

IAB Brief Report

Up-to-date analyses by IAB

In brief

■ In Germany, the set of active labor market policy instruments is reassessed on a regular basis. The last reform was implemented in the spring of 2012.

■ The impact analysis tool TrEffeR (Treatment Effects and Prediction) of the Federal Employment Agency continually monitors the effectiveness of the labor market policy programs which were administered by their local agencies.

■ Here TrEffeR is used to examine how effective certain labor market policy instruments in the legal sphere of the unemployment insurance have been for persons entering programs during the years 2011 and 2012 (before and after the latest reform).

■ One year after program entry, estimated effects on the employment prospects of participants in short training and placement services as well as further occupational training and of recipients of hiring subsidies hardly differ between the two cohorts.

■ Short training and placement services conducted by private providers tend to be of short duration and have comparatively little effect on the subsequent labor market success of participants.

■ Further occupational training and measures taking place directly at employers have distinctly more positive effects on the labor market prospects of participants. Firm-related measures are, however, potentially accompanied by free-rider or crowding-out effects.

Measures under scrutiny

The effectiveness of active labor market policy instruments in Germany

by *Thomas Büttner, Torben Schewe and Gesine Stephan*

While unemployment has been markedly reduced in Germany over the last ten years, the aims of employment policy – among them, the avoidance and shortening of periods of unemployment – continue to put high demands on the legislative and executive authorities as well as on the employment administration. Beneath placement services, active labor market policies are supposed to support the re-integration of unemployed persons into the labor market. For the entry cohorts of the years 2011 and 2012, this report analyses how effective labor market policy programs were in bringing back participating unemployed into work. The analysis focuses on the first and second year after program start.

During the last years, the Federal Employment Agency (FEA) has expended roughly nine billion euros per year on active labor market programs in the sphere of unemployment insurance (Book III of the Social Code – SGB III) (Bundesagentur für Arbeit

2015). These labor market policy services are to be implemented in a manner that is both effective and economic, but should at the same time pursue a socio-political mandate. For this reason, the legislature regularly examines and adjusts the set of instruments of active labor market policy. Recently, there has been two fundamental amendments to Book III of the Social Code (SGB III). These reforms came into force during the years 2009 and 2011.

On the occasion of the last reform, the Institute for Employment Research (IAB) and the Federal Ministry of Labor and Social Affairs (BMAS) presented an assessment report on the evaluation of labor market policy instruments (Koch et al. 2011, Heyer et al. 2012). The majority of studies cited relate to program entries up to the year 2005. The authors concluded that all groups of instruments studied had their justification: most of the measures improved the employment chances of specific – but not of all – groups of persons.

Based on persons entering active labor market programs administered by the unemployment insurance during the years 2011 and 2012, the current report examines how effective selected measures of active labor market policy were in the year before and after the last amendment of the law. The results stem from TrEffeR, the internal impact analysis tool of the FEA (see Info Box). The evaluations focus on the question of whether participation in particular programs was effective for participating persons in the first two years after program start.

First, the measures examined are briefly introduced along with their quantitative relevance. Since the overcoming of the economic crisis in the years 2009/2010, the number of unemployed has been stable at just under three millions. In general, this development is mirrored in the number of new persons entering programs of active labor market policies. **Figure 1** represents the new entries during the period 2010 to 2014 for the legal sphere of SGB III. Here a differentiation is made between measures

that are intended to enhance employment prospects and measures that are directly coupled with entering an employment relationship.

■ Entries into active labor market policy programs

Further occupational training, short training and placement measures

Further occupational training (Berufliche Weiterbildung, § 81 ff. SGB III) can be roughly subdivided into a) the provision of specific professional skills (occupation-related and general training); b) retraining with the aim of gaining an occupational degree; c) the considerably less often used other further training measures (e. g. occupational further training in support of upwards mobility and qualifications in practical training institutions).

During the period in question, the number of entries into occupation-related and general training initially dropped distinctly: from just below 230,000 in 2010 to a minimum of about 100,000 in 2012. Since then there has been a slight increase. The annual entries into retraining amounted to between 18,000 and 28,000 persons.

