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**The Eligibility Tango: Client Information, Bureaucratic Discretion, and
Unemployment Insurance Eligibility**

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Abstract

The public administration literature has paid much attention to the behavior of agencies in determining the quantity and quality of social services, but has largely neglected the role of clients — especially strategic interactions between agencies and clients — in determining eligibility and benefit outcomes. This paper begins to fill the gap by elaborating a model first put forward by Lynn (1993) and using that model to describe how strategic behavior by employers and workers determines unemployment insurance (UI) outcomes. We use data from field investigations of UI denials and benefit overpayments to examine the extent of strategic behavior by clients in the UI system. The empirical findings suggest that strategic behavior by employers and claimants is important to decisions about who receives UI benefits and the amount of benefits received.

Scholars and politicians have long been concerned with the sources of waste and fraud in our public programs. Many reformers have called for “cleaning up the system;” however their prescriptions for reform have been vague and primarily rhetorical in nature. One effort in this vein was former Vice President Gore’s innovation to “reinvent government.” Part of the failure such reforms has been lack of understanding of the true origins of fraud in the systems.

The implementation of most social policies involves a co-production of information between street-level bureaucrats and the clients of the agency. This co-production involves the exchange of information, which could be strategic in nature by all parties. The interaction between bureaucrats and clients ultimately affects the outcome of the determination process. Public administration research has primarily focused on how bureaucrats use their discretion during these interactions (Keiser 1999, Maynard-Moody and Musheno 2003, Wenger and Wilkins 2007).¹ However, the field has largely chosen to treat clients of social service programs as naïve and powerless actors. This could be a mistake, as Lynn (1993) posited when he wrote, "Clients are not without advantages in their interactions with service workers. At least to some extent, service workers must trust clients' representations of their own circumstances, needs, and behavior. Misrepresentation [on the part of clients] may be advantageous" (Lynn 1993, p. 112). Lynn's paper points to two questions that have received too little attention in the public administration literature. First, when it is in their best interest, do clients act strategically by misrepresenting the truth when interacting with bureaucrats? Second,

¹ This differs from the economics literature, which largely focuses on the behavior of individuals. To address issues of strategic behavior by clients, the economic literature examines the role of information asymmetries and how they result in moral hazard. However, this literature ignores the interactions between clients and agencies that produce outcomes.

does this strategic behavior by the clients affect the determination of eligibility and/or payments?

We address these questions utilizing two data sets from the Unemployment Insurance (UI) system to test whether the two clients - employers and claimants - of the UI system behave strategically in their interactions with UI bureaucrats. The first is data from the Denied Claims Accuracy Pilot Project, in which a random sample of denied UI claims were subjected to intensive field investigations. The second is from the Benefit Accuracy Measurement (BAM) program, which has since 1987 subjected random samples of UI benefit payments to intensive field investigations. These data are the product of the benefit quality control program for UI and are designed estimate the extent to which payments of unemployment benefits are accurate and accord with law and policy. Utilizing these data will allow us to capture both instances of wrongful denial and UI overpayment.

The results of the study suggest that when it serves their interest, clients of the UI system are strategic about the information they provide to bureaucrats during the determination process. It appears that employers underreport their workers' earnings to evade taxes and avoid paying claims, resulting in wrongful denials. This incentive exists because employers that layoff more workers typically have more UI claims, which can result in higher UI taxes for the employer (i.e., increases the employer's experience-rated UI payroll tax rate). Similarly, claimants provide information selectively and strategically so as to raise the likelihood of eligibility and to prolong the duration of benefit receipt — resulting in benefit overpayment. Understanding the incentives and behaviors of clients has broad implications for policies that involve bureaucratic discretion, biased

information, and potentially fraudulent outcomes. Programs as diverse as Social Security disability insurance, worker's compensation, Medicaid, and temporary assistance to needy families all rely on client-provided information that is costly to verify. When biased client-provided information is coupled with bureaucratic discretion, the opportunity for favorable eligibility determinations and program expansions is likely.

Literature on Client Strategy

A fundamental duty of street-level bureaucrats is to implement the policies and rules determined by elected officials and their appointees. For many bureaucrats responsible for administering social safety-net programs in the United States, implementation may be their sole duty. Implementation is difficult when policies are technically complex or require costly information to execute, and these difficulties have been raised and examined extensively in the public administration literature (see below). In this paper, however, we view eligibility decisions as the joint product of clients and bureaucrats, rather than as one-sided bureaucratic decisions. In particular, we examine the incentives and payoffs to clients in providing information and the interaction of clients and bureaucrats in making UI eligibility determinations. In these complex cases, street-level bureaucrats gather information from clients and use their discretion in making decisions about who receives and who is denied benefits.

