



Does the public employment service affect search effort and outcomes?

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ABSTRACT

In this paper, we examine the disincentive effects of the public employment service on the search effort of unemployed workers and on their exit rate from unemployment. For that purpose, we specify a structural search model with fixed and variable costs of search in which unemployed workers select their optimal search intensity given the exogenous arrival rate of job contacts coming from the public employment agency. Because the theoretical effect of an increase in this exogenous job contact arrival rate on the structural exit rate from unemployment is ambiguous, we estimate this model using individual unemployment duration data. Our results show that the exit rate from unemployment increases with the arrival rate of job contacts obtained by the public employment service, especially for low-educated and low-skilled workers. They also show that the search effort is more costly for low-educated women and low-skilled adult unemployed workers. This last result suggests that a public employment agency that matches searchers and employers is beneficial, in the sense that it saves searchers in terms of search costs they would otherwise bear.

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1. Introduction

In most countries, the public employment service and its network of local agencies inform unemployed workers of available job vacancies. The services provided by the agencies are usually free to both employers and unemployed workers. For instance, in the year 2005, the French public employment service (*Agence Nationale Pour l'Emploi, ANPE*) was formed of 813 local agencies employing 24 598 persons (corresponding to 22 841 full-time jobs) all over the country; 86% of these employees were directly in touch with the unemployed workers. During the year 2005, the French public employment service received 3 394 848 job contacts from firms, among which 3 004 415 were transformed into hirings through its intermediary. The same year, the French public employment service managed 14 123 000 interviews with the unemployed workers.¹ Most of the job contacts are proposed to unemployed workers either during these interviews or through telephone calls given (and postal mails sent) by employees of the public employment service.²

Since the pioneering work by Pissarides (1979), only a few theoretical studies have proposed search or matching models to investigate the placement role and the efficiency of the public employment service (PES hereafter) in the labor market.

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¹ In December 2005, there were 3 132 846 unemployed workers in France.

² According to official publications, about two-thirds of the job offers received by the PES are not disseminated as public information among the unemployed workers; they are previously "filtered" by the PES caseworkers who make a pre-selection among the files and then contact directly selected unemployed workers by postal mail, by phone or by the Internet.

For instance, Boone and Van Ours (2004) developed a search model to examine how the PES can change the search effort in the presence of active labor market policies. Using cross-country aggregate data, they estimated a reduced-form model and found a small positive impact of the PES in reducing unemployment rates, but not employment rates. More recently, Plesca (2006) constructed a general equilibrium matching model where search takes place on two channels, the PES search channel and a second channel encompassing all other search methods. The model is calibrated to match the US economy and is used to generate the counterfactual situation in which the PES would not have existed. In this exercise, the PES is found to have substantial wage and unemployment duration effects, heterogeneous across skill levels.

Besides these theoretical papers, several empirical studies have examined the effectiveness and the choice of distinct search methods by employed or unemployed job seekers (see, for instance, Holzer, 1987, 1988; Blau and Robins, 1990; Osberg, 1993; Gregg and Wadsworth, 1996; Addison and Portugal, 2002). For example, Gregg and Wadsworth (1996) found that “most job seekers who use Jobcentres (i.e. the public employment agencies) do so as part of a comprehensive search strategy that involves the use of additional, complementary search methods”, but also that “the greatest beneficial impact of Jobcentres is among those, the less skilled and the long-term unemployed, who are more disadvantaged in the labor market”. Using Portuguese data, Addison and Portugal (2002) found that the state employment agency has a low hit rate, and leads to lower paying, shorter lasting jobs. However, these two studies, as the other papers cited above, rely on reduced-form models of job-search behavior. Consequently, interpreting their results is difficult; in particular, these reduced-form studies do not identify the structural components of the unemployment exit rate, namely the individual search intensity and the probability of accepting a job offer. Identification and estimation of these structural components constitute the main objectives of our paper.

The theoretical framework of our analysis is a partial equilibrium search model in which any unemployed worker may use two search strategies. The first one is to use the services of the public employment agency, seen as an intermediary between employers offering job vacancies and unemployed workers. The rate at which the PES offers contacts (i.e. information on job vacancies) to unemployed workers may be considered as the output of a production function whose inputs and parameters are determined outside the model. In other terms, any unemployed worker receives contacts through the public employment agency channel at an exogenous rate λ_o .³ However, this rate may depend on the observable individual characteristics (age, education, gender, etc.) of the unemployed. Unemployed workers may also use private (“active”) search methods, including the use of newspaper advertisements, direct contacts with employers and indirect contacts through friends and relatives. The rate at which the unemployed worker is informed of job vacancies through this “active” channel is an endogenous variable, under the worker’s control; strictly speaking, it is the worker’s search effort (or intensity).⁴ This means that this second search strategy is optional, while all searchers use the first strategy.

The main question that we address in this paper is the following: How important are the disincentive effects induced by the PES on the individual search effort? In other words, does increasing the number of vacancy contacts offered by the PES cannibalize the private method route by shifting costs? For this problem to be nontrivial, we must assume that, at any given arrival rate of job contacts, private search methods are more costly than the use of the PES. More precisely, we assume that using the PES is costless, while the cost of personal search methods is a positive, increasing function of the individual search effort. Under this maintained assumption, the individual search effort is found to be a decreasing function of the exogenous PES rate of job contacts. However, an increase in the exogenous arrival rate of job contacts through the PES has an ambiguous effect on the rate of exit from unemployment. To clarify this point, we can proceed to the maximum likelihood estimation of our theoretical model by using individual data taken from the INSEE Survey “Suivi des Chômeurs”.⁵ This survey provides information on the search methods used by unemployed workers, the number of job contacts they obtain through each search channel and the total number of job proposals they got during the months preceding the interview.

Results show that an increase in the arrival rate of job vacancies through the public channel implies an increase in the average rate of exit from unemployment, despite the disincentive effects inherent in the model. In this model, the employment agency generates job contacts, but crowds out private search investment. To the extent that a public agency can pool informational resources of private agents, we might think that a centralized employment agency that matches searchers and employers could be beneficial. In particular, the public employment agency may save searchers in terms of search costs they would otherwise bear.

These conclusions may be useful compared to results obtained by studies that use data coming from social experiments on job-search assistance programs. In his survey on US unemployment insurance experiments, Meyer (1995) pointed out that intensive job-search assistance increases the individual rate of transition to work. Using also data from UI experiments in the US, Ashenfelter et al. (2005) found that a more intensive monitoring of the search behavior of unemployed workers has no significant effect on the exit rate from unemployment. Results from these experiments have been recently

³ This is a simplifying assumption, which may result in an overestimation of the productivity of the PES. Even if, as we said before, most of the job contacts are proposed by the PES during interviews with the unemployed workers, or through telephone calls given by caseworkers, some unemployed workers may contact or visit more frequently the PES office and search the files with ads, and thus generate more job offers.

⁴ Many empirical applications of the partial job search equilibrium model consider the worker’s search intensity as constant (see, for instance, Flinn and Heckman, 1982; Van Den Berg, 1990a, b; Wolpin, 1987, 1992). Notable exceptions are papers by Stern (1989), Bloemen (2005), and Van Der Klaauw et al. (2004).

⁵ This survey has been previously used by Bonnal et al. (1997) and Brodaty et al. (2001) to study the impact of French public employment policies on labor market histories of young unemployed workers.

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