

Active Unemployment Insurance

Evidence from Scandinavia

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A welfare state dilemma?

- Generous UI benefits call for strict gate-keeping and firm sanction practices.
- Sanctions and time-limits involving complete benefit termination may involve adverse “side-effects” – particularly in recessions.
 - Poverty, social exclusion, crime.
- “Threats” are not credible.
 - Individuals in need are typically eligible for other benefits (follow-on-benefits, social assistance, rehabilitation- or disability benefits).
 - Benefit substitution may occur.

Can activation "resolve" the conflict between insurance and incentives?

- Reduces the leisure-element of social insurance.
- Encourages persons who – with some effort – are able to prevent or escape from benefit-dependency *to self-select* out of the system.
- May imply better use of “waiting time” for the others.
- Appeal to the left and the right:
 - More insurance, given the level of moral hazard.
 - Or less moral hazard, given the level of insurance.
- Improve job prospects?
 - For unemployed?
 - For disabled?



The “threat effect” of activation

- It is well known that by taking the benefit away from job seekers, some of them will find work.
- Can a similar “effect” be achieved by offering paid activation instead?
 - Can we use activation as a “soft” constraint and a “mild” sanction?

“Soft” constraints and “mild” sanctions

- Quasi-experimental evidence from Norway indicates that the “harshness” of sanctions and UI exhaustion regulations is of minor importance for (ex ante) job search behavior.
- It is the length of the “undisturbed” passive insurance period that matters.
 - The job hazard rises significantly the last months before exhaustion of passive UI benefits – *regardless of what comes afterwards.*
- Activation-oriented unemployment insurance imply significantly higher job transition rates throughout the unemployment spells.

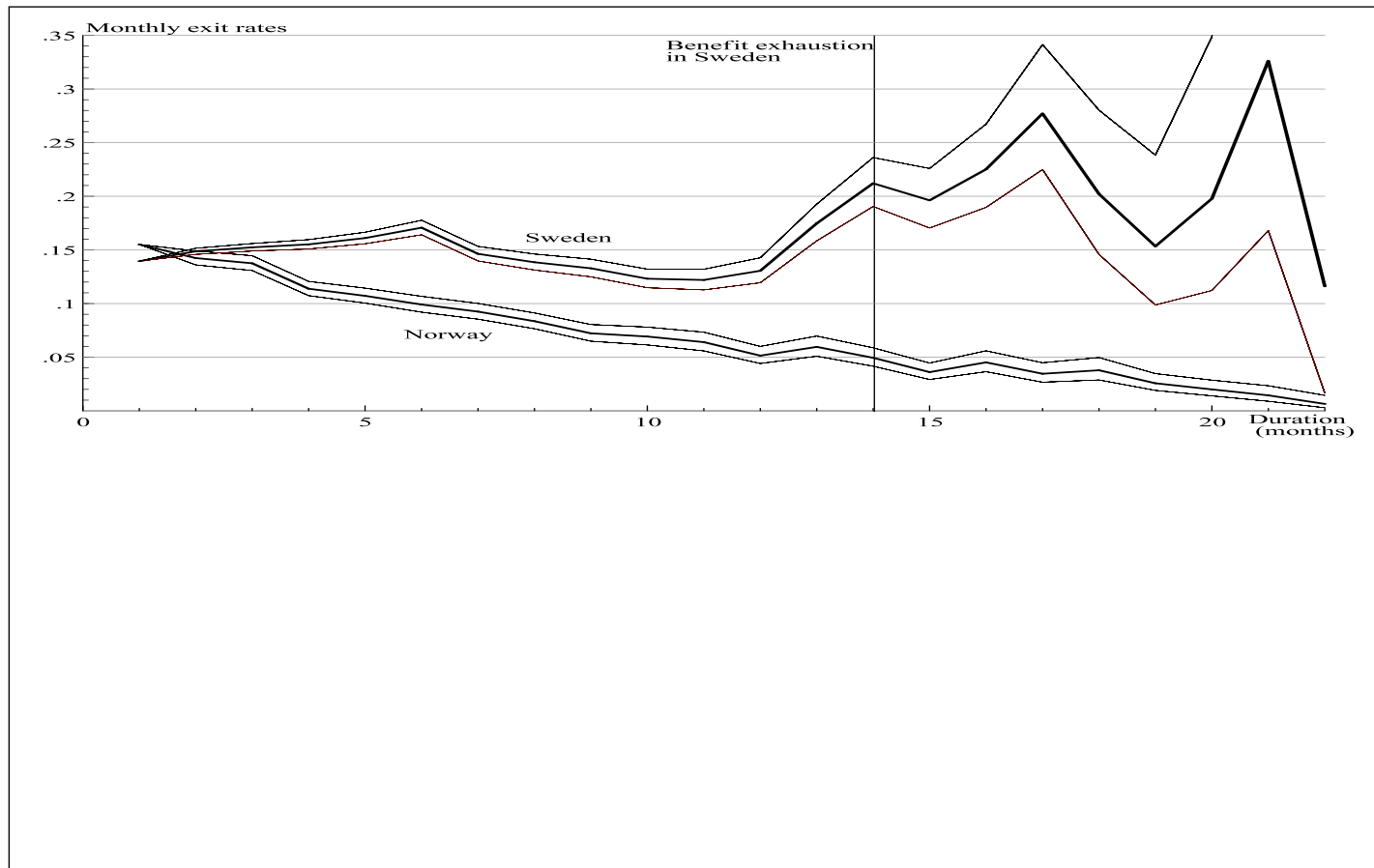
Norway and Sweden 1999-2000 - comparison of two UI regimes

