

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

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February 14, 2012

Outline

Introduction

Program

Experimental design

Results

Conclusion

Motivation

- ▶ High unemployment: a promising labor market policy is job placement assistance (Card Kluge Weber, 2010)
- ▶ An important criticism against the existing evaluations of these programs: gains can be offset by displacement effects (queue-jumping)
- ▶ Displacement effects are hard to estimate: requires exogenous variation of the proportion of treated

Two-step RCT

- ▶ We take advantage of a large-scale search assistance program which was implemented in France in 2007 (targeted half of administrative regions)
- ▶ Two-step RCT: randomly assign the proportion of treated to areas ; randomly assign treatment status to individuals within areas

Results preview

- ▶ The program increases the durable employment rate of treated wrt untreated individuals
- ▶ There exist large externalities that reduce significantly the positive impact of the program
- ▶ Externalities appear to be larger when labor market conditions are weaker

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A program for young and educated job seekers

- ▶ Youth unemployment an important issue in many countries (18% in the US, 23% in France or the UK, 36% in Italy, more than 50% in Spain and Greece)
- ▶ In 2007, new job search assistance program for 10,000 young job seekers
 - ▶ 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

Counseling firms

- ▶ Private counseling firms contracted with the objective to bring job seekers back to long-term jobs (idea of stepping stone)
- ▶ Payment conditional on objectives:
 - ▶ 25% if the job seeker enrolled
 - ▶ 40% if the job seeker signed a stable contract within less than 6 months
 - ▶ 35% if the former job seeker is still employed six months after the job has been found
- ▶ Total fee around 1800 euros

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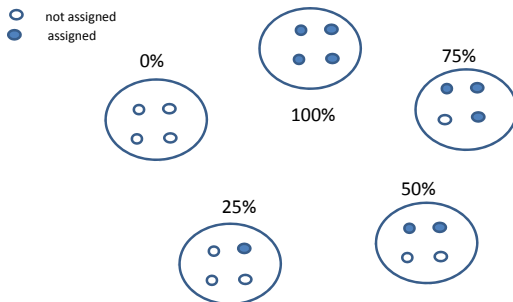
Results

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Two-step randomization

1. At the local employment agency (LEA) level:
 - ▶ One LEA in each city of more than 30,000 inhabitants
 - ▶ Partition 235 LEAs into 47 homogenous quintuplets
 - ▶ Randomly assign within each quintuplet the assignment proportions 0%, 25%, 50%, 75% and 100%
2. Next, at the individual level: each individual is randomly assigned to the treatment or control, the assignment rate depending on the LEA to which he belongs

The experimental design : 47 such quintuplets



A specific design to identify displacement effects

- ▶ *Super control group*: individuals in 0% assignment areas
- ▶ Comparing assigned to control and super control
 - Displacement effect
- ▶ Comparing assigned to treatment and super control
 - Effect on the treated

Data collection

- ▶ PES administrative files: contact details, main characteristics, job sought
- ▶ Counseling firms administrative files: identifying who took up
- ▶ Endline surveys: 8, 12, 16 and 20 months after random selection
 - ▶ Response rate close to 80% (quite good for such a population)
 - ▶ Well balanced between treated vs. control populations
- ▶ Focus:
 - ▶ Outcome: long term contract or fixed-term contract of at least 6 months, 8 months after random assignment : contractual outcome for private operators
 - ▶ Population: individuals that were unemployed at the time of program assignment

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	Unemployed
Program Participation	0.434*** (0.009)
Number of meetings with a counselor	0.601*** (0.083)
Control mean	3.444
Received help with CV, coaching for interviews, etc.	0.113*** (0.009)
Control mean	0.285
Help with matching (identify job offers, help with transportation)	0.008 (0.008)
Control mean	0.199
Observations	11806

Preliminary evidence

Ignore first the two steps design and just use assignment variable as an instrument for treatment

fixed-term contract with a length of more than 6 months				
	Reduced	Take-up		IV
Assigned to program	0.017*** (0.006)	0.434*** (0.009)	Treatment	0.039*** (0.015)
Control mean	0.167	0	Observations	11806

Pooled reduced form

$$y_{ic} = \alpha_1 + \beta_1 Z_{ic} P_c + \delta_1 P_c + X_{ic} \gamma_1 + \omega_{ic}$$

- ▶ P_c is a dummy variable for market (*cities*) where the program has been developed
- ▶ Z_{ic} a dummy variable for being assigned to treatment in these areas
- ▶ β_1 is the difference between being assigned to treatment and to control in a treated area
- ▶ δ_1 is the effect of being untreated in a treated area
- ▶ $\beta_1 + \delta_1$ is the net effect of program assignment: difference between treated and super control individuals

