Stimulating Job Demand: The Design of Effective Hiring Subsidies in Europe

GERMANY

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I. Introduction: hiring subsidies as an active policy to stimulating job demand

In Germany a distinction can be made between hiring subsidies used (i) for job creation schemes which have to be separated from workfare job creation schemes which do not pay wages, (ii) hiring subsidies that are designed to overcome a temporarily lower level of productivity (e.g. due to a lack of work experience, discrimination, etc) and (iii) wage subsidies used in combination with training measures with the aim to increase employability of workers.

The volume of participants and budget spent on these different types of hiring subsidies has greatly varied since the year 2000 (Table 1). In particular, participation in hiring subsidies in the context of job creation programmes has decreased over time. Reasons for changes in the use of these measures are linked to the following main factors.

Firstly, the so-called Hartz reforms in the labour market, which were introduced during the first half of the years 2000, promoted the idea of workfare. Furthermore, the Hartz reforms have been justified by arguments highlighting the positive effects of new employment forms and higher labour market flexibility (according to the “transitional labour market” concept developed by researchers of the Wissenschaftszentrum Berlin). Therefore, hiring subsidies have not been used to convert temporary work contacts into permanent ones. The use of wage subsidies for lower income groups or hard-to-place people is one element of the Hartz-strategy. The objective was to promote the development of a low-wage sector for means-tested unemployment benefit II recipients. The Hartz reforms also comprised benefit reform, merging the former means-tested unemployment assistance and the means-tested welfare benefits of those who are considered able to work into the so-called unemployment benefit II. Note that this terminology is confusing as beneficiaries need not be unemployed. It is possible to combine work and the receipt of unemployment benefit II (known as the Aufstocker) up to a certain threshold (for more details see Koller, Rudolph 2011). This can be regarded in a very broad sense as a hidden wage subsidy for means-tested unemployment benefit II recipients, as wages accepted by the workers may be lower than without the measure and employers take advantage of it. Furthermore, a new job creation measure was introduced in 2005, known as the One-Euro-Job-scheme, which is designed as a workfare scheme for the unemployment benefit II recipients. Initially this scheme had a very large number of participants, but in the recent past their number has declined (Table 1).

Secondly, linked to these reforms, to demographic change and to the favourable economic context before the global financial and economic crisis and the quick recovery from the crisis, unemployment and long-term unemployment could be reduced (Duell, Vogler-Ludwig 2012). In some regions the key focus of labour market policy is increasingly dominated by the need to overcome skills shortages. The Ministry of Labour and Social Affairs has recently formulated its priorities in order to cope with demographic change in its strategy to secure future skills (Fachkräfteversorgungsstrategie). It rests on the principle of increasing employment rates and improving labour market integration of disadvantaged groups and reducing skills mismatch.

Therefore, the focus of hiring subsidies and job creation programmes has somewhat changed from the main objective of combating mass unemployment and mass long-term unemployment towards more targeted measures to tackle employment barriers of disadvantaged groups. In fact the history of hiring subsidies and job creation measures is a repeated change from more or less targeting Active Labour Market Programmes (ALMPs).

Thirdly, in the context of the past crisis the short-time work scheme has played an important role. Although, it is classified as “passive measure”, it can be regarded in a larger sense as a hidden wage subsidy as it has helped companies to preserve workplaces and maintain workers in employment. Although, it cannot be regarded as hiring subsidy, it has limited the need for hiring subsidies, as

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1 According to the terminology used in Germany, unemployment benefit I is not means-tested and has a maximum duration of 1 year, while unemployment benefit II is means-tested but has an unlimited duration.

unemployment eventually did not increase. The use of short-time work measures contributed to an important extent to labour market stability.

Finally, a reform in the use and structure of ALMPs was announced in 2011. In general, a higher degree of decentralisation and individualisation in the implementation of the activation strategy by the PES was promoted and the PES counselors were given greater discretion to refer unemployed people to ALMPs. Based on evaluation results, some changes with regard to job creation programmes occurred, and a new measure has been introduced, replacing other job creation programmes based on hiring subsidies. The workfare job creation programme One-Euro-Job was not abolished but its use will be more limited.

2. Hiring subsidies in Germany today

2.1 Hiring subsidies in the context of active labour market programmes in Germany

As can be seen from Table 1, short-term training measures, which have been replaced by the activation and integration measures, were the largest ALMPs in 2007 and 2012 in terms of participants. In 2000, the largest scheme was further vocational training. The largest job creation scheme has been the One-Euro-Job scheme which is a workfare scheme and not a hiring subsidy.

