



Effects of the unemployment insurance work test on long-term employment outcomes[☆]



Marta Lachowska^{a,*}, Merve Meral^b, Stephen A. Woodbury^{a,c}

^a W.E. Upjohn Institute for Employment Research, 300 South Westnedge Avenue, Kalamazoo, MI 49007, United States

^b Department of Economics, University of Massachusetts Dartmouth, 285 Old Westport Road, North Dartmouth, MA 02747, United States

^c Department of Economics, Michigan State University, 486 West Circle Drive, East Lansing, MI 48824, United States

HIGHLIGHTS

- We examine the effects of the work test on long-term employment outcomes.
- We add nine years of data to the Washington Alternative Work Search experiment.
- The work test improves employment outcomes for lower-wage, permanent job losers.

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ABSTRACT

Does requiring job seekers to be available and searching for work affect job quality? We examine the effects of this unemployment insurance (UI) work test on long-term employment outcomes. Adding administrative wage records to the Washington Alternative Work Search (WAWS) experiment, we examine effects on earnings, hours worked, employment, and job match quality in the nine years following the experiment. Among UI recipients as a whole, the effects of the work test were negligible, counter to the hypothesis that the work test may harm long-term earnings. But for permanent job losers, the work test reduced time to reemployment by 1–2 quarters, and increased job tenure with the first post-claim employer by about 2 quarters. Also, we find that the work test selected lower-wage workers into reemployment. Accordingly, the work test may be an important policy for improving the reemployment prospects of lower-wage, permanent job losers.

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* Corresponding author.

E-mail addresses: marta@upjohn.org (M. Lachowska), mcebi@umassd.edu (M. Meral), woodbur2@msu.edu (S.A. Woodbury).

1. Introduction

The work test for unemployment insurance (UI) recipients has been a central part of UI in the United States since the system began in the 1930s. In general, to be eligible for UI benefits, a claimant initially needs an adequate work history and must have lost her job through lack of work and no fault of her own. In addition, to remain eligible, the worker must be "able, available, and searching" for work—that is, must satisfy the work test.

This paper examines the intent-to-treat effects of the work test on long-term employment outcomes, such as long-term earnings, hours worked, probability of employment, and post-unemployment match quality (proxied by job tenure). To do this, we add nine years of quarterly administrative wage records to the short-term data from the Washington Alternative Work Search (WAWS) experiment previously analyzed by Johnson and Klepinger (1991, 1994). The WAWS experiment randomly assigned eligible UI claimants to a treatment that effectively eliminated the work test (*no work test* group); to a treatment with a *standard work test*, which usually called UI recipients for an Eligibility Review Interview (ERI) 12–15 weeks after the initial UI claim; and to a treatment with a *modified work test*, which usually called UI recipients for an ERI about the *fourth* week following the initial claim. (We describe the treatments further in Section 2.)

1.1. Previous literature

The effects of the work test on post-unemployment outcomes have been much debated. Policymakers and economists alike have expressed concerns that, although necessary to reduce moral hazard, the work test could pressure a worker to accept a relatively poor job match, undermining UI's objective of enabling the worker "to search longer for a suitable job that is in line with previous earnings and experience" (Blaustein, 1993, p. 61).

Appropriately, then, a relatively small but growing international empirical literature has examined the effects of the work test and related UI policies (such as monitoring and sanctions) on post-unemployment outcomes, particularly in European countries. Arni et al. (2013) provide a detailed analysis of warnings and sanctions in the Swiss UI system and find that benefit sanctions lower post-unemployment earnings, and that the adverse effects persist for at least two years. Similarly, van den Berg and Vikström (2014) find that in Sweden, sanctions for not meeting the work test lead to lower wage rates and hours worked, and that the adverse effects persist at least 4 years. Accordingly, these studies suggest that stringent monitoring of the work test may push claimants to accept poor job matches.

Van den Berg and van der Klaauw (2006, 2013) study a random-assignment experiment in Holland and find relatively little effect of counseling and monitoring on exit to work or post-unemployment earnings. They explain their findings in light of a structural model and show that monitoring causes claimants to substitute formal for informal job search in order to satisfy monitoring requirements.

