

# Summary

## Displacement on the labour market

## Description and perceptions

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Original title:  
Van sociale werkvoorziening naar Participatiewet  
978 90 377 0887 5

The Netherlands Institute for Social Research  
The Hague, October 2018

## S.1 Conclusion

Whenever the government pursues a policy aimed at raising the labour participation rate of certain groups in society, or the labour market is affected by external shocks, this raises fears of potential job displacement. Examples are the raising of the retirement age and labour migration stemming from the free movement of persons. By 'displacement' we mean the negative consequences experienced by an incumbent group of workers resulting from an increase in the supply of labour from a different group. Examples of these negative consequences may be a reduced chance of finding work or lower wages. Young people could for example be at a disadvantage due to older people continuing to work for longer.

In this report, we find no evidence of job displacement for most of the groups studied, with the exception of those at the lower end of the labour market. Older and younger workers do not appear to displace each other from the labour market, but rather complement each other. Most of the scientific literature on migration also offers no evidence of migration-induced displacement; in fact these studies show that migration rarely has a negative impact on the employment and wages of incumbent workers, and can actually have a positive impact.

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That is not to say that displacement never occurs: it can play a role at the lower end of the labour market. Several studies provide indications of displacement by low-skilled migrants and people with an intermediate or high education level. Active labour market policy mainly leads to displacement between job-seekers, with some benefiting from a policy instrument such as wage cost subsidies or individual guidance to help them find work more quickly, while others do not. The literature shows that an increase in labour supply can lead to displacement particularly in periods of economic downturn, when new job vacancies are not being readily created.

In a survey of a representative population sample, people at the bottom of the labour market themselves also report that they feel their labour market position is under pressure due to the influx of new labour supply. This perceived displacement is higher than the objective indicators would suggest. Group interviews with older low-skilled workers in the Randstad region of the Netherlands (the regional conurbation containing the cities of Amsterdam, Rotterdam, Utrecht and The Hague) reveal that people who feel they are affected by displacement also face a wider problem; after losing their job, some interviewees have found that it is not easy to find work that is comparable in terms of job content and employment conditions. They believe that displacement by new groups on the labour market plays a role in this, along with competition from other groups already present on the jobs market, technological change and a more flexible labour market.

## S.2 Summary

In this report we draw on the international scientific literature and our own analyses of employment and wage data for the Netherlands to investigate whether there is any evidence of displacement on the labour market. Data limitations mean we are only able to look at the chance of finding work and the wage level and not at outcomes such as contract type or job content. As well as the economic data, we examine whether citizens experience displacement and how they view it. In this study we focus on four possible domains where displacement is often considered to be an issue, namely migration, age, education and active labour market policy.

### Displacement due to migration

Displacement by migrants probably does not play a significant role on the Dutch labour market. The international literature on this topic generally finds only minor effects from immigration, and those effects are moreover not always negative. Some studies for example find that migration encourages a proportion of low-skilled incumbents to upskill, enabling them to find a better job than they would have otherwise. Although on average no effects are generally found, it is possible that there may be a negative effect for some groups, i.e. those who are in direct competition with immigrants. Migrants often have a below-average education level, which means they compete for jobs with low-skilled manual workers. The negative effects for low-skilled workers are mainly short-term in nature, however, occurring during the first few years after the arrival of migrants. A flexible labour market appears to be important in absorbing migrant flows, being better able to adapt to the arrival of a new group of potential workers. Combined with the findings from the literature, the data for the Netherlands suggests that displacement by migration is unlikely to be a significant factor here.

### Displacement between different age groups

We find no indications for displacement between age groups. The international literature, and analyses based on Dutch data, suggest either no effect or even a positive relationship between the labour participation rate of older workers and the job opportunities of young people. This suggests that older and younger workers, rather than competing with each other, actually complement each other on the labour market. They have different skills and often perform different tasks at work. Labour market institutions and the state of the economy influence the amount of displacement. Studies for Italy show that if the level of dismissal protection for older workers is high and the economy is in recession, raising the retirement age can lead to displacement of younger workers in the short term. We only find indications for short-term displacement due to the youth minimum wage between young people falling below this minimum and slightly older workers working at a higher minimum wage.

### Displacement between different education levels

There are no indications that high-skilled workers are systematically working below their skill level more often than in the past. Although the number of highly educated people

has risen sharply in the Netherlands over the last 40 years, the pay gap between this group and those with a low and intermediate education level has widened steadily, indicating that the demand for high-skilled workers is rising faster than their supply. Those with an intermediate education level are however more often working at a lower occupational level than 20 years ago, which may suggest displacement of low-skilled workers. On the other hand, it could also be related to the falling demand for people in this category due to technological development. Education-related displacement does appear to be a relevant factor during a recession, with young people entering the labour market and people who lose their jobs more often working below their skill level. Over the long term, however, these effects are slight.

### Displacement due to active labour market policy

Unlike in the case of migration, for example, with active labour market policy displacement is purposely used as a means of achieving equal opportunities. If one job-seeker is helped to find work, for example through individual guidance or a wage cost subsidy, while another is not, active labour market policy leads to displacement by those who receive support of those who do not. There are several indications for this in the scientific literature. Individual guidance and mediation and wage cost subsidies are the main potential causes of displacement. Where training and a 'dismissal tax' are used as policy instruments, those not targeted by the policy actually appear to benefit from it. Possible displacement effects depend on the state of the economy, the scope of the policy and the competition between job-seekers in the labour market segment targeted by the policy. Lack of research based on Dutch data means we are unable to draw firm conclusions on whether this type of policy also leads to displacement in the Netherlands.

### Citizens' experiences of displacement

Although based on the scientific literature and our own analyses there appears to be no clear evidence of displacement on the Dutch jobs market, citizens aged between 15 and 67 years interviewed for this study do feel that their chances of finding work have reduced as a result of an influx of the new groups of potential workers studied in this report. Displacement by high-skilled workers is the most commonly reported (39%), while displacement by benefit claimants who have received employment support is least often cited (7%). A perceived reduction in employment opportunities is reported most often by low-skilled and older workers.

This perceived displacement is higher than the objectively measured displacement. There are a number of possible explanations for this. One partial explanation could be the way in which displacement is measured; limitations in the data mean the consequences of the influx of new labour supply is only described in the form of changes in employment and wages, not in terms of changes in contract type or job content. Another possible explanation is that people's experiences with displacement relate to their own assessment of the chances of finding work rather than to actual labour market outcomes. A third possible explanation is that the measured displacement refers to outcomes at group level, whereas people when interviewed tend to think of their own individual situation. Finally, it is

possible that the perceived displacement is based on individuals' broader underlying feelings or experiences regarding their own labour market position.

Support for this last explanation is found in the group interviews with older, low-skilled manual workers and job-seekers living in the Randstad conurbation. These interviews show that the underlying experiences can best be described as a broadly felt pressure on the interviewees' labour market position. The interviewees have found that it has become more difficult to hold onto their jobs and that they are forced to continually engage in 'the competitive struggle' against others. Some of them know from their own experience that if they lose their job for whatever reason, it is difficult to secure comparable work in terms of remuneration and fringe benefits. The interviewees appear to regard this problem as more pressing than (just) displacement on the labour market. Seen from this perspective, policies aimed at reducing uncertainty would appear to address the problems people experience much more effectively than policies aimed at combating displacement.