The Politics of Sanctioning the Unemployed

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Abstract

Unemployment benefit claimants who reject a suitable job, become unemployed voluntarily, or fail to fulfill their job-search obligations risk being sanctioned, meaning their benefit payments may be stopped or reduced for some defined period. Basically all advanced democracies have tightened their statutory sanctioning rules over the last around 30 years. Previous research has often seen these reforms as measures to reduce unemployment and, due to their enforcing character, as potentially unpopular. My explanation, in contrast, is that these rules are changed in response to increased public concerns about overspending on social policy. These concerns become stronger in times of austerity and introducing tighter sanctions is, I argue, a signal to voters that, while the 'honest, deserving' unemployed will receive support, no resources are spent on those who are found to be 'undeserving'. Analyses of both cross-national survey data and a novel comparative time-series dataset on unemployment benefit sanctions in 21 OECD countries between 1980 and 2012 show that public concerns about overspending increase and that sanctions are tightened in times of high unemployment and budget deficits.

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1 Introduction

This paper is concerned with when and why countries introduce tighter sanctions for the unemployed. Unemployment benefits are (and have always been) paid only to those who are involuntarily unemployed and willing to accept offers of suitable employment (Alber 1981; Clasen and Clegg 2007; Venn 2012). Those who become unemployed voluntarily, refuse suitable job offers, or who fail to comply with their job-search obligations may receive a benefit sanction. These sanctions typically take the form of a temporary suspension or reduction of benefit payments. In some cases claimants can also lose their eligibility completely. Since around 1980 most advanced democracies have tightened these sanctioning rules, in some cases quite significantly so. What explains this development?

Much of the existing literature on welfare state politics would suggest that these reforms are a type of necessary but unpopular retrenchment. Tightening sanctions is seen as one way of putting more pressure on the unemployed to find work and to thereby reduce structural unemployment (Eichhorst et al. 2008; Fredriksson and Holmlund 2006). Such coercive, re-commodifying reforms are typically seen as unpopular and therefore potentially risky for reform-minded governments (Häusermann and Palier 2008). They should be particularly unpopular in times of high unemployment, when the need for social protection is increased (Blekesaune 2007). The implication would be that tighter sanctions should be introduced, if at all, in times when public demand for social protection is low (Jensen 2007).

I offer a different account. My argument, in brief, is this: In times of austerity, not only needs for protection increase, but so do also public concerns about the

costs of social protection systems and about overspending on social protection. Vote-seeking politicians introduce tighter sanctions to address these concerns, and to signal fiscal responsibility and toughness on welfare abuse (see also Davidsson and Marx 2013 or Oschmiansky, Schmid, and Kull 2003 for related arguments). Sanctions are, in other words, not so much a tool to reduce unemployment but to address concerns about the costs of unemployment.

I provide two types of evidence to support my argument. I first use comparative survey data to show that voters are more concerned about the negative effects of social protection systems and issues like welfare fraud in countries with high unemployment rates budget deficits. I then use a novel comparative dataset on statutory sanctioning rules in 21 OECD countries between 1980 and 2012 to show that enduring increases in unemployment and budget deficits trigger sanction reforms.

My paper contributes, firstly, to current research on the activation turn in labor market and social policy (e.g. Bonoli 2013; Eichhorst, Kaufmann, and Konle-Seidl 2008). Due to a lack of comparative data, existing studies of the politics of coercive, re-commodifying reforms have been limited to small-N comparisons or single-country case studies. Mine is the first study that analyzes and explains the variation in unemployment benefit sanctions in a larger sample of countries and over a longer period of time. Since tightening sanctions is a case of welfare state retrenchment, the paper contributes, secondly, also to the literature on the politics of retrenchment. Retrenchment has often been seen as inherently unpopular and therefore risky (Pierson 1996). My paper adds to the growing number of studies that question this. Retrenchment can actually be popular since voters care not only about social protection systems but also about their costs (Davidsson and Marx

2013; Giger and Nelson 2013). I show also that the literature on the political effects of economic decline (Alt 1979; Durr 1993) can be fruitfully linked to the literature on the politics of retrenchment, in particular to show when and why retrenchment is actually not unpopular.