Of all programs, short training and placement measures (Maßnahmen zur Aktivierung und beruflichen Eingliederung § 45 SGB III) are utilized most often. They are intended to bring participating unemployed closer into the labor market; to identify, reduce or remove barriers to placement; to place individuals into regular employment; to provide coaching for self-employment; or to stabilize the employment relationship taken up. The program can be conducted through a private provider institution or firm-internal by an employer.

Since 2009, measures conducted by provider institutions combine a number of already existing individual instruments (among them, assignment to private placement providers and firm-external training measures). Since April 2012, caseworkers at public employment agencies can issue an activation and placement voucher for such measures. While even more than 360,000 persons moved on to such measures during 2010, the number of entries in 2012 dropped to just about half, before rising again slightly. These numbers, however, do not include the variants that are supposed to coach for self-employment and stabilize employment as these are not aimed at transitions from unemployment to employment subject to social security contributions.

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TrEffeR – Impact analysis at the Federal Employment Agency

Between the years 2005 and 2007, the headquarters of the FEA together with IAB developed a comprehensive impact analysis system for the instruments of active labor market policy. Professor Susanne Rässler of the University of Bamberg (at that time at both the FEA headquarters and IAB) and Professor Donald Rubin of Harvard University made significant contributions to this development.

Since then, a tool has been established under the name of TrEffeR ("Treatment Effects and Prediction"). This tool examines in an ongoing way how participation in measures administered by the FEA affect the labor market prospects of participating unemployed (Stephan et al. 2006). To do this, a comparison of the labor market results of participants and of (initially) similar unemployed, but not (or later) participating persons is undertaken (see the Info Box on Page 4). The procedure is constantly improved and enriched by additional options.

Outcome variables refer on the one hand to unsubsidized employment subject to social security contributions as well as, on the other hand, to times in which people were neither registered as unemployed nor participating in active labor market programs (e.g., in retraining or in employment subsidized by way of a hiring subsidy). These two outcomes may differ if, for instance, people withdraw from the labor market. For up to four years after entry into a measure (and at periods of half a year), TrEffeR provides information on accumulated days in the states mentioned above as well as the employment status at points of time.

Thus TrEffeR continually provides information about results that are of especial interest to the FEA – differing questions require data or methods tailored to their specific needs.

TrEffeR results are available through the Data Warehouse of the FEA. While this report presents findings at an aggregate level, the real focus of TrEffeR is to offer results at local level. Using the Data Warehouse, it is possible to differentiate for instance by employment agencies and job centers and according to characteristics of the programs and of those subsidized. This provides useful information on the effectiveness of programs, which can be used to improve the design and assignment of programs at the local level.

Firm-internal measures carried out by employers mostly correspond to earlier firm-internal training measures. They are not allowed to exceed six weeks and support occupational integration by means of the identification, reduction or removal of barriers to placement. Here, as well, the number of entries dropped during the time period under consideration from roughly 270,000 in 2010 to roughly 180,000 in 2012, before slightly increasing again during 2013.

Measures accompanying the re-entry into the labor market

Hiring subsidies (Eingliederungszuschüsse, § 88 ff. SGB III) are wage subsidies which employers can receive for a limited period of time when they hire unemployed persons with placement impediments. Their purpose is to compensate the employer for initially low productivity of previously unemployed persons in their new job. The subsidy is paid monthly and can be granted up to a level of 50 per cent of the wage rate (as well as the lump sum of the employer's contribution to social security insurance) and for the duration of a maximum of twelve months. For older persons, and also for persons with particular needs, the extent of the subsidy can be enlarged. In principle, the subsidy is to be partly paid back if the employment relationship is ended either during the period of subsidy or during a subsequent follow-up period. The number of individuals taking up a subsidized job decreased during the period studied, from around 100,000 in 2010 to about 70,000 in 2013.

