

# Educational and Labour Impacts of Active Employment Policies for Young People in Germany

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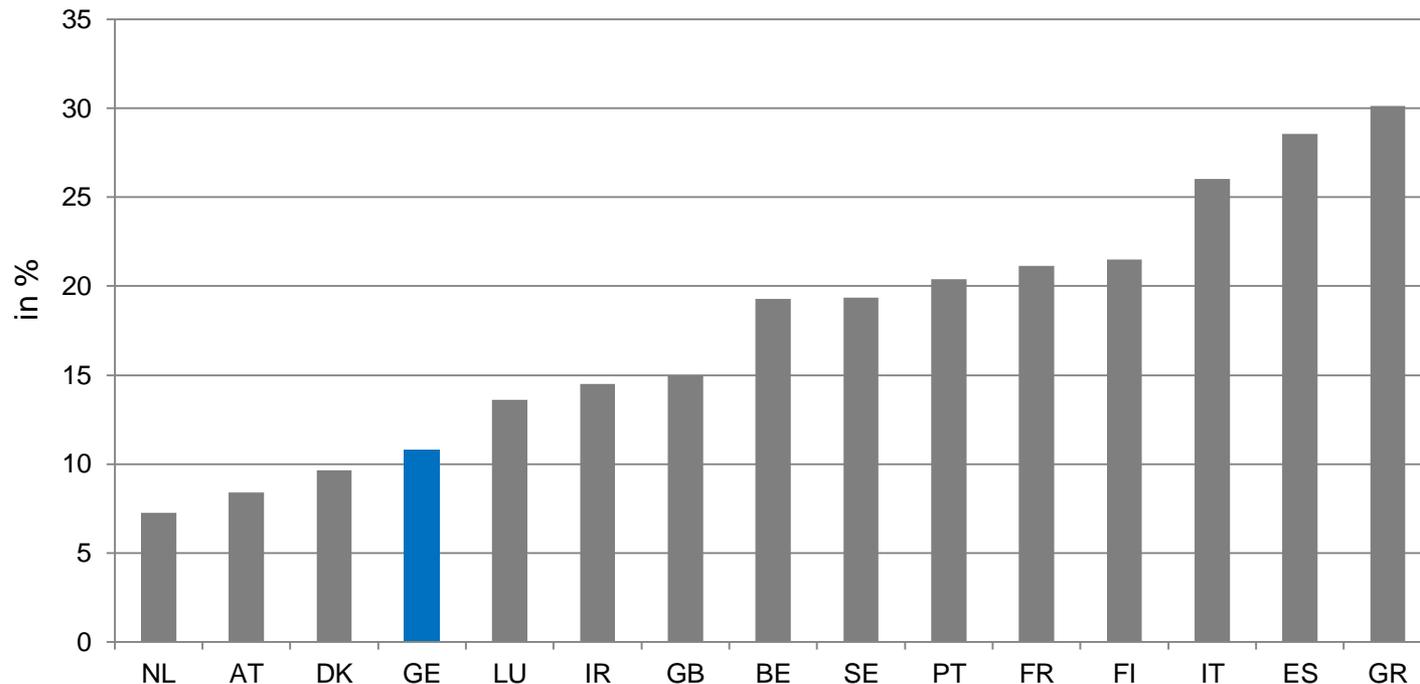
Barcelona

## Why is fighting youth unemployment so important?

- The experience of unemployment at the beginning of the professional career has negative impacts at the individual and society level.
- Early unemployment has negative path dependencies:
  - on employment probabilities (Ellwood, 1983; Gregg and Tominey, 2005)
  - on wages (Burgess et al., 2003)
  - decrease subjective well-being and self-esteem (Goldsmith et al., 1997)
- High social costs of failed integration of youths:
  - Direct costs: Transfer payments (e.g. benefits)
  - Indirect costs: Increase in teenage crime, drug abuse, etc.

