Can welfare conditionality combat high school dropout?☆

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ABSTRACT

Based on administrative data, we analyze empirically the effects of stricter conditionality for social assistance receipt on welfare dependency and high school completion rates among Norwegian youths. Our evaluation strategy exploits a geographically differentiated implementation of conditionality. The causal effects are identified on the basis of larger-than-expected within-municipality changes in outcomes that not only coincide with the local timing of conditionality implementation, but do so in a way that correlates with individual ex ante predicted probabilities of becoming a social assistance claimant. We find that stricter conditionality significantly reduces welfare claims and increases high school completion rates.

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1. Introduction

Can a conditionality regime designed to activate, counsel and monitor young welfare recipients play a role in reducing welfare dependency and promoting high school completion among vulnerable youths?

The large share of youths that do not complete high school is a concern in many developed countries; see, e.g. Lamb et al. (2011) and OECD (2013). Secondary education is to an increasing extent considered the basis, not only for further university or vocational education, but also for obtaining a stable foothold in the labor market. Dropout rates are particularly high among youths with socio-economically disadvantaged backgrounds, and probable consequences include high subsequent unemployment and low earnings (Rumberger and Lamb, 2003; Campolieti et al., 2010).

In this paper we analyze the effects on young people of being exposed to a more restrictive practice regarding social assistance claims. There has been an ongoing discussion in Norway of whether parts of the welfare system are too lenient, and in the late 1990s and early 2000s, many local social insurance offices – which traditionally have had a considerable discretion in the determination of policies regarding means-tested social assistance (welfare) – increased their use of such conditions. As we explain in more detail below, the types of conditions ranged from merely requiring claimants to attend counseling meetings with case-workers to demand participation in fulltime activation programs. In some cases, they also required willingness to undertake a medical examination and/or to document (or reduce) personal expenses. Most of the offices that changed policy did so in a quite comprehensive way, in the sense that they increased their use of several conditions simultaneously.

Conditionality can be viewed as a means to offset moral hazard problems embedded in income support programs, as well as a tool for imposing a more structured daily life on inactive adolescents, and thus prevent more serious marginalization. When youths about to drop out from school show up at the social insurance office to seek income support, a strict conditionality regime may in some cases be what is required to convince them to complete their schooling rather than to have to participate in strenuous training or community work.

Our empirical evaluation builds on administrative data, and in the main part of our analysis, we study the incidences of social assistance claims and high-school completion by the age of 21 for Norwegian youths born between 1972 and 1984. These outcome variables are coupled with survey-based information from local municipalities regarding changes in conditionality-practices from 1994 through 2004. Approximately half of the Norwegian municipalities provided information about the incidence, nature and timing of such changes. Identification of the

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causal effects of the changes builds on a before-after-comparison of outcomes, where we use people in municipalities that did not change practice – or changed practice at another point in time – as implicit controls. We do not rely on the standard common trend assumption, though, as we identify causality through the interaction between a conditionality indicator (treatment) and a pre-determined individual social assistance propensity indicator. The intuition behind this strategy is as follows: If, say, the introduction of conditionality for social assistance payments actually had a positive effect on the local high-school completion rate, we should not only observe an increase in the local high-school completion rate, but we should see an increase that is disproportionally large for persons who had a high ex ante likelihood of becoming a social assistance claimant.

There are clearly challenges associated with this identification strategy also; the most important being that local introduction of conditionality may have been triggered by rising social assistance claims in the past, which even in the absence of policy interventions tend to be followed by “regressions toward the mean”. We return to this potential endogenous-policy problem and other threats toward our identification approach after having presented our main empirical strategy and results. The bottom line is that we find no evidence of policy endogeneity, and that our results are highly robust with respect to both the choice of pre-treatment (comparison) period, the way we allow for local (differentiated) trends, and a number of other modeling issues.

Our paper relates to a large existing literature documenting moral hazard problems in social insurance programs; see Krueger and Meyer (2002) for an overview of the literature, and Reed and Zhang (2003; 2005) and Fevang et al. (2017) for recent Norwegian evidence. It also relates to a fast-growing literature on the impacts of activation, monitoring, and sanctions in social insurance as well as welfare programs; see, e.g., Blank (2002), Moffitt (2007), and Reed (2012) for recent reviews. A consensus view coming out of this literature is that activation, as well as monitoring and sanctions, do tend to lower the public costs of providing transfer programs, both by reducing the number of claims and by reducing their average duration. Most of the papers also identify favorable effects on subsequent employment and earnings. A paper of particular relevance for our own contribution is Dahlberg et al. (2009) who investigates the impacts of mandatory activation programs for welfare recipients in Sweden, taking advantage of a gradual introduction of such programs in Stockholm. A key finding of their paper is that activation requirements improve employment and earnings prospects for young persons (aged 18–25) considerably, but have no, or even negative, effects on adults. We are not aware of existing research looking directly at the impacts of social assistance conditionality on high school completion.

