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TE MANATŪ WHAKAHIATO ORA

Future Focus Evidence Brief

Sanction regimes

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FUTURE FOCUS EVIDENCE BRIEF: SANCTION REGIMES

Key points

- The threat of sanctions increases benefit exits as much as the imposition of a sanction.
- Increased monitoring of job search behaviour and less severe sanctions are effective in generating incentives to leave unemployment benefits.
- More severe sanctions increase job search behaviour and benefit exits, but individual circumstances must be taken into account when implementing sanctions (eg limited education and health problems).
- The implementation of severe sanctions, such as full reductions in unemployment benefits, leads jobseekers to willingly accept substantially lower paid jobs.

Key documents

Arni, P., Lalive, R., & Van Ours, J. (2009). How effective are unemployment benefit sanctions? Looking beyond unemployment exit. *IZA Discussion Paper No. 4509*.

<http://ftp.iza.org/dp4509.pdf>

OECD (2010). Minimum income benefits in OECD countries: Policy design, effectiveness and challenges. *OECD Social, Employment and Migration Working Papers. No 100*. Paris.

http://puck.sourceoecd.org/vl=3323471/cl=12/nw=1/rpsv/workingpapers/1815199x/wp_5kmmw7qkkfkk.htm

Purpose of sanctions

Benefit sanctions are designed to counter the tendency for people to remain on unemployment benefits for longer than is necessary for them to find a suitable job. There is good evidence to show that entitlement for income support influences people's decisions about when to move into work. For example, in countries that have time-limited unemployment insurance, exits to work increase around the time people's entitlement ends (OECD, 2005).

How do sanctions influence behaviour?

Sanctions influence people on unemployment benefits in two ways. Firstly, they can increase search intensity, and secondly, they can make the unemployed lower their expectations about which job offers they will accept (ie willingness to accept lower paid jobs). In the literature, the impact of sanctions is divided into two parts:

- the impact of ‘imposing’ a sanction (leading to loss of benefit income for a period)
- the ‘threat’ of sanctions where people will act to avoid being sanctioned (Arni et al., 2009)

Impacts of sanctions (summary)

1. Increase exits from unemployment benefits/insurance.
 - The evidence is very consistent that both the threat and imposition of sanctions increase benefit exits to work.
2. Exits to lower quality jobs (lower paid or less secure).
 - By increasing the incentive to exit benefit, sanctions can alter the type of jobs that people will accept. We found only a small number of studies that examined the impact of sanctions on employment outcomes. All these studies found people entered into lower paying employment than would be the case without the threat of sanctions. Further, when sanctions are imposed, people spent less time in work before returning to benefit.

What works?

Small benefit sanctions coupled with additional threats of more severe punishment and closer monitoring/counselling have a positive effect on the job search behaviour of welfare recipients:

Netherlands

In the Netherlands, the national government sets binding rules for the imposition of sanctions while local municipalities impose sanctions, allowing for discretion of rule interpretation (Van der Berg et al., 2004). The main reason sanctions are imposed is for non-compliance with job search guidelines:

Behaviour	Sanction
Welfare recipient does not register or renew their registration at a public employment office.	A 5 percent benefit reduction for one month.
Welfare recipient insufficiently searches for a job, neglects appointments at the welfare agency, and does not cooperate in the search for appropriate training programs.	A 10 percent benefit reduction for one month.
Welfare recipient interferes with searching for a job or refuses training.	A 20 percent benefit reduction for one month.
Welfare recipient refuses an appropriate job offer or does not prevent unnecessary job loss prior to entering welfare.	A 20 percent benefit reduction for two months.

Imposing sanctions increases exits to work

Job search behaviour of welfare recipients in the Netherlands increased when sanctions were imposed at a relatively early stage in a welfare spell and when additional threats of more severe sanctions were made.

Extra counselling and monitoring of recipients' job search behaviour increased the likelihood of them finding work. These measures reduced the probability of an individual remaining long term on welfare (Van der Berg et al. 2004).

