

## CHAPTER 8

# Social Experiments in the Labor Market

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## Abstract

Large-scale social experiments were pioneered in labor economics and are the basis for much of what we know about topics ranging from the effect of job training to incentives for job search to labor supply responses to taxation. Random assignment has provided a powerful solution to selection problems that bedevil nonexperimental research. Nevertheless, many important questions about these topics require going beyond random assignment. This applies to questions pertaining to both internal and external validity and includes effects on endogenously observed outcomes, such as wages and hours; spillover effects; site effects; heterogeneity in treatment effects; multiple and hidden treatments; and the mechanisms producing treatment effects. In this chapter, we review the value and limitations of randomized social experiments in the labor market, with an emphasis on these design issues and approaches to addressing them. These approaches expand the range of questions that can be answered using experiments by combining experimental variation with econometric or theoretical assumptions. We also discuss efforts to build the means of answering these types of questions into the ex ante design of experiments. Our discussion yields an overview of the expanding toolkit available to experimental researchers.

## Keywords

Labor market; Labor supply; Program evaluation; Social experiment

## JEL Codes

H53; I38; J22; J24; J31; J65

## 1. INTRODUCTION

There is a very long history of social experimentation in labor markets. Experiments have addressed core labor market topics, such as labor supply, job search, and human capital accumulation, and have been central to the academic literature and policy discussion, particularly in the United States, for many decades.

By many accounts, the first large-scale social experiment was the New Jersey Income Maintenance Experiment (IME), initiated in 1968 by the US Office of Economic

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