Table 1 Inflow into major German labour market schemes and unemployment stock in Germany in 2000, 2007 and 2012, in thousands

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Hiring subsidies (Eingliederungszuschüsse)</td>
<td>152</td>
<td>278</td>
<td>153</td>
</tr>
<tr>
<td>Hiring subsidies for long-term unemployed (*)</td>
<td>44</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Traditional job creation scheme(**)</td>
<td>264</td>
<td>70</td>
<td>0</td>
</tr>
<tr>
<td>One-Euro-Jobs</td>
<td>-</td>
<td>777</td>
<td>343</td>
</tr>
<tr>
<td>Wage paying work opportunities(***</td>
<td>-</td>
<td>41</td>
<td>8</td>
</tr>
<tr>
<td>JobPerspective</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Promotion of employment relationships</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td><strong>Other major schemes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up subsidies</td>
<td>93</td>
<td>158</td>
<td>28</td>
</tr>
<tr>
<td>Further vocational training</td>
<td>523</td>
<td>365</td>
<td>300</td>
</tr>
<tr>
<td>Short-term training</td>
<td>485</td>
<td>1087</td>
<td>-</td>
</tr>
<tr>
<td>Activation and integration measures(****)</td>
<td>-</td>
<td>-</td>
<td>1113</td>
</tr>
<tr>
<td><strong>Average unemployment stock</strong></td>
<td>3880</td>
<td>3760</td>
<td>2897</td>
</tr>
</tbody>
</table>

(*) Beschäftigungshilfen für Langzeitarbeitslose

(**) Arbeitsbeschaffungsmassnahmen

(*** Arbeitsgelegenheiten in der Entgeltvariante

(****) This programme replaced short-term training and schemes for contracting out placement services

In terms of spending, the proportion of the measures presents a different picture. The measures for which the largest amounts were spent included in 2012: further vocational training (EUR 1 247 million), followed by start-up incentives (EUR 905 million) and activation and integration measures (EUR 519 million). Among the subsidized work measures about EUR 473 million were spent on hiring subsidies, EUR 446 million on wage-paying opportunities and EUR 358 million on One-Euro-Jobs, EUR 79 million on Job Perspective and EUR 10 million on the new measure “Promotion of employment relationships” (Wolff, Stephan 2013). All wage subsidy measures combined had thus a smaller budget than short-time and long-time training measures combined.

Thus, over recent years, more jobseekers were assigned to further vocational training measures (Berufliche Weiterbildung, Articles 81-87 Social Code III) and short-term training (in classrooms and firms, Articles 48-52 Social Code III) than to employer subsidies measure, even taking the workfare job creation scheme One-Euro-Job into account (which has been the largest job creation scheme for many years).

According to an evaluation study, firms value training on a subsidized job as much as formal training programmes (Neubäumer 2010, Wolff and Stephan 2013). The positive effects of training are more likely to become visible in the long run. According to an evaluation by Kopf (2009), short-term training measures increased employment stability while being short and relatively inexpensive.

Several financial start-up subsidies are in place to encourage entrepreneurship among the unemployed. Take-up rates of such subsidies are lower than for hiring subsidies, in terms of spending, however, start-up subsidies are one of the most important schemes (Wolff and Stephan 2013). Since 1 January 2012, the allocation of start-up incentives is at the discretion of PES staff (Ermessensleistung) and at a new eligibility requirement, the precondition for support is remaining unemployed for a period of 150 days (formerly 90 days). The allowance of EUR 300 is provided for six months instead of nine months in addition to unemployment benefits, and for a further nine months instead of six months without additional unemployment benefits. With the start-up incentive called Einstiegs geld after § 16b SGB II, those entitled to unemployment benefit II can be financially supported by jobcentres during a period up to two years if they become self-employed. Eligibility criteria refer to a positive assessment of the planned self-employment.3

The start-up allowance was evaluated very positively in a study by IZA (2011).4 However, important deadweight effects could not be excluded. Evaluation results show that Federal Labour Agency (BA) funding of individuals starting self-employment has not only helped them to enhance their employment status and earn more income, but has also saved the BA money by reducing its spending on unemployment benefits (Caliendo and Künn 2010, Baumgartner and Caliendo 2007). There are however indications that a share of unemployed people would have set-up a business even without getting incentives. There is no assessment of substitution effects.

