

## ACTIVATION BY THE 'MAGIC WAND' – DOES IT WORK?

Matija VODOPIVEC

Milan VODOPIVEC

Suzana LAPORŠEK

### Matija VODOPIVEC

Labour market economist, Directorate for Employment,  
Labour and Social Affairs, OECD, Paris, France  
E-mail: matija.vodopivec@gmail.com

### Milan VODOPIVEC

Professor, Department of Economics, Faculty of Management,  
University of Primorska, Koper, Slovenia;  
IZA Institute of Labor Economics, Bonn, Germany  
E-mail: milan.vodopivec@gmail.com

### Suzana LAPORŠEK (corresponding author)

Associate Professor, Department of Finance,  
Faculty of Management,  
University of Primorska, Koper, Slovenia  
E-mail: suzana.laporsek@fm-kp.si

### Abstract

Can activation programs be considered a 'magic wand' that triggers a change of incentives, with little or no costs, and produces real gains in terms of improved job-finding rates? The paper reviews the literature on the experience of OECD countries with such programs in five areas: strengthening job-search requirements, compulsory participation in active labor market programs, stricter monitoring, and imposing sanctions. Programs are judged in terms of duration of unemployment, probability of finding a job, and post-unemployment outcomes such as the level of wages and quality of jobs. Our review finds strong evidence that activation programs can increase the job-finding rates of individuals receiving unemployment or social assistance benefits. At the same time, it cautions that programs may have adverse side effects, ranging from increased exits into inactivity to lower quality of post-unemployment jobs, as well as negative indirect effects on the job prospects of non-participants.

**Keywords:** unemployment, employment, labor market institutions, public policy, welfare state.

## 1. Introduction

Although cash benefit programs for the unemployed are important in cushioning the impact of job loss, they may also generate significant unintentional effects. They may have negative effects on work incentives, encourage dependence on welfare, and attract claims from individuals who work in the informal sector. Moreover, particularly in Europe, activation programs might add to long-term unemployment and social exclusion, increase public expenditures and thus create undue fiscal pressure (Laporšek, Vodopivec and Vodopivec, 2022).

In order to address these concerns, countries have started to develop and implement activation programs, *i.e.*, programs aimed at boosting the job-finding rate of benefit recipients by, for example, strengthening job-search requirements or imposing stricter monitoring. In addition to boosting the job-finding rate, activation measures may also be directed at promoting transitions from unemployment to shorten the collection of benefits, both to avoid benefit dependency and possible misuse of the benefit by those who may be suspected of working informally. As the name ‘activation programs’ implies, such measures encourage – and perhaps even more frequently, pressure – jobseekers to become more active in finding work. While precise arrangements of activation programs vary widely across countries, the key target groups of activation are recipients of unemployment and social assistance benefits.

Arguably, the use of activation programs has been inspired by an implicit belief that activation programs function as an employment ‘magic wand’ – that they trigger a change of incentives, sometimes instantaneously and with little or no costs, and that by doing so they produce real gains in terms of improved job-finding rates. Implicit in this belief is the idea that the efficiency gains unleashed by activation programs arise from either a reduction of the dead-weight losses imposed by cash transfers in the form of moral hazard, from improved morale and improved job-search skills of jobseekers, or a combination of both.

While there is no agreed upon definition, Martin (2015) notes that the concept of activation has evolved considerably. In the 1970s and 1980s, it was connected to the idea of shifting the balance of public expenditures on labor market policies in favor of active labor market programs (ALMPs) instead of ‘passive’ ones like unemployment insurance (UI). Based on subsequent research that recognized interactions between passive and active policies, the concept changed in the 1990s to represent a much more nuanced view. According to OECD (2013, p. 132), the core objectives of activation are *‘to bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work’*. And the concept evolved even further – OECD (2015, p. 105) adheres to a much more encompassing concept of activation, defining the objective of activation programs *‘to foster more inclusive and resilient labor markets’* and putting forward a new framework consisting of institutions and policies that help *‘to maintain the motivation of jobseekers to*

*actively pursue employment while also improving their employability and expanding their opportunities to be placed and retained in appropriate jobs’.*

This paper aims to review the experience with activation programs in the following four areas:

1. *Strengthening job-search requirements* to facilitate transition to jobs (broadening of the definition of a ‘suitable’ job is also included);
2. *Conditioning benefit payments on participation in ALMPs*;
3. *Monitoring active job search and compliance with other conditions* to be eligible for unemployment benefits (UBs);
4. *Imposing sanctions* for failure to comply with program rules.

