

Summary

Unemployment insurance serves an important function. It serves as protection for the individual, is of central importance to the functioning of the labour market and is meant to function as a fiscal policy stabiliser in times of recession. Unemployment insurance is *readjustment insurance and not professional or social insurance*. The Government has tasked the Swedish Public Employment Service with ensuring that it does indeed function as readjustment insurance. Income-related unemployment insurance provides a generous share of income as benefits but has a low maximum benefit level; this means that benefit levels are high for low-income earners but low for high-income earners.¹ Whether this is desirable and what benefit levels and benefit periods are reasonable in unemployment insurance are often the topic of economic and political debate. Another issue discussed in the general debate over the last decade, and one which is also related to insurance systems, is incorrect payments occurring in various social security systems.² To secure public confidence in the systems and prevent mismanagement of taxpayers' money, measures to reduce incorrect payments have received greater focus and in certain cases controls have been tightened.

There is therefore reason to review how different parts of unemployment insurance work. The issue discussed in this report, namely the role of control mechanisms in changing job-search behaviour, has not gained as much attention in the public debate as the issues mentioned above. Recently, however, the control issue

¹ Unemployment benefit may amount to, at most, 80 per cent of the recipient's previous earnings. However, there is a cap of SEK 680 per day, which has not been raised for over ten years.

² The Commission against Benefit Fraud and Errors was established in autumn 2005 with the purpose of reducing incorrect payments from welfare systems, and was followed up by an inter-agency cooperation project led by the National Financial Management Authority. Many of the insurance systems are based on a certain burden of proof level borne by the individual and verifiable.

has also attracted attention, for example in the Long-Term Survey 2011 (LU2011) and the ministry memorandum 2012:3 (Ds 2012:3).

The purpose of this report is to illustrate how the Swedish Public Employment Service deals with controls of benefit recipients' job-search activities and also to present concrete proposals on how to design a more appropriate control system that does not require major changes to the division of responsibilities between actors, regulatory frameworks and vis-à-vis benefit recipients.³ Many interesting issues thus fall outside the scope of this report and will not be addressed unless they are in some way connected with the control system. These include eligibility criteria for the unemployment insurance fund, benefit levels, how long benefits should be paid out, the size of the sanctions, the system of trade union-affiliated unemployment insurance funds, etc. Studies show that employment officers widely fail to send reports, or notification, of possible violations to the unemployment funds when they should. There are also indications that controls and reporting to the unemployment insurance fund do not function satisfactorily; for instance, the measurable control conducted today in the form of instructions risks distorting job-search behaviour and weakening the insurance's readjustment function.

We argue that there are three main problems with the present methods the Public Employment Service uses to monitor and report on lack of compliance.

Firstly, the monitoring methods that aim to measure job-search activity are mainly directed at jobseekers with good prospects of finding a new job quickly. However, virtually all benefit recipients are informed of the requirements for receiving and retaining benefits and they also receive action plans specifying the activities to be taken to find a job. On the whole, these tools make for too little monitoring. This risks making recipients passive and resulting in low job-search intensity, especially among those who are very detached from the labour market.

³ Since the purpose of the proposed system is to maintain job-search activity among those receiving benefits, we see no reason why the proposed system cannot also work to check that people receiving activity support continue their job-search activities when participating in labour market policy programmes and the job and development guarantee scheme. Under the proposal, it is the jobseeker who is required to provide proof of their job-search activities, and follow-up of job-search activities is conducted regardless of where in the country one lives. This function should also be able to be maintained if the employment services make extensive use of complementary actors. The report, however, does not look closely at this situation.

Secondly, the Public Employment Service has decentralised the control task by giving employment officers the double responsibility of job placement and providing support for benefit recipients on the one hand and, on the other, functioning as inspectors and controlling and reporting on possible lack of compliance by recipients, which risks leading to a low or insufficient level of control.

Thirdly, the costs to unemployment insurance funds and taxpayers arising from a low level of control are not charged to the administrative appropriation to the Public Employment Service. This could lead to the Public Employment Service giving lower priority to control when trade-offs between different activities must be made.

Whether people receiving unemployment benefits without being entitled to them do so consciously and intentionally is a question that cannot be answered here. Considering the unclear requirements and the absence of recipient controls, it is likely that a large share of the incorrectly paid benefits are both unconscious and unintentional on the part of the recipient.

The aim of the unemployment insurance system is not only to enable a temporarily unemployed person to spend time looking for a new job without suffering a drop in their standard of living, but also to promote an effective labour market. When a recipient does not need to accept whatever job is available, and can carefully compose their applications and prepare their interviews, matching of recipients and vacancies in the labour market is improved. High benefit levels and longer benefit periods may allow unemployed people more time to look for work and a better chance of finding a job that matches their qualifications and pay demands. But the insurance conditions also affect the desire to avoid unemployment. Since recipients have time to be unemployed and can afford it, unemployment periods risk being prolonged unnecessarily. Research shows that protracted unemployment lessens the chances of finding a job in the future. There is therefore a trade-off between security and good matching on the one hand and weakened incentives to avoid unemployment on the other.⁴

⁴ See e.g. Carling et al (2001). Empirical studies show that high benefit levels are associated with high unemployment (Layard, Nickel and Jackman (1991), OECD (1994), Blöndal and Pearson (1995), Scarpetta (1996), and Elmeskov, Martin and Scarpetta (1998) and long benefit periods contribute to long-term unemployment (see e.g. Nickell and Layard (1997) and OECD (1991) Benmarker et al (2007).

One way of combating long periods of unemployment is by requiring a certain level of job-search activity. There is convincing evidence that increased job-search intensity increases the flow from unemployment to employment.⁵ Under legislative requirements already in force today, recipients are obliged to look for work. It is important that these requirements are followed up through subsequent controls that are also adequately designed. Unemployment benefit may then be withdrawn completely or partially if controls reveal that recipients are not following the regulations.

It is a challenge to find the best balance between what is practically possible and what would be theoretically optimal. Through our method of identifying a number of key problems and finding solutions to them that at the same time will not cause new and larger problems, we focus on pointing to improvements and the need to make current systems clearer and simpler rather than designing a theoretically optimal system.

The report shows that significant scope for improvement exists in the current control systems, both for following up job-search activity and the use of sanctions. For instance, job-search intensity is affected in different ways depending on clarification of who has the burden of proof (the Public Employment Service or the benefit recipient). Other significant factors are who takes care of the controls, the conditions in place for conducting them and how they are actually conducted. Access to information on both job vacancies and benefit recipients' qualifications affects the possibilities of clarifying what the requirements should be for job-search activity.

A reform of the control function should centre on three overarching measures that meet the three problems described above. The first measure is to make clear that the responsibility of proving job-search activity lies with the individual rather than, as is the case today, letting the Public Employment Service prove a lack of job-search activity. At the same time, it is proposed that the Public Employment Service set out what should be the minimum number of jobs applied for, giving consideration to the individuals' circumstances and the labour market situation. The second measure is to separate the job placement and supporting function of the Public Employment Service from its control function. The

⁵ See Devine and Kiefer (1991) for an overview.

third is to refine the regulatory framework to clarify what constitutes grounds for sanctions.