

2. Temporary work as an active labour market policy: Evaluating an innovative activation programme for disadvantaged youths

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Abstract:

While high rates of youth unemployment are a severe problem in most European countries, the programme evaluation literature shows that disadvantaged youths constitute a group that is particularly difficult to assist effectively. As innovative measures are thus needed, we evaluate a German pilot programme that targets low-skilled young unemployed and combines three components: a) individual coaching, b) classroom training and c) temporary work. Using an ex post quasi-randomisation approach, our analysis shows that the programme has a positive impact on the post-programme employment probability of participants.¹

¹ This research has its origin in an evaluation project conducted for IAB Nürnberg, the research institute of the German Federal Employment Agency, BA.

2.1. Introduction

In most European countries youth unemployment rates are (much) higher than those of other age groups (International Labour Office 2011). In Germany, too, youth unemployment has been a severe problem for the last two decades. During 2011, for instance, on average 279,000 young people (15 to 25 years) were without jobs (Bundesagentur für Arbeit 2012b). The policy challenge is sizeable: Due to their age, the young unemployed have only little labour market experience. Low skill levels and the lack of basic labour market experience typically imply few working opportunities. It is thus an explicit objective of German active labour market policy to increase the employment performance of disadvantaged youths, preventing long-term receipt of welfare benefits.

All countries implementing ALMPs usually have policies targeted specifically at youths (Betcherman et al. 2007). At the same time, youths seem to be particularly difficult to assist with active labour market programmes (see the meta-analyses in Card et al. 2010 and Kluve 2010). Hence, it is necessary to conceive and identify effective, innovative programmes to improve the labour market position of young unemployed. While particular examples of successful programmes exist – e.g. a vocational training programme for unemployed and low educated youths in Denmark (Jensen et al. 2003) – the majority of analyses point to zero or even negative treatment effects. For instance, Centeno et al. (2009) find negative employment effects for a job search assistance programme targeting at unemployed youths in Portugal. Larsson (2003) finds negative effects on earnings and employment for a subsidised work programme in Sweden one year after the start of the programme. One youth programme that has been interpreted as a success is the UK's New Deal for the young unemployed. Introduced in 1998 as one of the main components of UK's welfare-to-work strategy, it combines intensive job search assistance with other complementary active labour market measures. There exists the possibility to penalise non-cooperation by benefit withdrawal. Evaluation results show that it is effective in helping young men into the labour market (Dorsett 2006). The evidence points to the importance of two factors. First, to compose youths programmes of several components – in the case of the New Deal, job search assistance in a first stage with training, wage subsidies or public works in a second stage. It would also point to the idea that the programme we analyse might seem promising, as it is individually designed and combines various – complementary – programme components.

Parallel to the persistence of youth unemployment, temporary work in Germany has become increasingly important over the last decades. From a mere 33,000 individuals employed in temporary work agencies in 1980, this number has increased up to 910,000 individuals in 2011 (Bundesagentur für Arbeit 2012c), mainly due to a deregulation of the sector in 2003. While some policy makers are concerned about this development, fearing for decreasing wages and substitution effects, proponents claim that temporary work has a stepping stone function bringing temporary agency workers into regular employment. Empirical evidence on this issue has remained scarce across countries, however. Göbel and Verhofstadt (2008) analyse the impact of temporary agency employment for unemployed school leavers in Flanders. They find increased transition rates to permanent employment for unemployed school leavers employed in temporary work agencies in Belgium. Kvasnicka (2009) does not observe such a stepping stone effect of temporary work in Germany. He does find, however, positive effects of temporary agency work on the probability of being continuously employed in the temporary work sector.

In this study we evaluate a measure that combines training, individual coaching and temporary work, specifically targeted at disadvantaged (long-term unemployed) youths. The programme is implemented as a pilot project in three employment offices in three different German cities. The measure aims at increasing youths' employment prospects and preventing participants from further benefit receipt by increasing their labour market experience and skills.

