

# Do Labor Market Policies Have Displacement Effects? Evidence from a Clustered Randomized Experiment

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# Outline

Introduction

Experimental design

Basic evidence on strengthened counseling scheme

Looking for displacement effects

# Youth unemployment

- ▶ Youth unemployment rates is a big problem, traditionally in Europe, more recently in the US too
- ▶ In France, unemployment rate is 17.5% for age 15-30 against 9.2% in the whole population
- ▶ Higher education has traditionally been somewhat protective
  - ▶ France: Unemployment rate is 9.4% for college graduates vs. 21.4% for the others
- ▶ However, even educated youth may experience unemployment and long term unemployment: 20 to 30% of young high school/college graduates have been unemployed for more than 6 months, and around 10% have been unemployed for more than 12 months.

## Counseling job seekers

- ▶ One common policy response is to provide hard to place jobseekers with reinforced counseling scheme
- ▶ Provide assistance with writing resume, searching for job offers and answering to them, preparing for interviews
- ▶ Reinforced counseling are costly programs as they mean more frequent meetings with the caseworker
  - ▶ Caseworkers with 30 unemployed instead of 120
- ▶ One strong orientation of the Public Employment Policy was to use services of private operators (temp agencies etc.) instead of the PES
  - ▶ End of the monopole of the Employment Agency a key component of the Employment policy in France
  - ▶ Work through contracts with placement agencies

# Externalities

- ▶ A usual criticism made to such programs is that they help the beneficiaries at the expense of others
- ▶ They may just be (costly) musical chairs game in which because people compete for the same job helping some of them will harm the others
- ▶ An idea that has been around for a long time in economics but with few evidence
- ▶ Idea that displacement effect can depend on how Weak/Strong the labor market is
- ▶ Idea also that displacement effect are difficult to identify because they are diluted over large populations

## A program for young unemployed and educated people

- ▶ In 2006, the Ministry of Employment launched such a program for 10,000 young people in 10 regions in France
- ▶ Private operator program. Total fee ranges from 1600 to 2100 euros
- ▶ Private Operators paid in three parts, strong incentives
  - ▶ 1/3 when the youth joins the program (533 to 700 euros)
  - ▶ 1/3 when the youth gets (and takes) a job within 6 months with a contract for an at least 6 months position
  - ▶ 1/3 if the job lasts indeed at least 6 months
- ▶ Objective is to put quickly youth into “stable” jobs
- ▶ Idea of a stepping stone for durable labor market integration

# A program for young unemployed and educated people

- ▶ Target population:
  - ▶ Less than 30 years old
  - ▶ Unemployed for more than 6 months (or cumulating more than 12 months over the last 18 months)
  - ▶ Diploma after 2 years of college

# What are the questions

1. Is the program effective in helping these young people to find a job?
  - ▶ Program is costly : 120 → 30 unemployed by caseworker
2. Is there a “stepping stone” effect from the first job?
  - ▶ Most employment policy provide assistance for a short period of time in the hope of sizable labor market experience accumulation
3. Does the policy has displacement on the non treated?
  - ▶ Does the program help beneficiaries at the expense of others

Focus here on the third question

# Identification

We answer these questions using a Randomized Control Trial

- ▶ Assign locally eligibles to treatment and control group

Specific design to answer the issue about equilibrium effects

- ▶ First assign areas to be treatment or control areas
- ▶ Then assign eligibles to treatment or control in treatment areas

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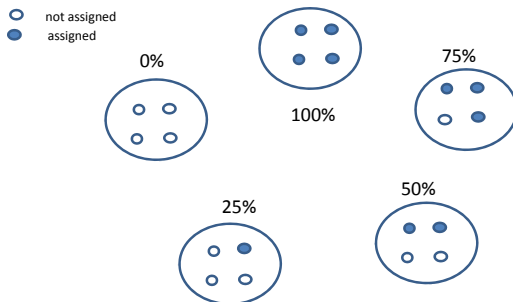
Looking for displacement effects

## A specific design to identify displacement effect

Randomize both at the  $T$  and  $P$  level. Design is in three steps:

1. Partition 235 local employment agencies in 47 homogeneous strata of 5 local agencies (about one out of four was left out)
  - ▶ One LEA in each city of more than 30.000 inhabitants
2. Randomly assign within each subset areas to various assignment rates: 0%, 25%, 50%, 75% and 100%
3. Next, within each geographical unit with non zero assignment rate, assign randomly eligible to treatment and control at the chosen rate

# The experimental design



# A specific design to identify displacement effect

## Strengths and weaknesses

1. One of the first experiments to explicitly randomize at the “market” level
2. One issue : substitutability of young educated with other job seekers.
  - Do we have the right labor market?

