Job Search and the Threat of Unemployment Benefit Sanctions

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Unemployment Benefit Sanctions

UI sanctions...

- punishment: reduction in UI for low search effort
- pro: consumption smoothing with less moral hazard
  $\Rightarrow$ *more generous UI for total same expenditure*
- *con: jobseekers create worse matches (“market insurance")*

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- direct: budget constraint (“*sanctions on the sanctioned*")
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Policymakers tend to “toughen up" the UI regime after recessions

- “back to work" political rhetoric, budget / austerity /spending reductions
- examine UK reform in 2012 *(conditions also tightened again in 2022)*
- other examples: France, Germany 2022

Research Questions:

- Does sanction threat **change search behaviour?**
  - search effort
  - exit rate
- To what extent does sanction threat **create worse matches?**
  - earnings
  - stability

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Empirical strategy uses UK Sanction Policy Reform in 2012

- exploit differential responses across districts in sanctioning intensity
- lends itself to Difference-in-Differences design
- mechanisms: triple-differences (variation across spells)

Institutional Setting, Reform, Data, Design

Institutional Setting and Reform

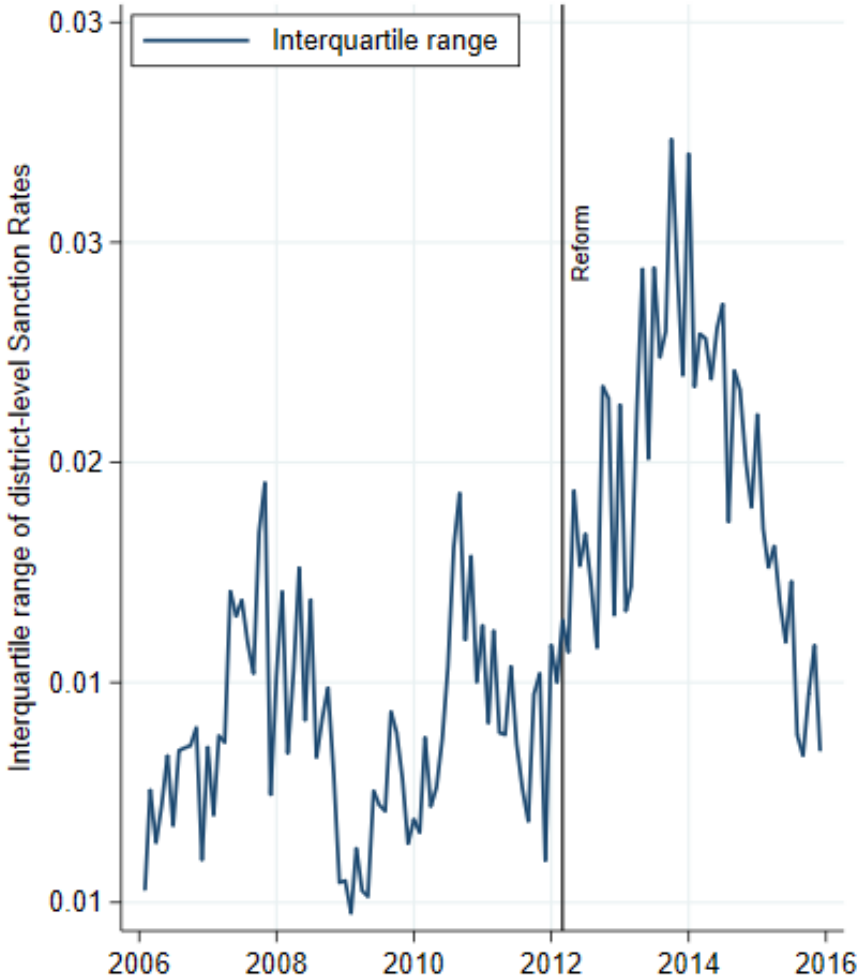
UI Policy in UK:

- administered by around 800 Job Centres
- Caseworker meeting every two weeks
- UI is search not contribution or duration contingent
- Sanction decision made by third party after referral

2012 Policy Reform:

- Increased minimum sanction duration and tighter monitoring of search activity
- large increase in post-reform heterogeneity across districts in sanctions-per-claimant (second, third moments)
- focus on extensive margin only (counts not durations)

▸ Table: Reasons for Sanction



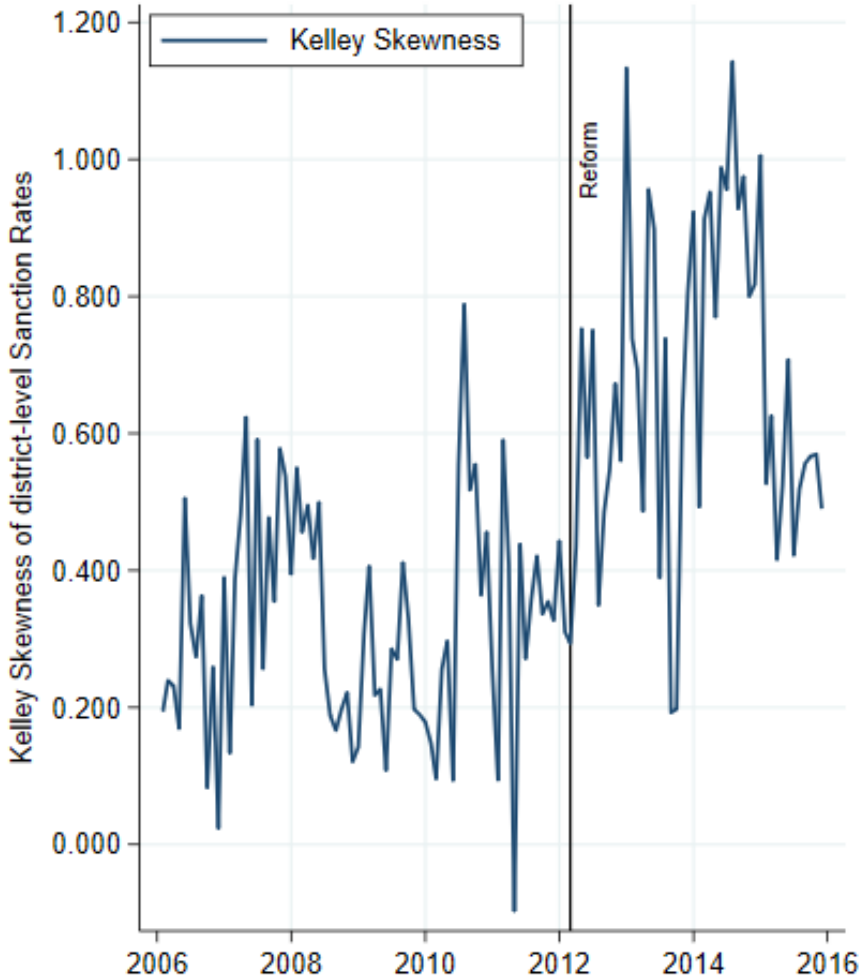
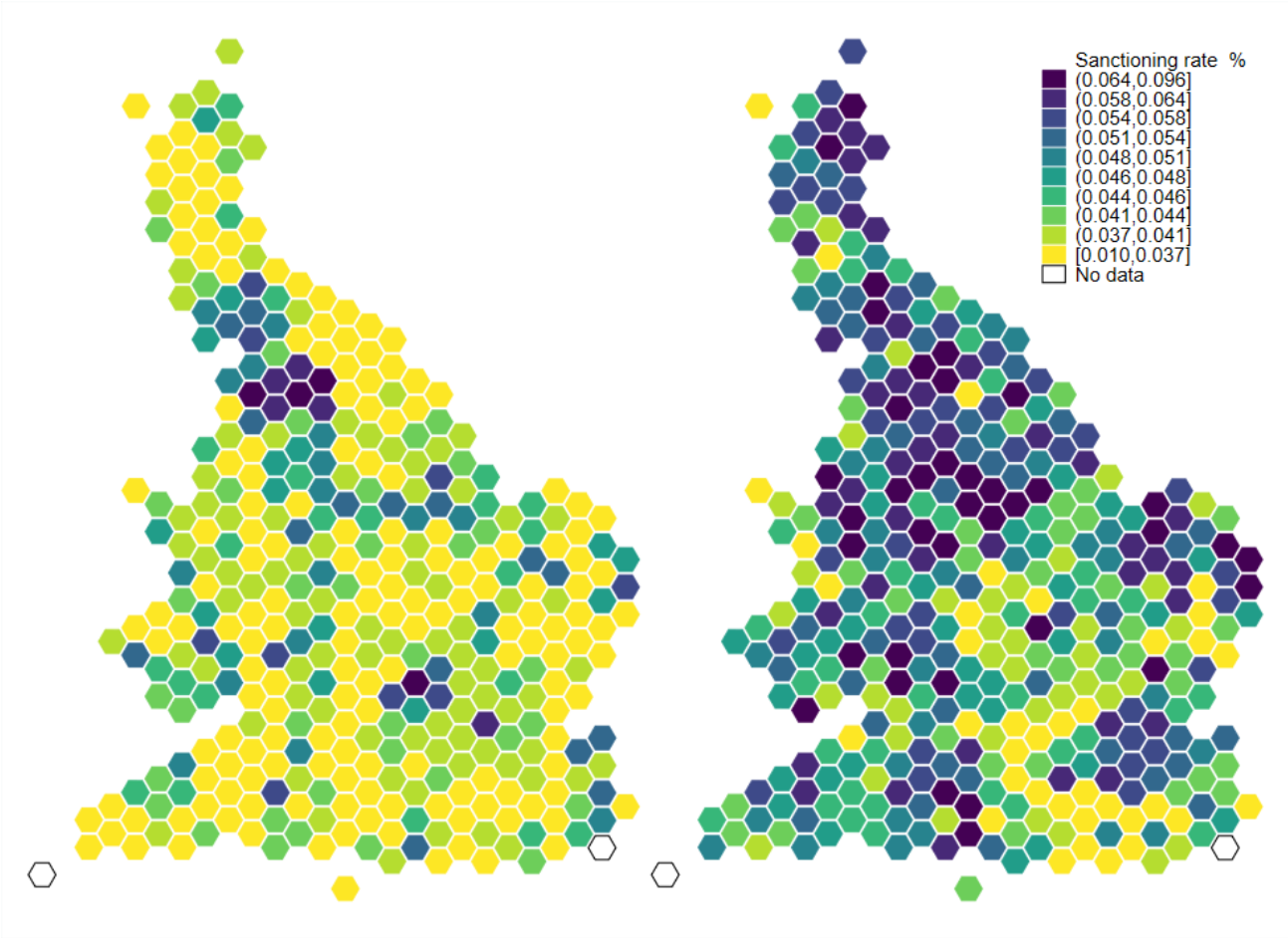


