

A conversation with Dr. Stefano Caria and Dr. Paolo Falco, January 29, 2019

Participants

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Note: These notes were compiled by GiveWell and give an overview of the major points made by Dr. Stefano Caria and Dr. Paolo Falco.

Summary

GiveWell spoke with Dr. Caria of the University of Bristol and Dr. Falco of OECD to discuss their recent paper “Anonymity or Distance? Job Search and Labour Market Exclusion in a Growing African City” (joint with Dr. Girum Abebe, Professor Marcel Fafchamps, Dr. Simon Franklin, and Professor Simon Quinn) as part of its investigation into job application workshops. Conversation topics included direct impacts of the intervention, general equilibrium effects, and other groups interested in job market interventions.

Overview of the intervention

“Anonymity or Distance” studied the effects of a job application workshop designed to help job-seekers identify and market their existing skills. The workshop was offered to young job-seekers in Addis Ababa, Ethiopia.

Target groups

Labor market interventions are of interest to governments because having large numbers of unemployed people is generally very destabilizing for countries, so improving the labor market helps the whole country. Governments may be interested in using these interventions to target particular groups that have high rates of unemployment, such as youth and refugees.

Youth

Having a large number of unemployed youth is destabilizing because young people are prone to violence and unrest if they don't find satisfactory jobs. It is also undesirable because it means that the skills built by the country's investment into its education system depreciate very quickly.

Refugees

Some developing countries, including Ethiopia and Jordan, have recently made it possible for refugees to be employed. This has significant public policy implications because developing countries are typically the first port of entry for large numbers of refugees, but they typically move on to other countries after a while. If refugees are able to find good jobs in the country of arrival, they will be less likely to move on.

Dr. Caria and Dr. Falco think that interventions such as theirs can help ensure that once the labor market is formally open, job opportunities actually become available to the refugees in the population. A project in Jordan is currently looking at how job market interventions can be used to help refugees (see more below).

Direct impacts on job-seekers

Wages

The direct benefit to the beneficiaries of the intervention should be captured by their wages because in general, in Ethiopia, wages for particular jobs are not fixed. Instead, employers have salary scales, and decide which point in the scale to offer an applicant depending on how much they want the applicant and on the strength of the applicant's other options.

Trajectory

The job application workshop allows job-seekers to get more permanent and higher-paying jobs early in their careers. This puts them on a higher earning trajectory compared to their peers, and the effects of this can be seen after a few years.

Mechanisms

A good initial job results in a stronger CV, which allows individuals to get better jobs in the future. In addition, being in a permanent job means that if a worker wants to switch jobs, they are able to wait until they find a job that is a good match for their skills. This is in contrast to people in fixed-term jobs, who must take whatever employment they can find after the job ends, or else face unemployment. This "job ladder" effect can be seen in the data, as by the fourth year most of the participants had changed jobs at least once.

General equilibrium effects

Allocative efficiency

The workshop generates extra information about skills, which enables workshop participants to get jobs in which their skills are put to better use, compared to people in the control group. As a result, they are more useful to their employers, and therefore have higher pay, which the researchers take as an indication that productivity is higher as well.

Additional evidence that the intervention improves matching

Jobs in Ethiopia have a 30-day trial period during which an employer can fire an employee costlessly. If the job application workshop only taught job-seekers to look better on paper but did not lead them to get jobs for which they were a good fit, an employer could likely easily realize this in the first month and fire them. This indicates that job-seekers who have participated in the workshop are probably actually finding jobs for which they are a better match.

Spillovers

“Anonymity or Distance” is designed to capture spillovers at a very localized level, specifically in small neighborhoods with about ~200 young people. Within those neighborhoods, the study did not find evidence of either positive or negative spillovers on the likelihood of employment among control group members who lived near treatment group members. However, this analysis does not capture all of the possible general equilibrium effects because a neighborhood is not really an entire labor market.

Overall, evidence suggests that the general equilibrium effects of the intervention could be positive, because decreasing financial and information frictions in the labor market is likely to result in a labor market that allocates talent better.

