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## THE SUBSIDISED TEMPORARY JOB POLICY: BRAKE OR STEPPING STONE TO A RETURN TO WORK?

### Summary

The “subsidised temporary job” policy allows job seekers to gain some income from paid work while keeping part of their unemployment benefit. This study assesses the impact of the policy by comparing the rate of return to work of beneficiaries of the scheme and non-beneficiaries.

The results indicate that the temporary work measure is a brake on the return to work during the first eight months. However, the negative effect decreases over time until finally the effect becomes positive. Around ten months from starting in the scheme, the return to work rate of beneficiaries is slightly higher than it would have been without the policy. ■



- The subsidised temporary work policy allows job seekers to gain some income from both paid work and unemployment benefits.
- The goal of improving the prospects of a return to stable employment may be partly counteracted by less effective job-seeking during periods of temporary work
- Analysis of trends among job-seekers shows that the effect of the policy is slightly positive, though the advantage comes late.

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## The subsidised temporary jobs policy

The aim of unemployment benefits is to provide job seekers with an income and to allow them to seek new work in the best conditions. The problem is that the longer someone is not active in the labour market, the more their chances of finding work are reduced. Hence, Unedic (the public office concerned with unemployment insurance policy in France) adopted a measure that allows job seekers to earn some income from paid work at the same time as collecting some unemployment benefit. Our question is: is this policy a brake on finding new work or a stepping stone towards it?

Under the temporary work policy, job seekers receiving an ARE (Return to Work) pension can, under certain conditions, **continue to be paid some of that benefit while also earning an income from paid work**. This "subsidised temporary work" policy can be summarised in the following way<sup>1</sup>: the beneficiary keeps all the income from the paid employment, while the amount of ARE benefit is cut by the number of days equal to the ratio of the gross monthly earned income to the job seeker's last daily wage. Thus, for example, someone whose basic daily wage is 50 €, for whom the rate of replacement is 75% and whose professional activity brings her 500 € for the month will see her disposable income increase from the 1125 € without the temporary work measure, to 1250 € with it.<sup>2</sup> Moreover, the 375 € of benefit not paid are not lost to the beneficiary but are converted into extra days of unemployment benefit. The reduction in the benefit is the same for the job seeker as keeping the totality of the ARE pension but then paying the same amount of income tax on the wages earned as the amount by which the benefit is reduced.

The temporary jobs policy allows job seekers to increase their disposable income by an average of 25 to 50 per cent of income from paid work while keeping the totality of their unemployment benefits. For the administration paying the benefit, it allows a reduction of one-time expenses of between 50 and 75 per cent of payments to job seekers<sup>3</sup>.

Employment centre statistics indicate that, far from being marginal, **participation in the subsidised temporary jobs scheme is widespread among ARE recipients**. In 2011, nearly half of all job seekers registered with employment centres participated in the temporary jobs scheme, that is to say, had worked at least one hour in the month<sup>4</sup>.

## Some ambiguous theoretical effects on the rate of exit from unemployment

The principal goal of the temporary work scheme is to generate a "stepping-stone effect" that will accelerate the return to steady employment by giving the job seeker recent experience in the labour market, which he can cite when applying for jobs.

It is also possible that certain employers use the temporary work experience to assure themselves that the person matches the position they seek to fill.

Nevertheless, the policy does not necessarily have positive effects for the job seeker. Indeed, there are questions about **its impact on the speed with which the beneficiaries find stable new employment**. Looking for work is not a passive activity; it requires a significant investment from applicants to find possible positions, rework their CVs, write letters of application and go to interviews. The economic analysis suggests that the search for work is a determining factor in the speed at which job seekers exit from unemployment. If taking advantage of the subsidised temporary jobs scheme encroaches seriously on the time the job seeker has to spend on finding work, then it is possible that she will be penalised by a "lock-in" effect and take longer to find stable employment. It is also possible that the conversion of non-remunerated days into extra days of eligibility for unemployment benefit will encourage her to prolong the job-seeking period.