The remainder of this paper is structured as follows: I explain my argument in more detail in the next section. The third section presents my empirical evidence, starting with the analysis of micro-level data, then moving to the results of the pooled time-series analysis. The final section concludes.

2 The politics of sanction reforms

Public concerns about costs and overuse Social policies enjoy generally high support among voters in advanced democracies, and a number of studies have shown that this support tends to increase when the need for it grows. A greater exposure to unemployment, at the individual- as well as the economy-level, increases demands for public spending on unemployment benefits (e.g. Blekesaune 2007; Blekesaune and Quadagno 2003; Iversen and Soskice 2001; Margalit 2013; Rueda 2005). Related insights come from the literature on the deservingness of benefit claimants in the public perception. van Oorschot (2006) and Jeene and van Oorschot (2014) found that the public sees the unemployed as more deserving of support when unemployment levels are high and being unemployed is more clearly attributable to external economic conditions rather than unwillingness to work or 'choosiness'. The generally high public support for social protection systems and the fact that it responds to increasing needs for protection is what has led many to propose that retrenchment is inherently unpopular (Pierson 1996; Starke 2006),

at least in times of crisis and increased need (Jensen 2007).

But public support for the welfare state is not unconditional. Voters have other concerns as well, including the costs of social protection, inefficiencies in its provision, and possible negative economic effects of redistribution (Davidsson and Marx 2013; Giger and Nelson 2013). Voters also care about the overall budget balance, and arguably more so than about social protection per se. While welfare state retrenchment does not necessarily cost votes or can even increase voter support (Armingeon and Giger 2008; Giger 2011; Giger and Nelson 2010; Schumacher, Vis, and Van Kersbergen 2013), a poor fiscal record does hurt the reelection chances of incumbents (Brender and Drazen 2008).

It has furthermore been shown that public support for existing social policies can dwindle if many in the public believe that social policies are becoming economically unsustainable. Significant welfare state reforms in the Netherlands, Denmark, and later Germany, for example, were preceded by the public becoming more skeptical about the cost and efficiency of existing policies and, hence, more supportive of reforms (Cox 2001; Picot 2009).

Concerns in times of crisis When would we expect voters to become more concerned about the costs of social protection and about overspending? The literature on the political effects of economic decline has found that voters become less altruistic and more critical toward government spending in economic downturns. A conservative political agenda of less spending and smaller government will then find more public support (Alt 1979; Durr 1993; Stevenson 2001).[1] Margalit (2013) finds, similarly, that Americans grew overall less supportive of spending on welfare

[1]Related studies find that electoral support for conservative or even extreme right parties increases in severe economic crises (Funke, Schularick, and Trebesch 2015; Lindvall 2014).

between 2007 and 2011, as the Great Recession unfolded. Only those who actually experienced unemployment became more supportive. He (2013, 88) suggests that this was because "voters became increasingly concerned about the specter of growing budget deficits and the consequent possibility of future tax hikes". Related results are found by Kumlin (2014). He studies whether more generous unemployment benefits lead to higher satisfaction with the democratic system. While this is generally true, he also finds that this effect becomes weaker in times of high unemployment and especially when unemployment is a salient theme in elections. This suggests as well that the appeal of generous social protection systems is reduced once their costs become a more pressing issue.

In sum, voters may recognize the need for more spending in times of austerity, but they will certainly also recognize that resources are limited and are becoming scarcer. This leads them to become more concerned about the costs of social protection.

How politicians respond There is strong evidence that vote-seeking politicians adjust both their ideological messages as well as their policies in response to changing voter demands. This responsiveness is, first, observable in the programmatic signals parties send to voters. Adams et al. (2004) find that parties respond to public opinion shifts by adapting their manifestos if the public opinion shifts away from the party's original position. This is true at least for mainstream parties. Ezrow et al. (2010) show that mainstream parties on both the left and the right generally adjust their ideological stances to shifts in the general electorate, while only smaller niche parties follow their core supporters. Parties also respond to changing economic circumstances. Williams, Seki, and Whitten (2014),

for instance, show that political parties, especially when in government, respond to economic crises by putting more emphasis on economic issues in their election manifestos.