The **start-up subsidy** (Gründungszuschuss, § 93 f. SGB III) is intended to help unemployed people to take up self-employment. During the start-up phase of the new activity, the subsidy equals the level of unemployment benefit. Added to this is a lump sum for social security insurance which can continue to be granted, if necessary, during a second phase. Since the end of the year 2011, the first phase was shortened from nine to six months, while the second phase was extended from six to nine months. In addition to this, the prerequisite of a remaining entitlement to unemployment benefits of 90 days was increased to 150 days. On the one hand, this reduced the possibility of extending benefit receipt in a calculated manner while, on the other hand, it shortened the period available to prepare for self-employment. Moreover, the obligatory payment was transformed into a discretionary payment. With that, the start-up subsidy became financially less attractive and more difficult

to obtain. As a result, entry figures nosedived: they fell from more than 130,000 in 2011, the year before the reform, to 20,000 in 2012, the year of the reform. In the years that followed, entries figures rose again slightly.

How impact is measured

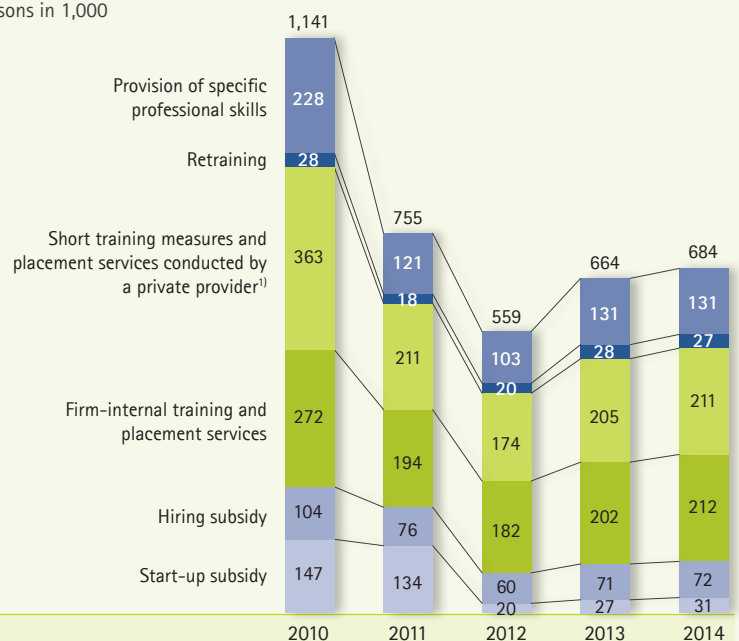
Whether a person is employed after participating in a labor market program does not tell us anything about impact. Rather the observed labor market outcomes of participants must be compared to the non-observed outcomes that would have arisen without or with later participation. Thus a comparison group is needed, which is composed of similar persons as the group of participants, but did not participate in a program during a defined entry period („statistical twin“).

To ascribe differences in the labor market result of the two groups to the participation (respectively non-participation) in labor market programs, the comparison group must resemble participants (before program entry) in all relevant characteristics. These are all characteristics that affect participation in the measure as well as the success of the meas-

Figure 1

Entries into important active labor market policy programs in the sphere of unemployment insurance (SGB III) 2010 to 2014

Persons in 1,000



¹⁾ Without coaching for self-employment, stabilization of the employment taken up, as well as without placement vouchers.

Source: Data Warehouse of the Statistic department of the Federal Employment Agency/ Bundesagentur für Arbeit, own calculations.

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ure (e. g. education and former length of unemployment). In addition, program participation must not have any indirect effects on the labor market chances of other participants or members of the comparison group. This method estimates average treatment effects on the treated.

TrEffeR is based on estimations of individual causal effects which can be aggregated at any level depending on the issue concerned (see Info Box below). This ensures that the tool can be flexibly used for various tasks. The estimation process consists of two steps: In the first step, statistical matching takes place in order to identify suited members of comparison group. In the second step, individual effects of program participation are estimated by means of a regression analysis.