Figure 1: 2nd and 3rd Moments of Sanctioning Rate distribution

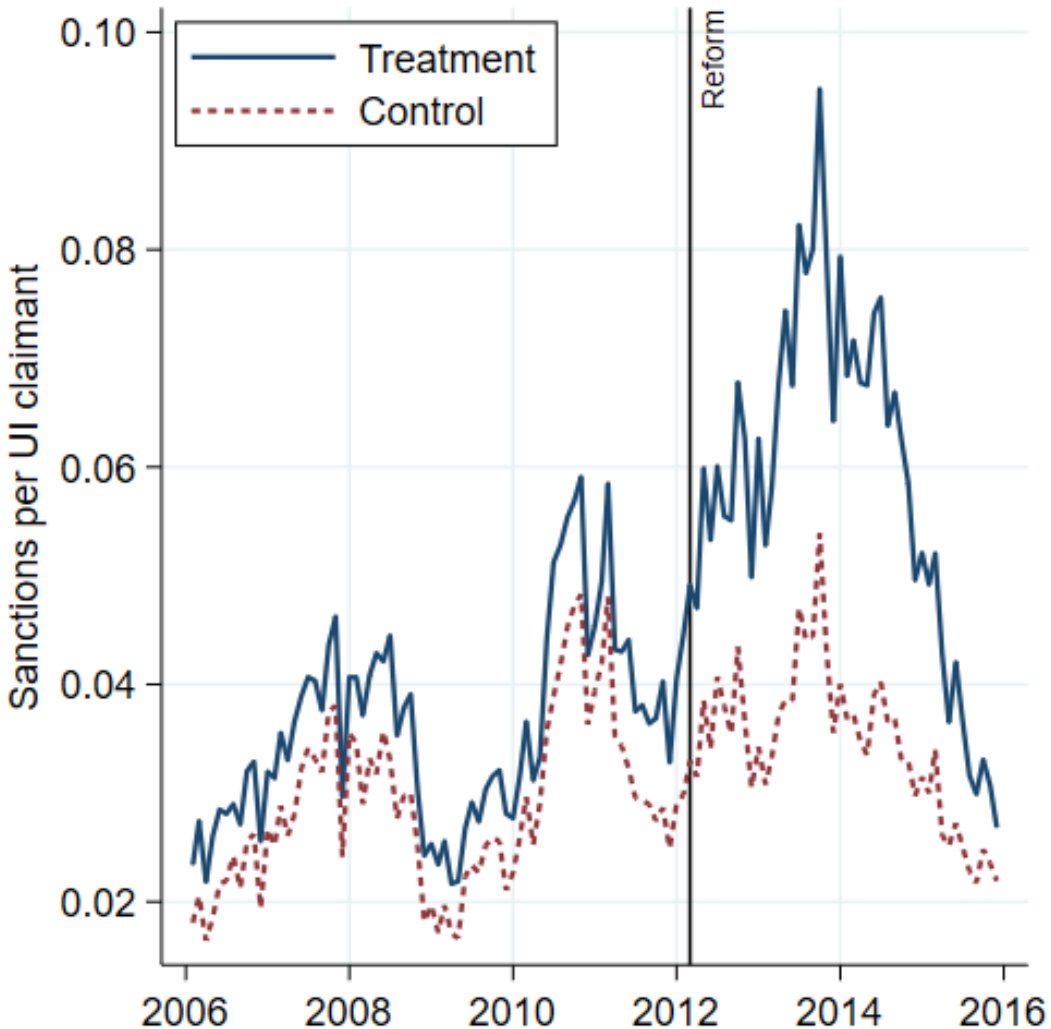
Mapping Sanction Rates, 2010/12 vs. 2012/14

Figure 2: Sanction Rates by District



Identifying Wedge in Sanction Intensity

Figure 3: sanction intensity: $S_{gt} = sanctions\ issued_{gt} / UI\ claimants_{gt}$



Sources of Cross-sectional Variation:

- job centre discretion/autonomy
- management sanction/exit targets
- partisan pressure from politicians
  - close-elections RDD: 20% drop in sanction rate for marginally-gov-aligned seats (Broberg, Tähtinen, Walsh 2023)

▸ Appendix: RDD plot

National Audit Office: "The NAO concludes it is likely that management focus and local work coach discretion have had a substantial influence on whether or not people are sanctioned (...) heterogeneity [in sanction rates across areas] not fully explained by jobseeker characteristics"