In a random-assignment experiment in the United States (Maryland), Klepinger et al. (2002) found that a relaxed work search requirement led to higher earnings in the third and fourth quarters following the quarter in which new UI claimants were assigned to treatment.¹

The work most closely related to ours is by Dolton and O'Neill (2002), who examine the long-term employment outcomes of tighter

monitoring of benefit eligibility rules and increased job search assistance in the UK Restart program during 1989–1994. Their analysis finds that monthly unemployment rates among males in the randomized treatment group (that is, those subject to closer monitoring) were lower than controls over the 5-year follow-up period, but there was no effect among women.

The evidence, then, is quite mixed regarding the effect of the work test on post-unemployment outcomes. We can only speculate on the reasons for these diverse findings, but a common thread in the policies that reduced post-unemployment earnings is their apparent emphasis on sanctions, whereas the treatments that improved post-unemployment outcomes purported to place more emphasis on reemployment services. The speculative nature of these comments highlights the importance of looking inside the "black box" of policy interventions.

1.2. Main findings

The WAWS experiment was based on random assignment, allowing us to rely mainly on straightforward estimators of the intent-to-treat effects of the standard and modified work tests on long-term post-unemployment outcomes, with no work test as the comparison group. For reasons discussed in Sections 2 and 4, the work test may have different effects on different groups of UI claimants, so we also estimate separate models for subgroups of claimants: permanent job losers, those who quit for good cause, and those temporarily laid off.

For UI claimants as a whole, we find little evidence that the long-term earnings or employment probabilities of workers in the standard and modified work test groups differed from those of workers who faced no work test; however, we do find differences among subgroups. For permanent job losers, the work test resulted in improved employment outcomes: greater earnings in the year following job loss, a shorter spell of nonemployment, and longer tenure with the first post-claim employer. Pre-treatment outcome tests in Section 6.1 suggest these gains accrued disproportionately to workers who had earned lower wages before their permanent job loss. Given that permanent job losers have increased as a share of all job losers during the past 20 years, the findings suggest the importance of maintaining the work test as a way of improving the reemployment prospects of low-wage, permanent job losers.

For claimants who quit for "good cause," the effects of the work test were minimal. Although the modified work test increased the probability of reemployment in the year following the UI claim, neither work test treatment had any long-term effect on the employment, earnings, or other observable long-term outcomes of claimants who quit.

Finally, for claimants on temporary layoff, the work test treatments reduced UI benefit receipt and UI durations, but had virtually no impact on employment outcomes. The results for claimants on temporary layoff imply that the work test plays a role in reducing moral hazard—without it, claimants drew more UI benefits without any improvement in employment outcomes.

The paper is organized as follows. After a description of the WAWS experimental design (Section 2), we describe the data and the setup of the long-term panel (Section 3). [Additional information on the data is included in an online Data Appendix (Lachowska et al., 2015.)] We then briefly consider the theoretical links between the UI work test and post-claim employment outcomes (Section 4). Section 5 reviews the estimation methods, and Section 6 presents the results of estimation. Section 7 offers further discussion and summarizes the findings.

2. Institutional background: the UI work test and the WAWS experiment

2.1. UI and the work test in the State of Washington

To be eligible for UI in Washington, a claimant must have worked at least 680 hours in approximately the year before claiming UI, must have

¹ Several papers examine the impact of sanctions on the transition out of unemployment or the duration of unemployment, but for lack of data they do not examine post-unemployment outcomes: Gorter and Kalb (1996), Abbring et al. (2005), Ashenfelter et al. (2005), Lalive et al. (2005), Micklewright and Nagy (2010), Rosholm and Svarer (2008), Svarer (2011), Cockx and Dejemeppe (2012), and Toohey (2014).

A different literature examines the effects of other aspects of UI (such as benefit generosity or potential benefit duration) on post-unemployment outcomes. For example, Centeno (2004), McCall and Chi (2008), Tatsiramos (2009), Caliendo et al. (2013), and Nekoei and Weber (2015a) find a positive relationship between more generous UI and post-unemployment earnings. In contrast, Addison and Portugal (1989), Gregory and Jukes (2001), and Schmieder et al. (2016) find a negative relationship. Finally, some research has found little convincing relationship between post-unemployment earnings and UI benefit generosity (Addison and Blackburn, 2000; Belzil, 2001; Centeno and Novo, 2009), longer potential duration of UI benefits (Lalive, 2007; Card et al., 2007), or subsequent job tenure (Belzil, 2001; Card et al., 2007; van Ours and Vodopivec, 2008). See also the reviews by Fredriksson and Holmlund (2006) and Tatsiramos and van Ours (2014).

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