Re-skilling and other measures for workers displaced at restructuring

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Introduction

The fundamental concept of economic efficiency is allocative efficiency, i.e. that resources (labour and capital) are allocated to the economic activities in which they yield the greatest economic welfare. Similarly GDP growth hinges crucially upon the resources being re-allocated in response to shifts in supply and demand. This reallocation can occur internally, within the firm, or externally between firms and sectors. Ideally, the required adjustment of labour resources would occur within the firm (and by aggregation within the sector) by the re-skilling of the existing workforce to speedily provide the firm with the new skills and avoid the unemployment that often accompanies external re-allocation.

The identification of current and future skill needs in sectors in the European Union is the subject of a major study covering 17 sectors recently initiated by DG-Employment. Existing EU level studies of skills needs by sector include various CEDEFOP publications and those from the European Monitoring Centre for Change, though the latter have a broader sector orientation than just skill needs.

However, one can assume that even with the best possible anticipation by either the firm or policy makers, structural change will continue to lead to jobs being lost and workers becoming unemployed. The purpose of this paper is to examine what type of policy should be applied when this occurs.

It starts by explaining why most evaluations of training and other measures at restructuring lack the basis upon which evidence based policy conclusions can be made. Then, by drawing on the active labour market policy (ALMP) literature, it show how such evaluations can and should be conducted. The approach in this paper is then to examine what conclusions from the evaluations of ALMP in general that may be applicable to the particular circumstances of displaced workers.

The main conclusions are that there should be a very important role for job matching services such as intensified job search and career counselling. It is exceedingly difficult to generalise on the type of skills that should be provided as this depends on the state of the particular labour market in which the restructuring occurs. However, the very few proper evaluations of labour market policies addressed to displaced workers suggests that the policy efforts must be extensive and include a significant amount of general schooling. When positive effects are found for participants in such programmes they are not immediate and thus suggest a longer follow up period than typically has been the case.

1 This paper draws extensively from the following research, which substantiates many of the arguments in this paper and provides extensive references to evaluation of active labour market policy and the displaced workers research findings;

How to evaluate policy at restructuring: lessons from Active Labour Market Policy.

A full and proper evaluation of the impact of policy requires three levels of analysis. Firstly, to measure the value added of policy interventions for the participants (a micro evaluation), then the impact of the measures on others (a macro evaluation) and finally a judgement of whether the cost of the measures was worth the money (a cost-benefit analysis).

Micro evaluations require that one first identifies the labour market outcome for the policy participants (workers displaced at restructuring) and then to compare this with the (hypothetical) scenario of the labour market outcome for these people had policy not have been implemented. Obtaining a control group to represent the alternative scenario is the key issue in programme evaluation. Once the two samples are identified, multivariate analysis is used to control for differences in factors that influence the labour market outcome for the two groups. Ideally, this should ensure that the difference in labour market outcomes between the two groups is solely attributable to the policy measures and thus is the impact of policy on outcomes identified. The main methodological problem is that the selection process into a programme, either on the initiative of the participant or a policy administrator, may be due to factors that are very difficult to measure, such as motivation, health or capability, and thus difficult to control for.

There are, of course, innumerable follow-up studies of workers displaced at restructuring where active policy measures have been applied. However, there are exceptionally few such studies that have any possibility, even in principle, of determining the added value of policy on labour market outcomes, due to the difficulty in identifying an appropriate control group. While there are registers or other sampling frames of unemployed people from which to extract a control group of non-participants, there is no obvious and easily accessible such sampling frame for displaced workers. The selection problem is also typically more problematic. Moreover, measures at restructuring are applied very differently, by different actors and with widely varying degrees of support, thus making generalisations very difficult.

However, even properly conducted micro evaluations are limited as they do not take account of how policy measures may affect other members of the local labour force. For example, if training measures led to a worker displaced at restructuring getting a job that otherwise would have gone to someone else, this negative “crowding-out effect” should be subtracted from the overall measure of policy outcome. In the case of ALMP addressed to specific groups of disadvantaged (handicapped, long-term unemployed etc), a rational policy maker might be able to accept such crowding out on the basis of equity. However, it is difficult to see how equity considerations can motivate priority given to workers displaced at restructuring over other job seekers, particularly if they are unemployed.