**Is youth unemployment a problem in Germany?**

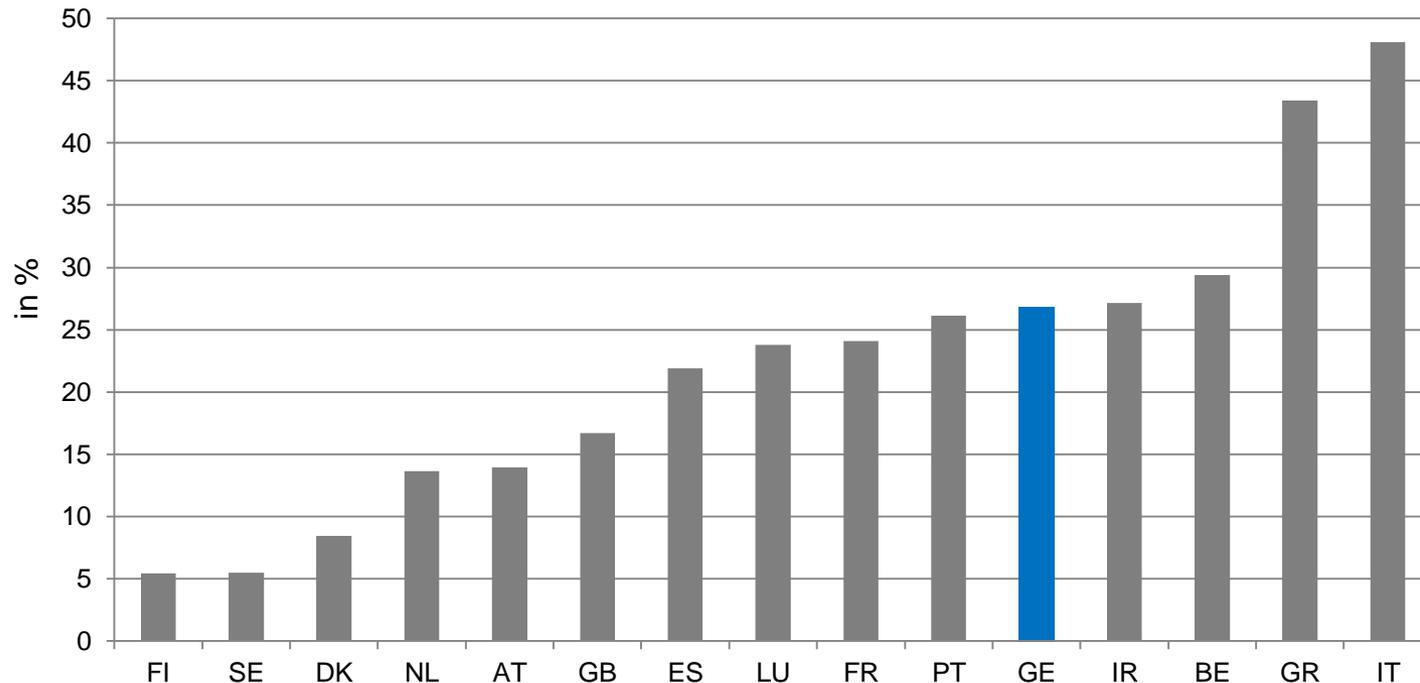
## Youth unemployment: An European comparison



Note: Averages over the period 2000-2012. Source: Eurostat.

- More favorable situation for youths in Germany: They have a lower prob to enter unemployment which is most likely due to a smooth transition from school to work (attributable to the dual apprenticeship system).

## Long-term unemployment: An European comparison



Note: Averages over the period 2000-2012. Source: Eurostat.

- However, those who enter unemployment in Germany are at high risk to remain unemployed for 12 months or longer.
- Youths with structural difficulties: Male, low/no school/professional degree, migration background.