The net effect of the temporary job measure, which will be determined by the addition of a negative potential lock-in effect or of a positive stepping-stone effect, remains ambiguous. The goal of our study (Fremigacci and Terracol, 2009) was to try to measure separately these two effects and to assess the overall effect on the beneficiary job seekers.

*« The net effect of the temporary job measure, which will be determined by the addition of a negative potential lock-in effect or of a positive stepping-stone effect, remains ambiguous »*

It is also important to investigate **the quality and the duration of the employment** found: does a prior period of professional activity, albeit limited, allow the job seeker to find work more suited to her profile and therefore mean she is less likely to return to unemployment?

The system is evaluated by measuring job seekers' rate of exit from unemployment<sup>5</sup>. By measuring the monthly rate before, during and after the exercise of the right to subsidised temporary work, and comparing with similar job seekers who have not been involved in such work, **we can deduce the programme's effect on the return to work**. We assume that the individuals involved do not modify their behaviour in the period preceding their entry into the scheme. This method allows us to take into account the systematic differences between beneficiaries and non-beneficiaries. The method also takes into account the fact that some individuals may choose longer or shorter periods of temporary work for reasons related to an assessment of their capacity to exit unemployment quickly. Similarly, the effect of the sustainability of the work found is measured by how long it is before the former job seeker re-registers (or not) with the employment centre.

1. The policy is slightly different if the job seeker is more than 50 years old.

2. Earned income is 500 euros, total unemployment benefit is 1125 euros. The number of days cut is equal to the ratio of the income earned from the professional activity (500 euros) to the job seeker's daily wage of reference (50 euros), that is, 10 days. Given that 30 days represent 1125 euros, the benefit is cut by 375 euros (=1125\*10/30). The income that remains is 1250 euros: the earned income plus the reduced benefit.

3. The longer-term effect on public finances is ambiguous. If the temporary work permits an increase in the rate of re-employment among beneficiaries, then rights to the benefits will not be claimed and the administration's expenses will be reduced. If there is no increase in the rate of re-employment for the job seekers, then the effect on public finances will be negative.

4. Pôle Emploi, Repères et Analyses n°45, June 2012.

5. This study investigates unemployed people registered with the employment centre, who differ from the unemployed in general as defined by the ILO. The latter are individuals who are unemployed, actively seeking work and available to take up employment within 15 days. This definition is independent from whether they are registered with a job centre.

The study is based on a sample of 10,020 individuals from the data files of the employment centre and Unedic, in which it is possible to follow in detail their episodes of unemployment as well as of subsidised temporary work. The individuals registered with the employment centre between July and December 2001, and were followed until December 2004. We saw an average of just under two episodes of unemployment for each job seeker, of which 40 per cent included one transit through temporary work.

### Adding negative and positive effects

Our results confirm that the stepping-stone effect coexists with the lock-in effect. Thus, the rate of exit from unemployment slightly decreases during the period of temporary work compared with a similar individual unemployed for the same length of time but who did not exercise their right to subsidised temporary jobs. The decrease, around 10 per cent during the first few months, becomes more pronounced with each episode of reduced activity, and can reach between 50 and 75 per cent by the end of three months. This progressive decrease is consistent with a **lock-in effect due to a decrease in the intensity of job-seeking activity**.

However, with time, the stepping-stone effect approaches then overtakes the lock-in effect. Compared with an individual who has been unemployed for the same length of time, the job seeker who has engaged in some temporary work has a rate of exit from unemployment two to three times higher between 10 and 15 months after beginning that activity. This strong stepping-stone effect weakens, however, and after an additional three to six months, drops back to a level comparable with those individuals who have not engaged in any temporary work (Figure 1).

