50 years with at least 12 month of unemployment
- Between 2002 and 1 January 2004 all unemployed over 50 years
- From 2004 onwards old rule

Number of All Hiring Subsidies

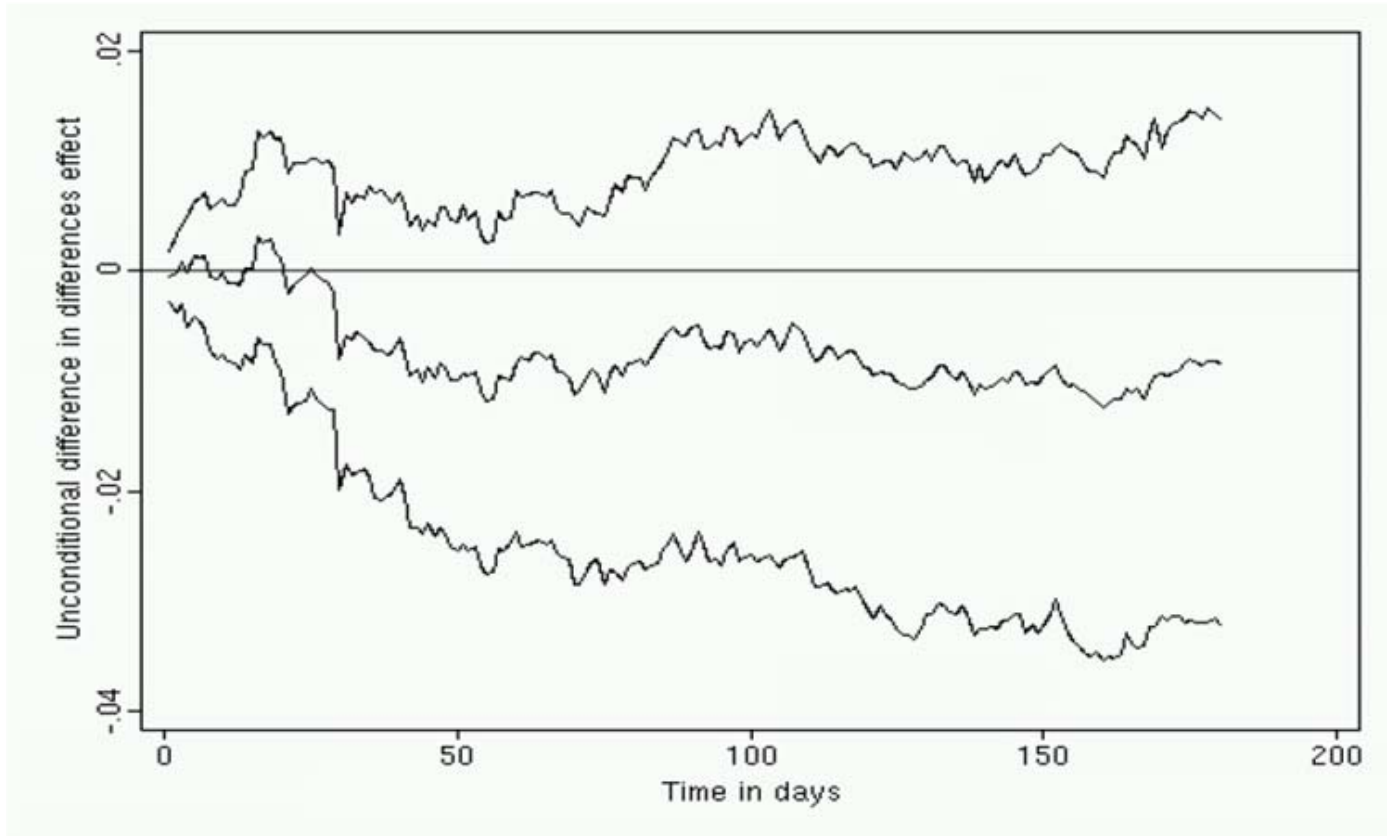


- Focus on timing of hirings of all unemployed in age group affected (not individuals)
- Difference-in-Differences Estimator
- Treatment group: Unemployed aged 50 years
- Control group: Unemployed aged 49 years