## A specific design to identify displacement effect

- ▶ “super control group” = eligible in 0% assignment areas
- ▶ Comparing assigned to control and super control
  - Displacement effect
- ▶ Comparing assigned to treatment and super control
  - Effect on the treated
- ▶ Assumption needed to deal with imperfect compliance : same displacement effect for compliers and never takers

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## Durable Fixed Term Contract

	All workers	All	Unemployed Men	Women
Estimated Impact of being assigned to treatment				
assigned to treatment	0.007 (0.008)	0.020* (0.011)	0.051*** (0.019)	0.005 (0.015)
Estimated Impact of participation				
treated	0.021 (0.022)	0.046* (0.025)	0.116*** (0.042)	0.012 (0.035)
Control Mean	0.199	0.213	0.172	0.237
Observations	23320	9890	3716	6174

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## ITT on durable FT contract after 6 months

	All	Unemployed Men	Women
Assigned to program	0.028*** (0.010)	0.051*** (0.015)	0.016 (0.012)
In a Program area	-0.009 (0.011)	-0.039** (0.016)	0.008 (0.015)
Net effect of program assignment	0.019** (0.009)	0.012 (0.013)	0.024* (0.013)
Control Mean	0.213	0.172	0.237

## Relevant labor market

- ▶ Externalities may not be limited to the eligible youth. The relevant market on which jobseekers compete can be larger
  - For example the relevant market might include all the young people including unskilled
  - On the other hand young people can compete for very different jobs
- ▶ If the relevant labor market is very large the displacement effect might exist but be very small
- ▶ Would like to examine results according to a more precise definition of the labor market.
  - ▶ To investigate this issue we use information provided in the PES register about the position sought (project manager, laboratory technician, financial officer,...)

# ITT on durable FT contract after 6 months by market for men

	Below median	Above median	Above third quartile
Assigned to program	0.046** (0.019)	0.054** (0.023)	0.089** (0.035)
In a Program area	-0.024 (0.023)	-0.049* (0.025)	-0.106** (0.043)
Net effect of program assignment	0.022 (0.020)	0.006 (0.019)	-0.017 (0.037)
Control Mean	0.151	0.192	0.214

## Weak labor market

- ▶ In a theoretical model (not developed here), testable implication that the net effect of program is smaller in weak labor market
- ▶ Explanation: externalities are larger in weak labor market
- ▶ Consider various definitions of “Weak” and “Strong”:
  - ▶ Weak = high unemployment
  - ▶ Weak = bad cohort : treatment period covered partly turning point of economic activity in september 2008

## ITT on durable FT contract after 6 months by region

	All	Men	Women
Program participation bad area	0.067** (0.029)	0.129*** (0.043)	0.032 (0.038)
Program participation good area	0.058* (0.032)	0.091* (0.055)	0.043 (0.043)
In a program area bad area	-0.016 (0.014)	-0.055*** (0.020)	0.007 (0.019)
In a program area good area	0.001 (0.014)	-0.017 (0.023)	0.009 (0.018)

## Conclusion

We implement a specific design in a RCT to identify direct program effect and displacement effects

The findings are the following:

- ▶ Program led to a strong increase in the job finding rate
- ▶ Find that among men these effects come at the expense of the untreated
- ▶ Back of the envelope computations shows that given the number of treated and non treated shows that jobs found due to the program were about twice the number of jobs lost due to the program
- ▶ Surprisingly no such effect for women
- ▶ Also find that “micro” effect of program and displacement effect are stronger in weak labor market
- ▶ Intensive counseling also strongly appealing in weak labor markets