

How Should we Treat the Unemployed?

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Britain has begun to treat its unemployed people more and more harshly. The latest step is 'hit squads' of inspectors: their job will be to pressurise and check up on those who are on the dole. Many other nations are about to move in the same direction. This is driven by desperation.

The best new scientific evidence is that hounding the workless makes no difference to how quickly they find jobs. Moreover, there is very little correlation between the generosity of a nation's unemployment benefits and the proportion of its people who are out of work (Switzerland and the Netherlands have generous systems, yet they have only two per cent unemployment).

If you wish to understand unemployment, it is essential to think of it as a kind of lake. That lake has a natural level. There is a flow in; there is a flow out. When you walk up to the lake, the depth you see is the amount that just balances the two flows. Yet at a glance the lake looks static.

The most common, but absolutely fundamental, mistake is to think of the identity of the molecules in the lake as staying the same. They change constantly.

Once you begin to reason in this way, it becomes clear why the politician's traditional approach to solving a nation's

unemployment problem is a waste of time. That relies on lifting out large numbers of the water molecules – at enormous taxpayer cost. The molecules are carried to the side of the lake and re-trained. If only we could make these molecules see sense, and improve themselves, the argument goes, then we could reduce the depth of the lake. It would be worth it even if very expensive to change how these feckless molecules feel and act. Once re-educated, the molecules will not return to the lake.

So the lifting and re-education is done.

Yet when the politician goes back to the lake the next day, the water level, lo and behold, has gone back to where it was. Other molecules have entered to exactly offset those taken out. Well, we must have needed a larger and more expensive water-scoop, it is concluded. Billions of taxpayers' money is spent fruitlessly bringing in ever more complicated ways of sucking out some of the lake's water.

In an ideal world, we would learn about the right way to tackle joblessness by running giant laboratory experiments. Economics will slowly move in this direction. Important research of just such a sort has recently been produced by a group at Princeton. In a fine piece of science, Orley Ashenfelter and colleagues study a randomized trial across four states of the US. They show that there is no point in treating the unemployed administratively harshly.

In the study, which was not done in the recent US boom, large numbers of unemployed people were assigned by random draw into a treatment group and control group. Those in the control group were given no special instructions.

Those in the treatment group were put under great pressure to find work.

First, these unemployed people had to go through a Benefit Rights Interview. It was explained that each had a responsibility to the community to search hard for work. Second, it was checked that the person was genuinely available to take a job. Third, the jobless person received a number of forms – a work search plan, a work search instruction sheet, and a form about how search was going. Fourth, the person was instructed to begin looking for work immediately, and told that he or she would be subject to checks to verify that an extensive attempt to find work really was being made, and that severe penalties would apply if during these checks any lack of diligence was discovered. Fifth, for a random sample of those in the treatment group, the investigators telephoned the employers mentioned by the job seekers – to double-check that they were applying for work.

The investigators found something important. In the four states studied (Connecticut, Massachusetts, Virginia and Tennessee), the treatment group fared no better than the control group. In other words, the length of time it took people to get back into work was unaffected by whether they were in the experimental group who were being pressurised. Leaning heavily on jobless people made no difference at all.

The likely explanation is that unemployed people try hard anyway to find jobs -- because being out of work is a horrible experience. We know this from mental wellbeing data. In Britain, there is a longitudinal survey that has followed people through the years of the 1990s. Unemployment is associated with a huge drop in mental wellbeing (measured on a standard psychological stress scale). When a Briton finds work again,

mental wellbeing jumps back up. The numbers are illustrated in the Table, with some comparisons of other major life events.

The Psychological Health of People in Britain

Change in mental wellbeing after losing job: -1.8

Change in mental wellbeing after getting back into work: + 2.7

Change in mental wellbeing after becoming separated from spouse: -1.2

Change in mental wellbeing after a large fall in income: - 0.2

Change in mental wellbeing after being widowed: - 6.2

Source: Andrew Clark and Andrew Oswald, British Household Panel Study, 1991-1998. Sample size: 32,000. Scale: a thirty-six point GHQ score.

It would be unconscionable to allow Britons to draw the dole endlessly without some check on what they do with their time. Moreover, higher unemployment benefits encourage some people to be unemployed slightly longer.

But the move to solve Europe's unemployment by becoming steadily more horrible to jobless people is wrong-headed. It is driven by guesswork -- not by the evidence.

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