

# Turning Unemployed Into Self-Employed: Effectiveness and Efficiency of Two Programmes in West Germany\*

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Working Paper

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## Abstract

Turning unemployed into self-employed workers has become a major part of German active labour market policy in recent years. Potentially, this could not only fight Germany's persistently high unemployment rate, but increase its notoriously low self-employment rate as well. Empirical evidence on the effectiveness of such programs is nearly non-existent in Germany and scarce on the international level. Unemployed individuals in Germany can choose between two programmes – bridging allowance and start-up subsidy – which differ in the amount and length of the transfer payment. We evaluate the effectiveness of these programmes both relative to each other and in comparison with nonparticipation. To this end we use a kernel matching estimator adjusted for the case of multiple treatments. The analysis builds on a unique combination of administrative and survey data containing over 4,100 participants in the two programmes, with an equally large control group. Based on the results concerning the effectiveness, we also analyse the efficiency of the programmes in a cost-benefit framework. The results indicate that both programmes are successful: at the end of our observation period, the unemployment rate of participants is approximately 25 percentage points lower when compared to nonparticipants. In contrast to other active labour market policies which have been evaluated for Germany recently (including job creation schemes and vocational training programmes) these are considerable positive effects. Hence, turning unemployed into self-employed workers might be a beneficial option for active labour market policy in Germany and elsewhere.

**Keywords:** Start-up Subsidies, Evaluation, Multiple Matching, Self-Employment

**JEL Classification:** J68, C14, H43, M13

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\*The authors thank Steffen Künn for research assistance.

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