The areas are selected to reflect the core idea of activation – that jobseekers need to be spurred to search and accept jobs by pressing them via tougher rules or sanctions. The selected programs thus rely on the stick to induce desirable behavior on the part of jobseekers.<sup>1</sup>

Our literature review is motivated by the following two sets of questions. First, do tighter job search requirements and other activation programs stimulate outflow from unemployment – and even more importantly, outflows to employment? And second, if these programs are successful, do they create unintended effects in terms of less stable and worse paid post-unemployment jobs or transitions to inactivity? Accordingly, in judging the successfulness of activation programs, the following outcomes are considered: duration of unemployment, labor market status upon exit from unemployment, probability of finding a job, and post-unemployment outcomes as, for example, level of wages and quality of post-unemployment jobs.<sup>2</sup> Cost effectiveness is also considered, but information about it is rarely available.

In what follows, we first explain the methodology of the paper. We continue with an overview of findings of the activation literature, focusing on the four areas mentioned above. The final section concludes.

## **2. Methodology of the literature review**

When selecting the reviewed studies, we followed the following methodological guidelines. First, with one exception, we included only studies published since 2000, with two thirds of the studies published during 2010–2020. Second, we selected only studies that use rigorous methodology and credible strategies to identify program effects. Most of the

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1 The scope of activation programs as treated in this review is thus more in line with the one of OECD (2013) than OECD (2015), with the latter encompassing not only measures enhancing incentives but also those aiming at improving employability and labor market opportunities of jobseekers (see above).

2 Indirect (general equilibrium) effects of activation programs, if estimated by reviewed papers, are also presented.

studies exploit field experiments or changes in programs and policies to form treatment and control groups, and econometrically compare labor market outcomes between such groups. And third, we focused only on the studies that could be classified in one of the four areas outlined above. In instances where the featured programs contain measures that fall into more than one of the reviewed areas, programs are classified based on the predominant measure studied. Based on the above criteria, 44 studies were selected in the analysis (our research was conducted during 2020–2021).

### **3. Review of international experience with activation**

#### ***3.1. Strengthening job-search requirements***

Strengthening job-search requirements is part of conditions to be eligible to UBs receipt and include measures such as more frequent contacts and meeting with the employment offices, better documentation/proving of job search, and a broader definition of a suitable job (that is, a job that UB recipient is obliged to take in order not to lose benefit eligibility).

In their study of the state of Washington, Johnson and Klepinger (1994) examine the effects of a controlled experiment where the required work-search intensity varied from a complete elimination of work-search requirement to creating individualized work-search requirements and providing intensive services (job search assistance). The authors find that the duration of benefit receipt for workers who were not required to search was three weeks longer in comparison with workers with standard search requirements and were more likely to exhaust benefits. They also provide evidence that in the short term, reemployment wages of workers with no search requirements were slightly higher.

A recent study by Lachowska, Meral and Woodbury (2016) extends the above study of the state of Washington by looking into the long-term effects of varying work-search requirements. For UI claimants as a whole, the study finds little evidence that long-term effects differed across various groups. But the study finds that for a subset of the unemployed – those not subject to recall to the same job or who did not quit their previous job – more intense examination of eligibility resulted in better job quality, including higher earnings in the year following job loss, a shorter non-employment spell, and a longer tenure in the first post-unemployment job. Moreover, the study finds that better outcomes accrued disproportionately to low-paid workers.