One should, however, be aware that several potential side-effects might occur that cannot be captured by this approach: Free-rider effects take place when the same outcome would have arisen without support through an instrument of active labor market policy, too (e. g., if a company had recruited a person and employed him/her for just as long even without receiving a hiring subsidy). Substitution and crowding-out effects occur when, for instance, subsidized employment crowds out unsubsidized employment, either in the same company or at different companies (e. g., because production without a subsidy is more expensive). These negative effects can arise especially if support is closely linked to employment, either in an establishment or in the form of self-employment. This has to be taken in mind when interpreting the results.

The aim of this paper is to evaluate recent entry cohorts in programs. For entries during 2011, the employment status can currently be observed for two years; for entries during 2012, for one year. As this time horizon is too short for the evaluation of long-term measures – in particular retraining – the following expositions are limited to program durations of up to six months.

■ How effective were the programs?

Effects one year after program entry

The upper part of **Table 1** shows for participants in different programs the accumulated days in (unsubsidized) employment during the first year after program entry as well as the share in (unsubsidized) employment at the end of the year. Furthermore, the estimated effect of the subsidy is presented. As the results only apply to those persons who were participating in these programs and furthermore programs were of differing durations, direct comparisons of effectiveness between these active labor market policy instruments are not feasible.

The results for the two entry years 2011 and 2012 analyzed – that is, directly before and after the latest reforms took place – are very similar. The longer a measure lasts, the lower the estimated effects turn out to be. This can be partially explained by the so-called lock-in effect: while unemployed persons are participating in a program, they cannot at the same time be in work. However, the drop out from measures to take up work instead is often not desirable, especially in the case of further training intended to lead to the acquisition of a certificate.

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Data and methodology used by TrEffeR

TrEffeR uses the "Biographical Data" of the FEA, which contain individualized information on unemployment, participation in specific measures, benefit receipt, and employment.

As a first step, "statistical twins" are chosen for groups of persons participating in active labor market policy programs (among others, according to the particular employment agency, entry quarter, and type of program). These twins are similar in respect to important observed characteristics, but did not (yet) participate in a program. On account of their later employment status it is estimated how the labor market chances of participants would have evolved if they would not have taken part in the measure. The statistical twins must match participants exactly in the following criteria: local labor market district, legal sphere (SGB II or SGB III), age group, gender, and benefit status. In addition to this they must have become unemployed at a similar point of time and must not have taken part in a program until three months after their subsidized counterpart has entered a program. If one were to restrict the selection of the comparative group to persons who had never participated in a program, then these would partly be persons for whom participation had never been considered necessary or sensible – and, with that, they would not be similar to those subsidized. The three-month-window chosen is intended to take this into account and at the same time to ensure that persons from the comparison group do not enter into a program very soon after group of analyzed participants.

In addition to this, further socio-demographic, employment-history and labor-market related characteristic are taken into consideration, to achieve similar distributions of characteristics between the participant group and the respective comparative group. The labor market status (that is, the employment status, namely in unemployment or employment) of the chosen unsubsidized twins is then measured since the program entry of the respective subsidized twin.

In a second step, the group of participants and the comparison groups are further divided into sub-classes whose members resemble one another. Within each sub-class, outcome variables of the comparison group are modelled in linear dependency on the chosen co-variables and the coefficients estimated by means of a least square regression. By multiplying out the co-variables of participants with these coefficients, the individual counterfactual results of participants can be estimated. The individual causal effect for the participant then results from the difference between observed outcomes and the estimated counterfactuals outcomes in case of non-participation.

In average, individuals taking part in further training of shorter duration (up to three months), were employed for 179 (2011) respectively 174 (2012) during the first year after program start – in each case this was 41 days more than in the comparison group. Almost two-thirds of them were in (unsubsidized) employment one year after the measure started – these are 16 percentage points more than in the comparison group. For participants in occupation-related

and general training of three to six months, the effects on the days in employment were still slightly negative one year after program entry; this is due to the lock-in effect. However, one year after the program start, effects on the share of persons in employment already had a positive sign.

