Accepted Manuscript

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PII: S0047-2727(17)30021-X
Reference: PUBEC 3753

To appear in: Journal of Public Economics

Received date: 6 July 2015
Revised date: 20 January 2017
Accepted date: 16 February 2017


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The Return to Labor Market Mobility: An Evaluation of Relocation Assistance for the Unemployed

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forthcoming in Journal of Public Economics
February 23, 2017

Abstract
In many European countries, labor markets are characterized by high regional disparities in terms of unemployment rates on the one hand and low geographical mobility among the unemployed on the other hand. In order to counteract the geographical mismatch of workers, the German active labor market policy offers a subsidy covering moving costs to incentivize unemployed job seekers to search/accept jobs in distant regions. Based on administrative data, this study provides the first empirical evidence on the impact of this subsidy on participants' prospective labor market outcomes. We use an instrumental variable approach to take endogenous selection based on observed and unobserved characteristics into account when estimating causal treatment effects. We find that unemployed job seekers who participate in the subsidy program and move to a distant region receive higher wages and find more stable jobs compared to non-participants. We show that the positive effects are (to a large extent) the consequence of a better job match due to the increased search radius of participants.

Keywords: Evaluation, Active Labor Market Policy, Labor Market Mobility, Instrumental Variable Approach
JEL codes: J61, J64, J68, D04, C26

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We thank the editor, Fernando Ferreira, and two anonymous reviewers for valuable comments and suggestions. We also thank Peter Kuhn, Fabrizia Mealli and participants at the 2013 Spring Meeting of Young Economists, the 2013 Annual Conference of the European Society for Population Economics (ESPE), the 2013 European Meeting of the Econometric Society (ESEM), the 2013 IZA Conference on Labor Market Policy Evaluation, the 2014 Meeting of the German Statistical Association, the 2015 SOLE-EALE world meeting and seminars at IZA Bonn, University of Potsdam, Humboldt University Berlin and Georgetown University for helpful discussions and comments. We further thank the Research Data Center (FDZ) of the Federal Employment Agency at the Institute of Employment Research (IAB) for data access. A Supplementary Appendix is available online at XXX.
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