

# The effect of benefit sanctions on job finding

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## Purpose and policy relevance

The Danish flexicurity model relies on active labor market policies (ALMP) to reduce the disincentive effects of the fairly generous unemployment insurance (UI) benefits. While the effectiveness of some types of ALMP on helping workers to find job is unclear (Kluve, 2010), the conclusion in the literature is that sanctioning unemployed, who do not comply with the rules of the UI system, enhance the exit rate from unemployment.<sup>1</sup> In fact, existing studies tend to find that when job seekers experience a sanction, their exit rate from unemployment increases by 25-100 percent. In Denmark, 3 percent of UI recipients and 24 percent of social assistance recipients have been imposed a sanction (Ekspergruppen, 2014). Svarer (2011) finds for Denmark that sanctioning UI recipients increase the exit rate from unemployment increase by more than 100 percent. Most of this effect takes place in the first month after the sanction has been imposed.

Whereas a strong short-lived association between sanctions and job finding has been established in the literature, much less is known about why this association exists. Theoretically, there are primarily three reasons that sanctions and job finding may be linked:

- A) Experiencing a sanction may cause job seekers to more actively apply for jobs, which increases the job finding rate.
- B) Experiencing a sanction may cause job seekers to be more likely to accept job offers for instance by lowering the reservation wage.
- C) Job seekers who have successfully secured a job with a later start date may decide to ignore job search requirements for the remaining weeks of their unemployment spell thereby triggering a sanction.

Understanding the relative importance of the three explanations is critical for policy-making. If A is the primary explanation, sanctions are an attractive way to increase job finding. If B is the primary explanation, sanctions can be an attractive policy, although some care is warranted if sanctions cause individuals to accept low-paying or short-lived jobs, which are harmful to their long-term labor market prospects. Finally, if C is the primary explanation, sanctions are not actually helping individuals to find job but are just more likely to be imposed on those individuals who are about to exit unemployment.

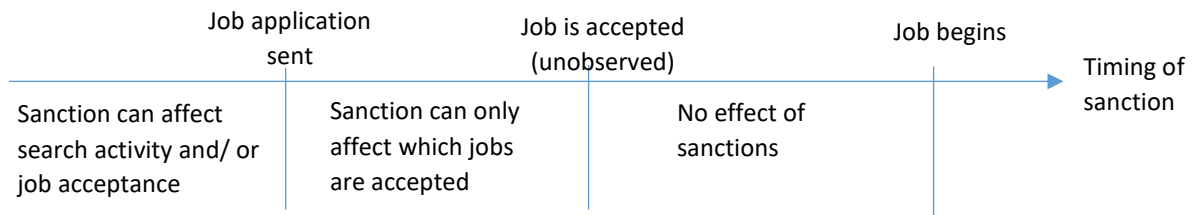
Disentangling the three explanations above empirically has been difficult because researchers only have been able to observe when people receive sanctions and when they start a new job but not when job seekers actually make their job applications. In this project, we seek to remedy this shortcoming by using a new data source that gives us information on the actual timing of job applications for UI recipients (see details below). In particular, we will use this data to determine when workers have submitted the job application for the job they end up accepting, which is crucial in order to separate the three explanations above. Figure 1 illustrates the basic idea. If the job application for a job is sent before the sanction is imposed, then the association between sanctions and job finding is not because sanctions lead to more applications being sent (explanation A above is ruled out) but is either because of changes in which jobs are accepted (explanation B) or because workers fail to comply with requirements while waiting for their new job to start (explanation C). The latter two explanations can

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<sup>1</sup> See Abbring et al. (2005), Lalive et al. (2005), Arni et al. (2013), van den Berg and Vikström (2009), van den Berg and van Ours (2004), Røed and Weslie, and Svarer (2011)

in turn be distinguished by looking at the characteristics of the jobs that people find and analyzing whether individuals suffering a sanction end up accepting less attractive jobs.

Figure 1: Timing and possible effects of sanctions



## Data and methods

The project will be based on administrative data on UI recipients. Standard data sources (DREAM, DUR, elncome) will be used to measure unemployment, reemployment and the characteristics of the new job. Data on sanctions are maintained by the Danish Agency for Labor Market and Recruitment (STAR) and will allow us to determine when UI recipients suffer a sanction. Finally, the key data on job applications will come from the Joblog database also at STAR. Since 2015, UI recipients have been required to document their job search activity by logging job applications in jobnet.dk. For each such logged job application, the Joblog database contains information on the job title, the name and location of the firm applied to as well as the date the application has been made. For each UI recipient who finds a new job, we will go back and link this to an application in job log entry based on firm and job information, which will allow us to see when the UI recipient applied for the job.<sup>2</sup>

After constructing our data, we will follow the methodology of the literature and both use a descriptive graphical analysis and estimate the timing-of-events duration model of Abbring and van den Berg (2003). Importantly, however, we can look both at new job start dates as well as the timing of the successful application to the new job. Subsequently, we will follow Arni et al. and van den Berg and Vikström (2009)'s use of a difference-in-difference design to examine if sanctions lead to lower wages in the subsequent job. This will allow us to directly examine the effect of sanctions on the types of jobs that are accepted.

## Workplan, budget and publication potential

We plan to setup data access in early fall 2019 and then use the time until the summer of 2020 to process the data, in particular undertaking the main task of linking joblog applications to actual jobs. The fall of 2020 and the spring of 2021 will be used to conduct the data analysis and write up a scientific paper. We see a significant publication potential for this paper; the previous studies that we improve upon have been published in respected international journals such as Journal of European Economic Association, Journal of Labor Economics and Journal of Applied Econometrics. As noted earlier, the project's results will have very direct implications for policy so we will also emphasize disseminating our findings to policy makers, including presentations within the EPRN.

We are applying for funding to cover data expenses and one month of salary for Nikolaj Harmon and Daniel le Maire. In addition, we are applying for funding for 10 months of student assistance to aid with the labor-intensive task of linking specific joblog applications to job outcomes.

<sup>2</sup> We note that since UI recipients are not required to log every job application it will not be possible to observe the job application date for all new jobs. We will use two different approaches to handle this issue: The first is simply to limit the analysis to those UI recipients where the job application date is observed. The second is to estimate a competing risk duration model with separate exits to jobs with and without an application date.

## Literature

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