Short training measures and placement services conducted by a private provider (without coaching for self-employment, stabilization of the employ-

Table 1

Accumulated days and share of participants in unsubsidized employment as well as the estimated effect of participation one and two years after a program start during 2011 or 2012

Measure	Duration of program	Year	Accumulated days		Share in employment		Number of participants, in thousands
			in days	of that: effect in days	in per cent	of that: effect in %-points	
1 year after program start							
Provision of specific professional skills Retraining	up to 3 months	2011	179	41	65	16	60
		2012	174	41	64	16	54
	3 to 6 months	2011	107	-21	57	10	28
		2012	103	-21	56	9	28
Short training measures and placement services conducted by a private provider ¹⁾	to 3 months	2011	141	10	51	5	169
		2012	139	7	51	4	137
	3 to 6 months	2011	75	-32	36	-3	20
		2012	80	-31	38	-1	11
Firm-internal training and placement services	to 6 weeks	2011	224	70	71	17	185
		2012	219	75	70	18	173
Hiring subsidy	to 3 months	2011	225	71	80	29	33
		2012	223	83	79	32	27
	3 to 6 months	2011	170	26	81	33	16
		2012	175	45	84	40	16
2 years after program start							
Provision of specific professional skills Retraining	up to 3 months	2011	426	92	69	15	60
	3 to 6 months	2011	333	19	65	13	28
Short training measures and placement services conducted by a private provider ¹⁾	to 3 months	2011	337	22	56	5	169
	3 to 6 months	2011	218	-44	42	-1	20
Firm-internal training and placement services	to 6 weeks	2011	485	123	72	14	185
Hiring subsidy	to 3 months	2011	504	152	76	22	33
	3 to 6 months	2011	449	115	76	24	16

¹⁾ Without coaching for self-employment, stabilization of the employment taken up, as well as without placement vouchers.

Interpretation: During the first year after program start, individuals who entered firm-internal training and placement services during the year 2011, were in average employed for 224 days. Individuals from the comparative group (see Info Box on p. 4) were in average employed 70 days less. One year after program entry, 71 per cent of participants were employed, 17 percentage points less were employed in the comparison group.

Notes: With an error probability of 5 per cent, all estimated effects are significantly different from zero.

Direct comparisons of effects between programs are not feasible because of differing participant structures. Longer programs have longer lock-in effects and therefore less positive effects in the short run.

Source: TrEffeR.

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ment taken up, as well as without the use of placement vouchers) have a mostly neutral effect on employment. For shorter program durations, a slightly positive effect arises; for program periods of three to six months (found markedly less often), however, a slightly negative effect occurs. For these measures, a finer differentiation is not meaningful as they often combine various elements – for instance, provider institutes can offer advisory services, carry out application training or impart subject-specific knowledge.

For persons who took part in firm-related measures, very positive effects on labor market results are found already in the short term. This applies both to short firm-internal training carried out at an employer's premises (which lasts six weeks at maximum) as well as for hiring subsidies (here restricted to subsidy durations of up to six months). In the case of hiring subsidies, program participation goes hand in hand with taking-up a job (although not unsubsidized at the beginning). Persons initially subsidized were clearly longer in unsubsidized employment after a year had passed than similar non-subsidized persons (but note that the follow-up period of subsequent employment required is already defined as unsubsidized employment in this study). One year after program start, among those subsidized the share in employment is about 30 percentage points higher than in the comparison group. This corresponds to the findings of a current IAB-study, which, instead of examining the effects on the individual level, analyzes transition rates into employment at the regional level (Wapler et al. 2014): This approach also finds positive effects (after a lock-in effect) of hiring subsidies.

However, for firm-related measures it is not known whether the establishments would have recruited the subsidized or participating persons even without the help of the active labor market policy program (that is, whether a free-rider effect occurs). If a subsidized or participating person had been hired in any case, and that is to be expected for part of the recruitments, the effect of the program would be overestimated. Moreover, the danger of substitution and crowding out would theoretically be the largest in the case of firm-related measures. An overview of further research results can be found in Wolff/Stephan (2013).