Stimson, Mackuen, and Erikson (1995) show that actual policy-making responds to public opinion shifts as well. Similar to Durr (1993) or Stevenson (2001), they use a very general measurement of the public's 'policy mood' and the degree of liberalism in policy-making. Brooks and Manza (2006) show that policy-making is also responsive to public opinion shifts in the more narrow area of welfare state policies.

We can also find evidence of political responsiveness in the even more specific policy area of unemployment benefit reform. Oschmiansky, Schmid, and Kull (2003) show, for the case of Germany, that public debates about welfare abuse and the deservingness of unemployed tend to emerge during economic downturns; these debates have often been followed by unemployment benefit reforms, in particular the introduction of tighter sanctions. Davidsson and Marx (2013) show that economic crises raise the saliency of unemployment as a political issue in the perception of voters and, crucially, increase popular support for cutbacks. Vote-seeking parties, they argue, have to deliver radical reforms or risk losing support to their competitors.

Tightening sanctions is, I argue, a particularly convenient way for politicians to address public concerns about the costs of social protection, while simultaneously not neglecting any increased demands for social protection. Tighter sanctions should, by design, affect only those who are found to be undeserving: those who are voluntarily unemployed, who are not willing to accept suitable work, and who are not actively looking for work. All other claimants will not be affected as long

as they comply with the conditions for benefit receipt.[2] Any costs will, in any event, be borne by labor market outsiders, a group that is heterogenous and at best weakly organized (Rueda 2007).[3] There are therefore good reasons to expect that the political costs of reforms will be low.

It is, on the other hand, actually less straightforward to see why sanctions would ever be relaxed. Since concerns about overspending are not pressing, voters will have little incentive to rally against such a reform. But given that the unemployed are also weakly organized at best, as mentioned above, it is not clear where to political pressure to relax sanctions should come from. This would suggest that sanctions are more often tightened in hard times than they are relaxed in good times. In other words, a ratcheting-up effect should be visible.

Sanctions are occasionally relaxed, however, and these changes should be accounted for as well. One situation in which support for relaxed sanctions could emerge is when larger parties try to reach out to marginal groups. Larger left parties, for instance, might at times find it necessary to advance the interests of labor market outsiders for fear of losing their support – but at the cost of then losing support among labor market insiders (Lindvall and Rueda 2013).

Summary Before moving on to the empirical analysis, I will briefly summarize my argument: Voters become more concerned about the costs of social protection

[2]Note, however, that there is evidence that some claimant groups, racial minorities in particular, are in practice more likely to receive a sanction than others (Schram et al. 2009).

[3]This is arguably different in the case of core programs like old age pensions. Pension programs, for instance, enjoy generally high levels of public support, pensioners are seen as the most deserving claimant groups (van Oorschot 2006), and strong interest groups require pension reforms to be carefully negotiated packages or to consist of only incremental changes (Häusermann 2010; Hinrichs 2001). Kananen, Taylor-Gooby, and Larsen (2006, 91), for instance, find looking at data from the United Kingdom, Sweden, and Germany that on average around 50 percent want the state to provide pensions whereas only around a quarter agree that the government should provide for the unemployed.

and overspending in times of limited resources. Political actors respond to this by tightening sanctions. This is way for them to respond to these public concerns without directly curtailing the level of social protection.

3 Analysis

My analysis proceeds in two steps. The first is an analysis of data on public social policy attitudes. The second part is a pooled time-series regression analysis of the determinants of sanction reforms.

The main predictors in both parts of the analysis are a) the unemployment rate and b) the government's budget balance.[4] Of key interest are the direction and significance of the effect of the unemployment rate and the significance of the effect of budget deficits.