Data

- UK Longitudinal Household Survey (UKLHS, "Understanding Society")
- monthly working life histories, states: {employed, self-emp., unemployed, ...etc}
- 2009-2015
- 10k unemployment spells
- median duration: 9 months, mean: 12 months, 68% < 12 months

Households matched by district-month with sanction-per-claimant rates

Diff-in-Diff Regression Specification

Treatment variable is dichotomised:

$$D_g = \begin{cases} 1 & g \in \text{highest quartile of} \quad \Delta\bar{S} \gg 0 \quad \text{“}\textit{movers}\text{”} \\ 0 & g \in \text{lowest quartile, } \Delta\bar{S} \approx 0 \quad \text{“}\textit{stayers}\text{”} \end{cases} \tag{1}$$

Canonical $2x2$ **simultaneous reform Difference-in-differences:**

$$y_{igt} = \underbrace{\lambda_t + \gamma_g}_{\textit{common trends}} + \theta_{T(i,t)} + \underbrace{\sum_{\ell=-4}^{4} \beta_\ell \cdot \mathbb{1}\{t = \ell\} \cdot D_g}_{\textit{ATTs}} + u_{igt} \tag{2}$$

- $\theta_{T(i,t)}$ spell duration controls
- Two-stage estimation: estimate $(\lambda, \gamma, \theta)$ using untreated obs. Otherwirse duration effects overstated.

Parallel trends

Parallel Trends Assumption: no signs of divergent local labour markets

- eqm labour market outcomes: wages, employment
- output: gva, gva pc, gva growth
- industrial structure: local industry gva shares

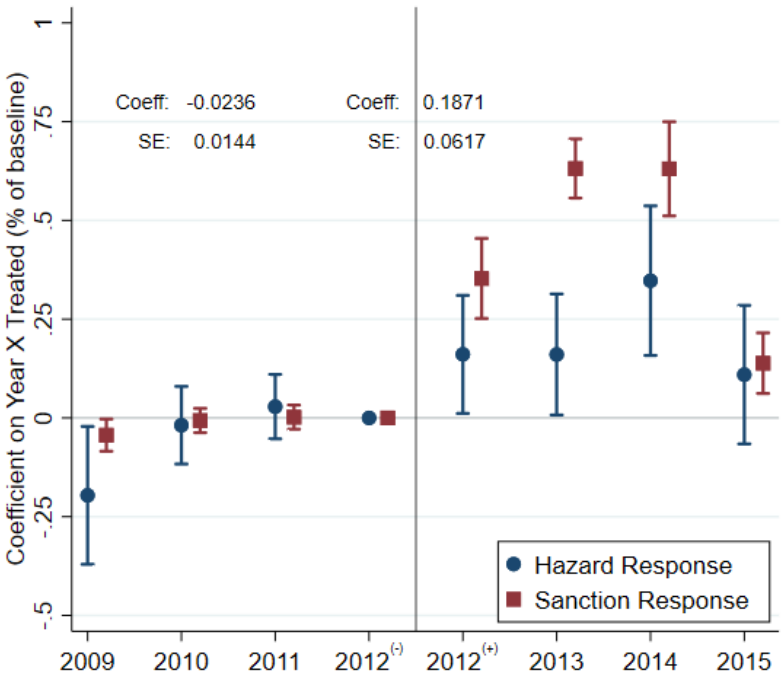
▸ Appendix: Parallel Trends

Causal Estimates, Back-of-Envelope Magnitudes, Mechanisms

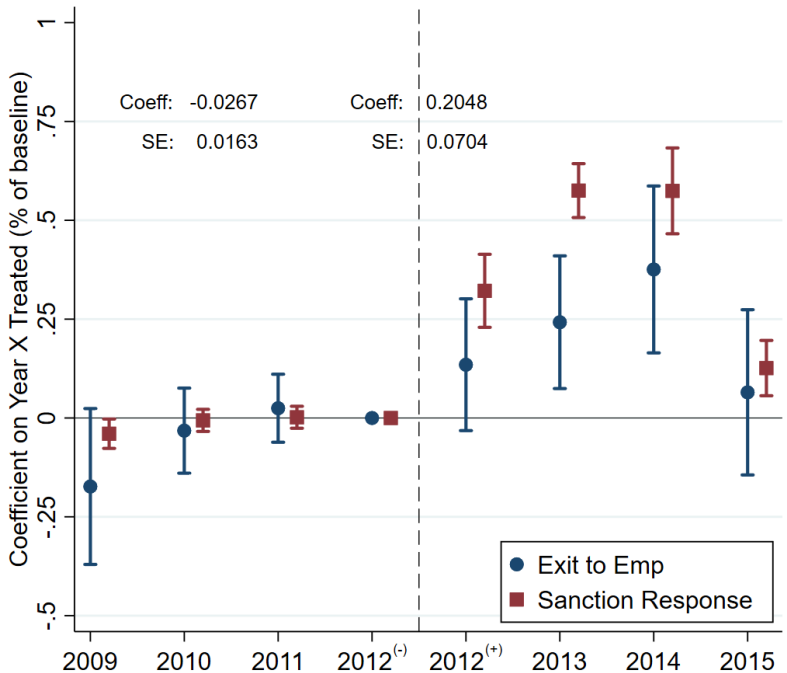
Total Exits and Exits into Employment

Figure 4: DID Estimates comparing high vs low intensity districts

(a) Exit rate, total (% of baseline)



(b) Exit rate, into employment (% of baseline)



Back-of-Envelope Magnitudes: Direct Effect v Threat Effect

Simplifying assumptions:

- worst-case: estimated coefficients are total effects (DE+IE)
- estimate of direct effect of sanction on exit hazard from lit (+100%)
- median duration of sanction approx 1 month
- $\Rightarrow$ ΔIncidence = ΔPrevalence (4ppts)

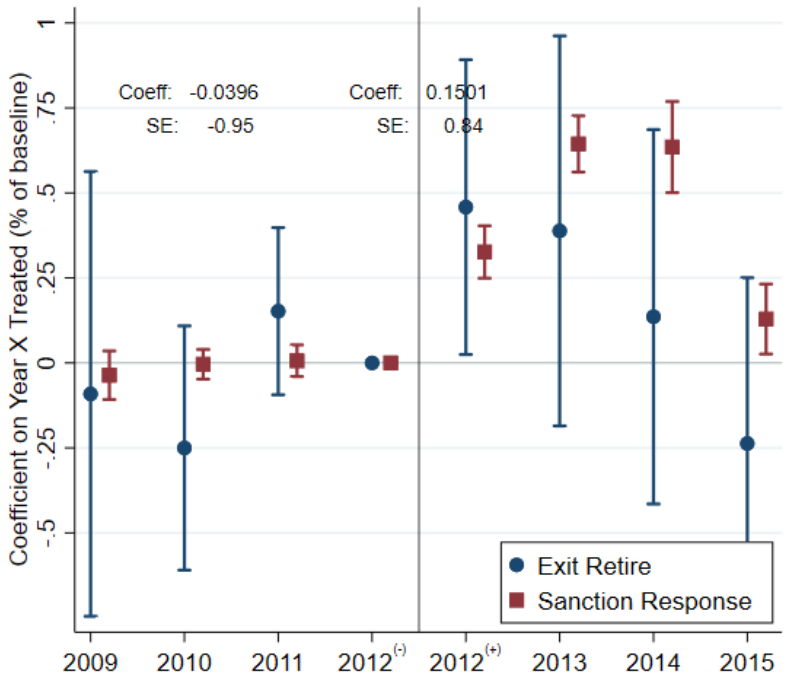
Total Effect (% of baseline)	Direct Effect (%, sanctioned only)	Δ Prevalence (ppts)	Scaled Direct Effect (%)	Indirect Effect (%)
0.200	= (1.00	$\times$0.04)	0.04	+0.160

Table 1: Decompisiton of Direct Effect and Threat Effect

Early Retirements?