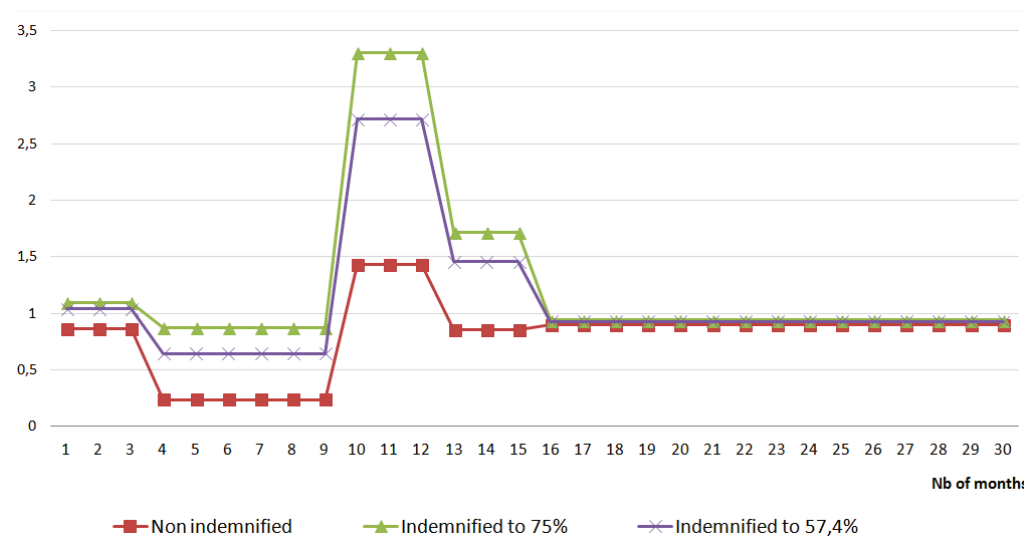
Our results also indicate that the extent of the stepping-stone and lock-in effects varies according to individual characteristics. In particular, those whose characteristics are least favourable to a return to work benefit from a less marked lock-in effect and a stronger stepping-stone effect than those whose characteristics are more favourable.

The proportion of the allocation retained by job seekers engaged in temporary work also appears as a determining factor in the effectiveness of the policy. The greater this proportion, the less the policy seems to speed up the return to stable employment among beneficiaries. On the contrary, the individuals who gain proportionally less monetary advantage from temporary work seem to benefit from a stronger stepping-stone effect and a weaker lock-in effect. This effect is shown in Figure 1, where we distinguish between the stepping-stone and lock-in effects on the rate of replacement, that is, the rate at which the income from temporary jobs is deducted from the unemployment benefit. It seems that a weaker financial gain encourages job seekers to be more selective about the temporary work they take up and to choose the jobs that seem to bring more significant advantage in terms of gaining experience or future opportunities in the company.

*« The greater this proportion [of retained allocations], the less the policy seems to speed up the return to stable employment among beneficiaries »*

However, **this result should be interpreted with caution** and we must be careful about concluding that therefore the financial conditions of taking on temporary work must be tightened. Indeed, the importance of monetary gain is a key element in the attractiveness of this policy for job seekers: a tightening of financial conditions leads to a decrease in the number of job seekers who take up the opportunity it offers. The size of the incentive should be determined by an awareness of the trade-off between the number of beneficiaries, which increases with the incentive, and the extent of the policy's impact, which decreases with it. However, we find that subsidised temporary work experience has no effect on the sustainability of work found on exiting unemployment.

Figure 1 : Estimate of the confinement and springboard effects of subsidised temporary work



Sources : Pôle Emploi, UNEDIC, authors' calculations

Note : The lock-in effect appears on the left side of the figure, where the probability of exit from unemployment is multiplied by a value less than 1. We see that this negative effect increases as the period of reduced activity goes on, and that it is more significant for the unemployed who are not indemnified. The springboard effect appears on the right side of the figure, where the immediate probability of an exit from unemployment is greater than 1. We see that the lock-in effect is even higher when the rate of indemnification is higher. The stepping-stone effect is slightly reduced after three months, before falling back to 0 after six months.