A *negative* effect of unemployment would suggest that tighter sanctions are more often introduced in times of low rather than high unemployment – which would be consistent with the view of sanction reforms as only viable in times when public demand for social protection is low (Jensen 2007). This finding would, in addition, also be consistent with the view of sanctions as a tool to reduce structural unemployment. If the reason sanctions are tightened was really to reduce structural unemployment, then sanctions should only be tightened when unemployment is really structural – when it has been decreasing for some time but is not decreasing fast or far enough. A significant and *positive* effect of unemployment on public opinion as well as on reforms, however, would lend support to my argument: Concerns about the costs of social protection increase in times of high

[4]The government primary balance net of interest payments. The data on unemployment rates and government deficits are from Armingeon et al. (2014).

unemployment, and sanctions are tightened in response to rising unemployment and the costs it generates.

The effect of the budget balance is also central. An insignificant effect of the budget balance would suggest that concerns about costs and overspending are not a central motive for tighter sanctions, which would undermine my argument. But a significant effect of the budget balance, especially with unemployment controlled for, would suggest that it is really concerns about costs that are a key driver of these reforms.

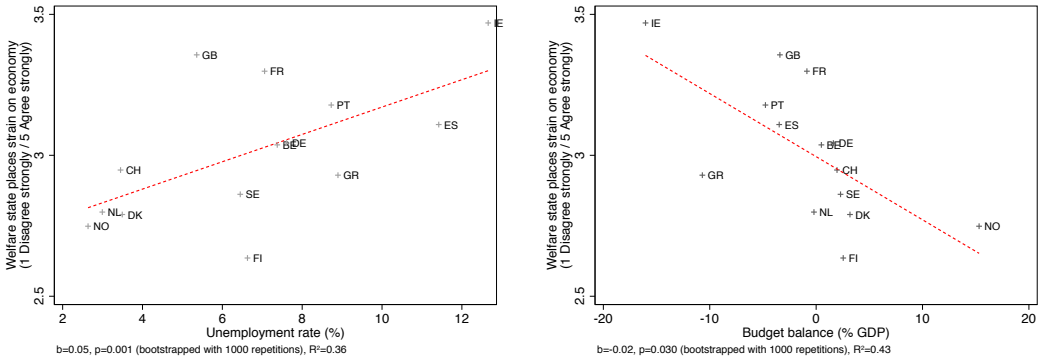
3.1 Public attitudes and economic conditions

For the micro-level analysis, I use cross-sectional data from the fourth wave of the European Social Survey (2010). The survey fieldwork was conducted in 2008 and 2009, just at the beginning of the Great Recession. Some countries like Greece and Ireland were already very strongly affected by the crisis, as indicated by high unemployment rates and significant budget deficits. The impact of the crisis on other countries like the Netherlands or Denmark was far smaller. I use this cross-sectional variation in economic conditions to see whether public concern about the costs of social protection is greater in the former than in the latter countries.

The European Social Survey includes two items that measure the respondents' concerns about the costs of social protection systems, one measuring concerns about more general negative economic effects of the welfare state and the other measuring more particular concerns about overspending on 'undeserving' claimants and welfare fraud.

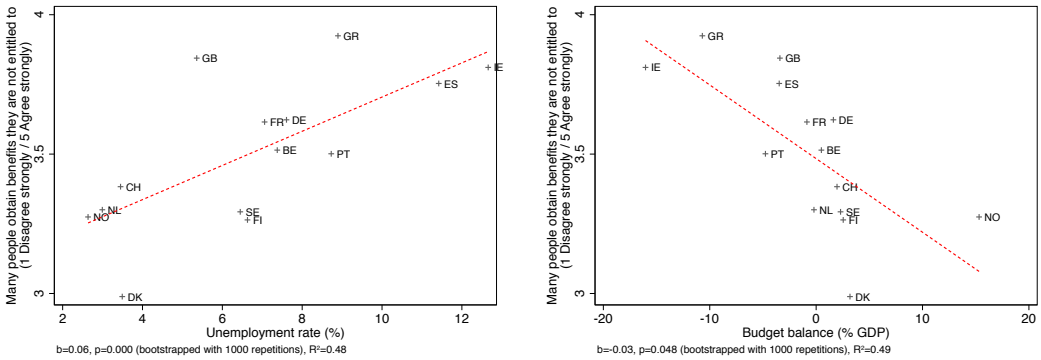
Figure 1: The response of mass public preferences to changing economic circumstances