Effects two years after program entry

Currently, labor market results during the first and second year after program entry can be observed

only for the entry cohort of the year 2011 (see the lower part of Table 1). For accumulative days in (unsubsidized) employment, effects are even more positive in the longer run. The only exceptions are short training measures and placement services conducted by a provider institution that last for a fairly long period.

In the case of occupation-related and general training, a delayed effect becomes well apparent: while measures with a length of three to six months had an overall negative effect on accumulated days in employment during the first year after program start (see the upper part of Table 1), the effect becomes positive during a time period of two years after program entry – the initial lock-in effect is then overcompensated by additional days in employment (see the lower part of Table 1).

As a rule, the minimum length of a retraining measure is two years. Thus the observed time horizon of two years is not sufficient for an evaluation of very recent cohorts (because of the lock-in effect). However, a current IAB-study shows that positive effects of retraining occur in the longer run: Kruppe/Lang (2014) examine entries into retraining during the years 2004 to 2007 and observe the subsequent employment status for up to seven years after program start. Following the initial lock-in effect, they find effects on the share in employment of about 20 percentage points, which are stable over time. During the time period under observation, participants earned on average 10,000 euros more than individuals from an adequately chosen comparison group.

The start-up subsidy: A special case

Table 1 does not show results for the start-up subsidy – for this instrument, periods of employment subject to social security contributions are not a suitable criterion of success. As the FEA does not have any information on times in unsubsidized self-employment, we instead studied whether those subsidized were neither unemployed nor taking part in an active labor market program for more or less days than similar, but unsubsidized persons. As the subsidization lasts for up to 15 months, the estimated effects in the first year after program start were consistently negative. 18 months after take-up of the subsidy during the year 2011, however, initially subsidized founders were 10 percentage points less unemployed or participating in a measure than members of the comparison group. In the subsidized

cohort of 2012, the difference amounted to 15 percentage points, with more restrictive conditions of subsidy and lower entry numbers.

With the help of additional surveys, Caliendo et al. (2012, 2015) show that about 80 per cent of those taking-up a start-up subsidy during the year 2009, were still self-employed 19 months after starting their business. In the case of similar persons who started up a business without subsidization, this figure lays at 75 per cent, however on average these persons achieved a slightly higher income. Roughly half of the start-up entrepreneurs said they would have set up their business even without a subsidy. Clearly less – about 20 per cent – said that they would have been just as successful in the start-up phase without a grant.

Heterogeneous effects by gender and region

The share of unemployed registered in the sphere of the unemployment insurance that lived in eastern Germany amounted to about one-quarter in the years 2010 to 2014; the share of women among the unemployed amounted to roughly 45 per cent (Statistics of the Federal Employment Agency/Bundesagentur für Arbeit 2015). This was mirrored in the share of program entries into further training as well as in short training measures. In the case of firm-related measures and start-up subsidies, the share of females was somewhat lower at around 40 per cent. Around 40 per cent of hiring subsidies as well as around third of the firm-internal training programs occurred in eastern Germany, thus firm-related measures were over-proportionally used in East Germany.

Subsidized women profit more from hiring subsidies than subsidized men, but with further training the opposite is the case (see Figure 2). Overall, regarding the effectiveness of active labor market policy instruments there are no great differences between those subsidized in eastern and western Germany. Only short training and placement services conducted by a private provider seem to have had a somewhat more positive effect (or a less negative effect) for participants from western Germany.

Further analyses relating to regions and specific groups of persons show that the effects of the subsidies can in fact be very heterogeneous.