The design of job creation measures and hiring subsidies and their impact assessment will be analysed in more detail in the next section.

2.2 Job creation measures

There had been two different measures in the area of job creation, defined as “additional jobs” with some social or ecological utility: hiring subsidies for unemployment benefit I recipients and a workfare scheme for means-tested unemployment benefit II recipients known as the One-Euro-Jobs. While the first type of measure was based on an employment contract, this is not the case for the second type of measure. While the general hiring subsidy based job creation schemes type of nation-wide scheme were removed, the workfare job creation scheme is still in place. Municipalities or Länder can run their own hiring subsidy based job creation programme.

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3 Internet: http://doku.iab.de/kurzber/2013/kb2713.pdf
Former job creation programmes based on hiring subsidies

The traditional job creation scheme Arbeitsbeschaffungsmaßnahmen has been removed as of 2012 in the context of the labour market policy instrument reform of 2011. This scheme had been active in Germany for more than 30 years. Since 2009, this measure had already been restricted to unemployed receiving unemployment benefit I (maximum duration of 1 year); it was initially designed for long-term unemployed. Earlier evaluation studies had shown that the employment effects were not large and that substitution and displacement effects were significant. However, this scheme was found to have had a positive impact on the job opportunities of those who were the most difficult to place (Koch et al. 2011). But the scheme was not particularly targeted at hard-to-place jobseekers. The traditional job creation scheme was designed to combat a high level of unemployment in the context of economic restructuring. This type of job creation measure (including a specific variant of the scheme for East Germany) had been extensively used in the past in particular in East Germany (Brixy et al. 2002). Some observers have spoken of the emergence of a second labour market characterised by wage subsidies (zweiter Arbeitsmarkt, Kühl 1993, Schmid 1996). Indeed this type of job creation scheme was widely used in the context of the transformation process in East Germany.

A smaller direct job creation programme was Kommunal Kombi, a federal programme co-financed by the European Social Fund (ESF). It focused on job creation for the long-term unemployed in regions with exceptionally high unemployment rates. Funding expired at the end of 2012.

Workfare job creation scheme: the so-called One-Euro-Jobs

The so-called Hartz reforms have introduced a new type of wage cost subsidy for additionally created jobs with a social or ecological utility. They are legally not based on an employment contract. The measure is designed for those in receipt of Unemployment Benefit II. Employable unemployment benefit II recipients are those who can work at least 3 hours a day. In addition to their means-tested benefit, the participants in the employment measure are paid 1 to 2 Euros per hour (therefore, the measure is called One-Euro-Job). The measure generally lasts between 3 and 12 months. In 2005, the average weekly working hours in One-Euro-Jobs amounted to 28 hours (Kettner, Rebien 2007). The following 3 objectives can be identified for the scheme (Kettner, Rebien 2007): to (i) increase employability, especially of those who have been detached from the labour market; (ii) the One-Euro-Job offers the possibility for the company to get to know the unemployed; in this sense the One-Euro-Job could act as a probationary period and the aim would be that the employer employs the person afterwards; (iii) it may serve to test the willingness to work.

The One-Euro-Jobs need to be additional and in „general public interest“ (gemeinnützig). Local councils encompassing private actors, the Chambers and social partners should be created in order to ensure that these requirements are met. But this does not seem to work well. With the ALMP reform of 2011 it had been fixed by law that these jobs must not distort competition.

The lump sum of on average EUR 280 per month which is paid to the municipalities as a mentoring fee for each participant is limited to a fixed rate of EUR 30 and an additional EUR 120 for service intensive cases.

Evaluations have shown that the employment impact of One-Euro-Jobs is not large, but that some groups could increase their chances of finding temporary employment, e.g. women in West Germany (Koch et al. 2011, Wolff and Stephan 2013). However, the overall results were not significant. Furthermore, evaluations have revealed displacement and substitution effects. According to Kettner and Rebien (2007), the Federal Audit Office (Bundesrechnungshof) assessed in 2006 that about a quarter of the One-Euro-Jobs were not in the general public interest, were not additional or were not neutral with regard to competitiveness. The Institute for Employment and Vocational Research IAB evaluated the measure on the basis of its vacancy survey in 2005/2006, indicating that in nearly half of the cases One-Euro-Jobs could not be regarded as additional and of general interest. Interestingly, a large majority of participants met the expectations of the (mainly public) employers. But only 7 % were employed after the end of the measure.

