

Can hiring subsidies benefit the unemployed?

Hiring subsidies can be a very cost-effective way of helping the unemployed, but only when they are carefully targeted

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ELEVATOR PITCH

Long-term unemployment can lead to skill attrition and have detrimental effects on future employment prospects, particularly following periods of economic crises when employment growth is slow and cannot accommodate high levels of unemployment. Addressing this problem requires the use of active labor market policies targeted at the unemployed. In this context, hiring subsidies can provide temporary incentives for firms to hire unemployed workers and, when sensibly targeted, are a very cost-effective and efficient means of reducing unemployment, during both periods of economic stability and recovery.

KEY FINDINGS

Pros

- + Hiring subsidies have lower deadweight costs and other negative indirect effects than wage subsidies.
- + Hiring subsidies enable employers to screen workers and help the unemployed to regain their human capital.
- + Sensible targeting of the unemployed, especially the long-term unemployed, strengthens positive effects and their position in the labor market.
- + Targeted hiring subsidies can be cost-effective measures that yield higher employment probabilities in the future.

Cons

- The impact of hiring subsidy programs varies depending on their targeting and design.
- Targeting that is too loose may create high potential deadweight and displacement costs.
- Targeting that is too tight may create stigmatization of workers and administrative and monitoring costs for the employer, and may therefore result in low employer take-up.
- Evidence is still limited, especially on the longer-term effects on careers.

AUTHOR'S MAIN MESSAGE

Hiring subsidies provide financial incentives to employers by temporarily reducing their labor costs. They can increase employment and are an effective means of supporting unemployed workers. Sensible targeting and design have to balance direct impacts and indirect effects. Targeting the long-term unemployed redistributes employment incentives to the disadvantaged and strengthens their labor market attachment. Hiring subsidies can thereby increase labor market flows, reduce labor market persistence, and enable a more equitable distribution of employment. They can act as a significant countercyclical policy tool to stabilize the labor market and are an important device for supporting economic recovery. Policies should ensure that targeting is tightened once the recovery accelerates to reduce costly negative effects.

