

# Around the world in 80 ways – What support for displaced workers?



Even with the best possible anticipation by companies or policymakers, structural change – caused by globalisation and many other factors – will lead to the loss of jobs and ultimately unemployment. What type of policy or policies should be applied when this occurs? One response is the so-called Active Labour Market Policy (ALMP) – a series of measures consisting of occupational guidance, training and re-training, entrepreneurship promotion, mobility allowances, pay subsidy vouchers and vocational skill and competence analyses. But do they work? A clear answer to this question is made difficult by the lack of proper evaluation of measures taken to support workers who have lost their jobs through restructuring. There are certainly numerous follow-up studies examining how displaced workers have fared. However, the fate of those having received special support through ALMP is rarely compared to those who did not benefit from such measures. The lack of a control group makes it difficult to judge what difference such policies and programmes really make.

**The OECD defines displaced workers as workers who permanently lost a stable job in the last few years and who are currently unemployed, out of the labour force or re-employed.**

## **‘Crowding out’ and ‘dead-weight loss’**

A proper evaluation of the success of such measures should not only look at the outcomes of ALMP on the individuals benefitting from it but also examine the impact on others. For example, if training measures led to a worker who lost her job because of restructuring finding new employment, this job could have gone to someone else – perhaps on long-term unemployment – had the re-skilling not taken place. The possibility of this ‘crowding out’ effect has to be taken into account when designing policies for displaced workers. Econometric studies have shown very high crowding out effects, especially in the case of wage subsidies. The employer benefitting from the subsidy would have employed another person had the subsidy for the displaced worker not been available. Or the displaced worker might have secured the job anyway, even without a subsidy. In this case the wage subsidy has led to what economists call a ‘dead-weight loss’.

**ALMP does not create new jobs. Successful restructuring policy requires both regional and industrial policy initiatives.**

## **What works for the unemployed?**

Probably the most positive impacts of ALMP for the unemployed are found in intensified matching or job search services. There is some indication that these measures work best for the higher skilled. Disappointingly, results are very poor for the young, not only with regard to search measures but for ALMP in general. Most evaluations of training programmes find modest positive effects, particularly for those with better labour market prospects. However, it is extremely difficult to generalise about the nature and orientation of training measures, as they depend upon the state of the local labour market.

**ALMP must avoid training for jobs that do not exist. Endless rounds of training for a job that will never appear can be just as demoralising as long-term unemployment.**



## Displaced workers – a special case

Along with a stable job, a displaced worker loses firm-specific capital, i.e. knowledge and skills based on the particular job and company context. There is some evidence that this loss of firm-specific knowledge and skills at the initial redundancy is the cause for repeated subsequent job loss, as experienced by many displaced workers. Even if a new job is found initially, the relatively low level of firm-specific capital makes newly hired workers less valuable for the company and therefore more prone to being laid-off, should restructuring occur. Measures designed to support workers who have lost their jobs through restructuring must take this into account. Job search and matching measures are generally among

**Job loss through restructuring not only leads to temporary economic loss: for many individuals it means a long-term loss in earnings and repeated unemployment.**

the most effective of all ALMP measures. In the case of company restructuring, the notice period offers a unique opportunity to search for a job while still in employment, with the possibility to use on-the-job contacts and without the stigma and discouragement of job searching when unemployed. A high return on encouraging and assisting job seeking during the notice period can therefore be expected. If an extended notice period is granted, the likelihood is higher that assisted searching during that period will lead to a high-quality match rather than an unstable quick-fix solution.

## The role of the social partners

The efficiency of such job search measures can be enhanced by involving the social partners. As good matching requires very good knowledge of the capabilities of the job seeker, the social partners are well placed to carry out such activities, if they take the lead as early as possible in the restructuring process. This does not mean that public bodies do not have a role to play in providing funding and support for displaced workers. However, social partners may be best placed to assist job seekers, especially those with long job tenure and high-levels of firm-specific capital.

**The restructuring process is a stressful time for workers and may lessen their ability to act in their long term best interest. Dedicated counselling services need to be made available.**

## Training for displaced workers

Career guidance and subsequent training and further education will help displaced workers acquire the skills suitable for jobs in other firms. Customised training courses can be useful if there are clear skills gaps in the local labour market. More generally, however, the challenge often is to adapt the firm-specific skills and make them marketable on the external labour market. This frequently requires validating undocumented skills rather than acquiring new ones. There is also some evidence that boosting the general level of education through broader education programmes rather than narrow skills upgrades yields positive long-term results.

## Further information

This fact sheet forms part of the Eurofound resource pack on *Around the world in 80 ways – today's global market place*. The pack explores the impact of globalisation, providing insights into developments, perceptions and measures dealing with its consequences.

For a copy of the pack or for further information on this area of activity, please email: [globalisation@eurofound.europa.eu](mailto:globalisation@eurofound.europa.eu)

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