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3 http://doku.iab.de/kurzber/2012/kb0912.pdf
The German Trade Union Confederation has expressed criticism about One-Euro-Jobs. It is argued that referrals to this measure are not well targeted towards those who are the most difficult to place. A further criticism is directed towards the municipalities which do not offer sufficient childcare places, which would be needed in particular by lone parents receiving social benefits, and do not offer sufficient accompanying social measures such as addiction and debt counselling services (DGB 2011).

The rule of automatic referral of young people in case they cannot be placed in education and training has been omitted from the ALMP reform of 2011. This is reasonable as One-Euro-Jobs do not generally improve employment prospects of young people. An article from the IAB shows that young people generally benefit more from company-based training measures than from One-Euro-Jobs (Hohmeyer, Wolff 2012). Nevertheless, earlier evaluation work on the participation of young people in earning-based direct job creation schemes (based on hiring subsidies) showed, that the effectiveness of “second labour market measures” was higher for young people than for other age groups (Rothe and Tinter 2007). However, young people were often no more integrated into the “regular” (open) labour market after these schemes but they more frequently engage in further training measures which is considered by the authors as an important result.

2.3 Hiring subsidies to promote employment of disadvantaged groups

There are different hiring subsidies for the regular unemployment benefit I recipients and the means-tested unemployment benefit II recipients.

**Hiring subsidies for the unemployed with placement difficulties**

The so-called integration wage cost subsidies are paid to the employer for a limited period of time (Eingliederungszuschüsse, Articles 88-92, 131 Social Code III). These subsidies are meant to compensate employers for productivity disadvantages when integrating difficult-to-place jobseekers into regular employment.

The current main scheme pays up to 50 % of the monthly salary or wage for a maximum period of 12 months. The objective is to integrate unemployed people who have difficulties finding or maintaining a placement (Arbeitslose mit Vermittlungshemmnissen), independently from the type of benefit they get, into regular, preferably long-term, employment. There is a specific subsidy for severely disabled people and another one for older workers (see below). In the best case it is expected that the company will permanently employ the person after having received the wage cost subsidies. However, in case the employer does not permanently hire the person in question, the chances of finding employment have increased due to the increased work experience.

In order to avoid displacement effects, companies that have dismissed workers just to benefit from the wage subsidies or hired a worker who had already been an employee in the firm before, are excluded from further participation in the measure (note, however, that despite this rule displacement effects are nevertheless unavoidable). The employer commits himself to employ the participant after the termination of the measure (in general for the same length as the measure lasted, and thus up to one year). The Public Employment Service can ask for reimbursement in case the worker is dismissed immediately after the phasing out of wage support and if the reason for dismissal is not deemed to be related to the responsibility of the worker. In the context of the recent reform of labour market instruments of 2011, the integration allowances during probationary periods have been extended from four to six weeks. For long-term unemployed people the period can be up to twelve weeks. The integration of self-employed workers is improved by consulting services and coaching in order to avoid insolvency.

Between 2003 and 2007 a number of single wage cost subsidy measures were merged into a smaller number of specific measures, but thereafter new specific measures were introduced (Brussig et al. 2011), in particular for older workers.

*Older workers and severely disabled*

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http://doku.iab.de/kurzber/2012/kb0912.pdf
There are wage subsidies for older workers aged 50 and above and an integration wage subsidy voucher (Entgeltsicherung für ältere Arbeitnehmer, Eingliederungsgutschein) (Brussig et al. 2011). Recruitment of older workers can be subsidised for 12 to 36 months while unemployed people below 50 years of age can be subsidised for only 12 months. The subsidy level ranges between 30 and 50% of wages costs. For older workers with disabilities as well as severely disabled older workers the subsidy can be up to 70% and for severely disabled the length of the subsidy period can be lengthened to 60 months for those aged 50 to 55 and to 96 months above that age threshold.

In contrast to wage subsidies for recruiting workers below the age of 50, the older worker subsidy is not linked to the condition that employment has to be continued for at least 12 months after termination of the subsidy period.

The participation in wage subsidy measures for recruiting older unemployed has strongly increased between 2007 and 2010 from 38 400 to 51 500. Over the same period, the number of older workers getting in-work benefits nearly doubled and reached to 19 900 in 2010 (Dietz and Walwei 2011).

