

Economic Studies 204



Lillit Ottosson
From Welfare to Work

Department of Economics, Uppsala University

Visiting address: Kyrkogårdsgatan 10, Uppsala, Sweden
Postal address: Box 513, SE-751 20 Uppsala, Sweden
Telephone: +46 18 471 00 00
Telefax: +46 18 471 14 78
Internet: <http://www.nek.uu.se/>

ECONOMICS AT UPPSALA UNIVERSITY

The Department of Economics at Uppsala University has a long history. The first chair in Economics in the Nordic countries was instituted at Uppsala University in 1741.

The main focus of research at the department has varied over the years but has typically been oriented towards policy-relevant applied economics, including both theoretical and empirical studies. The currently most active areas of research can be grouped into six categories:

- * Labour economics
 - * Public economics
 - * Macroeconomics
 - * Microeconometrics
 - * Environmental economics
 - * Housing and urban economics
-

Lillit Ottosson

From Welfare to Work

Financial Incentives, Active Labor Market
Policies, and Integration Programs



UPPSALA
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Dissertation presented at Uppsala University to be publicly examined in Hörsal 2, Ekonomikum, Kyrkogårdsgatan 10, Uppsala, Friday, 9 September 2022 at 10:15 for the degree of Doctor of Philosophy. The examination will be conducted in English. Faculty examiner: Professor Alexander Willén (Department of Economics, Norwegian School of Economics).

Abstract

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Essay I: I study the effects of increased social assistance (SA) generosity by exploiting exogenous variation induced by a ruling in the Swedish Supreme Administrative Court in 1993, mandating local governments to provide a minimum level of untied SA payments. The new rule forced some local governments to increase their SA generosity, while others were unaffected as they already complied with the stricter standards. I find that a 1 percent increase in SA generosity caused an increase in SA reciprocity by 1.3 percent and a decrease in employment by 0.2 percent, among individuals with a high risk of receiving SA. For individuals who were already recipients of SA, the increase in SA payments was not offset by lower labor earnings, resulting in increased disposable income.

Essay II (with Eva Mörk and Ulrika Vikman): We evaluate a temporary public sector employment program targeted at individuals with weak labor market attachment. Using dynamic inverse probability weighting to account for non-random dynamic assignment into the program, we show that the program is successful in increasing employment and reducing social assistance. The positive employment effect is driven by individuals at a regular workplace; for participants with temporary employment at a constructed workplace, we find negative employment effects. The decrease in social assistance is partially countered by an increase in the share that receive unemployment insurance benefits. This indicates that municipalities are able to shift costs from the local to the central budget.

Essay III (with Cristina Bratu and Linna Martén): This paper studies a 2010 reform in Sweden that transferred responsibility for a refugee integration program from municipalities to the Public Employment Service (PES). Aiming to increase female participation in the program, the reform strengthened economic incentives for the secondary earner in the household to participate. We show that the program improved women's earnings and employment, and that these effects emerge 2–3 years after program participation. The strengthened economic incentives increased participation in the program for women, but this does not drive the labor market effects. Instead, the increased labor market focus brought on by transferring the program to the PES seems to be the main mechanism behind our findings.

Essay IV (with Ulrika Vikman): In this paper, we evaluate an active labor market program (ALMP) targeted toward immigrants with very limited language skills. The program combines support in the participant's native language with an ALMP in a regular workplace. We apply dynamic inverse probability weighting to account for dynamic selection and compare participants with observably similar non-participants. We find a positive 10 percentage point employment effect, mainly explained by the participants obtaining subsidized employment as part of the program. In the medium term, these positive effects disappear. Participation in the program also leads to improved Swedish language skills.

Keywords: Social assistance, Welfare, Labor supply, Public sector employment programs, Cost-shifting, Dynamic inverse probability weighting, Refugees, Integration, Active labor market policies, Language support

Lillit Ottosson, Department of Economics, Box 513, Uppsala University, SE-75120 Uppsala, Sweden.

