



# The effect of monitoring unemployment insurance recipients on unemployment duration: Evidence from a field experiment

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## ABSTRACT

Programme administration is a relatively neglected issue in the analysis of disincentive effects of unemployment benefit systems. We investigate this issue with a field experiment in Hungary involving random assignment of benefit claimants to treatment and control groups. Treatment increases the monitoring of claims – claimants make more frequent visits to the employment office and face questioning about their search behaviour. Treatment has quite a large effect on durations on benefit of women aged 30 and over, while we find no effect for younger women or men.

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## 1. Introduction

Much of public economics does not consider the details of the administration of benefit programmes. The focus is on conditions for qualification, levels of payment, and lengths of entitlement. But how a programme is delivered in practice may be critical for its impact on individuals' behaviour. In the case of unemployment benefits, programme administration has been argued to be of crucial importance in determining the extent to which generous benefit systems actually influence unemployment in OECD countries (Nickell et al., 2005). However, the empirical evidence on the impact of benefit administration on getting people back to work is still limited. We add to knowledge by evaluating experimentally a simple change in administration of unemployment insurance (UI) that has the potential for a substantial impact on unemployment duration. Our field experiment uses a randomised control trial.<sup>1</sup>

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<sup>1</sup> Evidence from randomised control trials of unemployment benefit administration has grown in the USA, but is still thin on the ground in Europe. Recent US evidence includes Ashenfelter et al. (2005), Black et al. (2003) and Klepinger et al. (2002). Earlier research is surveyed by Meyer (1995) and Fredriksson and Holmlund (2006). The small European literature includes the early work by Royston (1983, 1984) and Dolton and O'Neill (1996) for the UK (see also quasi-experimental evidence in McVicar, 2008), Gorter and Kalb (1996) and van den Berg and van der Klaauw (2006) for the Netherlands, and Graversen and van Ours (2008) for Denmark.

The experiment was conducted in Hungary in 2003. The absence of open unemployment in planned economies meant that income support for people searching for work in Central and Eastern Europe did not exist prior to the 1990s. The debate about the behavioural impact of the new benefit systems has been considerable but, as elsewhere, has focused on levels and lengths of entitlements.<sup>2</sup> As economies contracted in the early 1990s, the administration of benefits concentrated on delivery of payments. The subsequent recovery, and hence greater availability of jobs, prompts more consideration of benefit administration and the monitoring of job search activity.

Section 2 provides background to our experiment and describes its design. Monitoring of claims prior to the experiment was light – and lower than in the 1990s. Treatment in the experiment increased the monitoring of claims – claimants made more frequent visits to the employment office and faced questioning about their search behaviour. Randomisation was achieved by assigning claimants to treatment or control on the basis of date of birth. Section 3 reports results which show marked differences between the sexes in the effect of treatment on benefit duration and outflows to employment. Treatment has quite a large effect on women aged 30 and over, while we

<sup>2</sup> See Boeri and Terrell (2002) for a summary. Examples include Ham et al. (1998) for Czech Republic and Slovakia, Micklewright and Nagy (1999) for Hungary, and van Ours and Vodopivec (2006) for Slovenia.

typically find no effect for younger women or for men. Section 4 interprets this finding and Section 5 draws conclusions.

## 2. UI administration and the experimental design

### 2.1. Background to the experiment

Administration of unemployment benefit typically attempts to restrict benefit to people who are unemployed on the standard ILO definition (OECD, 2000: 130): out of work, able to enter work at short notice, and undertaking active steps to find work. Labour Force Survey (LFS) data for Hungary show over two-thirds of UI claimants classified as unemployed on these criteria in 1993 (a low to average figure for Central Europe at that time – Bardasi et al., 2001), but only half in 2002. Throughout the period, women with benefit were less likely to be ILO unemployed than men.<sup>3</sup>

Various methods of monitoring can be used to restrict benefit to the ILO unemployed. One is to require claimants to report periodically for face-to-face interviews in which information is sought on job search activity and is provided on possible opportunities. LFS data show the proportion of UI claimants in Hungary who had visited a public employment office in the previous month. The offices are responsible for both administration of benefits and matching claimants to suitable registered vacancies. The relevant question was first asked in the LFS in 1999, when 72% of UI claimants had visited an office in the month prior to interview. But throughout 2000–2003 the figure was below 60%. The fall coincided with new legislation requiring claimants to make visits at least once every three months. Existing law had required visits to be 'regular', with the frequency left to offices' discretion. Far from tightening administration, the new law seems to have led many offices that had required more frequent visits to take the three month period as standard (a conclusion borne out by our discussions with employment office staff).<sup>4</sup>

The frequency at which claimants had to return to employment offices prior to our experiment differed across the country.<sup>5</sup> The Hungarian public employment service is organised into 20 counties. Each county has considerable discretion to interpret legislation as it sees fit. Practice also varies from office to office within counties. We collected information on office practices in Autumn 2002 from 28 offices (out of a national total of 170) spread over the six counties in which the experiment was to be conducted. In 16 offices, claimants were required to return every three months. In six offices the frequency was once a month and in the remaining six somewhere in between. (In all offices claimants could be contacted at any time and asked to attend in person to receive information on a vacancy that the office deemed suitable.) This variation is reflected in county-level differences in the percentage of claimants who had visited an employment office in the last month, recorded in LFS data. The 2003 figures for all 20 counties ranged from about 40% to over 70%.