**Impact of integration wage cost subsidies**

Evaluation studies have shown that in general the match between integration wage costs subsidies and jobseekers with particular placement difficulties is satisfactory. Furthermore, the measures have been found to have a positive employment effect, and that employment relationships of those who got a subsidy tended to last for longer (Brussig et al. 2011, IAB Werkstattbericht 2007). However, a qualitative study carried out by the IAB indicates, that the effect of the measure on the recruitment strategies of the companies should not be overestimated. The measure seems to have a greater impact on the employment duration rather than on the hiring prospects of disadvantaged groups.

Even though Caliendo et al. (2011) report a small decline in the employment prospects when the employment guarantees expire, the overall employment levels remain remarkably high (between 45% and 60%), such that wage subsidies can be seen as a stepping stone into stable unsubsidized employment (Brussig et al. 2011). However selectivity and unobserved heterogeneity are to be considered when interpreting the results, and the specific labour market conditions, which are favouring demand side oriented instruments (Dietrich 2014).

An implementation analysis by the Research Institute of the Federal Employment Agency (IAB) indicated that the wage subsidies for recruiting unemployed people showed good results, but the differentiation by age groups was not useful. The study also stated that the minimum length of the subsidy for older workers was too long and the lack of obligation for employers to continue employment increased the probability of deadweight effects (Brussig et al. 2011).

**Hiring subsidy schemes for means-tested unemployment benefit II recipients: promotion of employment relationship and the Perspectives in Companies scheme**

A new measure was introduced in 2012 in the context of the ALMP reform: the “promotion of employment relationship” scheme for the long-term unemployed or people with particular employment barriers receiving the means-tested unemployment benefit II (Förderung von Arbeitsverhältnissen, art. 16 e Social Code II), replacing two previous schemes (wage-paying work opportunity and JobPerspective, see below) (Wolff, Stephan 2013). Participation in this programme can last up to 24 months within a five year period. The scheme offers a subsidy of up to 75% of the wage to the employer.

In 2013, the Federal Labour Agency launched a project Perspectives in Companies (Perspektiven in Betrieben) providing wage subsidies for long-term unemployed. For a maximum of three years, the companies involved receive a wage subsidy of 75% during the first year, 65% during the second and 50% during the third year. The project goal is long-term employment in the private sector with a focus

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7 Between 2007 and 2010, the yearly inflow decreased from 280 000 to 260 000 (Brussig et al. 2011).
8 These include e.g. health-related problems, no formal qualification, lacking work experience or career break.
on those who have been unemployed for two years or more, who are 35 years or older, have no training qualification and health constraints. These framework conditions would apply to about 50 000 long-term unemployed in Germany as the IAB estimates. However, the implementation proved to be difficult: of this target group, only few people were eligible for participation, as was confirmed by the Ministry for Labour and Social Affairs in response to an inquiry by the Green Party. Before employment, the participant has a two-week internship (probation period) while the company is supported by an individual coach. Starting in May 2013, the project was tested in Rhineland-Palatinate, Saarland and North Rhein-Westphalia.

Previous schemes of hiring subsidies for unemployment benefit II recipients

The so-called wage-paying work opportunity (Arbeitsgelegenheit in der Entgeltvariante, § 16 e SGB II) was targeted towards the long-term unemployed who received means-tested unemployment benefit II. Participants could be assigned to jobs that compete with regular ones and did not necessarily need to be in the public interest. The number of participants in this scheme was largely below the number of participants in the so-called “One-Euro-Jobs” (Table 1). In 2009 it was decided that participants would no longer pay unemployment insurance contribution, to preclude the possibility of participants becoming eligible for unemployment benefits I on the basis of their programme participation. Employers received a monthly lump-sum payment to cover their cost, including a compensation for the lower productivity of the participant. The duration of the programme was in general below one year (frequently 3 to 9 months) (Wolff, Stephan 2013). This measure was replaced by the promotion of employment relationships (see above).

In April 2012, also the JobPerspektive (Beschäftigungszuschuss, Article 16e Social Code II) was replaced by the above-mentioned promotion of the employment relationship scheme. This was a generous programme, with subsidies of up to 75 % of wages and which could in particular circumstances be turned into a permanent subsidy. Moczall (2013) estimates substitution effects of the JobPerspektive programme. Furthermore, JobPerspektive has been used by employers in lieu of wage-paying work, which is why Moczall calls it a wage subsidy rather than a hiring subsidy (2013). The policy conclusion from the evaluation is that wage subsidies combining restrictive targeting and generous subsidization can nonetheless lead to positive employment outcomes. But job centres disbursing subsidies should be wary of employers willing to employ many participants compared to the total workforce size, as this may indicate that participants are good substitutes for existing workers (Moczall 2013).

