

Skills, Signals and Search in Low-income Labor Markets: Evidence from a Two-Sided Six-year Field Experiment

Imran Rasul
(UCL)

Oriana Bandiera
(LSE)

Vittorio Bassi
(USC)

Robin Burgess
(LSE)

Munshi Sulaiman
(BRAC)

Anna Vitali
(UCL)

Abstract

Many developing countries face the key policy challenge of matching workers to good jobs. The search behavior of workers and firms is critical to this matching process. This study presents the results of a six-year field experiment designed to study this problem across urban labor markets in Uganda, a setting in which firms and workers face search frictions. The experiment is two-sided, tracking young labor market entrants, as well as small firms in sectors these workers are searching over. The experimental variation induced relates to: (i) the offer of intense sector specific training to workers; (ii) the offer to match trained workers to firms operating in sectors in which they have been skilled; (iii) the offer to match unskilled workers to firms in sectors that expressed a desire to be skilled in. The offer of training leads to measurable impacts on the sector specific skills of workers. The worker-firm match offers lead to relatively low rates of call backs to workers, thus generating a signal to workers of their labor market prospects. We then study how these treatments impact the search behaviour of workers along the following dimensions: reservation wages, beliefs over the wage offer distribution and the arrival rate of job offers, search intensity, directed search, and the use of credit markets to finance search. We then study how these dimensions of search translate into long run labor market outcomes for workers such as employment, earnings, and their allocation to good jobs and good sectors. We use mediation analysis to decompose the net effects of each search channel on worker's labor market outcomes. We thus shed light on how the search behaviour of workers differs depends on the skill, information and underlying traits of workers. Finally, we fully exploit the two-sided nature of the experiment to shed light on firm responses to match offers, thus lifting the lid on how firm behaviour is impacted beyond call backs. This sheds light on how they change search behaviour and marginal hires in response to being experimentally presented with trained and untrained workers. Overall, our study shows the importance of underlying sources of worker and firm heterogeneity that determine the matching of workers to jobs in a low-income economy.