Manning (2009) and Petrongolo (2009) study the effect of harsher job-search requirements that were introduced in the United Kingdom with the Jobseekers' Allowance (*i.e.*, United Kingdom's UB program) reform in 1996.<sup>3</sup> Both researchers show that in

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3 According to Petrongolo (2009, p. 1237), the UB reform required jobseekers 'to keep a detailed diary of search steps undertaken, such as each phone call made to a potential employer. The search diary is then checked against the initial agreement at fortnightly interviews with the Employment Service, or more often if a claimant is suspected of fraud. Claimants may be 'directed' by the Employment Service staff to take specific steps, and if a claimant is still unemployed after 13 weeks, he is required to broaden his search and may not turn down job offers outside his main occupation'.

the post-reform period, the claimant outflow rate significantly increased – according to Manning (2009), the probability of exit increased by 8%, and according to Petrongolo (2009), by 20%. Petrongolo (2009) also finds that exits from unemployment increased, but not necessarily into employment. Moreover, she finds that following the reform, the UB recipients for about three years after a job loss recorded a net loss in weeks worked and earnings with respect to the previous UB regime. She concludes that job search requirements have contributed to moving the UBs recipients off the UBs, yet they have not moved to stable or better-paid jobs.

Maibom, Rosholm and Svarer (2017) analyze employment effects of three randomized experiments that consisted of intensified counseling (via individual or group meetings) or mandatory participation in an ALMP early in the unemployment spell. The only program that showed a positive impact was intensified individual meetings every second week during the first 13 weeks of unemployment, increasing the probability of employment over the next four and a half years by 5%. The program was also cost-effective, saving public resources by close to 4,500 Euros per participant. Employment effects of other two programs proved insignificant.

In sum, strengthening job-search requirements for UB recipients increases exit from unemployment but may have other, unintended effects of long-term nature. These include (i) increased probability of exit to non-employment, including into the receipt of other benefits, and (ii) taking lower-quality jobs – jobs that are less stable and lower-paid. And though some studies find these interventions cost-effective, indirect effects may render such programs to be welfare reducing overall. Moreover, stricter conditionality may be effective only for specific groups, such as low-skilled workers with weak financial incentives to become employed, and not for the whole population.

### ***3.2. Conditioning benefit payments on participation in ALMPs***

Under this rubric we focus on participation in ALMPs as a condition to hold UBs. For example, in several OECD countries (Australia, Denmark, Netherlands, Sweden and the United Kingdom, see OECD (2007)), the UB recipients must participate in an ALMP (for example, in public works or in a vocational training) after a period of unsuccessful job search (for example, after six months, with some countries having a shorter period for the young) (Laporšek, Vodopivec and Vodopivec, 2022).

Black *et al.* (2003) analyze the impacts of a Kentucky's 'Worker Profiling and Re-employment Services' program that profiled the UI claimants based on the predicted length of their unemployment spell or the predicted probability that they will exhaust their UI benefit. Claimants with high predicted probabilities were obliged to participate in the employment and training services in order to retain benefits (*i.e.*, the treatment group). Using an experimental design, authors find that the average duration of the UI benefits receipt decreased by about 2.2 weeks for the treatment group relative to the control group. In addition, the treatment group received earnings that were \$1,050 higher in the year after the start of their UI claim compared to the control group. The authors conclude that the impact is mostly attributable to an increase in early exits from the UI in the treatment

group relative to the control group, given that most of these exits occurred when treated individuals were notified of their obligations under the program.

Graversen and van Ours (2008) investigate the effects of a Danish activation program that was introduced under the random assignment. The program consisted of two-week job-search assistance, more frequent contacts with the public employment services (PES), and, if still unemployed after four months, a compulsory training of at least 3 months (the program was announced at the beginning of the unemployment spell). The program proved effective, as the rate of finding a job increased by 30%. The latter was driven both by the threat effect of the notification that a person was included in the experiment and of mandatory training later in the unemployment spell, as well as by more intensive monitoring and counseling. Authors conclude that *'the effectiveness of the activation programs is driven more by the stick than by the carrot'* (p. 2032).

Investigating a Danish activation program, Rosholm and Svarer (2008) also report on significant threat effects as, for some treatment groups, increased employment probabilities following the completion of the program. The activation program studied consisted of referrals to subsidized jobs in the private or public sector in the duration of 26 weeks, or to educational and other programs (men only). The authors report an increase in employment probability, yet only during the period when the individuals were receiving the benefit. They also find that employment subsidies in the private sector had a small lock-in effect and that they increased employment probability after the program; in contrast, for the employment subsidies in the public sector they found a large lock-in effect and insignificant post-program employment effects. Moreover, educational programs were found to have large lock-in effect and to increase employment probability after the program. On average, activation programs helped to reduce unemployment duration between 1–3.5 weeks, but educational and public sector employment programs increased unemployment duration.