# Active labor market policies to fight youth unemployment in Germany

## Active labor market policy in Germany

- Given the composition of the youth unemployed workforce in Germany, active labor market policies (ALMP) are an integral part of labor market integration of unemployed youths
- Wide range of programs that are designed to support unemployed youths at different barriers:
  - 1st barrier: Transition from school to apprenticeship system
    - Redo school degree, public apprenticeship ...
  - 2nd barrier: Integration in employment
    - Wage subsidies, qualification, job search assistance ...
- **High treatment intensity:** During the last decade approx. 65% of all youths who entered unemployed also participated in ALMP

## Existing evidence on program effectiveness

- International evidence:
  - Training: Rather negative (Denmark, Sweden, UK)
  - Wage subsidies: Positive (Belgium, France, UK)
  - Job creation schemes: Negative (France, UK)
- Surprisingly, so far no evaluation exists for Germany!  
→ Limited data availability!
  - Statistical methods require certain number of observations.
  - Survey data: Low number of observation, difficult to disentangle single program types (self-reported, limited reliability).
- This study provides first quantitative long-term results with respect to program effectiveness for Germany.
  - Government provided access to administrative data!

## The setting of the empirical analysis

## Data

- To overcome data limitations in the field of program evaluation, we created a new dataset: the **IZA Evaluation Dataset**
  - **Administrative data:** Information from the Social Security System and the Federal Employment Agency (N=900,000)
  - **Survey information:** Telephone interviews (N=18,000)
  - **Merged data:** Combination of admin and survey data (N=15,700)
- We use only the administrative part in order to have:
  - sufficient number of observations (subgroup of the labor market),
  - detailed information on participation in ALMP and LM outcomes.
- Sample restriction:
  - Inflows into unemployment in 2002
  - Age restriction: < 25 years old at entry in unemployment
  - N=51,019; Observation period: 6 years after entry into unemployment

## Programs under scrutiny

- JCS – Job creation schemes
  - Max. duration: 12 months (extension possible)
  - Main aim: Generate working experience
- VT – Vocational training
  - Max. duration: 12 months (extension possible)
  - Main aim: Providing job specific skills
- PT – Preparatory training
  - Max. duration: 12 months
  - Main aim: Integration in education and vocational training
- WS – Wage subsidy
  - Max. duration: 12 months (50% subsidy to wage costs)
  - Main aim: Long-term integration in employment

