



# Labour Market Matters

## Special points of interest:

- Field experiment: While active intervention to improve an individual's "social capital" can enhance the number social contacts/acquaintances in an individual's network—these ties tend to not yield significant labour market improvements.
- Physician paid under a mixed compensation system as opposed to fee-for-service approach, found to reduce volume of clinical services offered.

**"[T]he gains in the size of an individual's social network did not appear to translate into improved employment outcomes 18 months after the CEIP intervention ended"**



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## Social Networking no Panacea for the Improvement of Labour Market Outcomes

Many believe that social networking is becoming an increasingly important channel for building professional connections, job searching, and improving overall labour market outcomes. While there is no denying that social networking through channels like Facebook and LinkedIn have exploded prevalence and reach in the last decade, there is little formal empirical evidence from Canada that exists on whether and how, social networks affect labour market outcomes. A paper entitled ["The Impact of Social Networks on Labour Market Outcomes: New Evidence from Cape Breton"](#) by CLSRN affiliates Adnan Q. Khan (London School of Economics) and Steven F. Lehrer (Queen's University) finds that while social networks and "social capital" can be expanded and enhanced through active intervention, they ultimately have little impact on enhancing labour market outcomes in the medium and long run.

The study establishes a causal relationship between social media and labour market outcomes using data from the Community Employment Innovation Project (CEIP) – an innovative labour market field experiment recently conducted in Cape Breton, Canada. The experiment randomly selected individuals into a social networking "intervention" group and offered these individuals an "enhanced opportunity to develop work-related social networks and social capital". Empirical analyses on the effects of social networks have been plagued by the problem of selection biases – as people tend to associate with others based on certain group characteristics they favour in common – that are

unobserved to the researcher. Random assignment utilized in the field experiment allowed the authors to find variation in the size of participants' social networks that is not contaminated by the problem of selection bias.

The authors have three main findings. First, they present evidence that, being assigned to the CEIP program indeed leads to increases in the size of a variety of social network – particularly those composed of acquaintances. The effects are particularly strong for women and for those who completed education beyond secondary school. This indicates that policymakers can indeed successfully design interventions to alter and enhance an individual's level of social capital.

The second finding is less positive as the gains in the size of an individual's social network did not appear to translate into improved employment outcomes 18 months after the CEIP intervention ended. The absence of an observable benefit to employment outcomes is found for all of the different measures of social network size investigated, including those defined along gender and education lines.

Lastly, the researchers present evidence suggesting that these results also hold at the community level among those who did not participate in the field experiment. Community level analyses indicate that measures of alternative types of social networks do increase at a faster rate in program communities relative to comparison communities.

The study found large and significant increases in the number of "linking" and "bridging" contacts as well as a



Steven Lehrer  
(Queen's University)

marginally significant increase in the number of contacts who can help find a job. All of these connections correspond to "weak ties" or acquaintances that are potentially beneficial (but distant) connections that are often too costly or difficult to establish and maintain, and that the CEIP project may have made less costly to establish. Despite the increase in the number of linking and bridging contacts among CEIP participants, the authors did not observe overall changes in the number of individuals employed across communities. The CEIP project may have changed bridging and linking social capital of some individuals by providing them greater opportunities to form "weak ties", or reducing the transaction costs to doing so but these contact did not appear to result in real labour market gains.

While social networking is seen as a relatively low-cost and accessible avenue for the improvement of labour market outcomes through building social capital, and reducing social exclusion to improve economic disparity; this study ultimately finds that other avenues such as economic growth, and job creation remain the best solutions to reducing poverty.

<sup>1</sup>Adnan Q. Khan, Steven F. Lehrer. [Canadian Public Policy](#). Volume 39. Special Supplement. May 2013.

## Reform in Physician Remuneration in Canada: Choice, Incentives and Work Effort

Traditionally, physicians in Canada have been remunerated under a fee-for-service (FFS) scheme – which generates payments per service rendered: physical exams, immunizations, prescriptions etc. The rationale behind the FFS approach is that it ensures that doctors are financially motivated to provide services. On the other hand, a FFS approach may also encourage doctors to see large numbers of patients, provide unnecessary services and possibly write prescriptions when they are not strictly necessary. Some argue that an FFS approach does not provide incentive for advocating preventative health measures, and may be a disincentive for physicians to take adequate time with each patient. A paper entitled “**Labour Supply, Work Effort and Contract Choice: Theory and Evidence on Physicians**” (CLSRN Working Paper no. 68) by CLSRN affiliates Bernard Fortin (Université Laval), Nicolas Jacquemet (Paris School of Economics) and Bruce Shearer (Université Laval) uses a change in physician compensation policy

from a FFS scheme to a Mixed Compensation (MC) system in the province of Quebec to determine the effect of contract choice, on work effort and labour supply. The study finds that MC tends to be more costly to implement but may be more effective in ensuring the quality of physician services.

Prior to 1999 most physicians working under the public health care system in Quebec were paid under fee-for-service (FFS) contracts – receiving a fee for each service provided. In 1999, the government introduced a *voluntary* mixed compensation (MC) scheme, under which specialists working in hospitals received a daily wage (*per diem*) and a reduced fee-for-service.



Nicolas Jacquemet  
(Paris School of Economics)

The voluntary nature of the MR scheme meant that data on two sub-samples of specialists are available: those who adopted the MC system and those who remained on FFS. These samples are available both before and after the reform. Through their

analysis of these two sets of data, the researchers found that, while the reform increased the number of weekly hours worked by nearly 4 %, this increase was almost entirely due to increases in non-clinical hours. Clinical hours increased less than 1%. The *per diem* incorporated into the MC system appeared to induce physicians to spend more time on administrative and teaching activities – at the price of a lower volume of medical services rendered. Physicians reduced their supply of clinical services in the order of 9%. Counterbalancing this, time per service increased under MC, in the order of 9.7%.

**“[A]s a result of the large *per diem* payments under the MC system, physician annual income increased on average by nearly 10% - in spite of providing fewer services.”**

The MC system reduced the marginal payment for clinical services received by physicians and hence the incentive – to physicians – for their completion. This reduced incentive is accentuated by the *per diem* which ensured a high level of income independent of the number of services performed. Indeed, as a result of the large *per diem* payments under the MC system, physician annual income increased on average by nearly

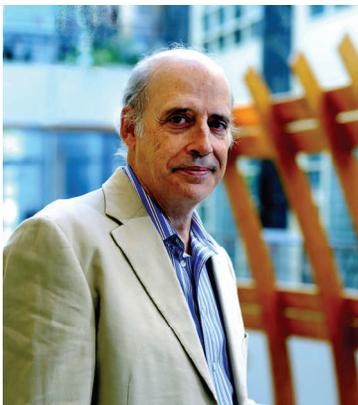
10% - in spite of providing fewer services.



Bruce Shearer  
(Université Laval)

The researchers also simulate physician behaviour under a hypothetical mandatory reform. Their results predict substantially larger effects on behaviour: hours worked would increase by 6.7%, clinical services would decrease by 15% and time spent per service would increase by 16%. The cost per physician would increase by over 16%, largely due to the large *per diem* offered to physicians - \$600 per 7 hours (as observed in Quebec).

The study highlights important trade-offs in evaluating physician compensation systems. The fact that monetary incentives affect both the quantity of services provided and the time spent per service suggests a quantity-quality trade-off that should be taken into account when considering different compensation schemes.



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(Université Laval)

### Endnotes

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