



The effect of temporary in-work support on employment retention: Evidence from a field experiment[☆]



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HIGHLIGHTS

- A large scale field experiment found in-work support increased long-term employment.
- We decompose this impact into employment entry and employment retention effects.
- The main impact was to increase exits from the initial unemployment spell.
- Lagged duration dependence in unemployment exits prolonged this initial effect.
- There was no evidence of a significant employment retention effect.

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ABSTRACT

A recent experimental programme for unemployed welfare recipients in the UK found that temporary earnings supplements combined with post-employment services led to a sustained rise in employment. This paper examines whether this was due to increases in employment entry or to reductions in employment exit. Using a hazard rate model, we find a significant effect on initial employment entry but not on subsequent transitions. The results also show that the length of a completed unemployment spell has a negative effect on the hazard of exit from the next unemployment spell. While the direct effect of the programme is to shorten the initial unemployment spell, an indirect effect arises due to this lagged duration dependence.

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1. Introduction

In recent years, many social programmes have attempted to encourage out-of-work welfare recipients to seek and retain employment through the use of time-limited earnings supplements. This paper evaluates one such programme recently trialled in the UK; the UK Employment Retention and Advancement (ERA) programme (Hendra et al., 2011). ERA offered temporary financial support and employment services to individuals moving from welfare into

full-time work. It was structured in a way that rewarded *sustained* employment and, as such, represented a departure from labour market policy in the UK which had until then focused on job entry rather than employment retention. Because it was evaluated as a randomised control trial, ERA's effectiveness could be robustly assessed, and it was shown to significantly increase employment among the long-term unemployed.

This paper attempts to identify whether ERA did in fact increase employment retention or whether the overall impacts were due instead to increased employment entry. The distinction is important since employment retention can have a number of longer-term benefits, such as increased employment stability, skill acquisition, earnings growth and career advancement. If ERA can increase employment retention, this would suggest that programmes supporting individuals in the early months of new employment (when the risk of job loss is

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highest) might have the potential to break the ‘low-pay no-pay’ cycle, thereby improving upward mobility in the labour market.

Although random assignment of ERA eligibility allows unbiased estimates of overall effects, using experimental data to examine programme effects on the rates of entering and leaving employment is more complicated. The difficulty arises because randomisation does not ensure that treatment incidence is independent of unobserved characteristics in employment and non-employment spells that begin post-randomisation. Consequently, treatment-control comparisons among those individuals who have become employed since the programme began cannot be viewed as providing causal estimates of impact.

In this paper, we use hazard rate models to gain an insight into the relative effects of ERA on employment entry and employment retention. We allow unobserved heterogeneity to (separately) influence entry and exit hazards. By allowing these unobserved influences to be correlated, we aim to control for dynamic selection into and out of employment and thereby achieve estimates of the impact of ERA on both processes that can be regarded as causal. We deal with the complication surrounding initial spells by adopting the methodology used in Ham and LaLonde (1996) and Eberwein et al. (1997), specifying a separate process for initial and subsequent non-employment spells. To preview the results, we find that, during the period of ERA eligibility, exit rates from those non-employment spells that were ongoing at the time of randomisation increased but there was no such effect for non-employment spells that began after randomisation, nor was there an effect on employment retention. Post-eligibility, there were no significant effects of ERA on either employment entry or retention. It seems therefore that the higher employment rates seen among the treatment group are due to ERA shortening the initial nonemployment spell. Lagged duration dependence (longer spells out of work reducing the hazard of exit from the next workless spell), reinforces and prolongs this effect.

The remainder of the paper has the following structure. Section 2 summarises the evidence from previous random assignment evaluations of temporary earnings supplements. Section 3 describes the main features of UK ERA and sets it within the context of the welfare system that existed at the time in the UK. It also describes the expected effects on employment entry and retention. Section 4 describes the experiment and shows the overall effect of ERA on employment. The econometric model is presented in Section 5 and estimation results are given in Section 6. Section 7 concludes.