A large public administration literature examines bureaucratic discretion and has produced several different views of how bureaucrats use their discretion and how this ultimately impacts client outcomes. One view holds that bureaucrats use their discretion to “stretch the law” to respond to the needs of their clients (Handler 1992; Jones 1978; Keiser 1999; Maynard-Moody and Musheno 2003; Mladenka 1980, 1981; Nivola 1978).

These “citizen agents” pursue more equitable outcomes for their clients (Handler 1992; Jones 1978; Mladenka 1980, 1981; Nivola 1978). Other scholars posit an alternative view of the use of discretion by street-level bureaucrats. In contrast with “citizen agents,” “state agents” are guided by rules and hierarchy, use their discretion to enforce the policies and procedures of the agency, and are less concerned with serving the needs of the clients. A third view of street-level bureaucrats posits that bureaucrats may use their discretion to “disentitle” clients they deem unworthy (Lipsky 1980). Scholars suggest that some bureaucrats may become “rogue agents,” who use procedures and rules to punish and at times abuse citizens (Maynard-Moody and Musheno 2003, 151; Wenger and Wilkins 2007). These three views of how bureaucrats use their discretion suggest different strategies that they would follow when interacting with clients. However, we argue that it is unlikely that a bureaucrat would always follow the same strategy. Instead, it is likely that they would vary their behavior as information is being gathered and processed.

Although bureaucratic discretion has been widely examined in the public administration literature, the strategic behavior of clients of social service programs has gone largely unstudied. In 1993, Lynn called the field's attention to this oversight and provided a theoretical frame for testing the potential conflict created during the interaction between service workers and clients (Lynn 1993). During each interaction, the clients of a program and bureaucrats implementing the policies adopt different strategies. Cooperation would involve an honest exchange of information, with bureaucrats providing services in relation to the client’s level of need. However, incentives exist for both the client and bureaucrat to abandon cooperation and act strategically. As Lynn

posits, "A client's objective is to obtain the service or support he or she wants from the service worker, but how best to do so — how much information to divulge, how much effort to put forth- may be problematic" (1993, p. 112). Noncooperation for clients could include misrepresenting the truth concerning eligibility or not complying with the directives and expectations of the policies. At the same time, depending on the strategy the bureaucrat adopts, their behavior could range from advocating for clients to seeking to disentitle them from the program. This mix of strategies creates a structure of payoffs for these interactions (a Prisoner's Dilemma), where the dominant strategy for both participants is noncooperation. The result is a situation where rewards are greatest for bureaucrats when they demonstrate that they have met performance goals, prevented waste, and most importantly not been fooled by the client (Lynn 1993, 113). On the other hand, "clients' rewards are highest when they can in fact beat the system - when service workers accept their self-serving claims at face value. The worst outcome [for the client] is to be penalized [denied benefits] for honesty" (Lynn 1993, 113).

Lynn (1993) offers the first theoretical framework for the interaction between bureaucrats and clients; however, he models this "service delivery game" as a classic Prisoner's Dilemma implying that both players possess full information. In games of full information, players are knowledgeable about the structure of the game, the other players' payoffs, and the exact consequences of their actions. In the game we suggest, players have limited or incomplete information (Morrow 1994). This assumption changes the structure of the game. Players in our game possess private information regarding their own type -- reliable or unreliable -- and bureaucrats can choose among three types -- client agent, state agent, or rogue agent. This leads to six distinct outcomes.

The game starts with the claimant initiating a claim for benefits. The client decides whether to provide reliable or unreliable information to the bureaucrat. Whether the client provides reliable or unreliable information in conjunction with the bureaucratic type will determine the outcome of the game. During the game, players have repeated opportunities to provide information and change their type. Unlike Lynn (1993), we posit that bureaucrats employ a mixed strategy, which results in multiple equilibria (Morrow 1994). While the bureaucrat's strategy is unclear, clients have the incentive to provide unreliable information (extensive form of our game provided in Appendix A).² We characterize this game as a dance (a tango, if you will) where each player adjusts behavior based on the actions of the other.

Although the incentives faced by social service clients have not been widely examined in the literature, several studies have examined this topic in different policy settings. A substantial theoretical and empirical literature explains the economics and politics of regulatory compliance. There is evidence that regulated entities weigh the marginal costs of compliance against the marginal benefits of compliance when self-reporting (Braithwaite and Makkai 1991, Gray and Scholz 1991, 1993, Brehm and Hamilton 1996, Winter and May 2001). Brehm and Hamilton (1996) examine the determinants of noncompliance in polluting industries subject to environmental regulations. This noncompliance appears to stem from willful evasion and ignorance of the policies (Brehm and Hamilton 1996). Similarly, Winter and May (2001) argue that

² If we assume clients have a naïve expectation about the type of bureaucrat they are likely to interact with, then the probability of interacting with a “client agent” is .33. Since the only time it is optimal for a client to provide reliable information is when they are dealing with a “client agent,” two-thirds of the time it will be advantageous for the client to provide unreliable information.

the enforcement style of the inspector influences the strategic behavior of Danish farmers faced with adhering to agro-environmental regulations.

