

I. SETTING

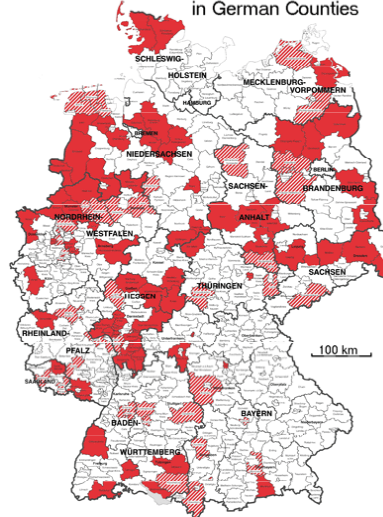
The focal point of the analysis are the 41 of 410 German counties who took over the sole responsibility for their local Jobcenters in January 2012. These centres, responsible for servicing, training and job-finding of long-term unemployed, were previously run as cooperatives between the respective county and the Federal Employment Agency (FEA).

Fortunately, the devolution in 2012 was not accompanied by simultaneous labour market reforms. It can therefore be interpreted as a quasi-experiment. To the German government's best knowledge, this is the first attempt to exploit this unique event scientifically (Deutscher Bundestag, 2012).

Research question:

Did the decentralization of Jobcenters in 2012 improve the labour market performance in the affected districts?

Long-Term Unemployment Assistance in German Counties



Approved Local Providers since 2012
Approved Local Providers since 2005

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II. THEORY AND PREDICTION

Overarching theoretical discussion: Fiscal Federalism
"Understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government" (Oates, 1999)

Oates (1972): Decentralization Theorem

States that in the absence of jurisdictional spillovers and homogeneous preferences, government functions should always be allocated at the lowest possible level.

Why may this work for German Jobcenters?

- Information asymmetries: Large heterogeneity among districts
- Better synergies with other services provided by counties
- Stronger horizontal competition
- Higher levels of policy innovation and policy diffusion

III. DATA

- Aggregated at the Jobcenter level (district level)
- Observations range from 2009-2013, i.e. 3 years of pre-treatment and 2 years of post-treatment data available
- Number of short-term and long-term unemployed
- Subgroups: Gender, five age brackets, nationality (German/foreign)
- Compiled by German Federal Employment Agency

VII. REFERENCES

Abadie, A. & Gardeazabal, J. (2003), 'The Economic Costs of Conflict: A Case Study of the Basque Country', *American Economic Review* 93(1), 113-132.
 Deutscher Bundestag. (2012), 'Weiterentwicklung der Organisation der Grundsicherung für Arbeitsuchende', *Antwort der Bundesregierung auf die Kleine Anfrage der Fraktion DIE LINKE*, Drucksache 17/10327, 1-24.
 Oates, W. E. (1972), *Fiscal Federalism*, Harcourt Brace Jovanovich.
 Oates, W. E. (1999), 'An Essay on Fiscal Federalism', *Journal of Economic Literature* 37(3), 1120-1149.

IV. METHODS

Aim:

Identifying the „treatment“-effect of decentralizing Jobcenters.

Difference-in-Differences (DD):

Use districts with Jobcenters whose treatment status did not change in January 2012 as control group. In simplest case, estimate model of the form:

$$Y_{i,t} = \alpha_i + \lambda_t + \gamma Post_t + \delta (Post_t \times Dct_t) + \epsilon_{i,t}$$

Difference-in-Difference-in-Differences (DDD):

Adding a second control group (being the number of short-term unemployed) controls for county-specific shocks:

$$Y_{i,t} = \alpha_i + \beta_1 A_{i,t} + \beta_2 (Dct_t \times A_{i,t}) + \gamma_1 Post_t + \gamma_2 (Post_t \times Dct_t) + \gamma_3 (Post_t \times A_{i,t}) + \delta (Post_t \times Dct_t \times A_{i,t}) + \epsilon_{i,t}$$

Synthetic Control:

Synthetic control was pioneered by Abadie and Gardeazabal (2003) and is an entirely data-driven method. Controls for time-invariant variation. Set up by using weighted average of neighbouring districts as a control group.

V. RESULTS

The results question the validity of Oates' Decentralization Theorem with respect to labour market institutions. Even 18 months after the reform, there are no gains from decentralization in sight. Fears of foreigners being disadvantaged by decentralization could not be confirmed either. Nevertheless, the process of decentralization seems to come at a significant cost. Dynamic DD and synthetic control estimations both indicate a significant increase in unemployment in the first year following the change in provider type. This may well be explained by the necessity that Jobcenter employees first need to get familiar with new organizational structures, bureaucratic procedures or new computer software. As a consequence, they are able to spend less time on assisting long-term unemployed, leading to the result described above.

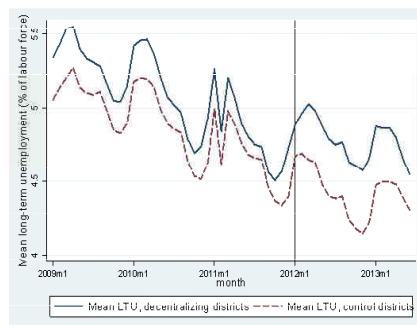


Figure 1: Long-term unemployment by district type

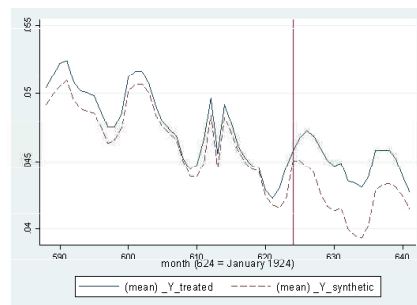


Figure 2: Results from applying the synthetic control method

VI. DISCUSSION

Many questions up for debate:

- Are the results realistic?
- What other methods may be illuminating?
- How to distinguish temporary and permanent effects?
- What drives the differences between the two provider types?
- What is the lesson for policy-making?