It is important to stress the policy implications of “crowding out”. The most common measure of success of policy after restructuring is the re-employment rate of the displaced workers. Expressed somewhat provocatively, one could state that the re-employment rate is simply a measure of the success that the displaced workers had in winning the competition with other members of the local force (in particular the unemployed) for the available vacancies. The extent to which policy gave them such an advantage is obviously of concern as compared to the targeting of disadvantaged groups there is no social motivation for this priority. This argument assumes, correctly I would argue, that ALMP does not create new job vacancies and implies that successful policy at restructuring requires regional and industrial policy initiatives. It also suggests that only examining the re-employment rate of the displaced workers and comparing this to that of a control group, is not a sufficient measure of overall policy success and requires the analysis of macro indicators such as the local employment and unemployment rates.

What type of Active Labour Market Policy works for the unemployed?

This section examines the results of ALMP policy in general, i.e. mainly to the unemployed. Following sections examine how these general results could be applied to policies for workers displaced at restructuring.

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3 The re-employment rate of displaced workers is the recommended measure for the measuring the impact of ALMP measures by the European Commission. EU Commission, ‘Impact evaluation of the EES overview of technical analysis’, EMCO/21/060602/EN_REV 1, Brussels, EU Commission, 2002.
Most ALMP evaluations of training programmes find modest positive effects, particularly for those with better labour market prospects and adult women, though by no means all do. A particular weakness of the evaluations in general is the relatively short follow-up period. This may be expected to be particularly serious for training measures as it can take considerable time to reap the returns to the initial human capital investment.

Probably the most positive and robust impacts are found for intensified matching or job search services (sometimes in combination with unemployment benefit sanctions). There is some indication that these measures work best for the higher-skilled. Moreover, as these are quite cheap measures, the cost-benefit results are also more likely to be positive. One very disappointing result of ALMP generally, including search measures, is the very poor results found for youths.

The implementation of a temporary wage subsidy does per definition lead to a job. However, it is in many respects a problematic measure. For it to be a successful it requires that the worker still holds the job when the subsidy expires. Much research shows that to the extent that the person secures the job, either they would have secured the job anyway without the subsidy (“dead-weight loss”) or that had the employer not employed the displaced worker they would have employed someone else (“crowding-out”).

Macro studies which examine the impact of measures on other members of the labour force are rarer. However, there is little doubt that crowding-out effects are empirically significant. Econometric studies indicate very high crowding-out effects, sometimes up to 100%. While research acknowledges concerns about the reliability of precise size of the crowding-out effects, it is reasonably confident as far as the ranking of the extent of crowding-out among different types of programmes. The conclusion is that the effects are appreciably larger the more ALMP measures ‘liken a job’. Thus, various types of temporary wage subsidies have the highest crowding-out effects. It would appear likely that ‘pure matching measures’ such as intensified job search measures and training have much lower crowding-out effects, as job search services and labour market training do address what is really feasible with ALMP, namely, increasing employment by reducing the mismatches on the labour market.

What is the human capital loss at job displacement that policy should address?

Before drawing conclusions on the lessons to be learnt from ALMP for the unemployed that could be applied to displaced workers, it is first necessary to examine evidence on the nature of the loss incurred by displaced workers, as it differs somewhat from the situation of the unemployed.

Research in the USA and Europe finds very convincing evidence of significant economic losses due to job displacement. This is hardly surprising as, at least in the short term, a period of adjustment is required. However, more significantly, there is also quite firm evidence of long term losses for displaced workers in terms of earnings and unemployment. Eliason and Storrie (2006) and others argue that this is largely due to displaced workers experiencing repeated job loss. We also argue that the vulnerability of the recently displaced to subsequent displacement is due to their relatively low level of firm-specific capital on the new job. When the new employer is to lay off workers, this low level of firm-specific capital means that they are of relatively less value to the firm and so more prone to being selected for displacement. Indeed, the economics literature attributes the destruction of firm-specific human capital at displacement as the main factor explaining the extent and distribution of the costs of displacement in the short run; it would appear that this is also behind the longer term effects.