Similar findings were reported also by Engström, Hesselius and Holmlund (2012) for Sweden, who found that following the threat of referral follow-ups, job application rates increased, yet the duration of unemployment was not affected. The authors used a randomized experiment, in which they notified the jobseekers that they will receive lower benefits or lose them completely, if they do not apply for a certain vacant job position. The treatment group was also informed of a risk of increased monitoring. Results of the experiment show that the threat of referral follow-ups increased the probability of applying for a job by 4% on average (for those with shorter spells by 10.5% and for young jobseekers by 12%). Nonetheless, the authors find that the unemployment duration was not affected. Interestingly, they also report that approximately one third of all jobseekers who received referrals did not submit a requested job application.

Some other empirical studies produced less clear-cut threat effects. Tuomala (2011) studied the presence of the threat effect on long-term unemployed UB recipients in Finland and found no effect on the probability of finding employment. Similar are the findings of Hohmeyer and Wolff (2018), who study the effects of the mandatory participation in a German, wide-spread One-Euro-Jobs workfare program (often involving community service jobs). The authors find that the notification of mandatory participation in

the program increased job-search and application activities (for example, the percent of jobseekers pursuing self-declared active job search increased by 4.7 percentage points from a base level of 54%) and decreased the reservation wage by 3.3%, but that short-term employment probability remained unchanged (for many participants the studied outcomes reflected both threat and participation effects).

While a positive threat effect of a compulsory Danish ALMP on increased probability of finding a job by the long-term unemployed individuals was found by Geerdsen (2006), his result was later called into question by Graversen and Larsen (2013) who did not find a significant impact of threat examining the same period but with a more appropriate dataset. However, their analysis on extended observation period showed significant, positive threat effects on the probability of finding a job, although not as large as reported by Geerdsen (2006).

In sum, the above review shows that a threat of participation in ALMP motivates unemployed to transition into employment. Such a conclusion is also arrived at by the meta-analysis of Filges and Hansen (2017), who find a statistically significant increase of the hazard rate of leaving unemployment prior to program participation by 25% (based on eight studies requiring mandatory participation in ALMPs included in the analysis). The impact of compulsory ALMP participation on other labor market outcomes (such as post-unemployment wages and job quality) remains insufficiently researched to offer firm conclusions.

### ***3.3. Monitoring of active job search***

Empirical findings on the effects of monitoring on exit from unemployment are ambiguous. On the one hand, there are studies showing that monitoring increases exit from unemployment. For example, McVicar (2008 and 2010) investigates the ‘controlled experiment’ of zero monitoring in Northern Ireland, where monitoring was temporarily completely suspended while job-search requirements, job-search assistance service and benefit characteristics remained the same. He shows that zero monitoring reduced the hazard rate of exit to employment by 25.7%, exit to other benefits by 7.8% and exit to other destinations by 28.6%, and it increased the hazard rate of exit to education and training by 35.6%. He also finds that unemployment duration increased by 10-16% and that inflow to benefit reciprocity increased by 8-9%. Following a number of randomized control trials in the UK, Middlemas (2006) found that individuals who were exempted from the twice-monthly meetings that were mandatory for the control group prolonged their UB receipt by 3 to 6 percent in the first 2 to 3 months, and that individuals whose twice-monthly in-person meetings were replaced with telephone check-ins also had lower exit rates from unemployment.