At the time of the 2003 experiment, no reporting by UI claimants of job search activity was required in Hungary. Claimants had only to register with their local employment office and then return regularly to continue to declare their availability for work. They needed to keep no records of employers contacted or of other efforts to find a job. No checks were made of search activity during visits to the employment office.

Monitoring will be more effective if there is a credible threat of sanctions following failure to comply. Sanctions for on-going UI claims

in OECD countries typically involve suspension of payments for a fixed period or outright disqualification. In Hungary, missing an interview with the employment office is the classic explanation for the former while the latter is typically triggered by unreasonable refusal of a job offer generated through the local employment office or by behaviour that resulted in no offer being made (e.g. arriving drunk at a job interview).<sup>6</sup>

Fig. 1 shows sanction rates in 2002 for the six counties in the experiment. The data refer to all suspensions and disqualifications of on-going claims, and rates are expressed as the annualised number as a percent of the average UI stock. We compare the figures with rates defined on the same basis for other OECD countries. These vary greatly and, once more, there is also substantial regional variation within Hungary. The county of Vas sanctioned claims at the same broad level as Australia and the Czech Republic, which are among the tougher OECD countries in the graph, although nowhere near as tough as Switzerland or the US. Szolnok is at a similar level to the UK, Norway and Finland, while Csongrad and Komaron at the other end of the range are more akin to Belgium and Denmark. Higher rates may reflect more frequent behaviour in need of sanction rather than a stricter application of the rules. We think the latter to be the case in Hungary. This leads us to expect that the impact of treatment in the experiment may vary geographically due to differences in the culture of sanctioning.<sup>7</sup>

The *prima facie* evidence therefore suggests that administration of UI in Hungary in 2003 had been weak since the early 1990s and weakened further in 2000.

### 2.2. Design of the experiment

The experiment began in late April 2003, covering new claimants registering in a three month period in six selected counties.<sup>8</sup> Claims were monitored for up to four months. The six counties contained 48 employment offices (28 of which were included in the investigation of office practices described earlier). Counties were chosen partly to give a mix of labour market conditions and existing rigour in UI administration and partly because they had employment service managers who we believed would oversee the experiment appropriately.<sup>9</sup>

Claimants were included in the experiment if they were aged below 50 and with 75–179 days of UI entitlement. Older claimants were excluded due to their greater proximity to retirement age (55 for women and 60 for men at the time). The restriction to those with at least 75 days of entitlement was to avoid UI claims that would be short by definition. The restriction to less than 180 days of entitlement was to avoid persons eligible for an extended UI scheme introduced in 2003 just as the experiment was due to begin. All aspects of that scheme's workings were unknown at the time and we judged it sensible to exclude claims eligible for extension. The drawback of these restrictions is that the experiment applied to a group with a specific employment history: claimants between 1 and 2.5 years of insured employment in the 4 years prior to claim. They had either had periods out of work, e.g. due to previous unemployment, or had joined the labour force during this time. About two-thirds of those aged 30 and over in the sample had had a previous spell of UI during the four

<sup>3</sup> See Micklewright and Nagy (2008, Table 1), where we also give the (lower) search figures for recipients of means-tested Social Benefit, which is available following UI exhaustion. Roughly equal percentages of the unemployed receive the two benefits. We also note that the percentage of the ILO unemployed receiving neither benefit rose substantially over 1993–2003.

<sup>4</sup> Hungary has little monitoring other than face-to-face interviews, e.g. claimants' postal or phone reports of job search activity, as used in many states in the USA (Andersen, 2001).

<sup>5</sup> Substantial within-country variation in monitoring is found in many other countries (OECD, 2000).

<sup>6</sup> Suspension of benefit is usually until the claimant finally comes to the office. For second and subsequent offenses, the period of suspension uses up the claimant's entitlement period.

<sup>7</sup> Note that there is variation within counties by employment office; about half the variation in sanction rates across employment offices is at this level rather than between counties.

<sup>8</sup> The experiment was planned with the National Labour Centre and then adopted as a Centre initiative.

<sup>9</sup> Considerations of this type also influenced selection of employment offices in the Dutch experiment analysed by van den Berg and van der Klaauw, which was restricted to two offices with 'a good reputation for carrying out counselling and monitoring activities in a highly orderly fashion' (2006: 909).

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