Thus the key difference between the situation of the displaced workers and the unemployed in general is the loss of firm-specific capital of the former. The four points below identify the nature of the loss incurred by the displaced worker; the first three can be viewed in terms of firm-specific capital.

- A job may be the outcome of a long process of searching for and trying out various jobs, before finding one that matches the workers competencies and personal preferences. Thus when this job is lost it may require another lengthy matching process.

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4 Note that some studies find negative impacts. This occurs due to the so called ‘locking-in’ effects which imply that participants could have used the time they participated in the ALMP better by looking for a job instead.

5 Cost-benefit studies which examine the microeconomic impact in relation to the costs of the measures are even rarer.
The competencies of the displaced workers may be linked to the lost job and be specific to that place of work which is not marketable on the external labour market. This firm-specific capital may be acquired by on-the-job training or experience at the work place and so is likely to be strongly correlated with the length of service at the firm.

Employees with long service may have accrued seniority rights that will be lost upon losing the job. These include job security rights and seniority wages.

The loss of a job can be a very stressful event both in financial and social terms. This is a problem itself and may impact negatively on the chances of getting a new job. This may also be particularly serious for older workers with long seniority.

Appropriate types of re-skilling and other policy for displaced workers

What implications does the discussion above have for measures to be implemented at restructuring?

The brief overview of the ALMP research based on the target group of all unemployed persons, mentioned that results were poor for young persons but better than average for women, higher-skilled and others with relatively good labour market prospects. Displaced workers obviously have some labour market experience. It is more difficult to generalise on their skills and labour market prospects, compared to the unemployed in general, but the fact that many do get a job immediately after displacement indicates that they probably do make a more promising target group in this respect

Job search and counselling measures

As job search, matching and counselling measures are probably the most effective of all ALMP measures, they should be provided as part of any policy package to address job loss at restructuring. Job search during the period of notice combines the positive features of on-the-job search and unemployed job search. While still employed they can utilise on-the-job contacts and do not suffer from the discouragement of long unemployed job search nor from the unemployment stigma that may be interpreted as a signal of low productivity by a prospective employer. On the other hand, the knowledge of impending job loss may provide the same incentive to search as intensively as the unemployed.

While looking for a new job may be particularly efficient during notice it may not be very obvious to the employee that this is the case and surely there is a potential high return in encouraging and assisting job searches at this early stage of the restructuring process. Thus there are good reasons to not only allow a long period of notice with the possibility to obtain time off the job to search but also to provide intensified job search services, including occupational guidance, during this period.

The discussion on the nature of loss incurred from job displacement reinforces the relevance of matching and counselling activities for displaced workers. The restructuring process is a very stressful time for workers and may diminish their ability to act in accordance with their long term interests. The need for a coherent and transparent restructuring process, is helpful in this respect but even an ever-so-well administered process may still lead to problems for individual workers which should be addressed with dedicated counselling services. As there is some evidence from research in both the USA and Europe that recurrent job separations explain much of the long run negative effects of the initial displacement, it suggests the importance of making concerted efforts to obtain a high quality match of the worker to a new job as opposed to just a ‘quick-fix’ match. This may entail something different to the services typically offered by public employment services to the unemployed, such as aptitude tests and career guidance and may imply that the provision of such services could be obtained from other, possibly private sector, actors.

The role of social partners

Moreover, the addition of another actor, the social partners, may further enhance the efficiency of matching measures for displaced workers. They are well placed to start this work early in the restructuring process. The importance of an early start to job search may not be obvious to workers with long tenure at the firm due to their lack of recent experience of external job search suggests that assistance may be

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6 There is a huge research literature on the impact of job loss and unemployment on physical and mental health in many academic disciplines. The key problematic issue in this literature is distinguishing whether job loss causes bad health or whether those with bad health are more likely to lose their job. Eliason and Storrie (2008) provide strong evidence that there is a significant causality running from job loss to higher mortality.
necessary. Moreover, as efficient matching requires very good knowledge of the capabilities of the job seeker, the social partners are very placed to conduct such activities. Thus all involved parties (the appropriate public administrations, the social partners and the workers themselves) should grasp the window of opportunity that the notice period offers. In order for this to function properly it is vital that clear and early information on the impending job loss is provided.