"The welfare state places too great a strain on the economy"



(a) Unemployment (b) Budget deficits

"Many people manage to obtain benefits and services they are not entitled to"



(c) Unemployment (d) Budget deficits

Notes: 1 'Disagree strongly – 5 'Agree strongly'. 2008-10 averages. Sources: European Social Survey (2010); Armingeon et al. (2014).

The first item asks whether the respondents think that *"The welfare state places too great a strain on the economy"* (which is also used by Giger and Nelson 2013). The second item asks whether the respondents agree with the statement that *"Many people manage to obtain benefits and services they are not entitled to"*. The responses are in both cases recorded on ordinal scales ranging from 1 ('Disagree strongly) to 5 ('Agree strongly').[5]

I show the relationships between public attitudes, averaged at the country level, and economic conditions in the form of scatterplots with fitted regression lines (see figure 1).[6] The two graphs on the right show that the voters in countries with higher unemployment rates are more concerned about negative effects of the welfare state on the economy as well as about welfare fraud. The two graphs on the left show that the same is the case in countries with higher government deficits. All these relationships are statistically significant at conventional levels.

Note also that the explained variation is higher in the two graphs at the bottom (the coefficient estimates are also slightly larger). This is apparent from the graphs as the countries are closer to the fitted lines in the graphs at the bottom, and it is also indicated by the higher model R^2s. This suggests that unemployment and budget deficits are better predictors of concerns about more direct and particular costs of social protection due to overpayments and fraud. Concerns about more indirect, general costs – negative effects on the economy – are also related, but less strongly. In other words, what people seem to care about in times of austerity are straightforward cost reductions and less so reforms that improve the long-term efficiency of welfare policies.

[5]The original scales go from 1 ('Agree strongly) to 5 ('Disagree strongly'). I reversed the scales of the two variables.

[6]I estimate between-effects OLS models with bootstrapped standard errors.

These results are based only on cross-sectional data, and it is obviously not clear that cross-sectional differences really reflect within-country changes (Fairbrother 2014, 120-2). I do want to point out, however, that my results are in line with several previous studies (mentioned above) that have used time-series data, in particular Margalit (2013) and also Kumlin (2014).

3.2 Sanction reforms and economic conditions in the OECD since 1980

The previous part of the analysis focussed on the general public opinion. This part of the analysis focusses on the actions of governments. It shows that unemployment benefit sanctions are tightened in response to rising unemployment and budget deficits by way of an analysis of data on unemployment benefit sanction reforms in 21 OECD countries over the years 1980-2012.

Data on sanction reforms To measure reforms of unemployment benefit sanctions, I draw on a novel dataset on the conditionality of unemployment benefits in OECD countries between 1980 and 2012 (Knotz and Nelson 2015). The dataset covers 21 advanced OECD democracies (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, South Korea, Sweden, Switzerland, and the United Kingdom) over the period between 1980 and 2012.[7]

[7]The data on Greece were collected by Varvara Lalioti, the data on Portugal were collected by Luis Gonzales da Silva, the data on Japan were collected by Takeshi Yanagisawa, the data on Italy were collected by Stefano Sacchi and Patrik Vesan, and the data on the Netherlands were collected by Albertjan Tollenaar, Gijsbert Vonk, and a research assistant. Alexandra Keidel Fernandez assisted in the collection of the data on Spain. Data on earlier periods (the 1970s and 1960s) are available for most countries; in the cases of Greece and Ireland the time-series go back to the 1950s, and in the case of Italy even to 1924. The exceptions are the data on Switzerland, the Netherlands, and South Korea, which are available from 1982, 1986, and 1996 onwards, respectively. Korea introduced its unemployment insurance system only in 1996, and unemployment insurance was not mandatory in Switzerland before 1982.