Definition of Observation Periods



No Average DD Effect of Wider Eligibility



Days in unemployment for treatment in comparison to control group



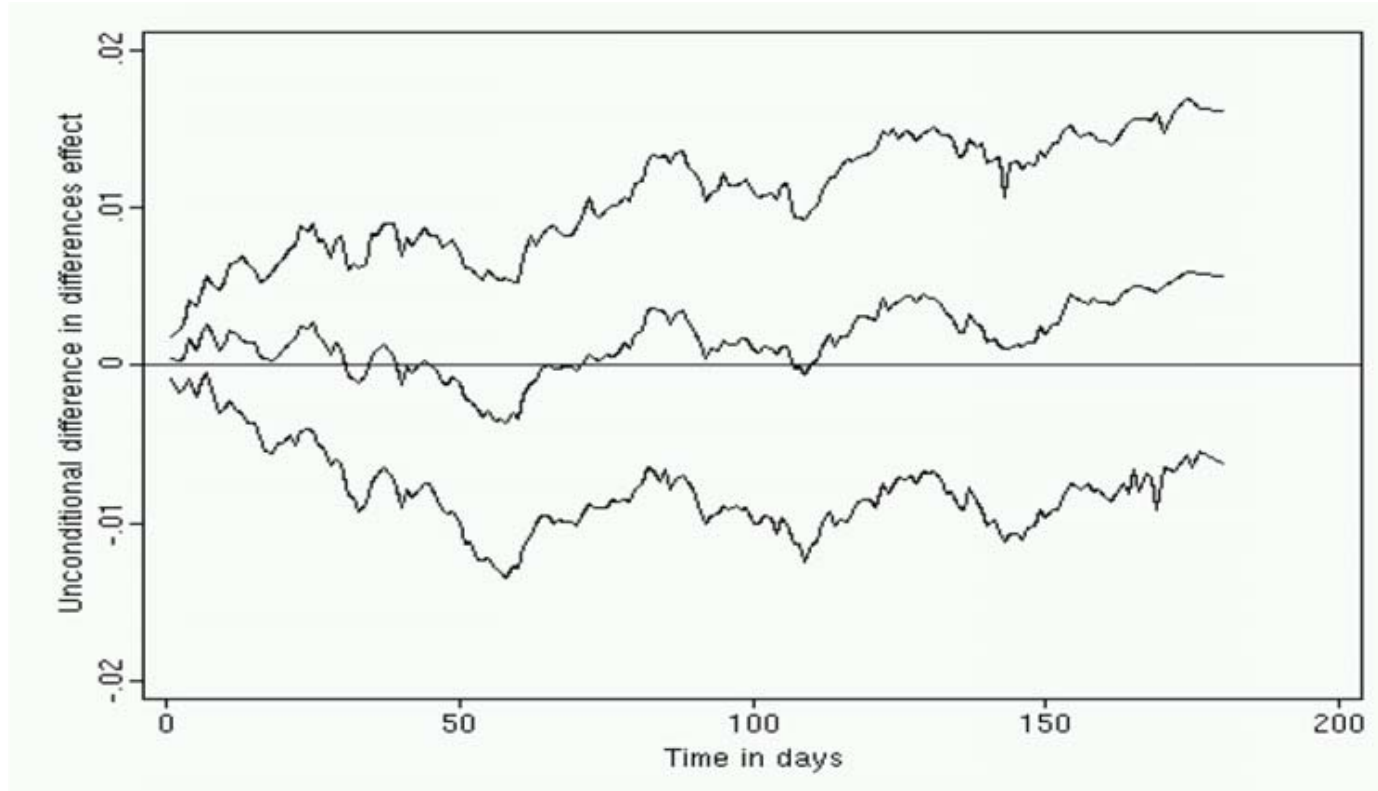
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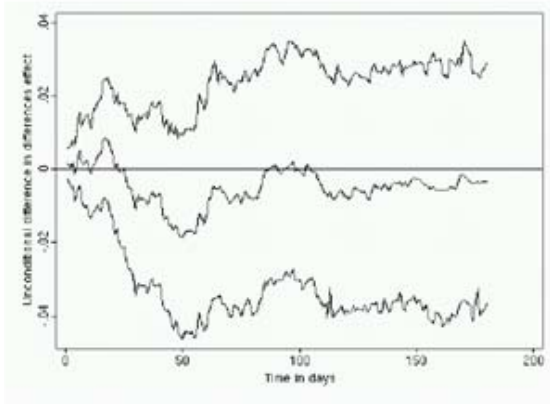
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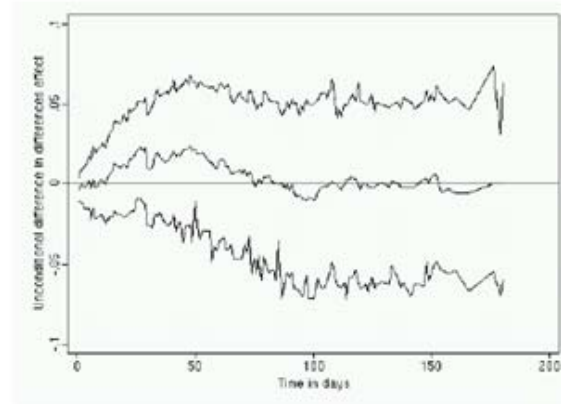
No Average DD Effect of Programme End