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Till farfar Kea

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Introduction

While most individuals who lose their job find new employment relatively fast, large groups of individuals struggle to (re)enter the labor market. Long-term unemployment comes at high fiscal and social costs for society and also has large detrimental effects on affected individuals and their families. How to reduce the poverty and the costs associated with long-term unemployment, as well as its duration, are policy questions of utmost importance. The aim of this thesis is to contribute to our understanding of these issues.

Individuals who have been unemployed a long time, or who lack previous labor market experience, are typically not entitled to receive unemployment insurance benefits (Immervoll and Knotz 2018).¹ In many welfare states, the final safety net and income support program available to them is means-tested social assistance. The aim of social assistance is to enable poor households to maintain a decent standard of living and as such, it is a crucial tool for reducing poverty. In Sweden (the setting of the four chapters of this thesis), social assistance is administered and financed by the local governments in the municipalities. In many regards, long-term unemployment and efforts to reduce poverty are thus burdens on the budgets of the local governments (who also lose out on tax revenues).

How can policy help individuals with no other means to support themselves, to go from welfare to work and self-sufficiency? In this thesis, I investigate some of the tools that are available to policymakers. As the subtitle of the thesis suggests, the central questions examined are how financial incentives (for individuals in chapters 1 and 3 and for local governments in Chapter 2), active labor market policies (chapters 2–4), and integration programs for immigrants (chapters 3–4) affect labor market, SA, and health outcomes of individuals with a weak labor market attachment. Another theme that reoccurs in most chapters, is the local governments as the provider of these programs.

To increase social assistance generosity, and hence the income of households with very limited means, can have several beneficial effects. Giving children access to (more generous) income support programs has been shown to improve test scores and mental health, as well as health and self-sufficiency later in life (Akee et al. 2018; Dahl and Lochner 2012; Hoynes et al. 2016; Milligan and Stabile 2011). In addition, poverty has in itself been found to cause poverty traps, as the stress and malnutrition it may cause can harm the

¹Eligibility to the social insurance programs are e.g. often conditional on having a minimum employment or contribution record.

cognitive function and ability to make good decisions (see, for instance, Mani et al. (2013), Schilbach et al. (2016), and Shah et al. (2012)). However, there is also a potential downside to the provision of more generous income support programs. A high level of income support makes unemployment more attractive, which can create work disincentives (Bargain and Doorley 2011; Bargain and Jonassen 2022; Hoynes et al. 2016; Lemieux and Milligan 2008; Meyer and Rosenbaum 2001). If the latter force is strong, more generous benefits may be more harmful than helpful in the long-run, trapping individuals in social assistance recipiency and unemployment. The disincentive effect of social assistance has been documented for specific subgroups, but our knowledge of whether this is a general phenomena or not, is still limited.

In the first chapter, titled **Social assistance generosity and labor market outcomes**, I study a ruling in the Swedish Supreme Administrative Court in 1993, which forced some local governments to increase social assistance generosity. The Court mandated local governments to provide a minimum level of untied social assistance payments, set by the national government (the national norm). Before this, the national norm was used as a guideline for how local governments should set their local norms. The local norm both specified the social assistance eligibility threshold – the level of other incomes under which households were eligible to receive social assistance – and the size of the cash transfer they were entitled to receive. Before the 1993 court ruling, there was ample variation in local norms across municipalities, and as many as 51% of all local governments applied a local norm that was less generous than the national norm. After the 1993 court ruling, these less generous municipalities thus had to raise their local norms. This both caused an upward shift in the social assistance eligibility threshold and an increase in the total sum of social assistance payments a given household was eligible to receive.

Individuals who lived in municipalities that were initially less generous than the minimum level were affected by the 1993 court ruling, while individuals who lived in municipalities already complying with it were not. By comparing the outcomes of individuals in these two municipality groups before and after the 1993 court ruling, I study the effects of social assistance generosity in a more general population than in previous papers.