Our results suggest that there are positive employment effects of the measure, which, against the background of largely ineffective youth training programmes in OECD countries, is certainly a success. However, the estimated effects differ between the three locations that are evaluated and become smaller over time. Furthermore, the positive employment effects are due to the fact that some of the participants who complete the measure stay at the same temporary work agency. However, since this continuation at the temporary work agency is non-subsidised, it also constitutes a successful outcome. Therefore, on balance our results indicate that the measure does have a stepping stone function into the labour market.

The remainder of the paper is organised as follows. The next section describes the pilot project and the data. The results of the evaluation are presented in section 2.3. Section 2.4 concludes.

2.2. The programme, identification and data

The youth programme evaluated in this chapter constitutes a public-private-partnership between the Federal Employment Agency and a private temporary work agency. It was implemented at three pilot sites from 2007 until 2009. Each pilot site is a medium-sized city (population 250,000 to 600,000) characterised by high unemployment rates (annual average around 14 per cent in 2007).

The programme is targeted at disadvantaged youths without lower secondary school degree, without vocational training degree and/or without labour market experience. The objective of the programme is to help unemployed youths to find permanent jobs by combining a) individual coaching, b) classroom training and c) temporary work in three steps. First, the local employment agency selects participants from the predefined target group. Second, individual profiling and skills assessment takes place at the temporary work agency, followed by classroom training. The content of the training is allowed to differ between individuals and pilot locations, depending on each participant's skills and local labour market needs. In the third step, participants are contracted by the temporary work agency and placed in hiring firms to receive work experience. In the hiring firms, personnel managers and co-workers did not know that youths are participants in an ALMP measure. The full programme was designed to provide individual assistance for one year per participant within a project time frame of about one year.

Table 1: Timing of entries into and exits out of the programme

	City 1				City 2				City 3			
	Entry		Exit		Entry		Exit		Entry		Exit	
	N	%*	N	%*	N	%*	N	%*	N	%*	N	%*
1 st quarter '07					17	15	7	6				
2 nd quarter '07	29	64	2	4	18	31	7	13	22	42	9	17
3 rd quarter '07	4	73	5	16	19	48	16	27	30	100	14	44
4 th quarter '07	7	89	4	24	23	68	16	41			12	67
1 st quarter '08	5	100	4	33	29	94	30	68			7	81
2 nd quarter '08			30	100	5	98	18	84			4	88
3 rd quarter '08					1	99	7	90			6	100
4 th quarter '08					1	100	8	97				
1 st quarter '09							3	100				
Total	45	100	45	100	113	100	112	100	52	100	52	100

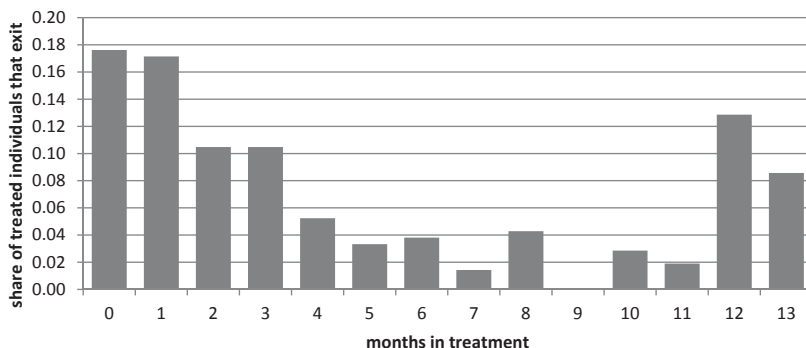
Source: VerBIS. Note: *cumulated share in per cent.

As shown in Table 1, there were ongoing entries into the measure between the first quarter of 2007 and the last quarter of 2008. Whenever someone left the measure during the project, another person moved up. Due to this fluctuation, the number of individuals treated is considerably larger than the number of participants initially aimed at. The exits from the measure after the 2nd quarter '08 in City 2 and City 3 are well beyond the initially targeted project time frame of one year.

