

# TRANSITIONS OUT OF SUBSIDIZED EMPLOYMENT

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**PHD THESIS: The Effect of Subsidized Employment on Wages and Employment chances**  
**Main Research question: How does subsidized employment affect wages and future employment chances?**

**Sub-questions:**

- 1. Who takes subsidized jobs? What are the profiles of the subsidized workers? Which kind of firms use subsidized employment?
- The aim of this chapter is: a description of the profiles of people having a subsidized job.
- 2. Does subsidized employment increase employees' wages? How is the subsidy shared between the employer and the employee?
- The main idea is: use a bargaining model to explain how the rent from a match would be shared between an employee and an employer according to their bargaining power. To test this idea we plan to use within variables to see if having a subsidized job pays less than having a regular job.
- 3. To what extent is a subsidized job a good beginning for a decent career?
- This chapter focuses on the probability to get a normal job again after a subsidized spell. We shall construct a control group to compare the probability to get a regular job after 6 months, 1 year, 1.5 years and 2 years.
- 4. What is the impact of subsidized-employment from the firm's point of view?

**ABSTRACT**

**TITLE:**  
Transitions out of subsidized employment

**BACKGROUND:**

Employment subsidies are the dominant form of active policy in Italy. In 1998 about 0,35 % of GDP was spent in various kind of incentives to job creation, mainly consisting of tax rebates, involving about 1,800,000 individuals. The goal of subsidized employment is to increase employment by diminishing labor costs, and decrease unemployment by increasing labor supply (Jae Kap-Lee, 2005). The outcomes expected through an active labor market policy is the reduction of the decline of the unemployed' productivity and improvement of the employer-employee matching, both increasing the future productivity of the worker. Improving the matching has to do with the fact that the employer cannot observe the productivity of the job applicant and when he screens the employment history of the person the long term unemployment spell acts as a negative signal impeding hiring. Reducing the labor costs can overcome this negative screening at the beginning. Moreover, it can reduce the probable losses in case the employee has low productivity and increase the probable gains if the employee is productive enough. Since subsidizing jobs is usually very costly (Caltan, Zylberberg, 2004 chpt 11), the costs of the policy are argued on the ground that if the unemployed exit the state and do not fall back on unemployment, then the state saves the unemployment and social assistance benefits which would have to be paid out in the event of unemployment.

**OBJECTIVE:**

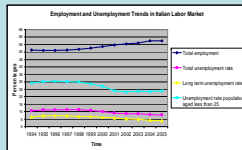
Investigate to what extent having a subsidy improves employment chances

**METHODS:**

Matching people with a subsidy with people without a subsidy based on date of employment spell, age, gender and occupation. Matching based on previous wage history.

**BACKGROUND**

Investigating the transitions into active labor market policies and out of is extremely relevant in the context of increasing long-term unemployment persistence and incidence (Machin and Manning, 1998; Sargent and Ljungqvist, 1998:515). The Italian labor market is according to Boeri, Nickell and Layard (2000) caught in a high unemployment-low participation trap. By 2005 the unemployment rate decreased to around 7,7% from 10% in the 1990 (source: IFS Eurostat). The incidence of long term unemployment has not declined despite increased outflows from unemployment (Boeri, Nickell, Layard:2000).



**METHODS**

**DATA**

WHIP is a database of individual work histories developed by LABORatorio R. Revelli on the basis of administrative archives. The original sources of information are social security contributions collected from firms and employees by the Italian Institute for Social Security (INPS). The following categories of occupations pay compulsory social security contributions to INPS: employees in the private sector, self employed in artisan and trade activities, in minor occupations, freelance professionals and self employed workers in agriculture.

WHIP is a random sample extracted out of the INPS administrative archive and contains information for a period of 15 years from 1985 until 1999. All employees born on the 10th of March, June, September or December have been selected into the sample. WHIP is a matched employer-employee database and it contains three files: one for the private sector workers, another one for self-employed and a third one for quasi-dependent workers. Our analysis is based on the file for private sector employees which contains information about working spells in which the individual received social benefits such as employment subsidies/mobility benefits.

In order to preserve the information about multiple employment spells within a year, the yearly data has been transformed for each individual in monthly observations running from month 1 (January 1985) to month 180 (December 1999). We appended all the yearly (private, self-employed and quasi-dependent) job spells and took several to preserve the overlapping spells and eliminated the moonlighting spells.

i) first we eliminated all the short one month spells that were moonlighting (spells that occurred at the same time with another spell but last just one month). The total number of spells eliminated is 9031. As a consequence of this procedure we eliminated 5 individuals in subsidized employment.

ii) second we eliminated all the individuals who had moonlighting spells iii) third we censored to the left the spells that were intersecting for a period but did not contain each other. The main reason is that it is likely that this occurred due to long processing time of the updating forms.

Our sample is restricted to the file of private-employees. This file has been enriched with information concerning the spells in self-employment and quasi-dependent files of the private employees who have made transitions into and out of those states. We took into account the self-employment and quasi-dependent spells in order to calculate the non-employment duration, and computation of employment status after 6, 12, 24 months. The analysis is performed for regular spells and subsidized spells of employment which started after 1991.

We have 1,172 spells of subsidized employment and 84,482 spells of regular employment.

Year	Regular	Subsidized
1991	10.245	14
1992	9.563	25
1993	8.950	92
1994	8.336	195
1995	8.284	186
1996	9.923	153
1997	9.769	190
1998	9.410	172
1999	10.652	175
<b>Total</b>	<b>84.482</b>	<b>1.172</b>

**RESULTS**

- We use a weighted regression by gender and age, matching people with a simple technique
- The effect of subsidy is negative after 1 year on the employment transition to a regular/ quasi-employed/ self-employed job suggesting a trap door
- After 2 years the effect of the subsidy is less prominent on employment chances and becomes positive

Graph observed employment probabilities



First spell 12 months	Count	Sub. Em.	Prq.
Individuals	1.182	0.000	0.0
Private sector	1.182	0.000	0.0
Quasi-dependent	0.000	0.000	0.0
Self-employed	0.000	0.000	0.0
Work area North-East	0.190	0.000	0.0
Work area North-West	0.219	0.000	0.0
Work area Center	0.205	0.000	0.0
Work area South	0.387	0.000	0.0
Work area Islands	0.403	0.000	0.0
Work area SE	0.200	0.000	0.0
Work area SW	0.214	0.000	0.0
Work area NE	0.214	0.000	0.0
Work area NW	0.214	0.000	0.0
Work area Center	0.214	0.000	0.0
Work area South	0.214	0.000	0.0
Work area Islands	0.214	0.000	0.0
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