



Discussion of Papers on Spillover Effects

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DO LABOR MARKET POLICIES HAVE DISPLACEMENT EFFECTS?
EVIDENCE FROM A CLUSTERED RANDOMIZED EXPERIMENT *

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**Evidence of Treatment Spillovers Within
Markets**

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1 | Introduction



Introduction | 1

Common theme ...

- How harmful is ALMP for non-participants?

Country ...

- France

Programmes

- Placement / job search assistance programme
- Training programme



Introduction | 2

Data

- Administrative plus survey data

Methods

- Exploiting variation in programme size
- **Different:** Experiment vs. observational study

Results

- Both studies increase doubt on effectiveness of ALMP



Key assumption for both studies

No interaction between regions with different assignment probabilities

- Possible violation if there are firms that hire from regions with different assignment probabilities



1 | Introduction

2 | Bruno Crépon et al.



Basic set-up | 1

Need two types of variation among unemployed

- Random allocation of job seekers to programme (standard)
- Random allocation of programme size unemployed are faced with
(new)

This is **credibly** (and costly) generated by an experiment

Because it is an (costly) experiment, only one *special* programme
is considered



Results | 1

There seem to be externalities

- Although the heterogeneity is somewhat difficult to explain
- Unfortunately, they appear to be largest when programmes are thought to be needed most
 - in recessions
 - So far, we thought programmes worked best in those time (Lechner, Wunsch, JOLE, 2009)
 - in labour markets with higher unemployment rates



Key advantages

VERY high internal validity of empirical findings

Theoretical model gives

- some insight on **how** the effects came about
- Provides testable implications that appear to be supported by the data



Key concerns | 1

Internal validity: Perfect randomisation?

- Analysis based on survey with non-random (?) non-response (approx. 50% individuals do not answer at least one survey)
- Results indicate that non-response does not vary much with assignment, but does it change the distribution of covariates?
 - Is it really true that employed and unemployed (outcome variable) have the same response rates?
 - Balancing tests conditional on response would be more interesting (compared to unconditional ones)



Key concern | 2

External validity

- Special programme
- Special target group
- Special (self-selected?) regions?
- Take-up only one third
 - characteristics of compliers?

Econometric note

- All parameters of interest are nonparametrically identified
- Use of (non-saturated) parametric models may lead to bias due to potentially incorrect functional form assumptions



1 | Introduction

2 | Bruno Crépon et al.

3 | Marc Ferracci et al.



Approach | 1

Observational study

Assumption: Conditional on the information available

- The size of trainings programmes in a 'market' is random
- Participation in a programme given the (*predetermined*) programme size is random

If this is true, the internal validity of this observational study is as good as in an experiment



Approach: Observational study | 2

To be plausible these two assumptions require knowledge about

- Individual assignment processes to programmes
- How programme size is determined (and distributed across markets)

And measurement of

- Factors jointly influencing those decisions and outcomes



Approach | 2

Current application

- Due to lack of time there was no thorough discussion of these assignment processes (but such a discussion is in the paper)

Note

- There should also be no interaction between those decision, i.e. like effects of programmes determine overall size of programme ...



Results

Crowding out for all!

This probably means that the current findings in the training literature are too large?



Key advantage of observational study

Effects (ATEs) cover a larger population than the LATE's of an experiment with incomplete take-up

Less costly

- Larger samples possible
 - Higher precision of estimators
 - 'Deeper' heterogeneity analysis possible



Key concerns

Are the two conditional independence assumptions valid?

- Set of control variables appears to be rather small compared to what is considered important in such evaluation studies (see Lechner, Wunsch, 2013, for a systematic investigation)
- Doubts remain

Econometric note

- Precision and robustness could probably be increased by using better matching estimators, at least at individual level (see Huber, Lechner, Wunsch, 2013)



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4 | Final considerations



Final considerations | 1

Spill over effects may be important!

Very, very useful papers that improve our knowledge about this important problem!



Final considerations | 2

Experiments vs. observational studies

Advantages of experiments

- High internal validity (but survey data create a problem if selective non-response)
- Extrapolating outside existing policies: Use parameters outside current policies for randomisation

Advantages of observational studies

- Comparable sample sizes are usually cheaper to obtain (but they must be highly informative)
- Higher external validity, in particular in case of selective take-up
 - but only existing policies can be nonparametrically analysed



Final considerations | 3

Experiments are credible but expensive & may lack external validity

- Currently there is an emerging literature on how to increase the external validity of experiments

There **may** be situations where a non-experimental evaluation is credible & more cost effective (but only if internal validity is credible)



Final considerations | 4

Next step: Open the black box to better understand **WHY**

- One possible mechanism is discussed in Crépon et al.
- Nature of spill-over effects appear to be different in both studies



Final considerations | 5

Another indication that (at least non-training-) ALMP may not have much of an effect, if we account for

- **lock-in effects** (already known)
- **spill-over effects** (new)

How many negative results do we need before we stop most ALMP programmes?



Thank you for your attention!

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