A qualitative study, that was carried out simultaneously with this evaluation, suggests that the observed heterogeneity in entry and exist dates results from diverging implementation of the programme at the pilot sites. This is also reflected by the different average durations of the programme which are highest for City 1 (252 days) and much shorter in City 2 (130 days) and City 3 (142 days).

The distribution of the durations across all cities is depicted in Figure 2. More than 40 per cent of participants stay in the programme for up to three months only and likely did not run through all programme components. Among the participants who stayed in the measure six month or longer (one third of the total), almost all individuals participated during the whole programme duration of at least 12 months.

Figure 2: Distribution of programme participation durations



Source: VerBIS, Federal Employment Agency.

For each member of the treatment and control groups (cf. definition below), data from the Integrated Employment Biographies (IEB) of the Institute for Employment Research (IAB) is gathered. The IEB covers individual information about the employment and unemployment history, earnings, occupation, some firm information, education, active

labour market programme participation and socio-demographics. Information for the time period 1998 to 2008 is covered. However, information on employment is only available until 2007. Additionally, an anonymised establishment number for the years 2007 and 2008 is merged into the IEB from the employee history database.

Since the evaluation of the measure followed its implementation closely, information in the IEB was not sufficiently available for the post-treatment period (it was only available up to the end of 2008). Therefore, further information on employment status ("Verbleibsnachweise") on a monthly basis has been merged to the data, covering January 2007 to June 2009. In addition, information about participation in the programme, which is not part of the IEB, was collected from the local employment agencies.

To estimate the impact of the programme on participant's post-treatment employment probability, a comparison group is necessary that appropriately measures the counterfactual "What would have happened to programme participants had they not participated?". Since the programme is a pilot implemented in a small number of cities with a limited number of participants, we adopted an ex post quasi-experimental approach. Specifically, we contacted each case manager involved in implementing the programme and asked them to identify a second group of youths who were equally eligible to participate, yet were denied access because of programme group size restrictions. We thus construct a quasi-randomised comparison group using the inside information case managers have – on both observable and unobservable characteristics of programme participants.

Table 2 presents summary statistics pooled for the three cities. It shows that not all observable characteristics could be balanced following our procedure of identifying a quasi-randomised out comparison group. In particular, comparison group members are more likely to have no schooling degree or no vocational degree, and they have had longer unemployment spells in the past. To control for these differences, we adjust our impact estimates with an ordinary least square estimation. At the same time, we are confident that unobservable characteristics, such as the motivational level, are balanced between the two groups due to the fact that the control group was selected by the same caseworkers as the treatment group. The table also shows that the programme worked well in terms of targeting, as around 70 per cent of participants have a lower secondary schooling degree or less, and more than half have no vocational degree. The average age of 23 years also reflects targeting criteria.

Table 2: Summary statistics

		Treatment group	Comparison group	t-value
		Mean	Mean	
Schooling	no degree	0.23	0.46	3.97
	lower secondary (Hauptschule)	0.51	0.31	-3.07
	secondary (Realschule)	0.20	0.21	0.00
	upper secondary (Gymnasium)	0.05	0.02	-1.37
Training	no vocational degree	0.55	0.70	2.57
	in firm vocational degree	0.29	0.14	-2.74
	external vocational degree	0.14	0.12	-0.42
	technical school	0.01	0.03	0.95
	professional school	0.00	0.00	-0.69
Programme duration	short (up to three months)	0.46		
	medium (three to six months)	0.19		
	long (six to twelve months)	0.35		
Gender	fraction female	0.16	0.27	2.33
Age		23.14	22.92	-0.97
Employment	duration of last employment	292	260	-0.63
	total unemployment duration	714	873	2.88
	total programme participation	193	223	1.19
N		211	103	

Source: IEB. Note: t-test on differences-in-means.

Moreover, participants are clearly disadvantaged in terms of labour market prospects, since despite their young age an average employment experience of less than a year (292 days) stands against a sizeable experience with unemployment, at an average of two years (714 days). Male youths form the majority of participants.