Figure 5: Exit to retirement

(a) Exit to retirement (% of baseline)

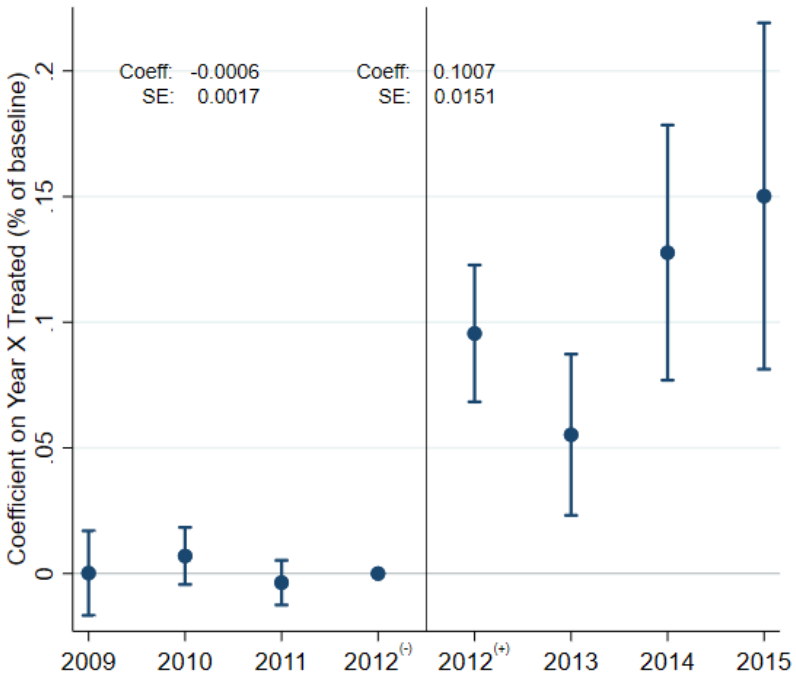


Post-reform spike one-and-done effect. Very low precision.

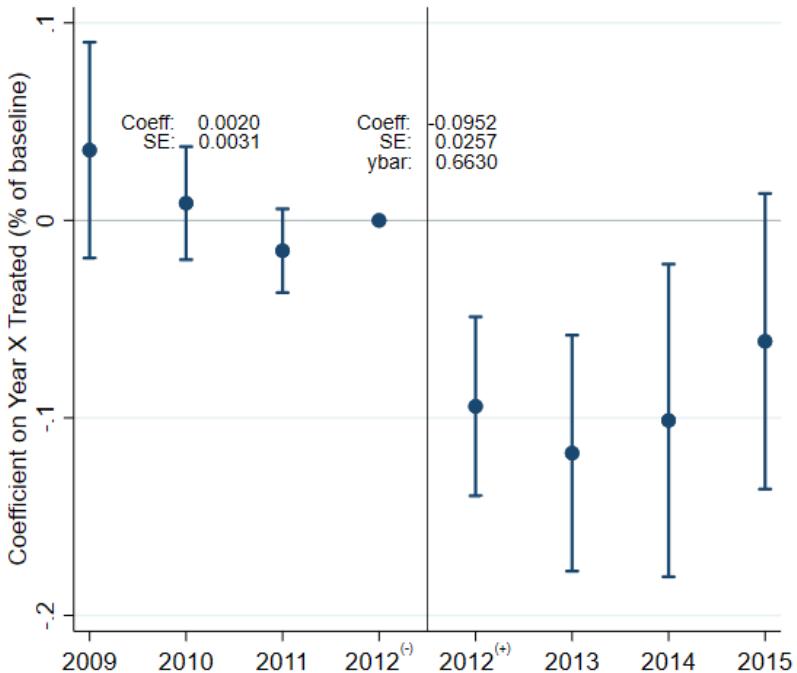
Repeat Unemployment and Employment Tenure

Figure 6: Reemployment Stability

(a) Cumulative Unemployment Spells



(b) Pr(reemployment tenure $>$ 36 months)



Mechanisms:
Triple Differences estimates

Earning losses due to job displacement

Displacement event study regression:

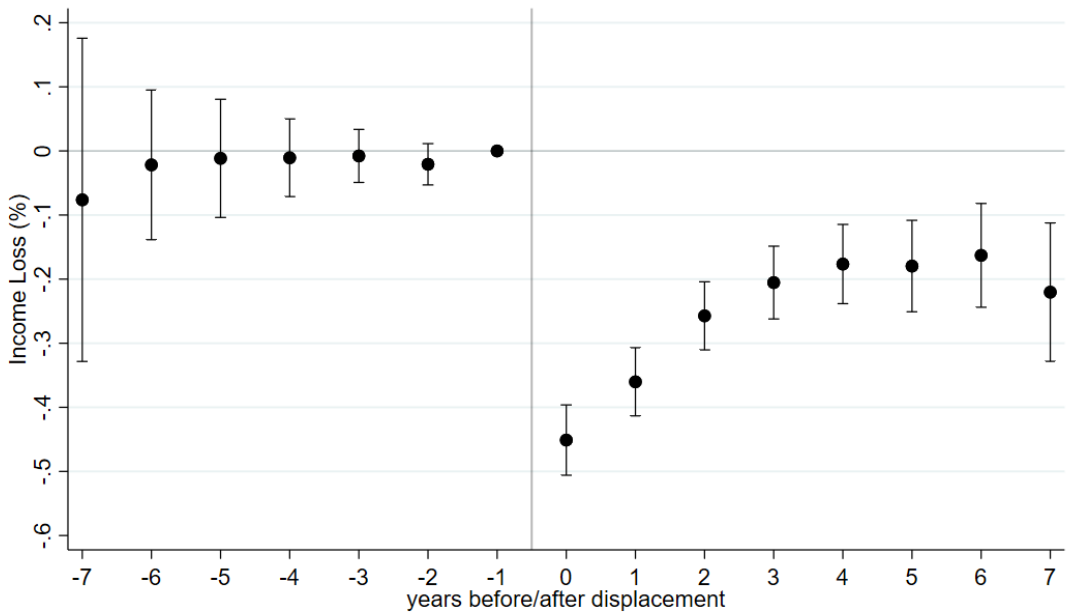
- makes valid comparisons of displaced vs not-yet-displaced / *i.e. is stagger-robust*
- stacking estimator of Cengiz et al (QJE,2019), stacks many 2×2 diff-in-diffs

Triple-Differences

- interaction with above/below mean sanctioning threat in first 3 months of unemployment spell
- compare similar *individuals displaced in the same year, same district*, but experienced **different sanction threat levels**