Given the positive role that the social partners can play in this process, in terms of implementation efficiency, there is surely some logic that they take a lead in matching activities as early as possible in the restructuring process, either with own funding or possibly with contributions from public bodies. To some extent this approach is currently being applied in Sweden. Ohlsson and Storrie (2006) show that the state engages later on in the process, after the firm and the bipartite job security organisations have carried out a first round of intensified job search and other matching activities. This is partly motivated by wanting to avoid dead-weight losses. One could also argue for a division of responsibilities between the social partners and public bodies where the latter guarantees a certain level of funding for all displaced in order to attain a certain level of employability. The social partners could then devote further resources to those with firm-specific capital that is not marketable on the external labour market. Presumably it is just this category of worker, i.e. those with long tenure, that the social partners would be most inclined to adopt social responsibility for.

**Recuperating the loss of firm-specific capital**

The previous section emphasised that the distinctive nature of the loss to displaced workers was the loss of firm-specific capital. It is difficult to envisage how policy, at least in the short term, can help to recuperate some of these losses as seniority rights and benefits (including wages) are obtained only by long tenure on a job. It might appear that the most obvious way to promote the re-establishment of firm specific capital is to apply measures that directly and quickly get the displaced worker a job, and for this reason use temporary wage subsidies. I have argued very strongly against the use of temporary wage subsidies for displaced workers, due to the severity of dead-weight loss and crowding-out effects. If despite these arguments they are to be used, they should only be one element in a broader strategy to place individuals with particularly low employability and should include some commitment in return from the employer to provide training and thus to help guard against subsequent displacement. But arguably the only motivation for them at all is, as was argued above, when they are addressed to particularly disadvantaged groups of displaced workers and thus making the crowding-out effects acceptable for equity reasons. Given that this would appear very difficult to accept in the case of displaced workers, the package of measures implemented should be designed to minimise these effects. Thus, from this perspective, temporary wage subsidies should be avoided and more traditional ALMP matching measures such as mobility grants and training should be prioritised.

The basic policy approach is self-evident, namely to provide the platform for the displaced worker to accumulate human capital that will be useful for jobs in other firms. In this context, the career guidance mentioned earlier is in many cases only a first step and training and education are the key policy tools. It is difficult to generalise about the orientation of this training as much depends upon the state of the local labour market. If there are skill mismatches in the local labour market then obviously customised training courses appropriate for such jobs should be made available. More generally, however, concerted efforts should be made to adapt the firm-specific skills of the displaced worker to become marketable on the external labour market. This may include the validation of skills learnt on the job but not documented.

What must be avoided is job specific training for jobs that do not exist. The activating role of ALMP in general and training in particular, may be useful as such in ameliorating the permanent scars on individuals and society that may result from long-term unemployment. These active individuals may then be able to return to work when times improve. However, with no jobs in sight, participants may experience training as meaningless or even punitive and endless rounds of training for a job that will never appear can be just as demoralising as long-term unemployment. As it may often be the case that restructuring occurs in depressed local labour markets this scenario may be quite common. Again, some Swedish experiences may be instructive. In the mid 1990s, Sweden experienced mass unemployment for the first time since the 1930s, and it became obvious that training the unemployed to fill non-existent jobs did not

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7 In many cases, these services are financed by bipartite job security funds as established by collective agreements. They are increasingly being implemented by private sector outplacement agencies.
make sense. The biggest single individually-oriented policy response was the Adult Education Initiative (
{kunskapslyftet}) which at one point had as many participants as there were school children in upper
secondary school. This provided formal school education for poorly educated adults and there was not
even an implicit promise of subsequent job. It was presumably interesting and meaningful for participants,
or at least more so than training that obviously would not lead to a job. Evaluations of this massive
programme have shown somewhat mixed, but on balance, rather positive results.8

Empirical evidence of what works for displaced workers9

A very extensive recent review of the recent ALMP literature10 cites only one study which examines the
impact of ALMP on displaced workers.11 This study finds relatively large positive effects of a special ALMP
programme for displaced steel workers in Austria. The policy intervention was intensive and expensive
and included a contribution from the participants themselves. Retraining programmes focused on re-
qualification and occupational reorientation (included personality and orientation training). It also included
a significant amount of formal education and long training periods, rather than marginal skill upgrades.
Evaluations showed that five years after the programme, employment was significantly higher for
participants compared to non-participants.