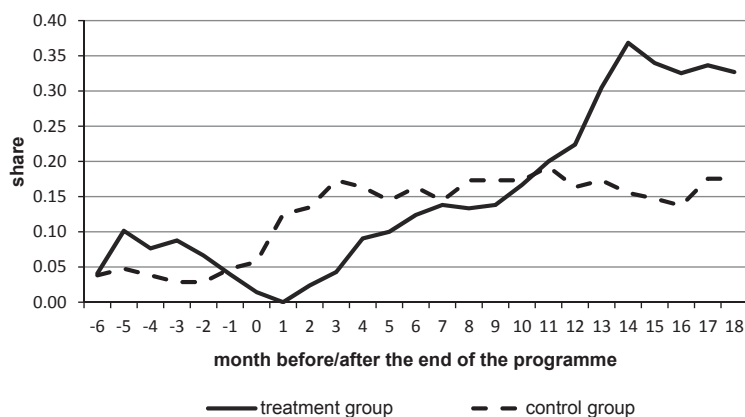
2.3. Results

The aim of the programme is to increase the employment probability of participants in the treatment group. Figure 3 shows the employment status before and after the start of the measure for the treatment and the control group, respectively. In both groups, only a small number of people are employed in the six months before the respective starting point. In the first four months after the start a lock-in effect can be observed: Members of the control group are more likely to be employed than participants. An explanation for this

effect is that participants generally do not search for a new job while participating in a programme. From month five to eleven, no difference between the groups can be observed. However, after more than twelve months the share of employed people is much higher (up to 22 percentage points) in the treatment group when compared to the control group.

Besides the lock-in effect, we observe very different durations of the programme up to thirteen months in the descriptive statistics. To account for the long durations of the measure we start tracing the participants in the subsequent outcome analysis after the end of the programme. This approach assumes that participants do not search for another job during participation. Since the members of the control group can search for a new job, their “starting point” is set to the end of any measure they enter during the first two months after assignment to the control group. If they do not enter into a measure during this period, their starting point is the assignment date.²

Figure 3: Employment of treatment and control group before and after the start of the programme



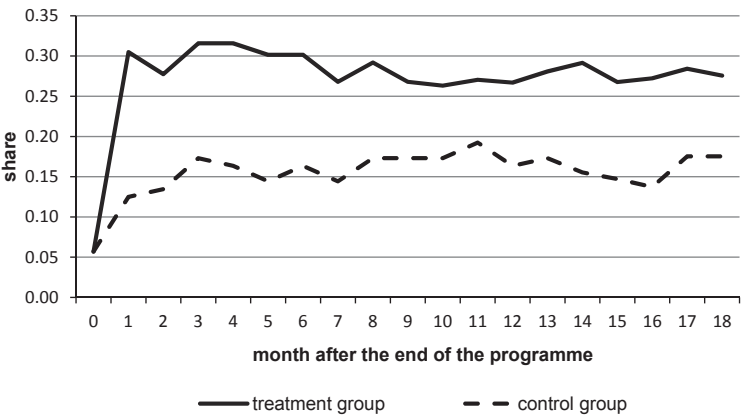
Source: IEB, Verbleibsnachweise.

Figure 4 shows the share of employed workers after the end of the measure. The probability of employment is about 15 percentage points higher for the treatment group (solid line) when compared to the control group (dashed line).

² As a robustness check, we also estimated specifications of the model using other starting dates for tracing the control group. The results are similar and can be requested from the authors.

The socio-demographic characteristics and the actual duration of the measure should have an influence on the employment probability after the end of the measure. Therefore, we estimate an ordinary least squares regression with a binary variable for employment (yes/no) as a dependent variable and socio-demographics and an indicator for the treatment group as explanatory variables.

Figure 4: Employment of treatment and control group



Source: IEB, Verbleibsnachweise.