Unemployment Scarring Effect

Figure 7: Earnings Losses from Job Displacement

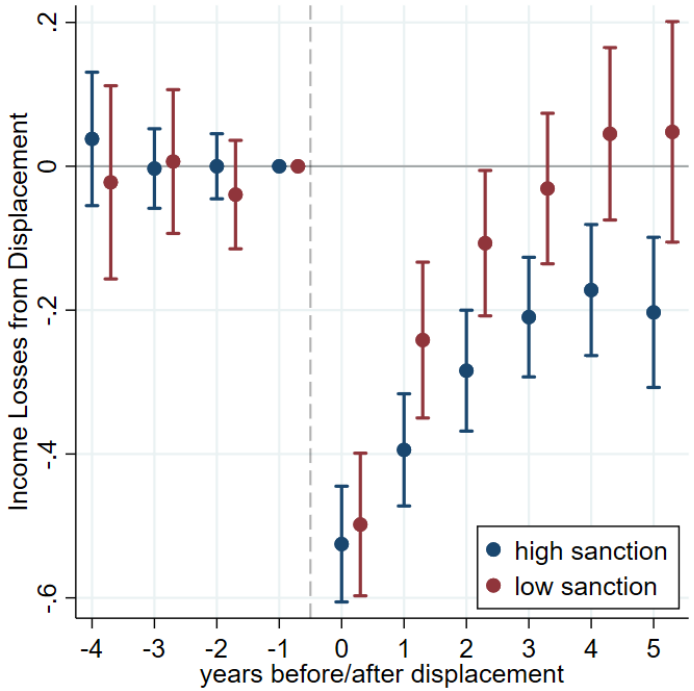


Sample: Ever-displaced only. Treated: lose job in year t, control: not-yet-treated by t. Excludes zero earnings. Including zeroes leads to approx -40pct

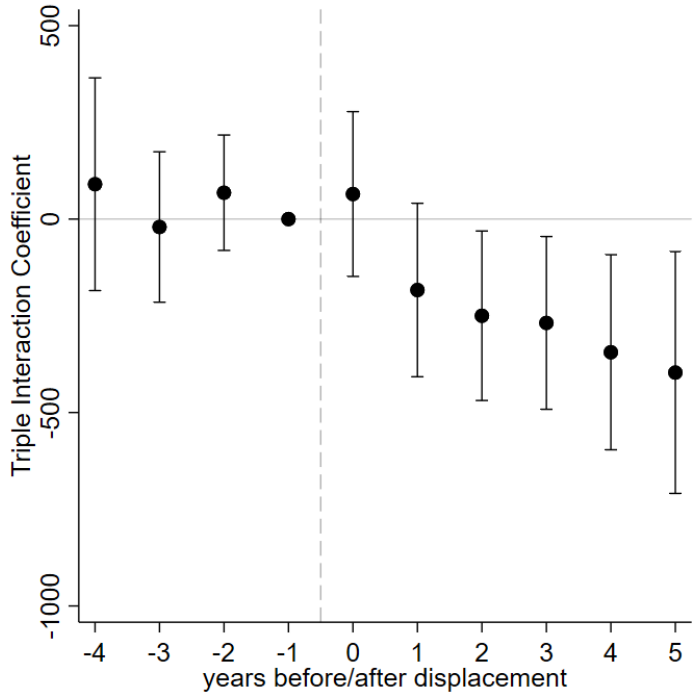
Scarring Effect and Sanction Threat

Figure 8: Earnings Losses by high/low sanction regimes in early unemployment

(a) high vs low sanction experience



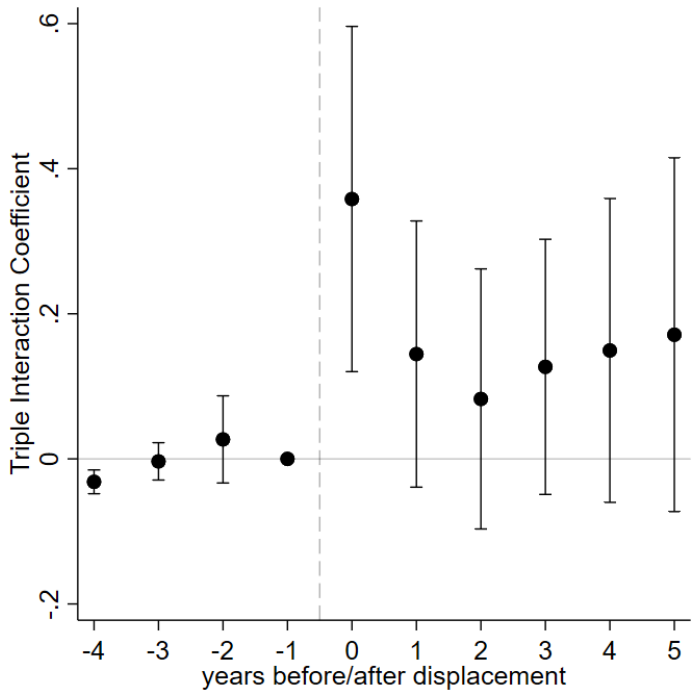
(b) difference between high and low



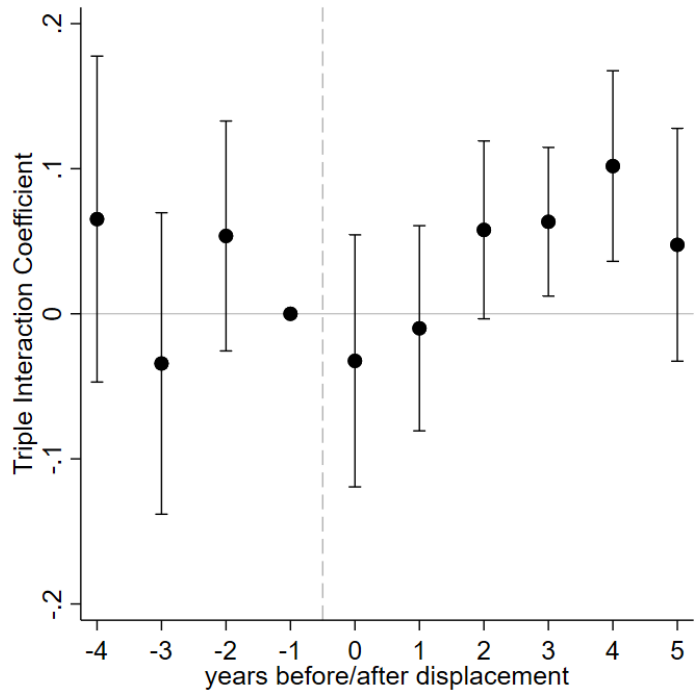
- High sanction: average sanction rate in first 3 months of spell above/below average
- sample-split potentially bundles many things together

Figure 9: Triple-Differences Estimates comparing displacements with high vs low sanctioning

(a) Search Effort Index (0-5)



(b) Employment**



less conservative sample restriction: employed in $r = -1$ only. **Employed at time of survey**

Conclusion

Sanctioning policy acts on a wide set of job-seekers, not just the directly punished. Effects go beyond immediate exit.

- Baily-Chetty optimal replacement rate: highter τ for same buget

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Comments and feedback welcome:

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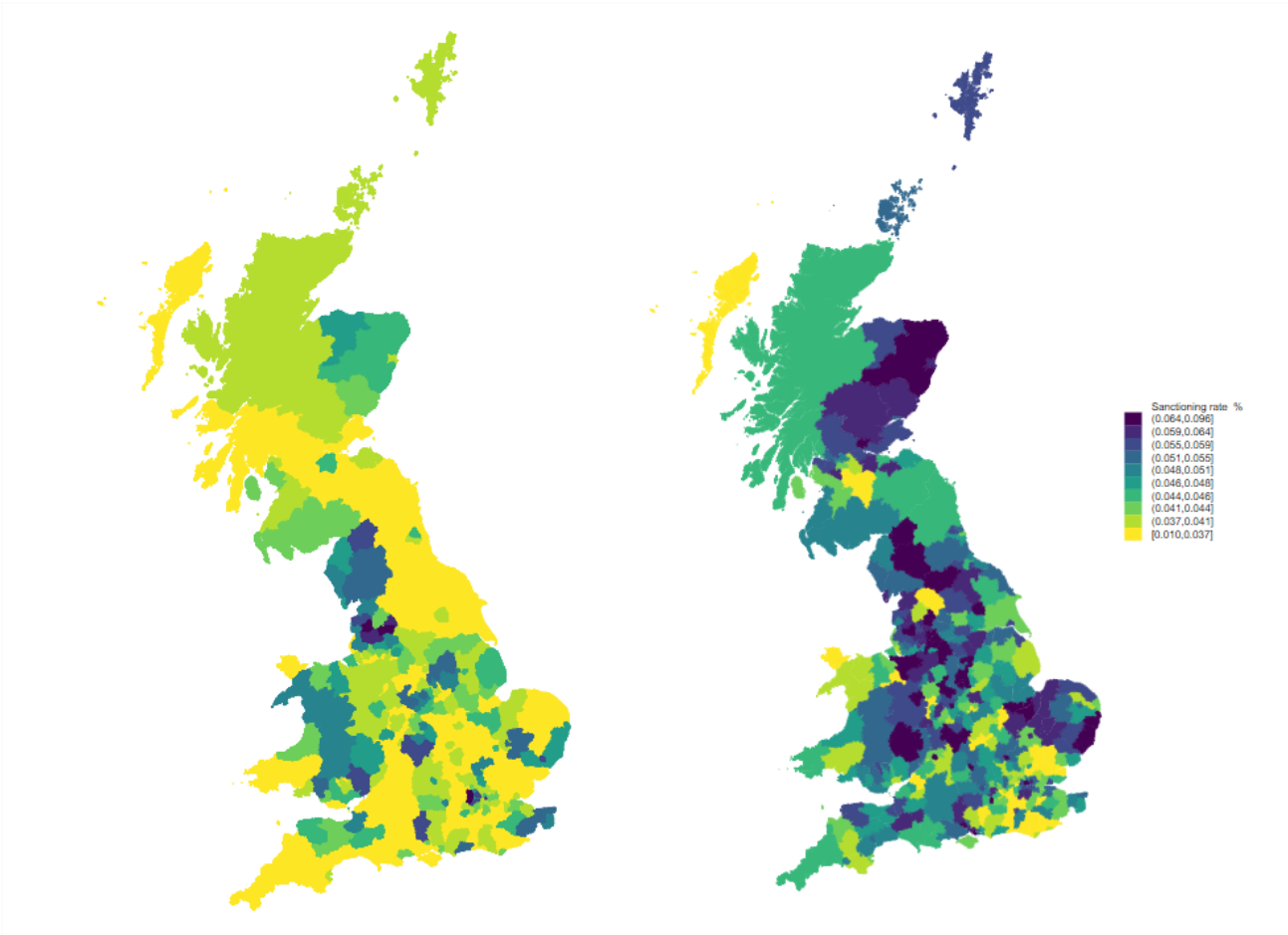
Appendix

Intensive Margin of Sanction Reform

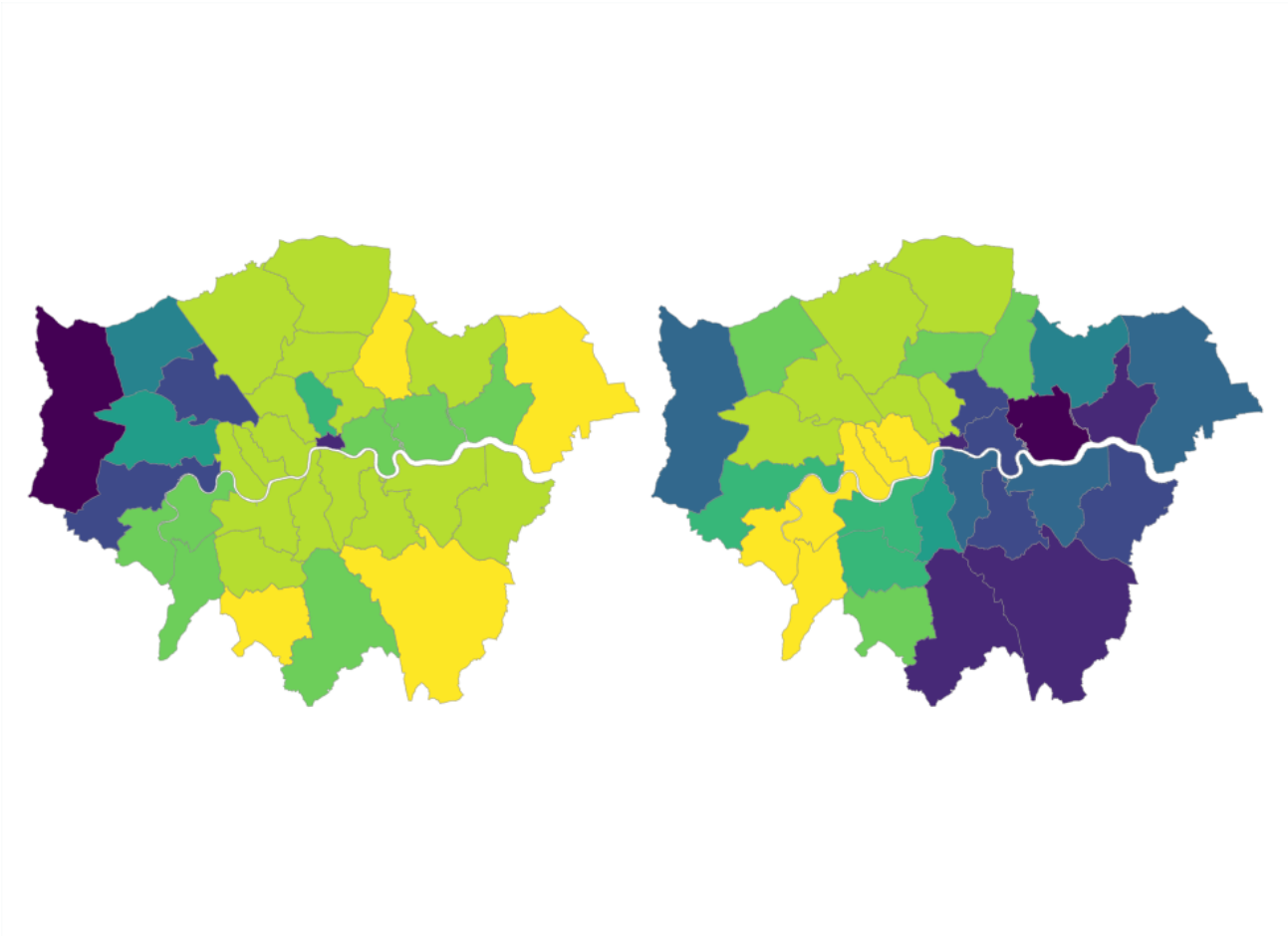
Infraction Level	**Example Reasons**	Sanction in weeks	
		Before	*After*
Lower	Failure to attend advisor meeting Failure to attend work program	1	4,13
Intermediate	Unavailable to work Ineligible search effort	0	4, 13
Higher	Refusing, voluntarily leaving work Dismissal for misconduct	1-26	4, 26, 156