Pooled reduced form : Long Term Fixed Contract (LTFC)

		All	Men	Women
Assigned to program	β_1	0.023*** (0.008)	0.043*** (0.013)	0.013 (0.010)
In a program area	δ_1	-0.013 (0.009)	-0.036*** (0.013)	-0.001 (0.012)
Net effect of program assignment	$\beta_1 + \delta_1$	0.010 (0.008)	0.007 (0.011)	0.012 (0.011)
Control Mean		0.16	0.131	0.177
Observations		11,806	4,387	7,419

Long Term contract (LT)

		All	Men	Women
Assigned to program	β_1	0.025** (0.012)	0.037** (0.018)	0.019 (0.014)
In a Program area	δ_1	-0.021* (0.013)	-0.043** (0.020)	-0.010 (0.018)
Net effect of program assignment	$\beta_1 + \delta_1$	0.003 (0.011)	-0.006 (0.018)	0.009 (0.016)
Control Mean		0.365	0.372	0.36
Observations		11,806	4,387	7,419

Pooled IV regression

$$y_{ic} = \alpha_2 + \beta_2 T_{ic} P_c + \delta_2 P_c + X_{ic} \gamma_2 + \omega_{ic}$$

- ▶ β_2 is the difference between being treated or being untreated in a treated area
- ▶ δ_2 is the effect of being untreated in a treated area
- ▶ $\beta_2 + \delta_2$ is the net effect of treatment: being treated in a treatment area vs being in a control area
- ▶ However requires assumptions displacement effect homogeneous between compliers and never-takers
- ▶ To be taken with caution - not our main result

Pooled IV regression Long Term Fixed Contract (LTFC)

		All	Men	Women
Assigned to program	β_2	0.054*** (0.018)	0.095*** (0.030)	0.030 (0.023)
In a Program area	δ_2	-0.014 (0.009)	-0.036*** (0.014)	-0.001 (0.012)
Net effect of program assignment	$\beta_2 + \delta_2$	0.040*** (0.014)	0.060*** (0.023)	0.029 (0.019)
Control Mean		0.16	0.131	0.177
Observations		11,806	4,387	7,419

Labor market conditions and externalities

- ▶ Prediction: We have a theoretical model derived from Landais Michaillat and Saez (2011) showing that externalities should be larger when labor market conditions are weaker
- ▶ Interact the program and the externalities with dummies indicating whether labor market conditions are weak or strong
 - ▶ some areas experience higher unemployment rates
 - ▶ some cohorts have been more affected by the 2008 recession than others : last cohorts assigned to the program, April to July 2008

Labor market conditions: weak areas

	LTFC Men and women	LT	LTFC Men	LT
bad area and bad cohort				
Program participation	0.055*** (0.018)	0.066*** (0.023)	0.082*** (0.030)	0.110*** (0.036)
In a program area (δ_1)	-0.042* (0.024)	-0.077** (0.030)	-0.043 (0.032)	-0.144*** (0.044)
good area or good cohort				
Program participation	0.015* (0.008)	0.015 (0.013)	0.033** (0.015)	0.019 (0.021)
In a program area (δ_2)	-0.009 (0.010)	-0.009 (0.014)	-0.036** (0.015)	-0.017 (0.024)
test ($\delta_1 = \delta_2$)	0.202	0.05	0.867	0.017

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- ▶ Unique opportunity to identify both direct program and displacement effects, using a two-step randomization design
- ▶ Positive effects of the program on the probability to hold a long-term contract 8 months after assignment
- ▶ Among men, evidence for displacement effects: the program came at the expense of the untreated job seekers that belonged to same labor markets
- ▶ Displacement effects are stronger in weaker labor markets
- ▶ Net number of jobs found thanks to the program is a small non significant reduction
- ▶ Even ignoring displacement effects would have lead to a small increase in the number of jobs found

Conclusion

- ▶ On the methodological side point to the interest of randomized evaluation
 - ▶ Need of evidence in the effect of programs
 - ▶ Also show the interest in evaluation starting from a policy/research questions: are there displacement effects? and to build the design and the experiment so as to be able to answer that question
- ▶ On the policy side results not so much in favor of counseling programs, especially in weak labor market
 - ▶ Call on the opposite to look at policies fostering demand
 - ▶ Reduction in the cost of vacancies : offering matching services to firm
 - ▶ Well in line with the predictions of the matching model developed
 - ▶ Look at firm outcomes: vacancies, hire, fire, quit...