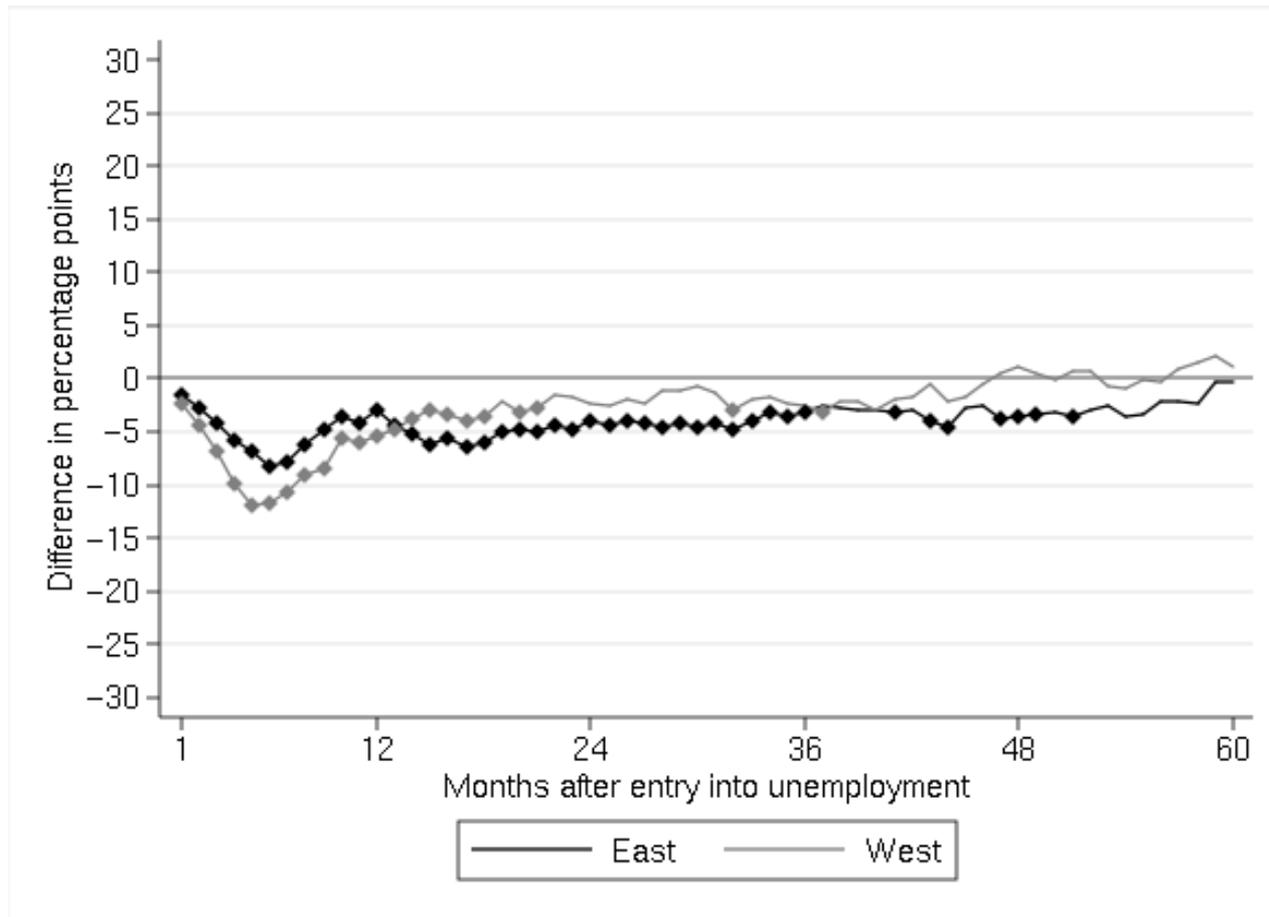
**Does program participation increase  
employment/education chances?**

## Remarks with respect to the empirical strategy

- Comparison of participants and non-participants (other unemployed youths without program participation) wrt integration in:
  - unsubsidized employment subject to SSC,
  - unsubsidized education or professional training.
- We use a statistical matching approach to account for selection into the programs, i.e., participants will be compared with „comparable“ non-participants only.
  - Selection based on observed characteristics only!
  - We take the timing of entry into unemployment and programs into account (seasonality and unemployment duration).