Re-employment rates were significantly higher when sanctions were imposed on benefit recipients (Abbring et al. 2005).

- Sanctions were estimated to increase re-employment rates by 58 percent for men and 67 percent for women. The effects of the imposition of sanctions were due to a decrease in the unemployment insurance (UI) benefit level and an increase in job search intensity, caused by the threat of severe additional sanctions.

Denmark: severe sanctions for long-term unemployed and low-educated youth

In Denmark, the Youth Unemployment Programme (YUP) was implemented in 1996 to strengthen the employment possibilities for unemployed, low-educated youth and to provide motivation from them to undertake education (Jensen, *et al.* 2003).

- The programme targeted young people under the age of 25 without any formal education beyond secondary school, and who have been unemployed for six months during the last nine months. Participants were offered 18 months of specially designed vocational education. Unemployment benefits were cut by 50 percent while in the special education programme.
- This offer contained an incentive to undertake ordinary education on public study grants or to find a job. Refusal to participate in the programme or to enter the ordinary education system was followed by the total loss of unemployment benefits.

The programme significantly increased the transition from unemployment to school, due in part, to the threat of sanctions (Jensen, *et al.* 2003). The same study also found weaker effect of YUP on transitions from unemployment to work.

Denmark: imposing a sanction increased benefit exits

The unemployed in Denmark receive either Unemployment Insurance (UI) or social assistance contingent upon meeting two sets of eligibility criteria (Svarer 2007).

- Recipients must actively seek employment and undertake measures to increase the possibility of obtaining employment.
- Recipients must adhere to public employment service initiatives, such as participating in active labour market programmes and submitting a curriculum vitae.

Sanctions are imposed when:

Behaviour	Sanction
Welfare recipient fails to attend public employment service (PES) job plan meetings.	Loss of UI benefit (2-3 days: temporary exclusion). Can last longer if welfare recipient does not contact the PES.
Welfare recipient fails to attend meetings related to specific job opportunities and declining job offers or interviews.	Loss of UI benefit (3 weeks).
Welfare recipient make themselves not available for any employment opportunity.	Loss of UI benefit until the unemployed has worked for 300 hours within a 10 week period.

Imposing sanctions increases exit rates by 50 percent

The unemployed respond strongly to the imposition of sanctions, even when these are relatively mild (Svarer 2007). The exit rates out of unemployment increased by 50 percent following the implementation of sanctions, with large effects for the harsher sanctions. The effect of imposing a sanction ends after three months.

Imposing sanctions affects some groups more than others

- Women who are single, older, who have received public support for more than 25 percent of the year and who are non-Danes have a stronger response to sanctions than their counterparts.
- Older unemployed men respond to sanctions with a higher benefit exit rate than younger men. Unmarried men respond less to sanctions than married men.
- Immigrants have higher exit rates than native Danes.

The threat of sanctions increases exits to employment for men

Examining exits to work from the threat of sanction, Svarer (2007), Rosholm and Svarer (2004) concluded men respond positively, while women do not respond at all to sanction threats. Several studies examining activation measures have identified this difference in response to the threat of sanctions between men and women.¹

Switzerland

In Switzerland, there are two types of sanctions for jobseekers who are entitled to unemployment benefits (Lalive, et al. 2005). Benefits are withheld at the beginning of an unemployment spell if a person quits a previous job and during the unemployment spell for lack of compliance and meeting eligibility requirements.

A written warning is given to the jobseeker if there is some type of misbehaviour detected and reported. The job seeker has, on average, two weeks, to clarify the reasons for their non-compliance. After the clarification period ends, a decision is made as to whether a sanction will be imposed. If a benefit sanction is imposed, it entails a 100 percent reduction of benefits for a maximum duration of 60 working days.

¹ Refer to: 'Future Focus Evidence Brief 2010: Reapplication for Unemployment Benefit' for more detail.

