

Hiring subsidies and temporary work agencies^{*}

Natalia Bermúdez-Barrezueta,[†] Sam Desiere,[‡] Giulia Tarullo[§]

January 27, 2024

Abstract

This paper evaluates a hiring subsidy for lower-educated youth in Flanders (Belgium) that reduced labour costs by 10% to 15% for a period of two years. The hiring subsidy did not improve the job finding rate of eligible job seekers. We offer a novel explanation for this null finding. We first document that temporary work agencies obtained about 25% to 34% of the subsidies, and hired almost 40% of the subsidised job seekers. We then show that agencies did not respond to the policy by increasing the wages of subsidised workers. Remarkably, despite a 2.8% labour cost reduction, agencies employed 8% fewer eligible individuals after the reform. Our findings highlight the role of temporary work agencies in shaping the effectiveness of active labour market policies targeted at disadvantaged groups.

Keywords: hiring subsidy, temporary work agencies, youth employment, ALMP

JEL Codes: J08, J23, J53, J64, J68

^{*}We are grateful to the Flemish Public Employment Service (VDAB), the Flemish Department of Work and Social Economy (DWSE) and the National Social Security Office (NSSO) for sharing their data.

[†]Ghent University and IRES/LIDAM/UCLouvain. natalia.bermudez@ugent.be

[‡]Ghent University and IZA. sam.desiere@ugent.be

[§]Ghent University and IRES/LIDAM/UCLouvain. giulia.tarullo@ugent.be