Table 3 presents treatment effect estimates in two specifications. To capture both the short and medium run, we estimate effects at six and at eighteen months after the end of the programme, respectively. Specification 1 considers a treatment indicator 0/1. The coefficient indicates a positive and statistically significant effect of participation on the employment probability after six months. However, after 18 months no statistically significant difference could be observed between the treatment and the control group. Specification 2 considers three binary variables indicating whether participants stayed in the programme for short (between 1 and 3 months), medium (between 3 and 6 months), or long duration (more than 6 months). The results show that the overall positive impact estimate of Specification 1 is driven by the subgroup of participants who stayed in the programme more than 6 months. While both short and medium durations have no significant effect on participants' employment probabilities, the chance of being employed is 40 (26) percentage points higher at 6 (18) months for participants with long duration than it would have been

without the programme. The two point estimates are statistically significant. It is worth noting that in both specifications there are almost no significant correlations between the employment outcome and the covariates.

Table 3: Estimation results

		Specification 1				Specification 2			
		6 months		18 months		6 months		18 months	
		Coeff.	t-value	Coeff.	t-value	Coeff.	t-value	Coeff.	t-value
Programme duration	treatment 0/1	0.1532	2.33	0.0912	1.36				
	short duration					-0.0110	-0.15	0.0076	0.09
	medium duration					0.0219	0.25	0.0168	0.18
	long duration					0.4034	5.38	0.2592	3.02
Age	age	0.2045	0.83	0.2511	1.00	0.1373	0.59	0.2059	0.83
	age ²	-0.0037	-0.70	-0.0051	-0.95	-0.0022	-0.45	-0.0041	-0.77
Gender	female	-0.0215	-0.28	0.0660	0.84	-0.0417	-0.59	0.0520	0.67
City indicators	city 1	0.0084	0.11	-0.0136	-0.16	-0.0579	-0.75	-0.0731	-0.85
	city 2	<i>Reference category</i>				<i>Reference category</i>			
	city 3	0.0648	0.83	-0.0820	-0.99	0.0668	0.91	-0.0791	-0.96
Schooling	<i>no schooling degree</i>	<i>Reference category</i>				<i>Reference category</i>			
	lower secondary	-0.0228	-0.32	-0.0138	-0.19	-0.0158	-0.24	-0.0080	-0.11
	secondary	0.0669	0.77	-0.0138	-0.15	0.0742	0.91	-0.0091	-0.10
	upper secondary	-0.3735	-0.84	-0.3722	-0.84	-0.2623	-0.62	-0.3291	-0.75
Training	<i>no voc. degree</i>	<i>Reference category</i>				<i>Reference category</i>			
	in firm voc. degree	0.0210	0.28	0.0925	1.17	-0.0144	-0.20	0.0699	0.89
	external voc. degree	0.0091	0.10	-0.1247	-1.30	-0.0469	-0.55	-0.1489	-1.57
	technical school	0.4289	2.05	0.0240	0.10	0.4247	2.16	0.0219	0.10
	professional school	0.2149	1.26	0.3102	1.64	0.1305	0.81	0.2711	1.44
Employment	unemploy. duration	-0.0002	-1.86	-0.0002	-1.69	-0.0002	-1.37	-0.0002	-1.20
	work experience (0/1)	0.0221	0.29	0.1556	1.92	0.0585	0.81	0.1841	2.29
	constant	-2.5363	-0.88	-2.9652	-1.02	-1.7746	-0.66	-2.4693	-0.86
	R ²	0.0980		0.0946		0.2137		0.1332	
	N	251		227		251		227	

Source: IEB. Note: Estimates from a linear probability model with dependent variable "employment 0/1".

Figure 5 investigates the treatment effect estimate over time. Panels A and B show that for the short and medium programme durations the treatment effect is basically not significantly different from zero at any time 1 to 18 months post-treatment. Panel C, however, indicates a persistently positive effect for participants with long durations. The coefficient is large (50 percentage points) during the first 4 months, then decreases, but remains significantly larger than zero throughout the rest of the period considered.

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