Wage subsidies as an instrument to promote training and preparatory training measures for disadvantaged groups

Hiring subsidies are also used in the context of workplace-based training programmes. One example is a specific pre-apprenticeship scheme for young people, the so-called called Entrance Qualification (Einstiegsqualifizierung, EQ, Social Law §54a, book III Social Code), which has the key function of linking low qualified school leavers with apprenticeship training. The measure intends to support young people to make relevant vocational choices and to support them in getting access to firm-based apprenticeship training. EQ covers pre-training periods within firms for young people without an apprenticeship place. The target group comprised young people (i) searching for an apprenticeship place, (ii) not fulfilling the full requirements for apprenticeship training, and (iii) low-performing apprenticeship-place applicants and socially disadvantaged applicants (Dietrich 2014). EQ offers six to twelve months of firm based pre-training courses to qualify individuals for apprenticeship training, to

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10 Internet: www.o-ton-arbeitsmarkt.de/o-ton-aktuell/perspektiven-in-betrieben-pr-gag-der-bundesagentur-fur-arbeit
12 This employer subsidy aimed at providing work opportunities to improve social inclusion of long-term unemployed welfare recipients who were characterized by severe employment impediments. The scheme offered a wage subsidy of up to 75 % to the employer. After a first employment phase of 24 months, under certain circumstances the subsidy could be granted permanently to integrate a participant into work (Wolff and Stephan 2013).
develop their occupational choice, to raise the likelihood of accessing apprenticeship training, and to improve the matching quality between applicant and training-firm.

EQ is under the responsibility of the Federal Labour Agency, in cooperation with third actors like the chambers of commerce and trade, handicrafts or professions and administered by EQ-training firms which receive up to monthly EUR 216 from the Federal Labour Agency to cover (part) of the salary for EQ-trainees plus a lump sum fee to cover social security contributions.

On average, EQ delivered 25 000 places annually for firm based pre-training and in 2012 about 21 810 young people participated at EQ (Dietrich 2014). Even when taking into account the structure of scheme participants, EQ delivers high integration rates in apprenticeship training in general (67 %) and in ensuring the retention of EQ-trainees as regular apprentices by the same training firm (51 %) (Dietrich 2014).

After a difficult start the programme shows good results, although some shortcomings remain. A first wave of ongoing evaluation reports revealed problems with the setting-up of the programme. The programme had some difficulties reaching out the target group and displacement effects were observed. Not all available places could be filled. The reasons for mismatch between supply and demand lay mainly in basic qualification deficits, low motivation of the young people due to low pay, high work load and a mismatch vis-à-vis the preferred vocational orientation. The difficulty of reaching out to more disadvantaged young people has prevailed for many years and has improved only recently in the context of demographic change, enhancing the likelihood of the more disadvantaged young people to participate in the measure and to eventually continue with a regular apprenticeship (Duell, Thurau 2014).

3. Conclusions

The lower levels of inflow into different hiring subsidy schemes in recent years has been partly a result of the decline in unemployment, but it was also a reaction to policy-makers and experts who suggested concentrating the subsidies more on hard-to-place people (Wolff and Stephan 2013).

The use of direct job creation measures has been decreasing. After having been highly criticized for many years as engendering stigmatization, deadweight and substitution effects, federal direct job creation schemes based on hiring subsidies have been terminated. Nevertheless, in the past these programmes might have prevented inflow into long-term unemployment in a context of high unemployment and economic restructuring (the large job creation scheme could be regarded to some extent as a job rotation model, distributing temporary job opportunities).

After the ALMP reform, unemployed welfare recipients are nevertheless still eligible for the workfare job creation programme, One-Euro-Jobs. Evaluation studies had shown poor results for many participant groups. Furthermore, deadweight and substitution effects were observed and the “additionality” requirement seemed often not to be fulfilled. It appeared that the often quoted motivational effect for young people may be low if the employment conditions and the quality of the job are poor, as an evaluation of the City of Hamburg reveals. Furthermore, the wrong priorities might be set and opportunities to engage in training overseen (Bernhard et al. 2006). Some authors comment that it would however have been better to let placement constraints and not the type of benefit receipt determine eligibility to public employment provision (Wolff, Stephan 2013).