Similarly, Cockx and Dejemeppe (2012) conducted a controlled experiment in the Flanders region in Belgium, where the treatment group received a notification letter announcing increased monitoring and were later subject to three interviews. Their results show an increased exit to employment by 23%, and also an increased exit to training. To obtain more precise estimates, Cockx *et al.* (2018) set up a structural job search model that explicitly accounts for imperfect measurement of search effort and for adjustment of job

search by the unemployed in anticipation of predetermined assessments of search effort. Using the same data as Cockx and Dejemeppe (2012), their estimation results show much weaker effects of the monitoring scheme. Structural estimation also allows them to show that reinforcing the strictness of the monitoring is very effective – placing the meetings much earlier in the unemployment spell and presenting the threat of sanctions at the first meeting nearly triples the reduction of the duration of benefit receipt, and more precise evaluations (adjustments of job-search assessment in response to assessed changes in job search effort) further reduces the duration of benefit receipt by the factor of two.

On the other hand, there are also empirical studies that found small or no effect of monitoring on exit from unemployment. In a study with a relatively small number of participants, Van den Berg and van der Klaauw (2019) report positive, but statistically insignificant effects of stricter monitoring in the Netherlands. They found that monitoring increased the job-finding rate within 26 weeks after the start of the unemployment spell from 66 to 69 percent. Moreover, Ashenfelter, Ashmore and Deschênes (2005) investigate the impact of stricter eligibility review and monitoring supported with telephone verification in four states in the USA. The authors find a positive but insignificant impact of verification – a reduction in the benefit qualification rate by 2%. They found that the whole treatment had an impact of 2.5% and it was mostly driven by only one state while it was negligible in others.

Limited effect of stricter monitoring was also found in Hungary. Micklewright and Nagy (2010) analyze an impact of a monitoring field experiment in Hungary in which the benefit claimants were randomly assigned to a treatment and control group. Participants from the control group were required to visit the employment office only once in three months and were not subject to additional questions about their job search; in contrast, participants of the treatment group were required to visit the employment office every three weeks and were questioned about their job search (about their job search methods and contacts with employers, including reasons for lack of contact and insufficient time spent in job search). Their results show that an increase in the frequency of visits statistically significantly increased the probability of taking a job for women older than 30, especially for those who were married with a working husband, but they could not confirm a significant impact for men or women aged between 20–30. One possible explanation offered by the authors is that search effort of men and younger women might already have been intense, while for the older women, additional visits might have stimulated additional job search.

Several other outcomes resulting from monitoring have also been documented in the literature. Van den Berg and van der Klaauw (2019) report for the Netherlands the negative effect of monitoring on wages in jobs following unemployment (the latter decreased by 1.7 percent). They also report that in the long-run, negative effects that monitoring had on employment and earnings were compensated by high job-to-job mobility – and that UB recipients, according to the authors' simulations, were willing to receive 16.2% smaller benefit in order to avoid monitoring. Moreover, they find that stricter monitoring caused a substitution of informal job search channels by formal ones.



Interestingly, more intense monitoring may generate additional costs that jeopardize the efficiency of the policy itself. Tougher monitoring needs additional human capital, inevitably resulting in an increase of expenses. This may lead to cost-inefficiency of monitoring, as shown by Lalive, Zweimüller and van Ours (2005) and by van den Berg and van der Klaauw (2006) in a case of long-term unemployment. Similarly, Ashenfelter, Ashmore and Deschênes (2005) conclude that stiffer monitoring would not result in large savings.

### ***3.4. Imposing sanctions***

To comply with continuing eligibility criteria, recipients of UBs are required to perform certain activities – typically, report to employment counselors, search for jobs and apply for vacancies, attend training programs, and participate in public works – as well as to accept suitable job offers. If they do not comply – for example, if they decline a job, public works or training offers, or if the intensity of job search is evaluated as unsatisfactory – they may face a penalty, *i.e.*, a warning or a sanction. The sanction can be temporary or permanent and involve a partial reduction or a complete withdrawal of the UBs (Laporšek, Vodopivec and Vodopivec, 2022).

#### *3.4.1. The effects of sanctions on exit from unemployment and on job-finding probability*

There is an array of credible studies that show that sanctions – both warnings about the possibility, as well as actual reductions or suspensions of the benefit or benefit period – raise the probability of exiting unemployment and of finding a job. They mostly cover OECD countries and relate to both UB and welfare recipients. Particularly credible are studies of experimental or quasi-experimental design.