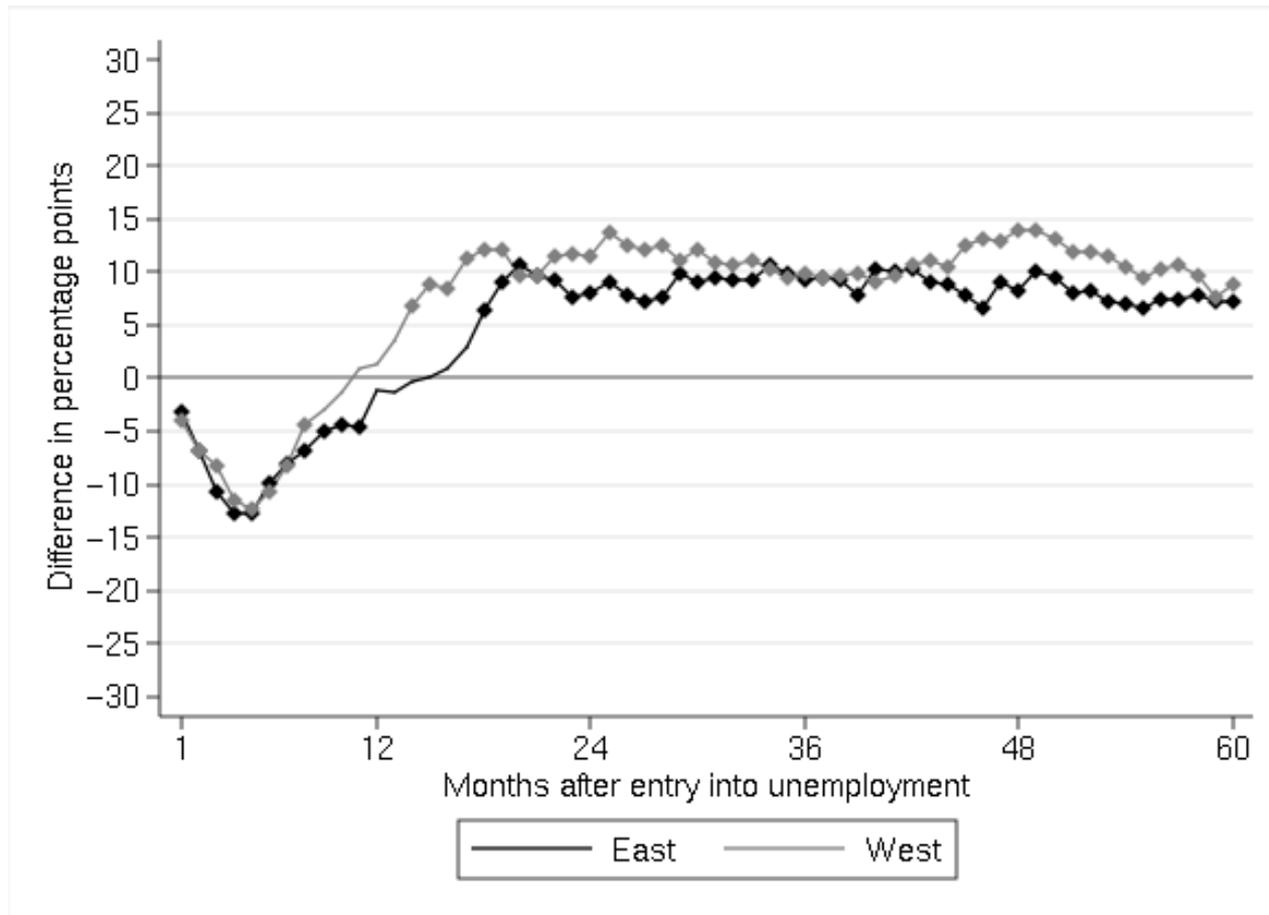
**Results wrt employment outcomes!**

## Job creation schemes



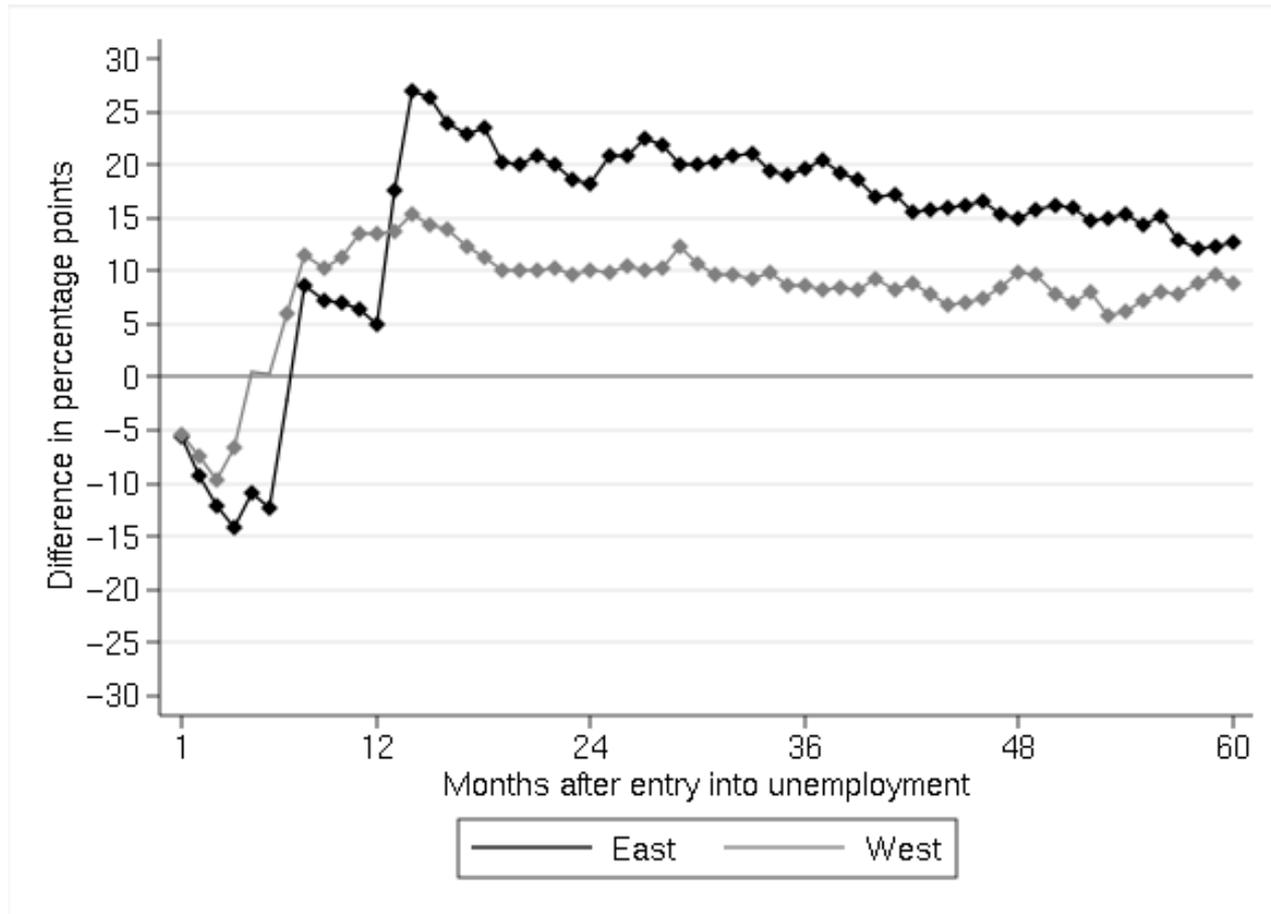
- Participation does NOT improve labor market prospects of participants during the observation window!

# Vocational training



- Positive and stable effect at 8% (East) to 11% (West) on average after initial locking-in phase (approx. 12 months)!