Table 2: Intensive Margin of Sanctions within Infractions

Mapping Sanction Rates, 2010/12 vs. 2012/14

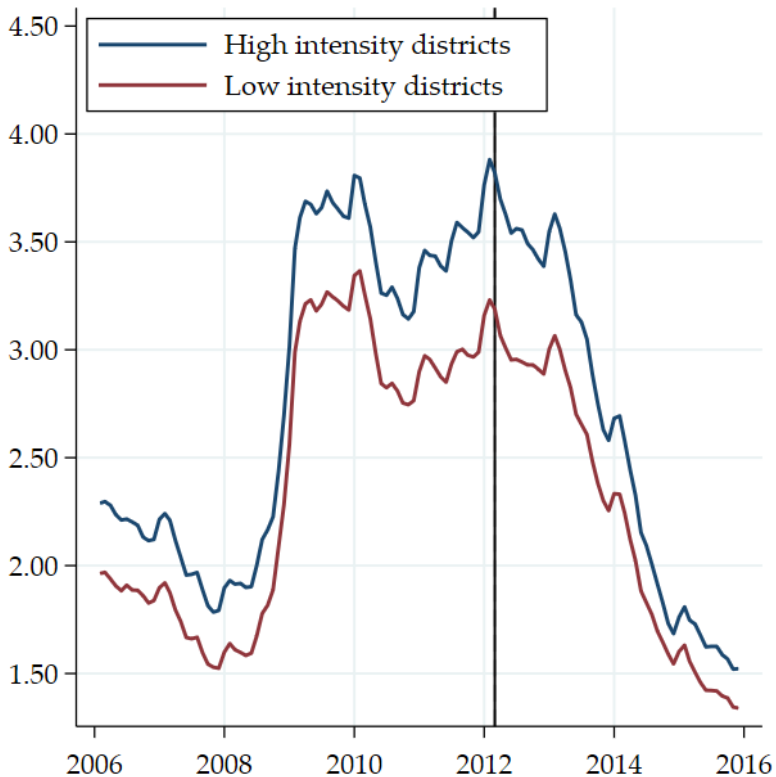


Mapping Sanction Rates, 2010/12 vs. 2012/14; London



Equilibrium Labour Market Outcomes

(c) Unemployment-Population Ratio



(d) Weekly Earnings

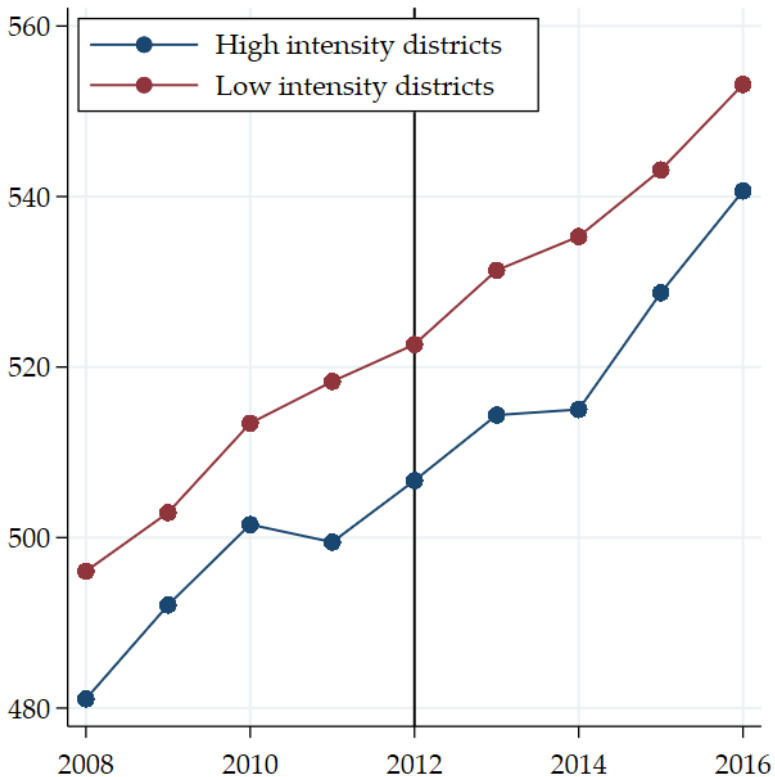
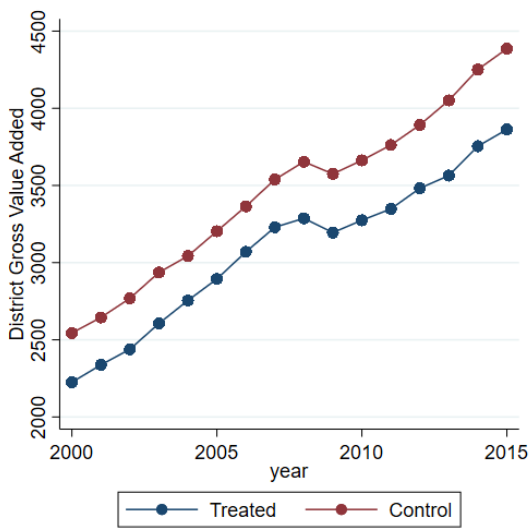
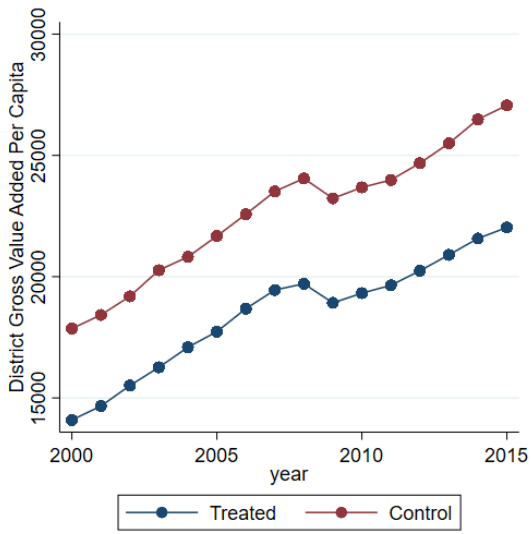


Figure 10: District-level Output (Real GVA)