Why should social assistance conditionality affect high school completion? As we explain in more detail below, all adults in Norway (i.e., persons aged 18 years or more) who are unable to support themselves, are entitled to means tested social assistance. Yet, as long as the applicant is enrolled in regular secondary education, social assistance claims may be rejected with reference to the parents’ economic situation, even when the applicant is above 18 years. Hence, social assistance to young adults primarily represents an economic safety net for pupils from very poor families and for adolescents who quit school, but fail to find – or even genuinely search for – gainful employment. A key role of conditionality in this context is to raise the potential cost of quitting school, as the alternative of living on welfare may become considerably less attractive. In addition, it is possible that some of those who claim welfare despite the stricter use of conditionality are pushed/coerced back to school by the activities implied by the conditions. While the former mechanism implies that conditionality causes high school completion to substitute for social assistance claims, the latter implies that it complements them.

Our empirical findings indicate that when a local insurance office increases their use of conditionality, welfare claims among 21-year olds in that area decline substantially, while high school graduation rates increase. For example, for the quarter of individuals estimated to have the highest propensity to receive welfare, the incidence of welfare reception falls by around 3.1 percentage points, while the high school graduation rate increases by 2.2 percentage points. The favorable effects on high school completion is fully explained by a higher probability of completing without claiming social assistance; hence conditionality induces high school completion to substitute for social assistance claims. We also find evidence that the favorable effects of conditionality persist and contribute to higher educational attainment, higher labor earnings, and lower transfer dependency at age 25.

2. Institutions and data

According to Norwegian legislation, adult persons (aged 18 or more) who are neither able to support themselves through work nor covered by social insurance programs, are entitled to means-tested social assistance from their municipality. There is one possible exception from this rule, however, and that is if the young adult is still in regular secondary education, and the parents are deemed to have sufficient economic resources to support their adult offspring. In this case, the caseworker may obligate the parents to support their offspring economically. This is subject to a discretionary decision, however, and social assistance cannot be rejected unless it is clear that the parents actually take on their economic responsibility. Yet, it cannot be ruled out that the legislation’s reference to continued parental responsibility during high school enrolment may represent an incentive to quit school for some (potential) social assistance claimants.

The probability of claiming social assistance during a calendar year peaks at a level close to 7% by age 20–21, after which it declines monotonously with age; see Fig. 1. The high claim rates at age 20–21 are driven by a combination of relatively high rates of unemployment during the school-to-work transition phase, and low levels of social insurance coverage; the latter because social insurance entitlements require past work experience and social security contributions.

The legislation implies that local authorities cannot refuse to help persons in true need. They can set conditions, however, for example in the form of work requirements, provided that the conditions are not disproportionate or unreasonable.1 In the period covered by our data, the municipalities have had ample room for discretion regarding the use of such conditions, and the practices have varied a lot across the country.2 In 2006, Telemark Research Institute (TRI) published a report on the Norwegian system of means-tested social assistance (Brandtzæg et al., 2006). As part of this work, the authors administered a survey to all local social insurance offices in Norway, asking, inter alia, about changes during the last 10 years (1994–2004) in the offices’ practices regarding the use of conditions for receiving social assistance. It is the answers to these questions that form the basis for identification of the treatments evaluated in this paper. Based on the social insurance district of residence at age 21, we match the treatment data to population-based administrative registers containing information about individual social assistance claims, educational and labor market outcomes, as well as a large range of (family) background characteristics for all persons born between 1972 and 1984.

In total 247 of the 470 local insurance offices (located in 433 municipalities) existing in 2005 returned the TRI-survey.3 Out of these, 46 offices could not be used by us due to missing information about timing, ambiguity with respect to the direction of changes, inconsistent infor-

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1 Lov om sosiale tjenester i arbeids- og velferdsforvaltningen (Sosialtjenesteloven), §§ 18–20.
2 New legislation implies that activation requirements now have become compulsory for social assistance claimants who are deemed able to work.
3 With the exception of the largest cities (Oslo and Bergen) there is one single social insurance office in each municipality, ensuring that adolescents living in the same municipality at the same point in time have all been subjected to the same treatment status. Since we do not have sufficiently detailed information about address to link adolescents in Oslo and Bergen to the correct social insurance office, we have dropped these municipalities from the analysis.
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