Lalive, Zweimüller and van Ours (2005) investigate both the effect of a warning as well as the effect of an imposition of a sanction on UB recipients in three cantons in Switzerland. The sanction entailed a suspension of the benefit from between 1 and 60 days. They find that the threat effect of the sanction was larger than the effect of experiencing the sanction. The threat of a sanction, namely, increased the probability of exiting unemployment by 25.2%, and the sanction itself for an additional 19.8%. Also Arni, Lalive and van Ours (2013) report of similar findings for Switzerland – due to threat effect the probability of transition from unemployment to employment increased by 15.9%, while the imposition of a sanction increased this probability by additional 16%.

Comparable findings were reported also by studies for the Netherlands. Abbring, van den Berg and van Ours (2005) investigate how the imposed sanction affects the re-employment rate in metal and banking industry of UI recipients in the Netherlands, with the reduction of the benefit being between 5 and 30 percent in the duration of 4–13 weeks. They found that an imposition of a sanction raised the probability of employment for men by 61% and women by 98% in the metal industry, and by 36% for men and 85% for women in the banking industry. Moreover, two studies of the sanctions imposed to welfare recipients in Rotterdam also report strongly increased transitions to employment after the imposition of sanctions (van den Berg, van der Klaauw and van Ours, 2004; van der Klaauw and van Ours, 2013).

There are also studies for other European countries documenting that sanctions rise the probability of job-finding among UB recipients. Hofmann (2012) finds that imposing a sanction among UI recipients in Germany increased the probability of regular employment in the first four months from entering the UI system, an effect mainly driven by young recipients. Similarly, for Sweden, van den Berg and Vikström (2014) show that applying a sanction increased the probability of exit to employment by 23%, for the UK, Pipinis *et al.* (2016) find large effects from the imposition of sanctions, and, for Finland, Busk (2014) also reports similar findings. For Denmark, Svarer (2011) finds that the imposition of a sanction increased the exit rate from unemployment by 123% for men and 124% for women; using the same data but refining the methodology to treat participation in ALMPs as being endogeneous, Ahmad, Svarer and Naveed (2019) find somewhat lower estimates of 71% for men and 64% for women.

Three studies investigating the effectiveness of sanctions in Germany's welfare system also find that sanctions strongly increased the probability to exit to employment – Boockmann, Thomsen and Walter (2014), Hillmann and Hohenleitner (2015), and van den Berg, Uhlendorff and Wolff (2017). The latter examines the effects of sanctions introduced as part of the welfare system reform in Germany. In 2005, in an attempt to activate welfare recipients, strict benefit sanctions were introduced. For the first noncompliance, the young welfare recipients (who were the focus of the study) had their benefits reduced in the amount of the so-called basic cash benefit; for the second noncompliance, they were suspended completely for three months. The authors estimate competing risks models, distinguishing obtaining a job and exiting to inactivity as destinations, and they control for selection into treatment considering observed and unobserved characteristics. Their results show that both the first and the second sanction increased the job-finding probability, with a particularly strong effect from the first one (for persons living alone, more than doubling the job-finding rate).

But there are also 'perverse' effects of sanctions – one of them being increased exits to inactivity. Hofmann (2012) reports that both men and women, once being sanctioned, are more likely to exit the labor force. Similarly, Arni, Lalive and van Ours (2013) show that a warning raised the probability of transition from unemployment to non-employment by 99%, while the sanction itself increased it by an additional 67%. Similar estimates were provided also by Hillmann and Hohenleitner (2015) who report exit rates ranging between 60 and 79 percent. A similar result for young males living alone was obtained by Van den Berg, Uhlendorff and Wolff (2017), who found that the first and second imposition of the sanction (see the description of the sanction above) strongly increased their exit rate out of the labor force – however, for young males living with other welfare recipients they do not find such an effect. Busk (2014) also finds that sanctions encourage individuals to leave the labor force.