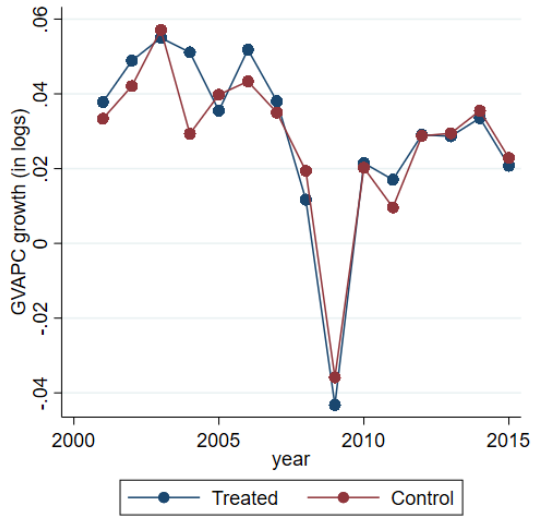
(a) Total Output



(b) Output per Capita



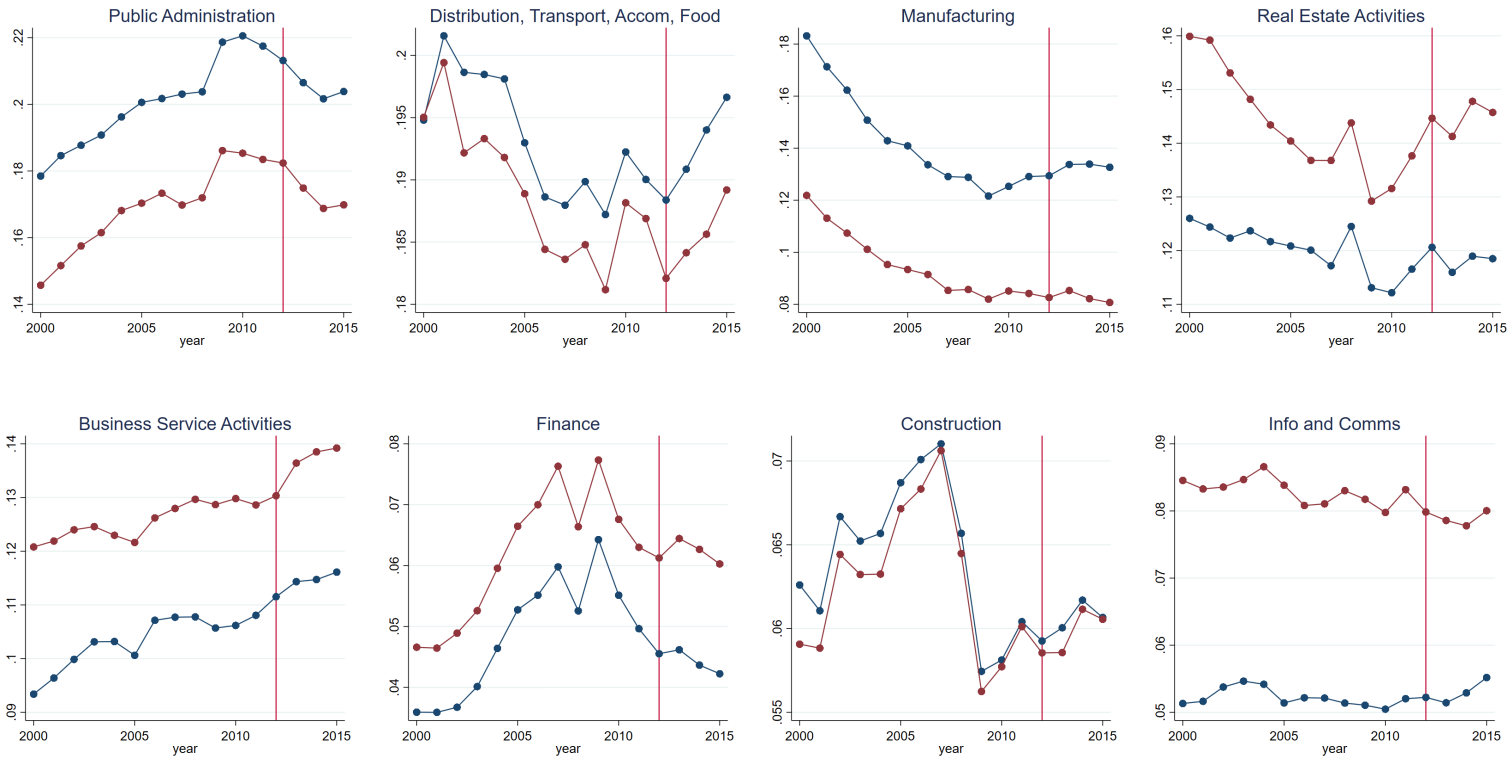
(c) Output per Capita Growth



*excludes Westminster and City of London due to high business concentration

District × Industry Trends

Figure 11: District-Industry Output Shares ($GVA_{ind,dist,year} / GVA_{dist,year}$)

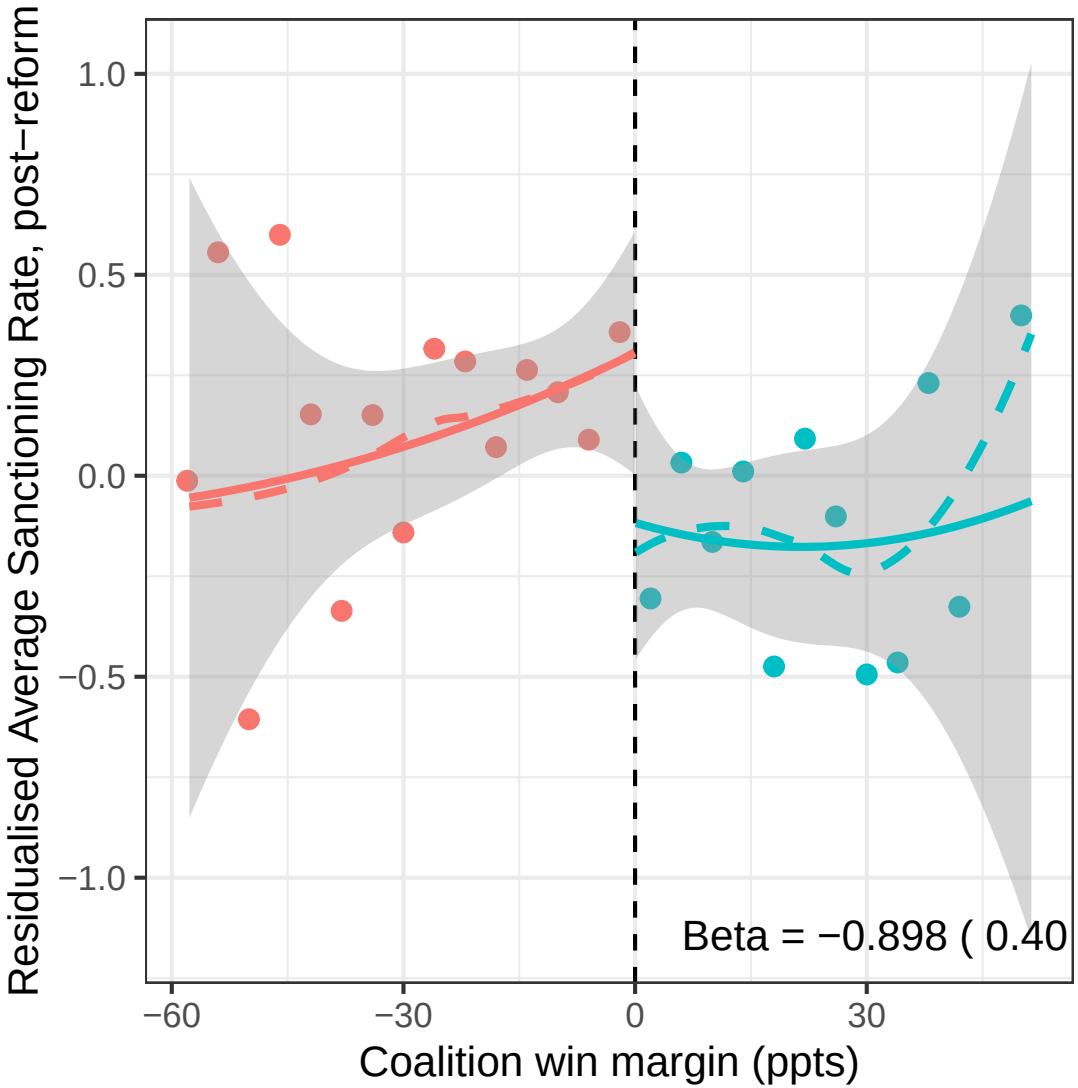


Back: Parallel Trends

Estimated ATTs

Table 3: Regression Results: ATT estimates

	Exit rate			Unemployment	Re-employment duration		
	total	employed	retired	N_u	>12	>24	>36
β ATT (ppts)	0.00860*** (3.03)	0.00796*** (2.91)	0.00455 (0.84)	0.112*** (6.65)	-0.0396*** (-2.85)	-0.0410** (-2.45)	-0.0631*** (-3.70)
β ATT (percent)	0.191*** (3.03)	0.205*** (2.91)	0.150 (0.84)	0.101*** (6.65)	-0.0504*** (-2.85)	-0.0583** (-2.45)	-0.0952*** (-3.70)
NT	59070	59070	12696	59070	59070	59070	59070



Note. Dependent variable is the residuals from a regression of average sanctioining rate on socioeconomic controls: log population, share of women, share of working age, median earnings, and employment rate. Solid line is quadratic fit, dashed line is lpoly fit. Shaded area represents 95% CI.

◂ Back: Variation