Displaced workers

Negative spillovers are most likely to affect any “displaced” workers. Because job-seekers are matching to jobs that use their specific skills better, it is likely that any worker they displace would have been a worse match with that particular job. The study makes the assumption that the person displaced would have similar qualities to the control group in general, since it is unlikely that very talented people would be easily displaced. It is also unlikely that there would be such noticeable efficiency gains if workshop graduates were displacing an equally good match.

Do neighborhood spillovers capture displacement effects?

Spillovers are likely to have some spatial pattern, but it is unclear that the study as designed has the power to detect those spatial spillovers. On the one hand, it is most likely that a displaced worker would be in the same neighborhood as the successful candidate because young people cannot afford to take jobs far away from their homes. However, the power is extremely low – the study only treats a small share of the local labor market, and there is noise due to the somewhat arbitrary selection of geographical clusters, such that a displaced worker may not be in the same cluster as the person who got the job even if they live quite nearby.

Evidence from another job market intervention

In Dr. Caria’s paper “Selection of talent,” he worked with an employer rather than with job-seekers. The employer offered small cash transfers to randomly chosen applicants, effectively decreasing the cost of application. This improved the pool of applicants that the employer could attract, and as a result the employer was able to

make better hires. This is further evidence that decreasing labor market frictions results in better allocation of talent.

Possible future work

A larger trial with interventions at the market level, randomized across Ethiopian cities, could be used to assess general equilibrium effects.

Implementation

Costs

The total cost of the workshop as implemented in the trial was \$35 per participant. Of this, \$18 was marginal costs, including:

- Paying the staff who delivered the workshop
- Rental fee for rooms where the workshop took place
- Reimbursement for participant transportation to the workshop

The remainder was fixed costs, including:

- Paying Addis Ababa Commercial College for their help designing the intervention
- Paying a psychologist to vet the use of the Raven Matrices Test

Ability to pay

For the purposes of the study, the researchers covered the marginal costs for each participant. If job-seekers were offered the workshop but had to pay the \$18 marginal cost themselves, many would be much less likely to participate because young people in Ethiopia are largely credit constrained. With earnings starting at ~\$40 per month, paying \$18 would be a hardship for perhaps ~30% of the population, and it would difficult to justify paying so much money for something that would not benefit them until two to three years later.

However, Dr. Caria believes that the workshop could be done much more cheaply at scale, especially if there was competition driving the unit cost down.

Potential for implementation at scale

The intervention is flexible, such that a scale-up could be done by either governments or non-governmental organizations (NGOs). Both the Ethiopian government and the not-for-profit social enterprise Harambee are interested in implementing job market matching interventions.

Ethiopian government

Currently, the Ethiopian government's main project in the labor market is an urban safety net program supported by the World Bank. This is a cash-for-work program, in which people get paid for doing a certain amount of work for up to two years. It is similar to India's National Rural Employment Guarantee Act (NREGA), but operates in urban rather than rural areas.

This program is currently being piloted, and the first generation will graduate in about a year, so the Ethiopian government is beginning to consider what to offer people as they graduate from the program. The government and the World Bank are interested in using the job application workshops intervention in the graduation package, though nothing has been finalized yet.

Other groups implementing similar interventions

- Harambee, a youth employment accelerator that operates in South Africa and Uganda, runs a similar program.
- The International Rescue Committee (IRC) is implementing a similar intervention with the population of Syrian refugees in Jordan.

Related research

- The International Growth Center (IGC) has just published a Growth Brief summarizing the state of the research in the field of information interventions for job-seekers. This is available here: <https://www.theigc.org/publication/filling-the-gap-information-jobseekers/>
- A skills testing project, noted in the IGC brief, has had some positive effects. The project is run by researchers Dr. Kate Orkin, Dr. Rob Garlick, and Dr. Eliana Carranza, together with Harambee in South Africa.
- The IRC is doing a trial of a multi-arm intervention in which one arm is an information intervention similar to the job application workshop.

*All GiveWell conversations are available at
<http://www.givewell.org/research/conversations>*