There are three classes of sanctions and the behaviours given below are typical reasons for the imposition of sanctions:

Behaviour	Sanction
Welfare recipient fails to apply for a minimum number of jobs.	Sanctions of a short duration (1 to 15 workdays).
Welfare recipient does not show up for monthly interview.	Sanctions of a medium duration (16 to 30 workdays).
Welfare recipient refuses to apply for a suitable job.	Sanctions of a long duration (31 to 60 workdays).

Exits increased with the warning and the imposition of a sanction

Warning that a person is not complying with benefit eligibility requirements (the threat effect) and imposing benefit sanction, have had a positive effect on the exit rate of unemployment (Lalive, *et al.*, 2005). The exit rates increased by 25 percent after a warning was issued, and increased again by 19 percent after a sanction was imposed.

Germany

The types of sanction measures in Germany are as follows:

Behaviour examples	Sanction
Welfare recipient quits a job.	12 weeks without a UI benefit.
Welfare recipient refuses an appropriate job offer	12 weeks without a UI benefit. 3 weeks if the job would have been temporary only.
Welfare recipient refuses to participate in an active labour market policy (ALMP) training programme.	12 weeks without a UI benefit.
Welfare recipient drops out of an ALMP training programme.	6 weeks without a UI benefit.
Welfare recipient fails report to a local employment agency.	3 weeks without a UI benefit.

Imposing a sanction increases benefit to work exits

In Germany, UI sanctions in the form of benefit reductions can positively affect employment outcomes, where there is an increase in job search intensity and job uptake (Hoffman, 2008).

In another German study, younger benefit recipients (ie under 25 years of age), who have little or no qualifications were found to receive the most sanctions compared to any other benefit recipient group (Muller 2007).

- Women, disabled persons and recipients aged over 50 years received the least number of sanctions.
- Sanction levels also correspond to the strictness of sanction enforcement by regional employment offices (*ibid*).

- Sanctions are particularly effective when imposed at an early stage of an individual employment spell (ie within six months). Sanctions are less effective if implemented later in a benefit spell (ie at 15 months) (Muller *et al.* 2008).

What doesn't work

More severe sanctions affect benefit recipients adversely:

- Benefit recipients who receive sanctions of a greater severity and of a longer duration, are significantly less likely to leave welfare for a job with higher earnings (Wu, 2008).
- In general, sanctioned recipients are more likely to be in a disadvantaged position than non-sanctioned recipients (Finn & Gloster 2010; Hansenfeld, *et al.* 2004; Shaw *et al.*, 2008).
- A balance needs to be struck between an individual's 'right' to social assistance (OECD 2010) and their 'duty' to participate in active labour market programmes (Svarer 2007).

Individual circumstances must be taken into account when applying sanctions:

Individual circumstances need to be taken into account when applying benefit sanctions (OECD 2010). Although not related to people on unemployment benefits, the evidence of sanctions on sole parents in the United States illustrates some of the risks in sanctioning more vulnerable clients.

- Deteriorating living standards for children can result when benefit reductions are wrongly applied (*ibid*).
- Applying sanctions to individuals who do not have the requisite skills for employment and who are not able to undertake training to improve these skills, is also problematic. These individuals are more likely to have human capital deficits, transportation barriers or personal and family challenges that make them harder to employ (Pavetti *et al.* 2003). Consequently, they are more likely to return to benefit and are less likely to be employed (*ibid*).
- Additionally, benefit recipients with a limited education, health problems and a poor work history increase their risk of being sanctioned (Hansenfeld *et al.* 2004).

Transferring to non-sanctioned benefits:

A person transferring to non-sanction benefits is a potential response to sanctions. For example, reassessment of incapacity benefits led to transfers to unemployment benefit in the Netherlands (OECD 2003).

However, we did not identify any international studies that examined the impact of sanctions on transfers to non-sanctional benefits.

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