

Efficiency Losses From Decentralizing Public Employment Services – Evidence From A German Policy Experiment –

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Abstract

Public employment services (PES) reduce coordination frictions and increase aggregate labor market efficiency. But **which kind of PES are more efficient: centralized or decentralized ones?** Centralized PES are subject to directives and controlling by a central institution, which simplifies the implementation of common standards and best practices. Decentralized PES are not subject to central controlling and develop independent strategies that fit best to the specific conditions of their local labor market. While in most countries either one or the other system is implemented, I can make use of a German policy experiment from 2012 to assess the causal effect of decentralization of PES on aggregate matching efficiency. I find large negative treatment effects in the short-run, but insignificant effects in the long-run.

Empirical Strategy

I estimate the causal effect of decentralization by exploiting the 2012 reform in a **difference-in-differences** approach, where I can **trace the evolution of the treatment effect over time**.

- Treatment group: Districts where municipalities took over PES in 2012.

- Control group: Districts where FEA remained in charge of PES.

Both groups are subject to the same labor market trends and same institutions (except for the type of PES).

I estimate an **aggregate stock-flow matching function**, including district fixed effects, spatial lags and monthly dummies.

Estimation is based on aggregate time series on stocks and flows of unemployment and vacancies at the district level.

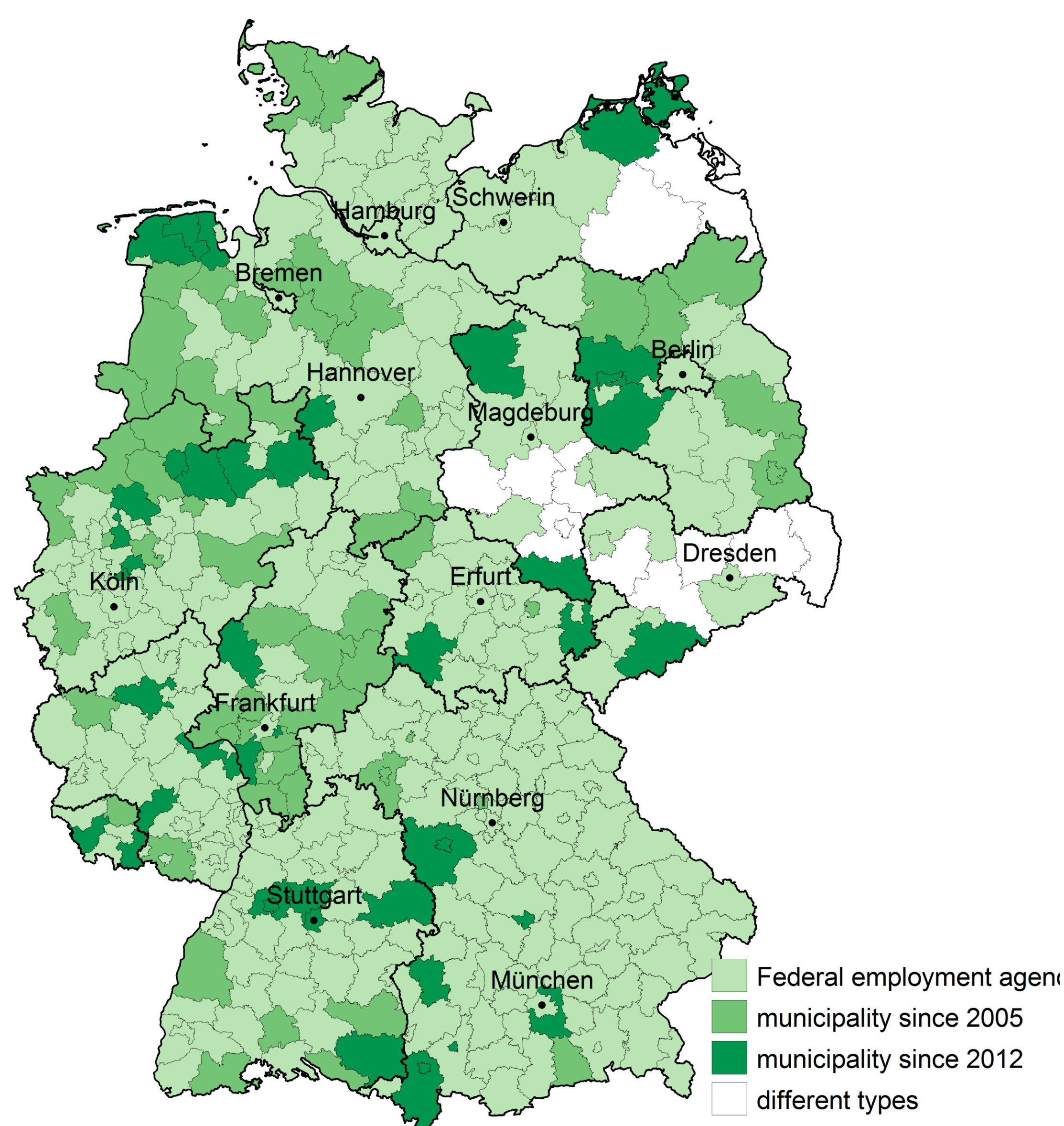
Public Employment Services in Germany

In Germany, PES for long-term unemployed are provided by

- the Federal Employment Agency (FEA) (centralized setting),
- the municipality (decentralized setting).

