

The Effects of Job Creation Schemes on Unemployment Duration in Eastern Germany

With approximately 1.7 million participants and expenditure amounting to some 24 billion Euros between 1997 and 2004, job creation schemes (*Arbeitsbeschaffungsmaßnahmen* – JCS) have been one of the most important measures of active labour market policy in Germany. Although the number of participants has been reduced considerably in recent years, JCS continue to be of importance in eastern Germany. JCS, which are regulated by law in their current form in §§ 260–271 of the Social Code Volume III, provide subsidised employment for unemployed individuals with the aim of stabilising the participants' economic situation and preparing them for reintegration into non-subsidised employment later on. JCS are designed above all for unemployed people for whom such a reintegration is difficult, e.g. for the long-term unemployed or for older unemployed people. The employment is generally assisted by means of a wage subsidy amounting to between 30 and 75 percent of the wage. In view of the high costs, JCS have been examined in a multitude of empirical studies. The findings to date indicate that JCS do not increase the employability of the participants and are therefore unable to improve their chances of reintegration into the regular labour market. This study aims to conduct an econometric evaluation of JCS using the timing-of-events approach. In addition to the classical differentiation between participants and non-participants, the timing-of-events approach uses the additional information about when an individual enters the measure. It analyses the effects that participation in a JCS has on the individual duration of unemployment with the aid of a multivariate mixed proportional hazard rate model. The administrative process data of the Federal Employment Agency are used as the data basis for the empirical analysis. These data are available for the period from June 2000 to December 2003.

In the empirical analysis different specifications were tested in order to analyse the effects of JCS. The “basic model” specification, in which the treatment effect is modelled as a time-invariant shift of the transition rate into employment, shows a significant negative effect, i.e. an increase in the expected duration of unemployment as a result of the measure. If the time spent in the measure is added to the duration of unemployment, a clear locking-in effect is revealed in addition. The analysis of an extended model, in which a time-varying treatment effect is specified, also reveals a clearly negative effect of participation in a JCS on the transition rate into employment. This negative effect can only be observed immediately after ending the JCS, however. In the period between six and 12 months after ending the measure there is even a slight positive effect. However, this effect is not strong enough to balance out the initially negative effect. A further specification examines whether the treatment effect differs with respect to selected observable characteristics. No significant differences can be ascertained here, however. The results of the empirical analysis support the previous empirical findings with regard to the negative effects of JCS on the employment prospects of the participants in eastern Germany.