

# The tougher, the better? How the interplay of search requirements and sanction threats affects compliance behavior and job finding



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## 1. MOTIVATION

- Enforcement of job search requirements increasingly employed to counteract moral hazard problems in Unemployment Insurance (UI) schemes
- Not a 0-1 treatment, but a combination of requirement and enforcement parameters
  - Their design varies largely across OECD countries (c.f. Venn (2012))
- The understanding of the interplay of these parameters is crucial to determine how a job seeker is affected by the job search monitoring regime

**Our aim & contributions:** Provide empirical evidence on the joint determination of job search behavior through requirement thresholds and enforcement threats

- Unique register data: Monthly information on job search requirements, effort, (non-)compliance, warnings and enforced sanctions
- Intensive margin approach → We analyze the policy parameters of an implemented search monitoring regime

## 3. IDENTIFYING REQUIREMENT AND ENFORCEMENT POLICIES

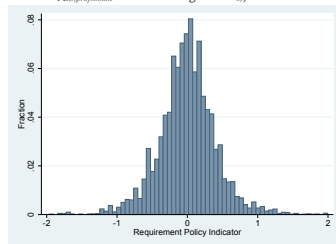
### 3a. Requirement $s_r$

**Identification challenges:** Exclude (i) contact-related endogeneity and (ii) correlation with Public Employment Service (PES) enforcement policy from variation in requirement levels

- Solution: exploit that different profession-groups are differently affected by PES-requirement policy
  - Background: some PES implement a profession-specific, others a "one-fit-all" requirement threshold

→ Estimate  $s_r = \alpha + x_r\beta + \pi_{PES} + \eta_{profession} + \nu_{PES,profession} + \varepsilon$

And retain  $\nu_{PES,profession}$  as an indicator for the profession-PES specific requirement policy (In final outcome equation, distribution of  $\nu_{PES,profession}$  enters in categories  $D_{i,c}$ ).



### 3b. Enforcement probability $p_0$

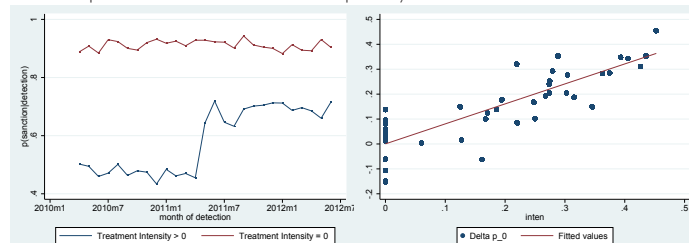
**Identification challenge:** Obtain policy-driven change in enforcement threat that does not capture changes in compliance behaviors

- Solution: Quasi-experimental variation resulting from reform of UI law in April 2011:
  - Strengthened deadline for submission of job applications list
  - Moved some PES from "second deadline policy" to "no excuse policy"

Reform induced harmonization of enforcement practices across PES → Treatment intensity varies according to PES-level pre-enforcement strictness

→ D-i-D setting with continuous treatment intensity:

- Measure treatment intensity as  $p(\text{sanction}/\text{detection})$  registered by each PES during the 6 pre-reform months →  $p(s|d)_{pre}$
- Average  $p(s|d)_{pre} = 0.75$  → How far is a PES'  $p(s|d)_{pre}$ ?
- Treatment intensity:  $inten = .75 - p(s|d)_{pre}$ ;  $inten = 0$  if  $p(s|d)_{pre} > 0.75$
- Good predictor of observed increase in enforcement probability:



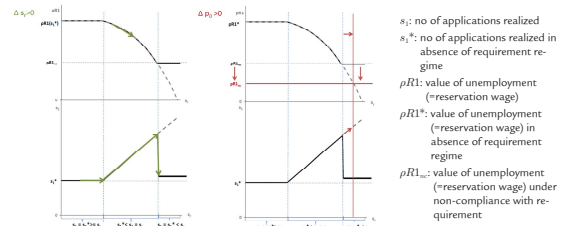
## 6. PRELIMINARY CONCLUSIONS

- Empirics confirm theory: Requirement and enforcement parameters jointly determine the job seeker's compliance trade-off:
  - Non-compliance increases with requirement regime
  - Non-compliance is reduced by an increase in the sanction threat under a high-requirement regime
- Design of requirement and enforcement policies matters for the job seeker's job finding probability:
  - High requirement can have negative impact on search success (quality-quantity tradeoff?)
  - Job finding increases with sanction threat under high-requirement regime

## 2. GRAPHICAL ILLUSTRATION OF THEORETICAL PREDICTIONS

Policy changes of interest: Increase in Requirement Threshold ( $\Delta s_r > 0$ ) and Increase in Sanction Probability ( $\Delta p_0 > 0$ )

Predictions result from Abbring/van den Berg/van Ours (EJ, 2005)



Main predictions for Empirical Analysis:

- Relevance of sanction threat  $p_0$  increases with requirement  $s_r$
- Non-compliance behavior is a suitable outcome to indicate relevance of requirement policy from the job seeker's perspective
- Impacts on job finding ambiguous

## 4. FINAL OUTCOME EQUATION

1. Estimate joint effects of  $s_r$  and  $p_0$  on non-compliance probability

$$p(nc) = x\beta + \delta_i D_{i,c} + \rho_i \times inten_{\Delta 0} + \varphi_i \times post + \pi_{s,PES} + \mu_{season} + \gamma_{year} + u$$

2. Estimate joint effects of  $s_r$  and  $p_0$  on duration to job finding (controlling for realized sanction events)

$$\ln \theta = \ln \lambda(t_i) + x\beta + \delta_i D_{i,c} + \rho_i \times inten_{\Delta 0} + \varphi_i \times post + \pi_{s,PES} + \mu_{season} + \gamma_{year}$$

## 5. PRELIMINARY RESULTS