I show that an increase of social assistance generosity increased social assistance recipiency, which crowded out labor earnings, leaving disposable income for individuals at risk of receiving social assistance unchanged. In my setting, I can also study the effects on previous social assistance recipients separately. In so doing, I find that for this group, the increase in social assistance is not offset by a decrease in earnings, resulting in a higher disposable income. This implies that the negative effect on employment for individuals at risk of receiving social assistance is primarily explained by an increased inflow into unemployment and social assistance recipiency, rather than a decreased outflow. My results also confirm that there is a trade-off between improving the

economic situation of social assistance recipients and creating work disincentives for individuals on the margin of receiving SA.

One way in which policymakers can counteract the negative effects on employment caused by providing generous benefits, is by conditioning benefit receipt on participation in active labor market policies. Such activation policies became common practice in the US and other parts of Europe in the 1990s, and the local governments in Sweden were no exception (Thorén 2008).² These policy measures could include job search activities, on-the-job and vocational training, and work placements. The idea that social assistance recipients had to deserve their welfare by participating in activation programs, was common during the 1990s (Thorén 2008). Today, many programs also focus on improving social assistance recipients chances of finding employment, e.g. through learning new skills, obtaining labor market experience and networks. The knowledge of what programs work for social assistance recipients, who tend to have a much weaker attachment to the labor market than the UI recipients that have been the focus of most previous literature, is very limited. The second (and fourth) chapter of the thesis aim to bridge this gap in the literature.

In **To work or not to work? Effects of temporary public employment on future employment and benefits**, co-authored with Eva Mörk and Ulrika Vikman, we evaluate a commonly used local active labor market programs: a temporary public sector employment program. This type of program, when targeted at UI recipients, does generally not come out well in evaluations (Card et al. 2010, 2018). However, as social assistance recipients tend to be less attached to the labor market, they may be expected to benefit more from this program which aims to provide networks and labor market experience. They may also be expected to be harmed less by negative lock-in effects.

The program under study is a temporary employment program provided by the city of Stockholm lasting for 6–12 months. We study three different type of employments, allowing us to investigate some of the underlying mechanisms. Who participates in the program is not random, and we therefore compare the outcomes of participants with observably similar non-participants, to evaluate the effects of participating in the program. We show that the employments that are placed at regular workplaces (e.g. childcare centers and schools) are successful in increasing participants' employment and reducing reciprocity of social assistance up to 3 years after entering the programs. However, for participants that had their temporary employment at a constructed workplace (e.g. doing outdoor cleaning), we instead find negative employment effects. Together with the finding that many participants who find employment after the program continue in the same workplace or sector, it seems crucial that the temporary employment provides participants with networks and labor market experience applicable to sectors in which there is a demand for labor. Our

²Although formally, Swedish active labor market policy is the responsibility of the central government and the Public Employment Service.

analysis also reveals that participation in the temporary employment has positive effects on health. Finally, our findings show that the decrease in social assistance is to some extent countered by an increase in the share receiving UI benefits. This indicates that in providing temporary employments to social assistance recipients, municipalities are able to shift costs from the local to the central budget.

More than half of the participants in the temporary employment program we study are immigrants. This group is also heavily over-represented among the long-term unemployed, as well as among social assistance recipients. In 2019, foreign-born individuals accounted for more than 60 percent of the long-term unemployed in the ages of 16–64, compared to 30 percent in the population in the same age group (PES 2021), and 60 percent of households receiving social assistance had at least one foreign-born adult family member (NBHW 2022). In addition to a weak labor market attachment, immigrants face language barriers to enter the labor market. Integration programs, which aim to support the integration of immigrants into their host country, may thus require a different set-up compared to regular active labor market programs. In the last two chapters of the thesis, I focus on programs targeted at this group.