# Wage subsidy



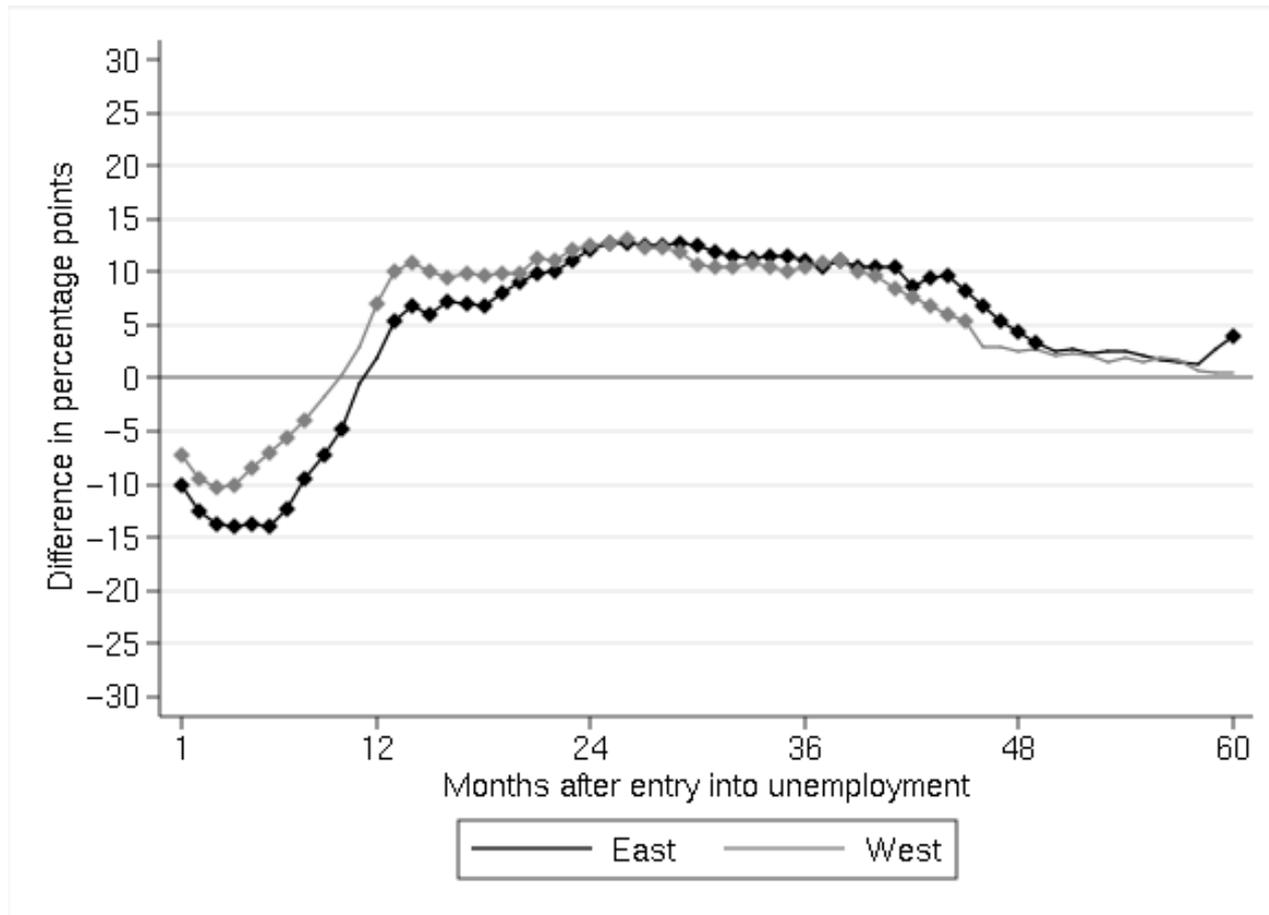
- Strong positive effect at 18% (East) to 10% (West) on average after initial locking-in phase (approx. 6-12 months)!

## Effect heterogeneity

- Gender
  - Minor differences in program effectiveness.
- Pre-treatment school level
  - Programs are more successful for individuals with higher schooling levels!
  - Findings are highly relevant for German policy makers as they have to rethink program design/allocation.

**Results wrt to education outcomes!**

## Preparatory training



- Positive and stable effect of approx. 10%, 12-48 months after program entry → Indicates successful integration in German apprenticeship system which lasts on average three years.

## Effect heterogeneity

- Gender
  - No gender differences.
- Pre-treatment school level
  - Again: Programs are more successful for individuals with higher schooling levels!
  - Apparently, the most needy are not properly treated!

## Conclusion

- Due to access to reliable and informative data, this study delivers the first empirical evidence on the effectiveness of ALMP for unemployed youths in Germany.
- Main result:
  - Programs increase employment and education probability – except JCS.
- Most interesting for policy makers:
  - Programs seem to be less effective for individuals with low schooling levels!
  - Regional-specific effectiveness: WS most effective in East and VT in West Germany (due to the composition of the unemployed workforce and local labor market condition).