### *3.4.2. Effects on future earnings and quality of post-unemployment job*

Another ‘perverse’ effect of sanctions is the reduction of post-unemployment earnings. Arni, Lalive and van Ours (2013) find, for Switzerland, as mentioned above, that jobseekers left unemployment more quickly after being warned that a benefit reduction may take place in the near future, but resulting in lower earnings. According to their estimates, after a warning people’s earnings decreased by 8% in the first month and by 10.7% after 2 years, while with the sanction imposition by additional 7.9%. Van den Berg and Vikström (2014) find similar results for Sweden – on average, sanctioned unemployed were earning 4% lower hourly wages than non-sanctioned. They also show that the effect persisted in the long run – even after four years, those sanctioned received lower wages than non-sanctioned. Van den Berg, Uhlenhorff and Wolff (2017) also report that imposing a sanction reduced the post-unemployment wages by three to five percent.

Recent results also show that sanctions have a negative impact on the quality of future jobs. Van den Berg and Vikström (2014) show that sanctioned recipients more often involve in part-time jobs and that sanctions might be associated with a loss of human capital, as recipients employ in jobs that require lower education. Similarly, Hofmann (2012) reports that sanctioned older women took lower quality jobs. Moreover, Arni, Lalive and van Ours (2013) report that, if the accepted post-unemployment job was of lower quality or low paid, the probability that workers quit the job and return to unemployment increased.

Research on the effects of sanctions leaves many interesting questions that are still not well understood. One relates to the severity of sanctions (possibly related to the huge differences in the observed impact of sanctions on the job-finding rate).<sup>4</sup> Another question relates to the duration of a warning or sanction (see the discussion in Svarer, 2011; Busk, 2014; and van den Berg and Vikström, 2014): once warned, what is the optimal elapsed time until the person receives the sanction? Or what is the optimal length of suspension?

To summarize, there is strong evidence that sanctions increase the probability of exit from unemployment as well as exit to employment. But, they also come with significant negative ‘side’ effects, including higher probability of transition to non-employment, lower post-unemployment wages and higher probability of taking part-time or less stable jobs. The effects vary between men and women, and across recipients of different types of benefit.

## **4. Conclusion**

The above review of literature highlights that there are several effective tools available to support the activation of UB recipients, although they must be used with great care to avoid or minimize unintended effects of such measures, as transitions from the labor force and lower quality of jobs following unemployment.

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<sup>4</sup> Note that both very severe and very mild sanctions are likely to be ineffective (Svarer, 2011; Busk, 2014; van den Berg, van der Klaauw and van Ours, 2004).

Why, despite a broad literature, there is no consensus about some of the programs' effects? Countries differ markedly in important institutional characteristics – for example, UB generosity relative to previous earnings, duration of benefits, job-search requirements, monitoring capacity, employment protection legislation – all of which affect the incentives faced by jobseekers and the difficulty with which they may become employed. These initial conditions are difficult to take into account when making international comparisons. In the presence of non-linear effects of any of these parameters, studies will likely yield different results. Furthermore, many institutional and program features provide rich possibilities for interaction, and only a subset of these features are usually incorporated in econometric modelling. Omitting relevant aspects may account for the different results attributed to similar programs (Vodopivec, 2004). Finally, the effects may also vary within a given country of the business cycle – in a meta-analysis, for example, Card, Kluve and Weber (2018) show that ALMPs tend to show more positive effects in times of higher unemployment.

To what extent, then, can activation programs be considered a 'magic wand' that countries can use to balance income support for the unemployed while promoting jobseekers' willingness to become reemployed? In principle activation programs could provide 'quick wins', but as the above review shows, once a more complete range of employment outcomes is considered and indirect effects of these programs are also accounted for, such a rosy evaluation is likely to vanish. The optimism of early studies can be considered premature, as it was based on often simplistic cost-effectiveness calculations which juxtaposed savings from reduced length of benefit receipt with modest input costs. Later, more sophisticated studies enriched the set of the studied outcomes to include earnings and quality of post-unemployment jobs, thereby exposing also the 'perverse' effects of such programs. And while activation programs may reduce UB-induced dead-weight and thus tap into a 'costless' source of efficiency gains, the above review shows that in reality such programs also trigger jobseekers' behaviors that are welfare reducing, such as the acceptance of inferior employment matches. Clearly, to arrive at a more balanced and complete assessment of activation programs, more comprehensive cost-benefit analyses incorporating general equilibrium effects as well as spillover effects beyond the labor market should be a priority (including health effects, for example).<sup>5</sup>

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