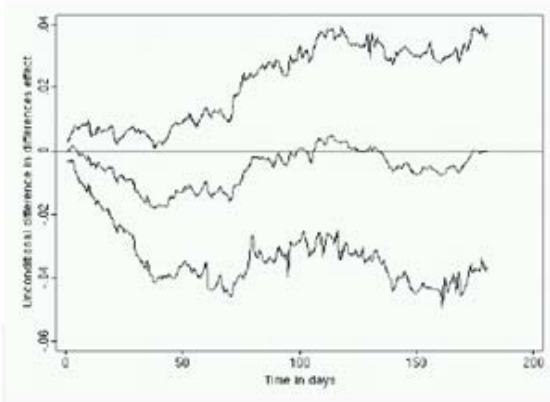
Positive Effects Women in East D 2002



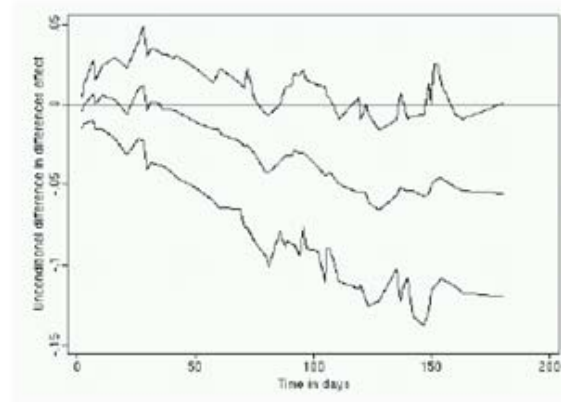
(a) Men, West



(b) Men, East



(c) Women, West

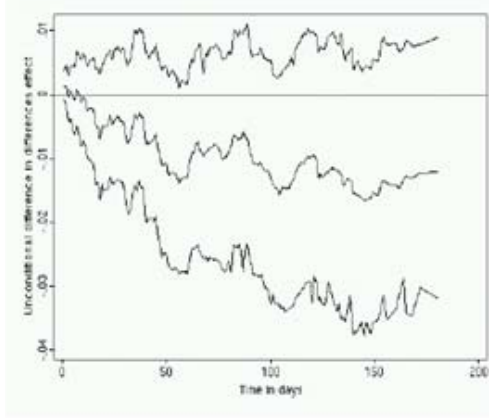


(d) Women, East

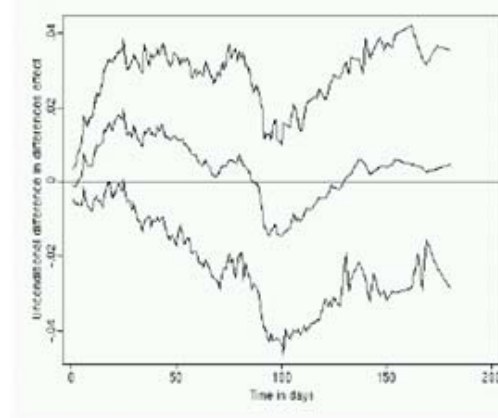
Increase in exits from unemployment after 180 days for women in East Germany: 6%



