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

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CREST, MIT, JPAL

March 2012
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.

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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 arm 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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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

- 0%
- 25%
- 50%
- 75%
- 100%
- assigned
- not assigned

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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

<table>
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<tr>
<td></td>
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<td>All</td>
<td>Men</td>
<td>Women</td>
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<tr>
<td>Estimated Impact of being assigned to treatment</td>
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<td>assigned to treatment</td>
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<td>0.051***</td>
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<td>(0.008)</td>
<td>(0.011)</td>
<td>(0.019)</td>
<td>(0.015)</td>
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<td>Estimated Impact of participation</td>
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<tr>
<td>treated</td>
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<td>0.046*</td>
<td>0.116***</td>
<td>0.012</td>
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<td>(0.022)</td>
<td>(0.025)</td>
<td>(0.042)</td>
<td>(0.035)</td>
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<td>Control Mean</td>
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<td>0.213</td>
<td>0.172</td>
<td>0.237</td>
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<td>Observations</td>
<td>23320</td>
<td>9890</td>
<td>3716</td>
<td>6174</td>
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</table>

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Looking for displacement effects
### ITT on durable FT contract after 6 months

<table>
<thead>
<tr>
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<th>All</th>
<th>Men</th>
<th>Women</th>
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<tbody>
<tr>
<td>Assigned to program</td>
<td>0.028***</td>
<td>0.051***</td>
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<td>(0.010)</td>
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<td>In a Program area</td>
<td>-0.009</td>
<td>-0.039**</td>
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<td>(0.011)</td>
<td>(0.016)</td>
<td>(0.015)</td>
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<tr>
<td>Net effect of program assignment</td>
<td>0.019**</td>
<td>0.012</td>
<td>0.024*</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
<td>(0.013)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>Control Mean</td>
<td>0.213</td>
<td>0.172</td>
<td>0.237</td>
</tr>
</tbody>
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Job Placement and Displacement: A Randomized Experiment

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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

<table>
<thead>
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<th>Below median</th>
<th>Above median</th>
<th>Above third quartile</th>
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<td>(0.043)</td>
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<tr>
<td>Control Mean</td>
<td>0.151</td>
<td>0.192</td>
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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**

<table>
<thead>
<tr>
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<th>Men</th>
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</thead>
<tbody>
<tr>
<td>Program participation</td>
<td>0.067**</td>
<td>0.129***</td>
<td>0.032</td>
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<tr>
<td>bad area</td>
<td>(0.029)</td>
<td>(0.043)</td>
<td>(0.038)</td>
</tr>
<tr>
<td>Program participation</td>
<td>0.058*</td>
<td>0.091*</td>
<td>0.043</td>
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<td>good area</td>
<td>(0.032)</td>
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<td>In a program area</td>
<td>-0.016</td>
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<td>bad area</td>
<td>(0.014)</td>
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<td>(0.019)</td>
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<tr>
<td>In a program area</td>
<td>0.001</td>
<td>-0.017</td>
<td>0.009</td>
</tr>
<tr>
<td>good area</td>
<td>(0.014)</td>
<td>(0.023)</td>
<td>(0.018)</td>
</tr>
</tbody>
</table>
Conclusion

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

The finding 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 untrained
- Back of the envelop 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