Conclusions

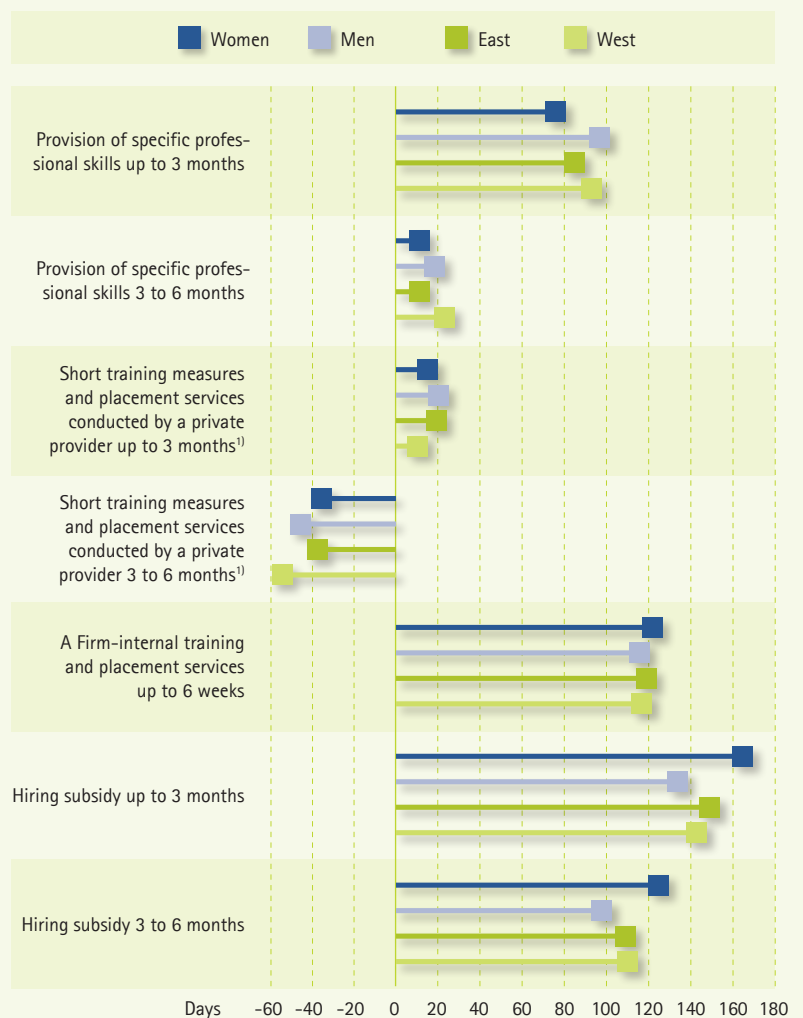
The report examines for entry cohorts from the years 2011 and 2012 how effective selected labor market policy measures under the legal sphere of SGB III were for participating unemployed. In the short term at least, the findings for both entry cohorts hardly differ before or after the latest reform of the set of instruments.

All in all, the findings presented confirm the conclusions of an assessment report for evaluation of

Figure 2

Effects of participation in different programs on accumulated days in unsubsidized employment, two years after a program start during 2011

Difference between participant groups and comparison groups, in days



¹⁾ Without coaching for self-employment, stabilization of the employment taken up, as well as without placement vouchers.

Notes: With an error probability of 5 per cent, all estimated effects are significantly different from zero.

Direct comparisons of effects between programs are not feasible because of differing participant structures.

Longer programs have longer lock-in effects and therefore less positive effects in the short run.

Quelle: TrEffeR.

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labor market policy instruments from the year 2011 (Heyer et al. 2012, Koch et al. 2011): For most programs, positive effects on the labor market results of participants can be found if compared to similar, but non-participating (or later participating) unemployed.

This assessment, however, holds only if program participation is restricted to the set of individuals for whom the program is suited. In addition, where firm-related instruments are concerned, the risk of free-rider effects or substitution arises. Furthermore, it may take quite a number of years until the positive impact of programs manifest itself: This has only recently shown by Kruppe/Lang (2014) for the case of retraining.

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Dr. Thomas Büttner

is a researcher in the Department "Impact Analysis" at the headquarters of the Federal Employment Agency.

thomas.buettner@arbeitsagentur.de



Torben Schewe

is Head of the Department "Impact Analysis" at the headquarters of the Federal Employment Agency.

torben.schewe@arbeitsagentur.de



Professor Gesine Stephan

is the Head of the Research Department "Active Labor Market Policies and Integration" at IAB and is Professor of Empirical Microeconomics at the Friedrich-Alexander-Universität Erlangen-Nürnberg.

gesine.stephan@iab.de