Job Creation Schemes: Discussion

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The German example

• Germany has tested many kinds of ALMP and notably job creation schemes: what lessons?
• Central question: why do some people persist in UI/welfare?
What is the matter?

• Inadequation btw reservation wage and market wage (related to skills)
  – Demand-side issues: Trade/Technology shocks: over-specific skills are not well valued on the labor market; Macroeconomic shocks
  – Supply-side issues: preference for leisure, childcare issues, low skills

• Inactivity hurts potential productivity
  – Scarring effects
  – Unused human/social capital deprecates
Policy solutions

• Training: update jobseekers’ human capital
• Childcare: alleviate child-caretakers (mostly women, in practice)
• Activation: foster matching
• Job creation schemes: directly create jobs, at lower cost
Which job for which results?

• Additional work, of public interest (Trad. Scheme & 1EJ)
  – Basically no effect
  – Why? Specific skills acquired? No skills at all? Stigma?

• Wage subsidy to “normal employers”
  – Some evidence of positive effects
  – Consistent with the “productivity/wage gap” theory
  – Less specific skills? How to get out?
Issues

• Substitution/displacement effects
  – If subsidy just compensates the employers for the lack of productivity: no vacancy creation
  – Total displacement?

• Cost-benefit analysis
  – Total effects or distributional effects?

• Identification: matching can be very wrong
  – Let us all do RCTs (or at least RDD)!
The CEIP study

- Communities design jobs for welfare and LT-UI recipients
  - Community-based: jobs should be useful to the community
  - 3 yrs of full-employment doing many different jobs, full-time, correct wage
- Much to like about the study
  - RCT: internal validity is warranted
  - Cost-benefit analysis
  - Many interesting outcomes
The impact of the CEIP

• During program: large impact
• After program: smaller impacts
  – Slightly lower employment rate
  – Slightly larger income
  – Larger wage rate / job quality (for those working)
• Larger impacts within the welfare sample
Hypotheses

• Hypotheses
  – Negative social stigma related to program participation?
  – Program generates information for future employers: sorting welfare beneficiaries by employability?

• Questions
  – Effort? LFP? Childcare? Gender differences?
  – Impact on variance?
Cost-benefit analysis

- Benefits: most of it comes from the value of CEIP jobs. How would that be sensitive to upscale?
- Benefits could actually be even higher if we think that the reduction in welfare receipt persists after 54 months
- What about hidden costs: less leisure, less work at home (e.g. time with children), childcare...?
What have we learnt?

- The policy has to be sustained to be helpful: not much of a stepping-stone
- The policy has a quite high take-up rate for welfare recipients (65%), much lower for UI recipients (25%)
- Is revealing information Pareto-optimal?