(Røed et al, 2008)

- Norway: Max period with passive UI: 3 years (+ indefinite “follow-on”-benefits for 62% of the claimants).
 - Moderate use of activation – 17% of job seekers activated
- Sweden: Max period with passive UI: 60 weeks
 - Frequent use of activation – 35% of job seekers activated



Duration dependence in two UI regimes



“Right and duty” in Denmark

- Denmark has designed its UI system in terms of a “passive” and an “active” period. The employment hazard rises sharply as the “active” period approaches (Geerdsen, 2006).

Effects of actually being activated

- An activation strategy obviously involves *actual participation*.
- A lot of research on treatment effects (Kluve et al, 2007; Card et al, 2010)
- Mixed evidence:
 - Training programs tend to perform poorly
 - Subsidized placement in regular jobs tend to perform better
- Few experimental studies that can be generalized – still a lot we don't know.

Recent Norwegian evidence

- Gaure et al (2008) evaluate Norwegian ALMPs modeling different outcomes – unemployment duration, next state, and job quality – simultaneously.
- Key findings:
 - Longer unemployment duration
 - Higher probability that the spell ends with employment
 - Slightly higher earnings
- Do the benefits outweigh the costs?
 - That depends on the “value” generated during participation.

Cyclical activation strategy?

- There should probably be a pro-cyclical element in the fraction of claimants that are activated – for four reasons:
 1. The moral hazard problems in UI are smaller in recessions.
 2. The ex post effects of actual program participation are probably less positive in recessions.
 - But also smaller “lock-in”-effects of employment and human capital building programs.
 3. The group of unemployed is more positively selected in recessions – and persons with high individual qualifications have less to gain from participation.
 4. There are significant administrative costs associated with fully accommodating the cycle.

Activation in disability insurance?

- In Norway, the permanent disability insurance rolls outnumber registered unemployment by four to one.
- There is significant substitution between unemployment and disability insurance (Rege et al, 2009; Bratsberg et al, 2010).
- Disability is really a matter of *degree* – not of kind.
- An activation strategy may seek to exploit the remaining work capacity, based on the ideas that
 - Work is healthy (Waddell and Burton, 2006)
 - Activation requirements reduce moral hazard problems

Graded absence certificates in Norway

- In Norway, there has been an attempt to ensure partial participation in work for all sick-leave spells exceeding 8 weeks.
- Evaluation of this strategy – based on variation in physicians' compliance – indicates that it has a huge potential (Markussen et al, 2010).
 - The impacts of obtaining a graded rather than a full-time sick-leave certificate are large – in terms of shorter overall absence spells, higher subsequent employment propensity and less subsequent social insurance dependency.

Concluding remarks

- **Activation works!**
 - It reduces moral hazard problems in unemployment as well as disability insurance.
 - It does not necessarily speed up the transition to regular work, but raises the likelihood that such a transition eventually occurs.
- **Social insurance systems should be transformed from offering “pure” income insurance to offer income insurance *through participation*.**