Overall, the German examples of direct job creation schemes in more recent years show (i) the importance of careful targeting of participants and (ii) the dangers of placing young welfare benefit recipients in these schemes. These are lessons of interest for policy makers from other countries.

A number of evaluation studies estimating the impact of hiring subsidies directed towards the regular labour market, have shown that the match between integrated wage costs subsidies and jobseekers with particular placement difficulties is satisfying. However, results also underline the presence of deadweight effects and potential employment substitutes (Boockmann et al. 2012). Furthermore, measures seem to have a greater impact on the employment duration rather than on the hiring potential of disadvantaged groups. The evaluation results indicate that an important positive effect of hiring subsidies is that they stabilize employment. This is probably based on the design of the German scheme, as firms can be asked to reimburse part of the subsidy for dismissing initially subsidized
workers during the protection period (Wolff and Stephan 2013). This regulation might be a good practice for policy makers elsewhere.

In general terms, some authors state that employer-based wage subsidies can cost less and have a larger social impact if they are targeted to individuals with lower pay (Caliendo and Künn 2012, Bernhard et al. 2008).

With regard to youth, Rothe and Tinter (2007) show that the transition towards employment after completing a hiring subsidy programme is quite high. It can be assumed that young people also engage in training after the end of the measure. It needs to be noted that these findings contrast evaluation results of the previous wage subsidy youth Programme JUMP which failed to deliver positive results. These more recent positive labour market integration rates are linked to the obligation of employers to keep the subsidised persons employed after the end of the scheme. Recent evidence for young people shows that linking hiring subsidy to training with the aim of taking up or continuing vocational education and training can be successful. One difficulty, however, consists in reaching out to disadvantaged youth and in avoiding creaming (which is in particular an issue in the context of high unemployment).

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Annex 2: Measure Description Tables

<table>
<thead>
<tr>
<th>Measure Title</th>
<th>Type of measure: hiring subsidy, conversion of temporary contracts, voucher scheme, etc.</th>
<th>Target Group</th>
<th>No. of beneficiaries</th>
<th>Amount of subsidy and duration of subsidy</th>
<th>Permanent or Temporary measure and dates of implementation</th>
<th>Conditionality imposed on firms</th>
<th>Funding source and total budget</th>
<th>Describe any measures complementing the initiative (e.g. training, job search assistance etc)</th>
<th>Please indicate if other stakeholders are involved either at the design stage, in the delivery of the measure or in its monitoring</th>
<th>Monitoring arrangements in place</th>
<th>Assessment of the measure:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eingliederungszuschüsse (Wage cost subsidy)</td>
<td>Hiring subsidy</td>
<td>Unemployment benefit recipients with placement difficulties</td>
<td>153,000 inflows in 2012</td>
<td>Up to 50% of wage for a period of 12 months</td>
<td>Permanent</td>
<td>Companies which have dismissed workers or hired a worker who had already been an employee in the firm before, are excluded from further participation in the measure. The employer commits himself to employ the participant after the termination of the measure (in general for the same length as the measure)</td>
<td>€ 473 in 2012</td>
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<td>Please give as much detail as possible on the assessment of the measure.</td>
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<td>Please be sure to indicate the source of information for the assessment (i.e. is it based on an existing evaluation or is it the experts’ own assessment?).</td>
</tr>
</tbody>
</table>

14 Between 2007 and 2010, the yearly inflow decreased from 280,000 to 260,000 (Brussig et al. 2011).
lasted, and thus up to one year). The Public Employment Service can ask for reimbursement in case the worker is dismissed immediately after the phasing out of wage support and if the reason for dismissal is not deemed to be related to the responsibility of the worker. In the context of the recent reform of labour market instruments of 2011, the integration allowances during probationary periods have been extended from four to six weeks. For long-term unemployed people the period can be up to twelve weeks. The integration of self-employed workers is improved by consulting
services and coaching in order to avoid insolvency.

