

Complexity and the Effectiveness of Public Policy

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May 14, 2018

Extended Abstract

Unemployment insurance (UI) systems in modern labor markets are riddled with a multitude of rules and regulations governing job seekers' economic situation and their incentives to search for employment. These include, for instance, detailed regulations specifying individuals' benefit level and potential benefit duration, job search requirements, conditions for avoiding benefit sanctions, possibilities for earning extra income or additional benefit entitlements by working in part-time or short-term jobs, etc. The complexity of UI systems makes it challenging for job seekers to understand the prevailing rules, their build-in incentives, and the resulting consequences for their personal economic situation. This is potentially problematic, as a lack of understanding may distort individuals' job search incentives and employment prospects.

We conduct a randomized controlled trial among Danish job seekers to study how reducing complexity affects individuals' understanding of UI benefit rules, their job search behavior, and labor market outcomes. Our intervention exploits an online information tool that provides continuously updated, personalized information on individuals' remaining UI benefit period, their accumulated working time that can be used to prolong the potential benefit duration (PBD), as well as information on essential rules regarding job seekers' benefit duration and benefit sanctions. Earlier evidence has shown that job seekers in Denmark find these aspects of the UI system difficult to understand and that they exhibit limited knowledge of the underlying UI benefit rules, which can be assumed to impair their reemployment prospects.

The intervention is conducted within the common online job portal, which all UI recipients in Denmark are required to visit at least once a week. Participants in our experiment are randomly assigned to three equally sized groups: individuals in the treatment group (T) receive messages that direct their attention to the online information tool; (ii) individuals in the placebo group (P) receive generic messages that are unrelated to the information tool; individuals in the control group (C) receive no messages. We evaluate the causal effects of our intervention using administrative data on individuals' realized employment status and earnings, as well as an online survey that allows us to measure the unemployed's knowledge and their job search behavior.

Keywords: Unemployment Benefits, Public Policy, Knowledge, Field Experiments

JEL codes: J68, D83, C93

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