Research has also examined the compliance by citizens with government regulation and policies. Most of this research explores the behavior of United States taxpayers. A large literature concludes that taxpayer's weigh the cost of compliance against the threat of audit or penalty when deciding what to report on their taxes (McGraw and Scholz 1991, Mete 2002, Scholz and Lubell 1998, Scholz and Pinney 1995, Tyler 1990). This situation differs from compliance with policies that require co-production by a bureaucrat and client. In the case of taxes no co-production occurs, tax filings are simply audited by bureaucrats, so the client calculates the probability of being caught and the ensuing penalty and chooses a course of action. All decisions are made independent of any bureaucratic interaction.

One social program where the question of strategic behavior by clients has been addressed is welfare. Cox, Brogan, and Dandridge (1986) study payment errors in the Aid to Families with Dependent Children (AFDC) program and conclude that intentional client errors account for approximately half of the payment errors in the program. Clients appear to willfully withhold income information from their caseworkers (Cox, Brogan, and Dandridge 1986). Additionally, Edin and Jencks (1992) study the behavior of 50 welfare families in Illinois. They conclude that in order to receive benefits "most welfare recipients lie and cheat in order to survive" (Edin and Jencks 1992, 205).

The theoretical framework posited by Lynn (1993) and expanded above, coupled with the findings from other studies, lead us to hypothesize that clients are not naïve or powerless. Instead, clients act strategically (by providing unreliable information) to

increase the policy benefits they receive from a program. This strategic behavior ultimately affects the outlays of public programs. In the empirical work below, we can address the issue of strategic behavior on the part of the client only. Unfortunately, our data will not allow us to examine the behavior of bureaucrats. Although it is clear that clients have an incentive to behave strategically in order to receive benefits, it is unclear what their optimal strategy will be when interacting with bureaucrats.

The Multiple Clients of the UI System and Their Incentives

Individual claimants are the major beneficiaries of the UI system. After involuntary job separation, individuals claim unemployment insurance benefits in-person, over the phone, or via the internet. The UI agency gathers the relevant information from the claimant and the employer and initiates a three- part review: monetary determination, separation determination, and non-separation determination. The monetary determination is relatively straightforward: Did the worker earn enough to qualify for benefits based on the state-determined rules? If so, then the worker is monetarily eligible and a non-monetary determination is made. The separation determination involves an assessment of the reason for job separation: Did the claimant leave the employer due to lack of work and through no fault of his or her own (as opposed to quitting or being discharged for cause)? The non-separation determination examines whether the worker is able to work, available for work, and actively seeking work. The separation and non-separation determinations present opportunities for the bureaucrat to exercise discretion and for the claimant to decide which type of information (unreliable or reliable) to provide, both of which can influence outcomes. Clearly, the claimant has an incentive to provide information that increases the likelihood of receiving benefits. For example, a claimant

may want to misrepresent the conditions of separation, since quitting or being discharged for cause typically makes a claimant ineligible for benefits.³

While most people's understanding of the UI system focuses on the individual claimant as the program's client, in fact the employer has equal standing and is responsible for part of the joint production of eligibility determination. Employers are required to report the earnings of their employees quarterly to the state. These records are used in making monetary determinations, and they provide the information for calculating the employer's UI tax liability. During the separation determination, the employer is asked to provide the reason for job separation. In both cases, the employer has an incentive to provide unreliable information. With monetary determinations, the employer has an incentive to underreport earnings to reduce its tax liability. With separation determinations, the employer has an incentive to argue that the separation was for cause or voluntary in order to deny a claim and keep its experience rated payroll tax low.⁴

Given the game structure we develop, clients and employers have incentives and opportunities to provide both reliable and unreliable information to bureaucrats. Their decision about which type of information to provide is a function of the type of bureaucrat they expect to encounter. In the case of claimants, we assume this choice is uninformed because it is unlikely that claimants have experience with the system.⁵

However, the employer is more likely to be a repeat player and this influences the priors

³ Typically being discharged disqualifies a claimant for the duration of that unemployment spell; however, in some states a claimant may receive benefits during that spell after a sufficient waiting period.

⁴ An employer's experience rate determines the rate of taxes they pay. This tax rate varies based on the number of paid unemployment claims charged to the individual employer.