Municipalities could take over PES from the FEA after successful application in 2005 and in 2012. Due to territorial changes, in some districts, PES of different types co-exist.

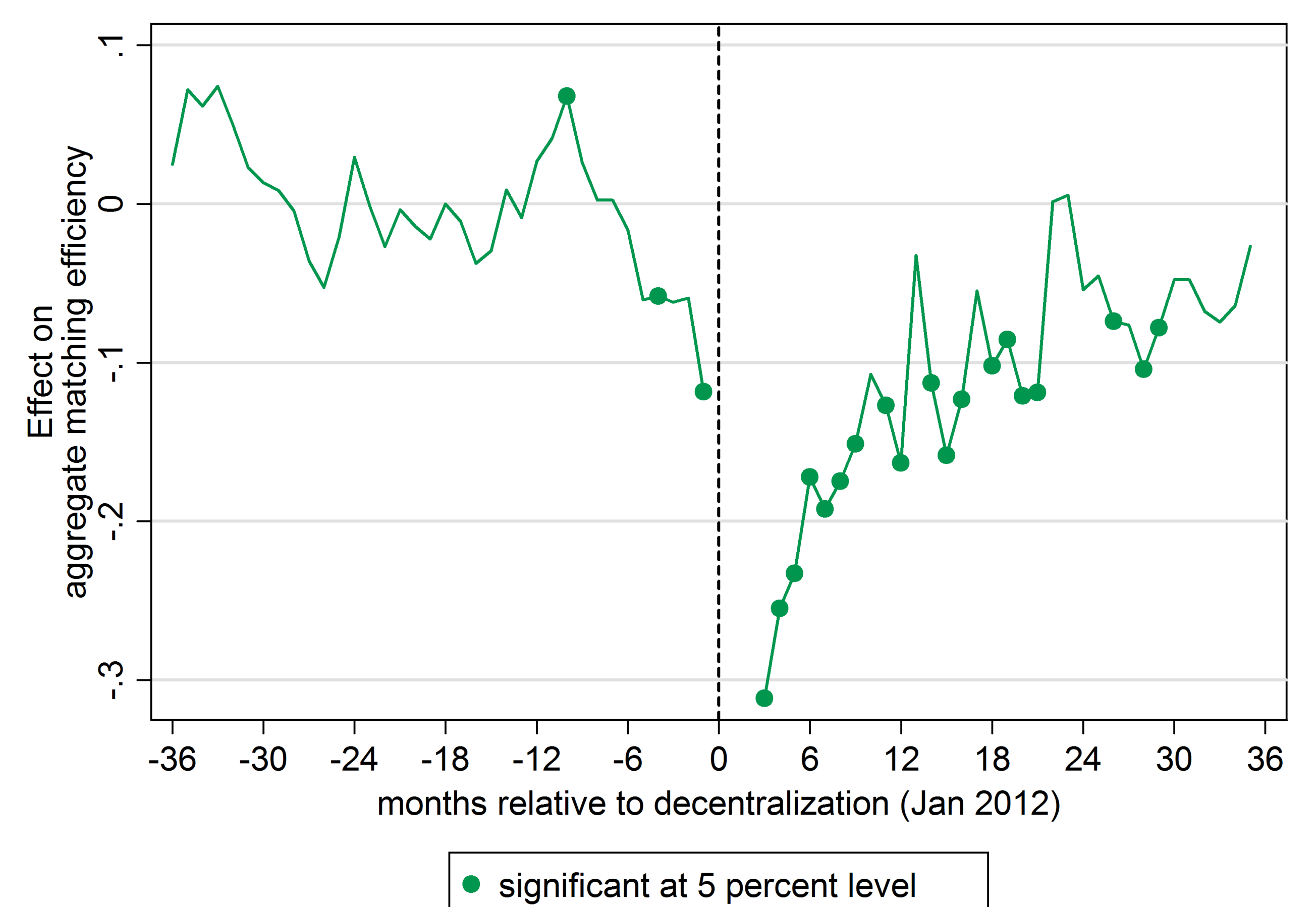
Figure 1: Providers of PES for long-term unemployed



Results

I estimate a **statistically significant negative treatment effect** of decentralization, **that is declining over time**. For the first 3 years, the average loss in aggregate matching efficiency amounts to 10%.

Figure 2: Treatment effect of decentralization



The results are very stable against ...

- controlling for composition of unemployment
- exclusion of neighbors of treated districts
- reweighing control group to match distributions of characteristics and trends in the treatment group

I do not find significant effects for the PES for short-term unemployed, which indicates that the 2012 reform did not coincide with a worsening of local labor market conditions in treated districts.

Main Result

- Decentralization caused a loss in aggregate matching efficiency in the short-run, but not in the long-run.
- Potential reason: Administrative transition process took 2 to 3 years.