<table>
<thead>
<tr>
<th>Eingliederungszuschuss für Ältere Arbeitnehmer (Integration costs subsidies for older workers)</th>
<th>Hiring subsidy</th>
<th>Older workers &gt;50 (Note: there is also a specific subsidy for severely disabled)</th>
<th>Up to 50% of wage 12-36 months</th>
<th>Runs out end of 2014</th>
<th>In contrast to wage subsidies for recruiting workers below the age of 50, the older worker subsidy is not linked to the condition that employment has to be continued for at least 12 months after termination of the subsidy period.</th>
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<td>Labour market monitoring</td>
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</table>

An implementation analysis by the Research Institute of the Federal Employment Agency (IAB) indicated that the wage subsidies for recruiting unemployed people showed good results, but the differentiation by age groups was not useful. The study also stated that the minimum length of the subsidy for older workers was too long and the lack of obligation for employers to continue employment increased the probability of deadweight effects (Brussig et al. 2011).
<table>
<thead>
<tr>
<th>Perspektiven in Unternehmen (Perspectives in Companies)</th>
<th>Hiring Subsidy</th>
<th>Long-term unemployed (&lt;2 years, older than 35 years, no formal training, health problems)</th>
<th>For a maximum of three years, the companies involved receive a wage subsidy of 75% during the first year, 65% during the second and 50% during the third year</th>
<th>Launched in 2013</th>
<th>Before employment, the participant has a two-week internship (probation period) while the company is supported by an individual coach.15.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One-Euro-Job</strong></td>
<td>Workfare scheme</td>
<td>Employable means-tested unemployed benefit II recipients (who are in general long-term unemployed)</td>
<td>Infow in 2012: 343 000</td>
<td>1 to 2.5 euros per hour in addition to the welfare benefit (means-tested unemployment benefit II)</td>
<td>No specific other service linked</td>
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<td>In-work benefit</td>
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<td>permanent</td>
<td>Additional tasks in the public interest, neutral effects with regard to competition</td>
<td>Job centres (jointly run by municipalities and PES)</td>
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<td>Municipalities</td>
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<td>Expenditure in 2012 of the job centres: 358 million euro</td>
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</tbody>
</table>

But only 7% were employed after the end of the measure.

The German Trade Union Confederation has expressed criticism about One-Euro-Jobs. It is argued that referrals to this measure are not well targeted towards those who are the most difficult to place. A further criticism is directed towards the municipalities which do not offer sufficient childcare places, which would be needed in particular by lone parents receiving social benefits, and do not offer sufficient accompanying social measures such as addiction and debt counselling services (DGB 2011).

An article from the IAB shows that young people generally benefit more from company-based training measures than from One-Euro-Jobs (Hohmeyer, Wolff 2016).

<table>
<thead>
<tr>
<th>Entrance Qualification</th>
<th>Hiring subsidy in the context of workplace related training</th>
<th>The target group comprised young people (i) searching for an apprenticeship place, (ii) not fulfilling the full requirements</th>
<th>EQ offers six to twelve months of firm-based pre-training courses to qualify individuals for apprenticeship training, to develop their occupational skills</th>
<th>Under the responsibility of the PES (BA) in cooperation with third actors like chambers of commerce and trade, and administered by EQ training firms which receive up to 218 euro from the federal labour agency plus a lump sum fee for social security contribution</th>
<th>Evaluation of the Programme</th>
<th>Even when taking into account the structure of scheme participants, EQ delivers high integration rates in apprenticeship training in general (67%) and in ensuring the retention of EQ-trainees as regular apprentices by the same training firm (51%) (Dietrich 2014). After a difficult start the programme shows good results, although some shortcomings remain. A first wave of ongoing evaluation reports revealed problems with the setting-up of the programme. The programme had some difficulties reaching out the target group and displacement effects were observed. Not all available places could be filled. The reasons for mismatch between supply and demand lay mainly in basic qualification deficits, low motivation of the young people due to low pay, high work load and a mismatch vis-à-vis the preferred vocational orientation. The difficulty of reaching out to more disadvantaged young people has prevailed for many years and has improved only recently in the context of demographic change, enhancing the likelihood of the more disadvantaged young people to participate in the measure and to eventually continue with a regular</th>
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16 [http://doku.iab.de/kurzber/2012/kb0912.pdf](http://doku.iab.de/kurzber/2012/kb0912.pdf)
for apprenticeship training, and (iii) low-performing apprenticeship-place applicants and socially disadvantaged applicants

choice, to raise the likelihood of accessing apprenticeship training, and to improve the matching quality between applicant and training-firm

apprenticeship (Duell, Thurau 2014).