⁵ We do realize that many individuals will file for unemployment multiple times over the course of their career. However, for simplicity, we assume most claimants to be uninformed.

of the employer about bureaucratic type. Given the nature of the incentives and potential payoffs, we hypothesize that the optimal strategy for claimants in the UI system is to provide unreliable information; employers may also have an incentive to provide unreliable information, due to the lack of enforcement or penalties associated with misreporting. In general, UI agencies have rarely assessed penalties on employers in cases of wrongful denials, for claimants the penalties associated with getting caught misrepresenting the truth are minimal and typically fail to act as a deterrent for this type of behavior.

The two-client nature of the UI system sets up an adversarial relationship between the claimant and the employer that may act as a check on the willingness of both parties to provide unreliable information. The adversarial relationship places bureaucrats in the center of the process and gives them the opportunity to compare the information coming from the clients and to assess the extent to which it agrees. If the bureaucrat thinks both clients are providing reliable information, then their optimal strategy may be to act as a "state agent." On the other hand, if the clients fail to agree or provide conflicting information, then the bureaucratic response is indeterminate because there are multiple equilibria. Given the lack of a dominant strategy, we are likely to find that bureaucrats switch between types resulting in a variety of incorrect eligibility determinations. What ensues is an eligibility determination tango, where clients and bureaucrats are choosing their steps as information is updated and signals are sent.

Data and Method

The model developed above implies that the optimal strategy for clients of the UI system is to provide unreliable information. To test this hypothesis we analyze two

parallel data sets collected by the U.S. Department of Labor. Since 1987, the Department has tracked Unemployment Insurance overpayments through the Benefit Accuracy Measurement (BAM) program (U.S. Department of Labor, no date). In 2002, the Department began tracking the extent to which UI claims are wrongfully denied through the Denied Claims Accuracy (DCA) program (U.S. Department of Labor, 2006).

Under the BAM program, each state randomly samples a predetermined number of benefit payments each week (between 9 and 35, depending on the size of the state) and subjects each of those payments to an intensive field investigation to determine whether the payment was proper. Investigations are performed by telephone and in-person with the claimant, employers, and third parties in order to determine whether the payment complied with the laws and policies of the state. Investigators classify each overpayment, (due to an incorrect eligibility determination), as having one of three causes:

- an incorrect **monetary eligibility determination**; that is, the worker's earnings history were inadequate to make her eligible for the benefit paid
- an incorrect **separation eligibility determination**; that is, the worker quit or was discharged for cause (rather than being laid off due to lack of work), making her ineligible
- an incorrect **non-separation eligibility determination**; that is, the worker was not been able, available, and searching for work during the week in question, again making her ineligible

Once the overpayment is identified, the investigator then goes on to record how the error was detected and whether there has been any prior action on the case. The investigator also makes a judgment about who is responsible for the error. Because BAM randomly

samples paid claims, the Department can estimate, on an annual basis, total overpayments in each state and nationally.⁶

The newer DCA program fills an important gap in the BAM program by investigating three separate random samples of UI claims. The first consists of claims where workers were denied for failing to meet the state's monetary eligibility criteria. The second consists of workers denied for failing to meet the state's separation eligibility criteria. The third consists of workers denied for failing to meet the state's non-separation eligibility criteria. Each of these samples is investigated in a manner similar to that used to investigate paid claims under the BAM program, and the correctness of the denial is determined.

Although differences exist between payments and denials, the BAM and DCA record formats are essentially similar, and the information contained in BAM and DCA records is extensive. Each record includes information on the timing of the payment or denial, characteristics of the individual claimant, data on his or her employment and earnings history, and complete information on the UI claim. BAM and DCA records differ from standard UI claims records because, in addition to the information used to make the initial benefit determination, they include data on each claim after the intensive field investigation. For example, BAM and DCA records include the reason the claimant separated from his prior employer both as recorded when the initial claim was made and as revealed by the field investigation. In cases where an error was made, each record

⁶ In addition to giving estimates of overpayments, BAM yields estimates of the extent of underpayments *on paid claims*. That is, an investigator may find that a payment was less than it should have been, and this will be recorded and reported. These underpayments on paid claims amount to about one-third the underpayments resulting from wrongful denials (Woodbury 2002). BAM investigations cannot estimate underpayments resulting from UI claims wrongful denials because the BAM program samples only UI payments; no payment exists when a claim is denied. Although we could examine underpayments on paid claims, we focus here on (1) underpayments resulting from wrongfully denied claims (2) overpayments on paid claims.

includes the investigator’s judgment about what caused the error (as described further below) and who was responsible for the error — the claimant, employer, agency, a third party, or some combination of these.