Ohlsson and Storrie (2007) compare the labour market outcome of workers displaced from the LKAB iron
ore mines and the closure of the Uddevalla Shipyard, both of which were the object of extraordinary ALMP
measures, with all other workers displaced due to a plant closure but who did not receive extraordinary
measures. The follow-up period is 15 years. There was no evidence of the extraordinary measures
having any significant effect until after five to seven years. It may not be immediately obvious why positive
effects were found only in the long term. However, there was a large increase in the number of workers
who had obtained upper secondary school education among those receiving extraordinary measures
compared to the comparison group. Indeed, a distinguishing feature of these measures was a much
broader orientation of the types of educational programmes available to these workers compared to more
traditional narrow labour market training. We interpret the results as showing that it was the opportunity to
avail of more general education that yielded the positive long-run results.

These are two of the very few studies that evaluate intensified ALMP  measures in Europe addressed at
displaced workers that use an appropriate control group. Both show positive results and both included
significant elements of intensified job search activities and general education measures. They were also
very expensive. Ohlsson and Storrie (2007) argue that the lack of short-term effects of policy indicate that
the quick fix of a limited set of new job skills is not sufficient to compensate for the loss of firm-specific
human capital that may have been built up over many years. This is particularly the case in depressed
labour markets with few available vacancies. General, non-specific human capital takes time to yield
benefits both due to the duration of the education programme itself and to the time required to find an
appropriate match for skills that are not so obviously related to a particular occupation or match with a
particular employer.

Given that it was argued that the nature of the loss of the job is attributable to the loss of firm-specific
capital it may appear paradoxical that two reasonably reliable studies suggest positive effects for more
general human capital creation. One possible explanation is that public policy is seldom the appropriate
means to address the creation of firm-specific capital. Public policy is more suited to the provision of

8 The most recent high quality research on this programme finds substantial increases in post program annual earnings. According to their estimates, the social
benefits of offering these individuals comprehensive education surpass the costs within five to seven years. See Stenberg Anders and Olle Westerlund (2008)

9 Following the logic of the first section of this paper, I only mention research that addresses the issue of establishing the counterfactual case, a control group, that
is necessary for all impact evaluation.

only one such case is also motivated by the lack of a control group in the vast majority of all other studies on policy for displaced workers.

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general capital which in turn may provide a solid platform for the individual in re-establishing a secure position on the labour market.

Concluding remarks

There is still not enough European research for policymakers to make an evidence-based decision to adopt the general education approach in order to improve the employability of displaced workers. Moreover, the positive results from the three cases cited resulted from very extensive policy interventions in combination with other measures, and were expensive. However, regardless of whether it does in fact have a significant impact on future earnings or not, at the very least the provision of, for example, upper secondary school education for those who lack it, does provide something of value to the individual in terms of self esteem, maintaining activity etc; and surely it is the preferable option when there are no jobs in short term in the local labour market to train for anyway. If this approach were to be adopted more generally for displaced workers, it probably should entail some re-organisation of the institutional framework for the implementation of ALMP for displaced workers. For example, responsibility for the adult vocational education and training system in Denmark which is addressed primarily to employed workers was recently transferred from the Ministry of Employment to the Ministry of Education. This was to allow a better coordination with other educational programmes including the provision of upper secondary schooling.

To conclude: there are strong arguments for intensified job search measures including career orientation and counselling for displaced workers. There are very few reliable studies of the effects of training for displaced workers and as the type of training that should be implemented is so dependent upon the state of the local labour market, it is difficult to arrive at firm general conclusions. Some of the few existing European evaluations suggest that positive effects may be obtained from more general schooling measures. Only under exceptional circumstances should temporary wage subsidies be used. Apart from the well established dead-weight loss effects, the equally well documented crowding-out effects are unacceptable from an equity perspective.