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# Appendix

## References

- Presentation is based on:
  - Caliendo, M., S. Künn and R. Schmidl (2011): Fighting Youth Unemployment: The Effects of Active Labor Market Policies. IZA Discussion Paper 6222, Bonn
- Cited studies:
  - Burgess, S., C. Propper, H. Rees and A. Shearer (2003): The Class of 1981: The Effects of Early Career Unemployment on Subsequent Unemployment Experiences“. *Labour Economics*, 10(3), 291-309
  - Ellwood, D.T. (1983): Teenage Unemployment: Permanent Scars or Temporary Blemishes?. NBER Working Paper 0399
  - Goldsmith, A., J. Veum and W. Darity (1997): Unemployment, Joblessness, Psychological Well-Being and Self-Esteem: Theory and Evidence. *The Journal of Socio-Economics*, 26, 133-158
  - Gregg, P. and E. Tominey (2005): The Wage Scar from Male Youth Unemployment. *Labour Economics*, 12(4), 487-509

## Descriptive statistics

	JCS	Employment VT	WS	Education PT
<b>East Germany</b>				
Observation	680	409	439	510
Female	0.30	0.31	0.40	0.41
Age ≤ 20 years	0.34	0.23	0.28	0.73
Migration background	0.03	0.02	0.04	0.07
No school degree	0.14	0.05	0.03	0.19
No professional degree	0.47	0.17	0.22	0.89
<b>West Germany</b>				
Observation	570	515	502	1,012
Female	0.30	0.33	0.36	0.38
Age ≤ 20 years	0.52	0.19	0.23	0.71
Migration background	0.17	0.16	0.19	0.19
No school degree	0.31	0.10	0.10	0.23
No professional degree	0.85	0.36	0.40	0.93

Note: Measured at entry into unemployment.

## Descriptive statistics I

	JCS	Employment VT	WS	Education PT
<b>East Germany</b>				
Observation	680	409	439	510
Female	0.30	0.31	0.40	0.41
Age ≤ 20 years	0.34	0.23	0.28	0.73
Migration background	0.03	0.02	0.04	0.07
No school degree	0.14	0.05	0.03	0.19
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No school degree	0.31	0.10	0.10	0.23
No professional degree	0.85	0.36	0.40	0.93

Note: Measured at entry into unemployment.

- More male!

## Descriptive statistics II

	JCS	Employment VT	WS	Education PT
<b>East Germany</b>				
Observation	680	409	439	510
Female	0.30	0.31	0.40	0.41
Age ≤ 20 years	0.34	0.23	0.28	0.73
Migration background	0.03	0.02	0.04	0.07
No school degree	0.14	0.05	0.03	0.19
No professional degree	0.47	0.17	0.22	0.89
<b>West Germany</b>				
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Age ≤ 20 years	0.52	0.19	0.23	0.71
Migration background	0.17	0.16	0.19	0.19
No school degree	0.31	0.10	0.10	0.23
No professional degree	0.85	0.36	0.40	0.93

Note: Measured at entry into unemployment.

- East-West differences wrt migration and education background!

## Descriptive statistics III

	JCS	Employment VT	WS	Education PT
<b>East Germany</b>				
Observation	680	409	439	510
Female	0.30	0.31	0.40	0.41
Age ≤ 20 years	0.34	0.23	0.28	0.73
Migration background	0.03	0.02	0.04	0.07
No school degree	0.14	0.05	0.03	0.19
No professional degree	0.47	0.17	0.22	0.89
<b>West Germany</b>				
Observation	570	515	502	1,012
Female	0.30	0.33	0.36	0.38
Age ≤ 20 years	0.52	0.19	0.23	0.71
Migration background	0.17	0.16	0.19	0.19
No school degree	0.31	0.10	0.10	0.23
No professional degree	0.85	0.36	0.40	0.93

Note: Measured at entry into unemployment.

- Program differences: PT: younger and without educational attainment. JCS: youths with structural problems.