The evidence presented below comes from individual BAM and DCA records in five states — Nebraska, New Jersey, South Carolina, West Virginia, and Wisconsin — from September 1997 through August 1998. We choose these states and this time period because they are the earliest for which both BAM and DCA records are available. As mentioned above, the BAM program has existed since 1987, and DCA started in 2002. However, during 1997-1998, the Labor Department conducted a DCA pilot project in five states (Woodbury and Vroman 1999, 2000), and we have chosen to rely on the DCA pilot data and the parallel BAM data from the same five states in order to give baseline estimates of UI overpayments and underpayments.

Evidence on Erroneous Denials and Overpayments

Table 1 offers a first look at the BAM and DCA data for 1998-1999 in the five pilot states. The top panel shows error rates on UI denials sampled for DCA investigations. (Frequencies from which the rates are derived in parentheses — note that the denominators of these frequencies are the number of denials sampled for investigation). The estimates show that, overall, 16 percent of monetary denials were erroneous, nearly 9 percent of separation denials were erroneous, and 15 percent of non-separation denials were erroneous.

The middle and bottom panels of Table 1 display *overpayment* rates on paid claims sampled for BAM investigations (again with frequencies in parentheses). Two kinds of overpayment rate are shown. The middle panel shows “total overpayments,”

which are positive payments made to UI claimants who the BAM investigation found should have received no payment. The bottom panel shows the sum of total overpayments and “partial overpayments,” which are payments that should have been positive but exceeded the correct (positive) amount, according to the BAM investigation.⁷

The middle panel of Table 1 shows that total overpayment rates are sharply lower than erroneous denial rates. In the five states taken together, the total overpayment rate on monetary determinations was 0.6 percent, compared with a monetary *denial* error rate of 16 percent. That is, the monetary denial error rate was nearly 27 times the total overpayment rate on monetary determinations. Similarly, total overpayment rates exceeded overpayment rates, although the differences are less striking.⁸ The gap between total overpayment rates and denial error rates holds for all five pilot states and for all three types of claim, with just two exceptions — South Carolina and West Virginia, where the non-separation denial error rate is similar to the total overpayment rate on non-separation determinations.⁹

Overall, Table 1 gives a first indication that states are more likely to wrongfully deny UI claimants than to overpay them. This in turn is consistent with the idea that employers are acting on the incentive they face to contain their UI payroll taxes —

⁷ In computing overpayment error rates, the total number of BAM cases is used as a base because BAM has a single sampling frame of paid cases and investigates all eligibility issues for each payment. That is, BAM does not draw separate samples of monetary, separation, and non-separation eligibility because each payment was issued after monetary, separation, and non-separation eligibility had been determined. This differs from the DCA pilot, in which there was a separate sampling frame for each type of denial.

⁸ Total overpayments offer a closer analog to wrongful denials than the sum of total and partial overpayments. The reason is that denial entails no payment when the correct payment was positive. The obverse of denial is total overpayment — a positive payment when no payment should have been made. Also, many partial overpayments involve only a small sum (even a dollar or two). Accordingly, most of the comparisons below are between erroneous denials and total overpayments.

⁹ South Carolina has the highest overpayment rate on non-separation determinations, reflecting what appears to be a complicated treatment of disqualifying income. West Virginia, on the other hand, has by far the *lowest* rate of erroneous non-separation denials and a rate of overpayments on non-separation determinations that are close to the average of the five pilot states.

perhaps by underreporting wages (which would be detected as an employer-caused error) or by pressuring UI agencies so they tend to err on the side of denying benefits (which would be detected as an agency error). Although the comparison between erroneous denials and the *sum of total and partial overpayments* is less striking, it leads to the same general conclusion: State agencies are more likely to incorrectly deny benefits than to overpay UI claimants.

Evidence on Strategic Behavior

As we have discussed, employers have an incentive to underreport workers' earnings and to contest UI claims — saying workers quit or were discharged when they in fact were laid off — so as to avoid increases in their UI payroll tax rates. For their part, workers have an incentive to game the system by reporting they were laid off when they quit or were discharged, concealing disqualifying income when they are receiving UI benefits, and reporting they were able, available, and searching for work even if they were not.

If employers and workers behave strategically in revealing information to the UI system, then we should be able to observe the outcome of that behavior in the BAM and DCA data. First, the BAM and DCA investigators determined and coded whether the UI agency could have made the correct decision without an exhaustive investigation. They next made a judgment about responsibility for each overpayment and erroneous denial. Finally, they recorded whether the employer had taken any action prior to the investigation. In this section, we examine these data for evidence of strategic behavior by employers and UI claimants.

Did the UI Agency have Correct Information?

If employers and workers fail to give the UI agency accurate information, then the agency cannot make correct UI eligibility determinations without exhaustive investigations. Table 2 tabulates data on the extent to which UI agencies had adequate information and the actions they had taken by the time of the BAM and DCA investigations. (A full description of each “prior agency action” appears in the notes to Table 2.)