In the thesis' third chapter, **Integrating Refugee Women**, co-authored with Cristina Bratu and Linna Martén, we focus on a group whose attachment to the labor market is especially weak – refugee women. We study the effects of a large reform of the refugee integration program in Sweden 2010, which aimed to speed up the integration of refugees and to increase women's participation in the program. The first cornerstone of the reform was to transfer the responsibility for the integration program from municipalities to the Public Employment Service. This was supposed to increase the labor market focus of the program and make access to active labor market programs more equal across municipalities and genders. The second cornerstone was to strengthen the financial incentives for secondary earners to participate, aiming to increase women's participation. Before the reform, the financial benefits associated with participating in the integration program were set and means-tested at the household level. This implied that, if one person in the household found employment, the benefits, and hence the financial incentives to participate in the program for unemployed household members, would decrease. After the reform, the benefits depended on the individual's own participation in the program, regardless of the employment status of other household members. We exploit that eligibility to the reformed program was determined by the date individuals received their residency permit, and compare the outcomes of individuals who were granted a permit slightly before October 31 2010, to those who were granted a permit slightly after.

Our findings show that the program improved women's earnings and employment, and that these effects emerge 2–3 years after the program has ended. However, we find no effects on labor market outcomes on men. Exploring potential mechanisms, we find that participation in the program increased for

married women but not for singles, which implies that the strengthened economic incentives caused the increased program participation. However, as the labor market effects are not explained by married women, this mechanism is not likely to be behind the improved labor market integration caused by the reform. We also find that the reform increased women's registration with, and participation in active labor market programs at, the Public Employment Service. The patterns we discover are in line with the hypothesis that the increased labor market focus brought on by transferring the program to the Public Employment Service was a crucial factor behind the positive effects on labor market outcomes.

The findings in the latter chapter point out that, even if financial incentives can be successful in increasing program participation, this does not guarantee that a reform will be successful in improving the outcomes in the group who is incentivized to start the program. It is also likely crucial that the content is tailored to the needs of the participants. In the fourth and final chapter of this thesis, **Supporting labor market integration by lowering language barriers**, co-authored with Ulrika Vikman, we evaluate a program in which the contents is tailored to fit the needs of immigrants with very limited language skills. The program is provided by the city of Stockholm, and is unique in the sense that it combines an active labor market program in a regular workplace (an internship or a temporary public sector employment) with support in the participant's native language, provided by bilingual caseworkers. The aim is to learn about the Swedish labor market and work-life, and practice Swedish. Having bilingual caseworkers convey information, motivate and help solve potential communication problems in the workplace, may be a way to lower the language barriers and facilitate participation in more work-related activities. To evaluate the effects of participating in the program, we use the rich set of covariates that we have access to, to find observably similar non-participants.

We find that participation in the program increases employment by 10 percentage points in the short term. However, this effect is mainly explained by the participants obtaining subsidized employment as part of the program. In the medium term, the positive effects on employment disappear, but for women and individuals with more than compulsory school education, we find indications of a positive effect by the end of our 2 year follow-up period. Investigating if the program affects language skills, we also show that participation seems to have a positive effect on language acquisition in the medium term.

To sum up, this thesis has shown that while increasing the generosity of social assistance may increase the inflow to social assistance reciprocity and unemployment, active labor market policies – in particular temporary public sector employment in regular workplaces – can be used to counteract this by improving unemployed individuals' chances to find employment.³ The thesis

³One successful example of combining generous (non-means tested) benefits with tailored active labor market programs to social assistance recipients is evaluated in Markussen and Røed

also shows that, while financial incentives can be important tools to increase participation in integration programs, this is not necessarily enough to improve labor market integration. While some benefit from getting access to the active labor market programs and services provided by the Public Employment Service, others may need more tailored programs.⁴

(2016). They show that the program had large positive effects on employment for social assistance recipients in Norway.

⁴Dahlberg et al. (2020) and Helgesson et al. (2020) study programs in Sweden tailored to the needs of immigrants with low education and refugee women, respectively, and find large positive effects of these programs.

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