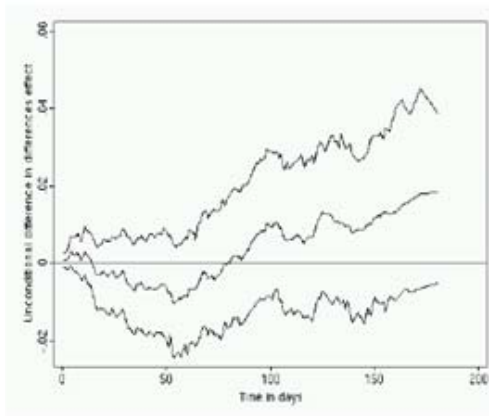
Negative Effect Women in East D 2004



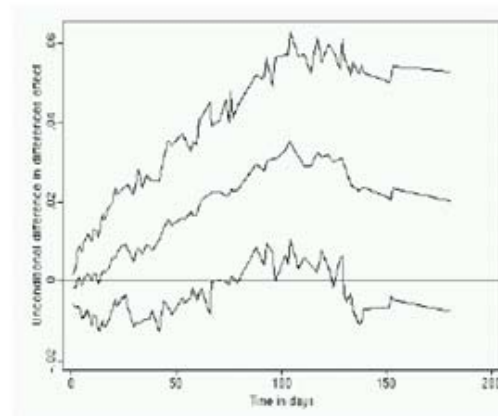
(a) Men, West



(b) Men, East



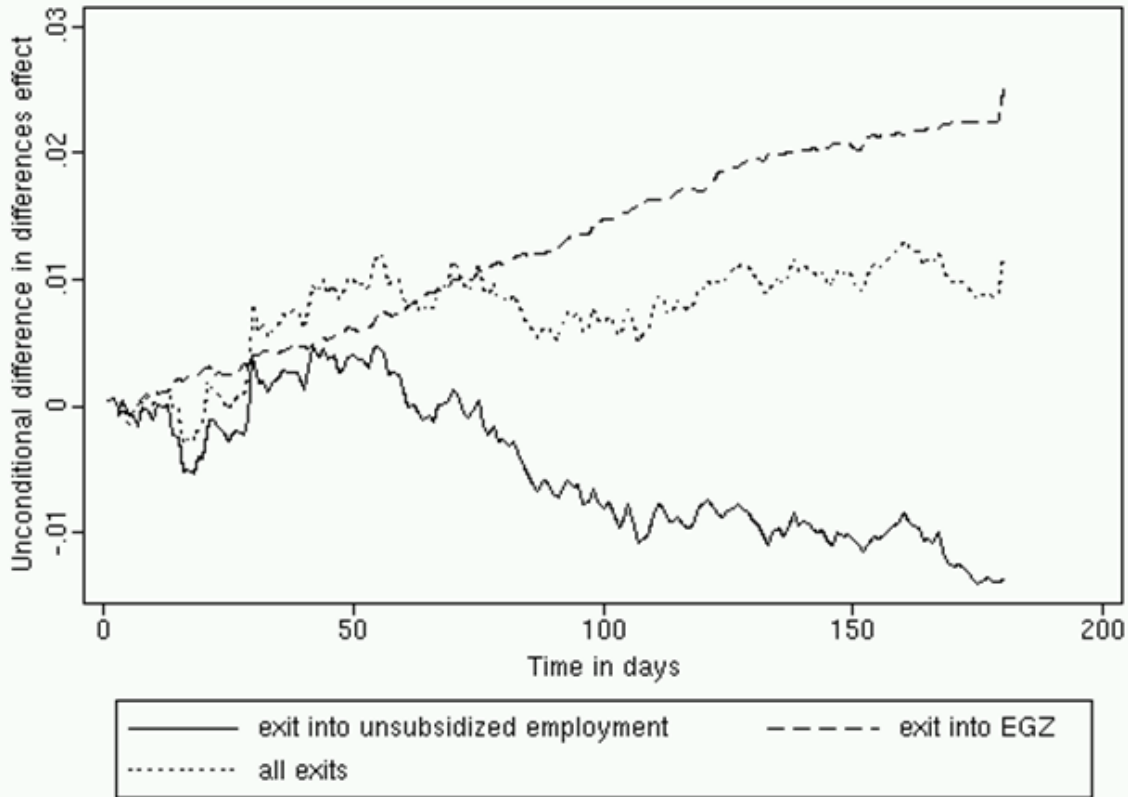
(c) Women, West



(d) Women, East

Decrease in exits from unemployment after 180 days for women in East Germany: 3%

Deadweight Losses 2002



Cumulative Incidence Functions
Exits in subsidised employment
dominate unsubsidised employment
Increase by 2% in subsidised
employment after 180 days
unemployment
Much higher than DD effect on
employment

Deadweight Losses 2004



Decrease by 1% in subsidized employment after 180 days unemployment

Increase in unsubsidised employment

Exits in unsubsidised employment dominate exits in subsidised employment

Why Effective for East German Women?



- Female labour supply more earnings elastic
- Larger gap between potential and actual employment
- Subsidies relatively more generous (longer subsidy durations in East Germany)



Conclusions

- Generous Hiring Subsidies lead to earlier exit from unemployment for women in East Germany
- Subsidies for males results mainly in dead weight losses
- Extension of subsidised employment for East German women in line with extension of additional employment

Conclusions

- Better evaluations of ALMP: use register data, well defined research questions and experimental settings
- Better targeting: take deadweight effects into account and look at eligible groups instead of individuals
- Better implementation: ask all parties involved (we did that but I did not talk about this)

Thank you for your attention!



Reference:

Boockmann, Zwick, Ammermüller and Maier
(2007): Do Hiring Subsidies Reduce
Unemployment Among the Elderly? Evidence
From Two Natural Experiments, ZEW Discussion
Paper 07-001, Mannheim, forthcoming in:

Journal of the European Economic Association