The first column shows that the agency could not have detected 39 percent of the erroneous monetary denials through normal procedures, implying that it received inadequate information and could not uncover the error issue by following normal procedures. (That is, the error was discovered only through a field investigation that brought to light new information.) However, the agency was correcting 31 percent of incorrect monetary denials at the time of the investigation, so ultimately most incorrect monetary denials (57 percent, or 39 percent out of the 69 percent that would not have been corrected) could not be detected due to bad information.¹⁰

Even more strikingly, the second and third columns of Table 2 give the impression that a large majority of overpayments could not have been detected by normal UI agency procedures. At least 60 percent of overpayments — whether from monetary, separation, or non-separation determinations — were undetectable.

In sum, the findings in the second panel of Table 2 suggest that a majority of denial errors and overpayments made by UI agencies could not be detected by the agency. Although this could be interpreted as evidence that agencies should revise their procedures so that errors can be detected, it more likely suggests that employers and

¹⁰ Note that fewer erroneous denials are shown in Table 2 than in Table 1. This is because error issue data are missing for a few of the erroneous denials.

workers are behaving strategically and withholding the information needed to make a correct decision. We examine this question next.

Responsibility for Errors

Table 3 displays tabulations of the responsibility for erroneous denials and overpayments, as determined by the DCA and BAM investigations. The first column shows that employers were responsible for 38 percent of erroneous monetary denials. In addition, employers, along with claimants or the agency, were responsible for an additional 15 percent ($7.1 + 7.1 + 0.7$) of erroneous monetary denials. This suggests that some employers behave strategically in their dealings with the UI system so as to reduce their tax liability — that is, by underreporting workers' earnings. Underreporting reduces the employer's tax liability both directly by reducing the tax base and indirectly by reducing UI benefits chargeable to the employer.

In contrast, the agency is largely responsible for erroneous separation and non-separation denials. Accordingly, Table 2 offers little evidence that employers engage in the other form of strategic behavior they could exhibit — contesting the conditions of separation so as to deny workers benefits.

Columns 2 and 3 of Table 3 show responsibility for overpayments. The findings here are somewhat surprising. First, they show that most overpayments resulting from monetary determinations are mainly the employer's responsibility (top panel of Table 3). The implication is that some employers *over*-report the earnings of their workers, leading to overpayment of benefits when those workers claim UI. Note, however, the number of total overpayments resulting from monetary determinations is minuscule (14). As the third column shows, most overpayments from monetary determinations are partial

(meaning that the claimant should have received benefits but received more than she was eligible for), and partial overpayments tend to be small. Hence, the financial consequences of the errors being made by employers would seem to be minor.

The story is different when we turn to overpayments from separation and non-separation determinations. Here, the claimant plays a larger role because this is where the claimant has the opportunity to change the outcome. (For example, the claimant may say she was laid off when in fact she quit or was discharged.) As a result, it makes sense that the claimant, either solely or with the agency or employer, is responsible for over 70 percent of separation overpayments. (Note, however, that the number of separation overpayments is quite small — 29, compared with 154 overpayments from monetary determinations and 221 from non-separation determinations.)

On non-separation determinations, the claimant may say she is able, available, and looking for work when in fact she is not. So again it makes sense that the claimant is responsible for the majority of non-separation overpayments — about 75 solely and somewhat more jointly with the agency and employer.

Information Provided by Employers

DCA and BAM investigators coded whether by the time of the investigation, the employer had provided adequate and timely information, had not responded, had not been asked for information, or there was no employer-related issue. Table 4 tabulates these “prior employer actions” on erroneous denials and overpayments.

The first column of Table 4 shows that employers provided inadequate or untimely information, or did not respond, in over half of the erroneous monetary denials. Again, this suggests that some employers are behaving strategically and gaming the

system at the point where their behavior has the potential to change outcomes. For erroneous separation and non-separation denials, the quality of employer information is far less a problem. This is somewhat surprising in the case of erroneous separation denials because employers could presumably benefit themselves by contesting the conditions of a worker's separation and denying that workers benefits.

The findings Table 4 are consistent with the findings on error responsibility displayed in Table 3. For example, Table 3 shows that about 52 percent of all erroneous monetary denials were found to be the responsibility of the employer, the employer and agency jointly, or the claimant and employer jointly. The finding in Table 4 that 52 percent of monetary denial errors involved inadequate or untimely employer information is consistent with Table 3's finding.

To summarize, employer misreporting or failure to report workers' earnings is the most common cause of erroneous monetary denials. This is expected due to the incentives inherent in the UI payroll tax system. In contrast (and unexpectedly), employers appear to play only a minor role in erroneous separation denials. They appear only rarely to contest the UI claims of laid-off employees or to misrepresent those claims as coming from workers who quit or were discharged.