## A net positive gain, but which appears late

In order to measure the overall effect of the temporary jobs policy, we calculated month by month (with the help of simulations) the percentage of individuals who return to work with or without temporary job experience. The difference between the two groups gives an estimation of the net effect of the policy. Figure 2 presents the results of our calculations.

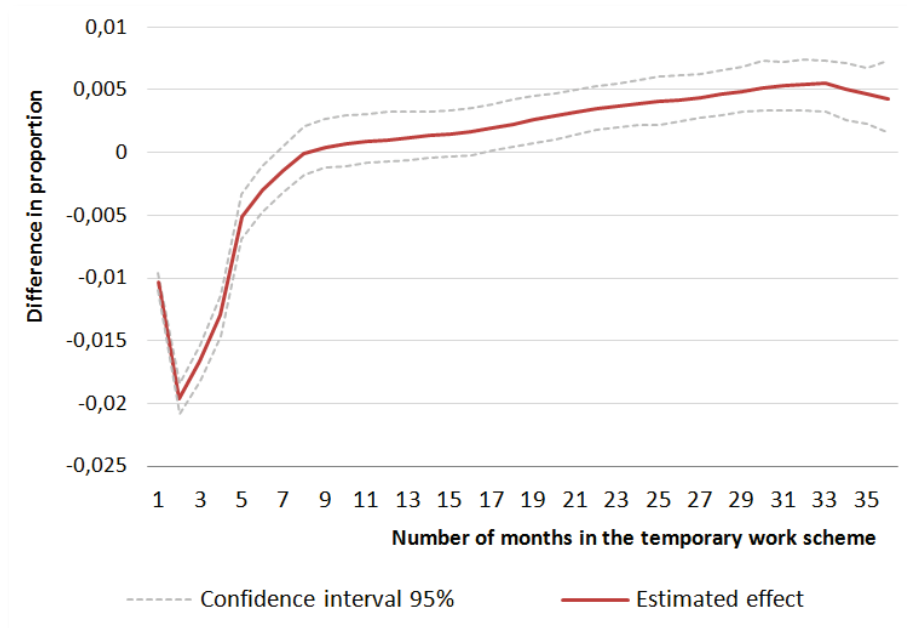
It seems that someone who begins an episode of temporary work waits 10 months before her probability of returning to stable employment becomes greater than if she had not done any such subsidised work. This relatively long delay is due to the lock-in effect that dominates during the temporary job period and which does not begin to be counter-balanced by the stepping-stone effect until it is finished. Moreover, the lock-in effect reduces the rate of exit from unemployment during the whole period of temporary work, while the stepping-stone effect, though significant, has a discernible effect for only a few months and therefore does no more than offset the lock-in effect. If the overall effect is positive, it remains a very modest one.

Overall, our results suggest that the policy could be improved through **a closer targeting of the most disadvantaged in the labour market**, and adapting the financial incentives so as to favour a more select range of beneficiaries, though without discouraging job seekers from joining the scheme.

Our analysis of the subsidised temporary jobs policy remains preliminary and requires completion. In particular, if our results indicate that the least favoured job seekers benefit the most from the policy, then this conclusion should be refined through studying in greater detail the causes of such differentiated effect. In addition, the impact of the measure on the behaviour of hiring companies was not covered by the study. It would be interesting to investigate whether the policy tempts companies to use temporary jobs as a substitute for fixed-term contracts or as test-periods for permanent positions.

*« Our analysis of the subsidised temporary jobs policy remains preliminary and requires completion »*

Figure 2 : Estimation of the effect of the subsidised temporary jobs policy according to time spent in the scheme



Sources : Pôle Emploi, UNEDIC, auteurs' calculations

Note : Three months after beginning subsidised temporary work, the probability of the job seeker exiting from unemployment is two points lower than if he had not done the temporary work. At the end of 10 months, the probability is the same and beyond that time, the difference is positive.

### Reference

- Fremigacci, F. et Terracol, A. (2013) "Subsidized temporary jobs: lock-in and stepping stone effects", Applied Economics, vol. 45, pp 4719-4732

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