2. Experimental evidence from previous programmes for welfare recipients

Much of the available experimental evidence originates from evaluations carried out in North America. Previous programmes targeting out-of-work welfare recipients have provided earnings supplements to encourage employment (Martinson and Hamilton, 2011; Gennetian et al., 2005; Huston et al., 2003; Michalopoulos, 2002). In some cases, the supplements were designed to encourage work by providing a cash reward if a job was found. Some programmes also offered incentives to promote employment retention by tying receipt of supplements to the achievement of designated milestones, such as 90 days of continuous employment. Still other programmes offered incentives to encourage full-time employment, with receipt contingent upon working a certain number of hours in a given time period (Hendra et al., 2010).

The intuition behind temporary earnings supplements is that the transition from benefits into work is often difficult and the risk of employment exit is particularly high in the period immediately following employment entry. By providing financial support for a fixed period of time, the intention is to help individuals complete the transition successfully and, with time, become established workers. This should increase long-term employment and earnings. Such interventions are distinct from more traditional policies in the sense that they aim

explicitly to support employment retention as opposed to employment entry.

Several studies have shown that provision of temporary earnings supplements can promote employment among low-wage workers. The Minnesota Family Investment Program (MFIP), The New Hope Project and the Canadian Self-Sufficiency Project (SSP), are remarkably consistent in demonstrating positive effects on employment, earnings and income (Michalopoulos, 2005). One year after randomisation, MFIP increased employment by 14 percentage points (relative to an employment rate of 34% among the control group). For SSP, the impact was also 14 percentage points after a year (relative to 31% employment among the control group). For New Hope, the increase was 11 percentage points, although this time relative to an employment rate of 63% among the control group. In all three cases, impacts subsequently faded and ceased to be statistically significant once the earnings supplements ended.

Later programmes combined temporary earnings supplements with a variety of employment-related services aimed at helping those eligible to find and retain jobs. SSP Plus, a programme for single-parent welfare recipients in Canada, found sustained effects that exceeded those from regular SSP that provided earnings supplements alone (Robins et al., 2008). The additional impact relative to regular SSP was sizeable, with an increased employment rate averaging nearly 7 percentage points 36–52 months after randomisation. The Texas ERA programme combined a temporary earnings supplement with both pre- and post-employment services. In Corpus Christi, the employment rate was increased over the four years post-randomisation by an average of 3.7 percentage points (compared to an average employment rate of 48% among the control group). However, in Fort Worth, the pattern of effects was more typical of a traditional incentive programme in which effects faded shortly after the programme period. The impact on employment peaked in the second year after randomisation (an increase of over 6 percentage points in the proportion employed at some point in year 2, against a control group employment rate of 63%) but was not statistically significant in later years, nor was the overall effect across all four years post-randomisation statistically significant (Hendra et al., 2010).

While the ability of these interventions to increase employment has been demonstrated, precisely how the effects arose is less clear. As already noted, knowing whether they were due to effects on employment entry or to effects on employment retention is important and findings in either direction potentially could provide guidance for policy-makers in allocating funds to run the programmes. A very small number of studies distinguish between these two effects. Card and Hyslop (2005), for example, attribute the overall effect found in the Canadian SSP evaluation primarily to faster exits from welfare, with only one-quarter due to reduced rates of welfare re-entry (i.e. employment retention). Dorsett et al. (2013b) provide mixed evidence for Texas. In the Corpus Christi site, short-term effects were estimated to be due to both employment retention and employment entry; the employment entry hazard rate increased by 14%, while the employment exit hazard rate reduced by 18%. Once the operational period had finished, the employment entry effect remained but the retention effect was no longer statistically significant. For the Fort Worth site, the only (marginally) significant effect was on employment retention during the operational period; a reduction in the employment exit hazard of 12%.

3. The welfare system in the UK and the expected effects of ERA

UK ERA (hereafter, ERA) was trialled for three groups: out of work single parents on welfare, low-wage single parents in part-time work, and long-term unemployed welfare recipients entering the New Deal 25 Plus active labour market programme (“New Deal”). Hendra et al. (2011) provide evaluation results for all three groups. The employment impacts are summarised in Table 1. There was no evidence of sustained

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