Implications and Conclusion

Although Lynn called our attention to the issue of client strategy in 1993, little has been done in the field of public administration to test the extent to which clients of an agency behave in ways that change a program's outcomes. We expand Lynn's model of bureaucrat and client behavior and offer one of the first tests of whether clients of social service programs behave strategically in their interactions with bureaucrats. Indeed, we

find that clients are not naïve and powerless but exploit information asymmetries to advance their claims for benefits. UI offers a unique opportunity to test the model in a setting where the agency has two clients. We find evidence of strategic behavior on the part of both employers and claimants, in ways that are consistent with their own interests. In fact, employers seeking to limit their tax liability are responsible (fully or in part) for more than half of erroneous monetary denials. On the other hand, claimants are responsible (fully or in part) the vast majority of benefit overpayments. Clearly, bureaucrats are faced with a difficult task, as evidenced by the frequency with which they err in making both eligibility and benefit payment determinations.

The UI system was designed to alleviate the problem of asymmetric information that any insurance contract generates by collecting information from multiple parties and by creating an agency to enforce the insurance contract. In particular, UI agencies are intended to play the role of mediator and arbitrator, alleviating the Prisoner's Dilemma that arises when both actors provide information strategically. The empirical findings above suggest the difficulty of overcoming the strong incentives to provide strategic information in the UI system. They show that UI agencies have not been wholly successful in solving the asymmetric information problem, and some players are poorly served as a result.

The model we suggest offers a framework for future research to address questions of strategic client-bureaucrat interaction. Ideally, researchers would have an opportunity to test the full model, by incorporating data on bureaucratic behavior. Additionally, scholars can test aspects of our model in other settings, including public programs that require a co-production of eligibility determinations. The evidence presented here

suggests that researchers and policy-makers alike should pay close attention to the incentives to provide information created by a program.

Table 1

Error rates on denied and paid unemployment insurance claims, five states, September 1997 through August 1998
(error percentages with frequencies in parentheses)

	State					Five Pilot States
	Nebraska	New Jersey	South Carolina	West Virginia	Wisconsin	
Erroneous Denials						
Monetary determinations	10.1 (20/198)	12.6 (23/182)	23.4 (45/192)	15.1 (19/126)	18.2 (37/203)	16.0 (144/901)
Separation determinations	4.0 (8/200)	11.3 (22/195)	5.0 (10/200)	3.4 (7/208)	19.7 (40/203)	8.6 (87/1006)
Nonseparation determinations	14.0 (28/200)	14.4 (28/195)	18.5 (37/200)	6.8 (14/206)	21.7 (44/203)	15.0 (151/1004)
Total Overpayments						
Monetary determinations	0.3 (1/359)	1.5 (7/464)	0.2 (1/473)	0.6 (3/465)	0.4 (2/482)	0.6 (14/2243)
Separation determinations	0.3 (1/359)	1.5 (7/464)	2.1 (10/473)	1.7 (8/465)	0.4 (2/482)	1.2 (28/2243)
Nonseparation determinations	4.7 (17/359)	2.8 (13/464)	14.2 (67/473)	6.5 (30/465)	1.5 (7/482)	5.6 (134/2243)
Total and Partial Overpayments						
Monetary determinations	5.6 (20/359)	25.2 (117/464)	0.6 (3/473)	4.1 (19/465)	1.0 (5/482)	6.9 (154/2243)
Separation determinations	0.6 (2/359)	1.5 (7/464)	2.1 (10/473)	1.7 (8/465)	0.4 (2/482)	1.3 (29/2243)
Nonseparation determinations	8.9 (32/359)	6.0 (28/464)	17.1 (81/473)	11.8 (55/465)	3.1 (15/482)	9.4 (211/2243)

Source: Authors' tabulations from Denied Claims Accuracy (DCA) Pilot Project records (erroneous denials) and Benefit Accuracy Measurement (BAM) records (overpayments) for September 1997 through September 1998.

Notes: "Total overpayment" refers to a payment that should have been zero; "partial overpayment" refers to a payment that should have been positive but exceeded the correct (positive) amount. Monetary, separation, and nonseparation determinations are described in the text.

Table 2
 Information available to the UI agency and agency actions on erroneous denials and overpaid claims, five states, 1997–1998
 (percentages with number of cases)

	<u>Erroneous Denials</u>	<u>Total Overpayments</u>	<u>Total and Partial Overpayments</u>
Monetary Determinations			
Investigation determined agency:			
Could not detect issue	39.0	78.5	92.9
Was already resolving issue	31.2	7.1	1.3
Took incorrect action	9.2	0.0	1.3
Did not identify issue	9.2	14.3	3.3
Did not follow procedures	10.6	0.0	1.3
Number of cases	141	14	154
Separation Determinations			
Investigation determined agency:			
Could not detect issue	19.8	60.7	62.1
Was already resolving issue	8.1	3.4	3.5
Took incorrect action	55.8	21.4	20.7
Did not identify issue	9.3	3.6	3.5
Did not follow procedures	7.0	10.7	10.3
Number of cases	86	28	29
Nonseparation Determinations			
Investigation determined agency:			
Could not detect issue	22.2	75.3	77.3
Was already resolving issue	8.7	3.7	4.7
Took incorrect action	51.0	3.7	3.8
Did not identify issue	6.0	7.5	6.6
Did not follow procedures	12.1	9.7	8.1
Number of cases	149	134	211

Source: See Table 1.

Notes: See Table 1. BAM and DCA investigators classified the state “agency action” that occurred before the investigation into one of five categories: (1) Could not detect issue — official procedures had been followed and forms fully completed, but the error issue could not be detected by normal procedures; (2) Was already resolving issue — the agency was in the process of resolving the error issue and took correct action before the investigation was completed, or the agency had correctly resolved the error issue before the sample was selected; (3) Took incorrect action — the agency identified the error issue before the sample was selected but took incorrect action; (4) Did not identify issue — the agency had enough documentation to identify that there was an error issue but did not resolve the error issue; (5) Did not follow procedures — official procedures had not been followed or official forms had not been properly completed by the agency, making it impossible to detect the error issue.

Table 3
 Responsibility for erroneous denials and overpaid claims, five states, 1997–1998
 (percentages with number of cases)

	<u>Erroneous Denials</u>	<u>Total Overpayments</u>	<u>Total and Partial Overpayments</u>
Monetary Determinations			
Responsible party:			
Third party	0.7	0.0	0.0
Agency	32.6	7.1	3.9
Employer	38.3	71.4	90.0
Employer and agency	7.1	7.1	2.0
Claimant	7.8	0.0	0.7
Claimant and agency	5.7	0.0	0.0
Claimant and employer	7.1	14.3	2.6
Claimant, employer, and agency	0.7	0.0	0.0
Number of cases	141	14	154
Separation Determinations			
Responsible party:			
Agency	66.3	21.4	20.7
Employer	9.3	7.1	6.9
Employer and agency	3.5	0.0	0.0
Claimant	11.6	25.0	24.1
Claimant and agency	7.0	17.9	17.2
Claimant and employer	1.2	28.6	31.0
Claimant, employer, and agency	1.2	0.0	0.0
Number of cases	86	28	29
Nonseparation Determinations			
Responsible party:			
Third party	2.0	0.0	0.0
Agency	67.1	20.2	17.1
Agency and third party	0.7	0.0	0.0
Employer	2.7	2.2	1.4
Employer and agency	2.7	0.0	0.0
Claimant	12.8	74.6	76.8
Claimant and agency	8.1	1.5	1.9
Claimant and employer	3.4	1.5	2.8
Claimant, employer, and agency	0.7	0.0	0.0
Number of cases	149	134	211

Source: See Table 1.

Notes: See Table 1.

Table 4
 Information provided by employers and employer responsiveness in cases of erroneous denials and overpaid claims, five states, 1997–1998
 (percentages with number of cases)

	<u>Erroneous Denials</u>	<u>Total Overpayments</u>	<u>Total and Partial Overpayments</u>
Monetary Determinations			
Employer's information was:			
Adequate and timely	24.3	7.1	3.3
Adequate and late	5.7	0.0	0.0
Inadequate and timely	30.0	71.4	89.6
Inadequate and late	4.3	14.3	4.6
Employer did not respond	12.1	7.1	1.3
No information requested	10.0	0.0	0.0
No employer issue	13.6	0.0	1.3
Number of cases	141	14	154
Separation Determinations			
Employer's information was:			
Adequate and timely	57.0	21.4	20.7
Inadequate and timely	16.3	14.3	23.8
Employer did not respond	5.8	28.6	31.0
No information requested	17.4	25.0	24.1
No employer issue	3.5	10.7	10.3
Number of cases	86	28	29
Nonseparation Determinations			
Employer's information was:			
Adequate and timely	16.1	5.2	5.7
Adequate and late	0.0	0.0	0.5
Inadequate and timely	5.4	5.2	5.7
Inadequate and late	1.3	0.0	0.5
Employer did not respond	4.0	2.2	5.7
No information requested	6.7	5.2	10.0
No employer issue	66.4	82.1	72.0
Number of cases	149	134	211

Source: See Table 1.

Notes: See Table 1.

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Appendix A: Extensive Form of Our Game
Theoretical Model of The Client/Bureaucrat
Interaction