The dataset includes, in particular, information on the statutory penalties for a) voluntary unemployment, b) the first, second, third, or 'repeated' refusals of offers of suitable employment, c) failures to attend at the employment/benefit service's office, and d) failures to report sufficient evidence of job-search activities for claimants of the respective country's main unemployment benefit. These are in most cases earnings-related unemployment insurance benefits.[8]

The dataset is based on primary sources (historical legislation, regulations, guidelines, and policy manuals), which were mostly retrieved from legislative databases, national archives, and university libraries. Other sources, like existing cross-sectional datasets or country-specific studies (among others: Clasen and Clegg 2007, 2011; Hasselpflug 2005; Ministry of Finance Denmark 1998; Venn 2012) were used to guide the data collection and to cross-check the findings. Interpreting legislation, regulations, and manuals is obviously not always straightforward and requires sufficient language skills. To minimize the risks of misinterpretations and omissions as much as possible, at least one external country-expert per country was asked to review the collected data and to check them for accuracy and completeness.[9]

Using these data and following earlier studies that measured the strictness of these rules (see Allard 2005; Hasselpflug 2005; Ministry of Finance Denmark 1998; Venn 2012), I compute an aggregate, time-varying indicator of sanction strictness. The indicator is constructed by first assigning scores to several sub-categories of sanctions. These scores are then summed up and divided by the theoretical

[8]The exceptions are Australia and New Zealand, where no earnings-related unemployment benefits exist.

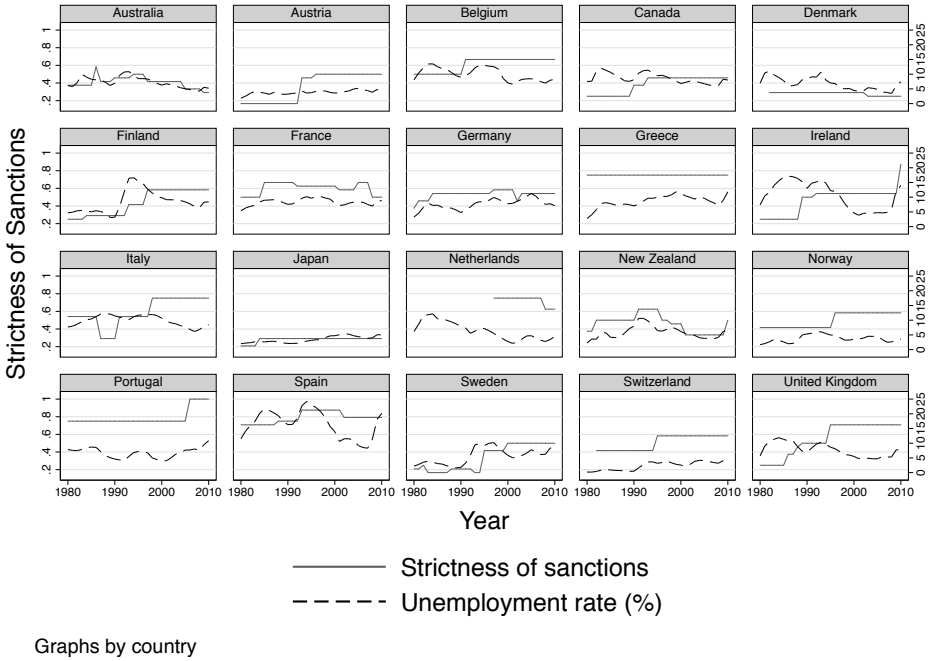
[9]A full list of all country experts as well as all persons involved in the data collection is provided in a separate codebook that is available from the author.

maximum to obtain final overall scores that range between 0 (no sanctions) to 1 (very harsh sanctions). The exact procedures are explained more detail in the appendix (see in particular the coding scheme in table A-I).

Descriptive analysis Figure 2 depicts the development of sanctions (solid line) and the unemployment rate (dashed line) since 1980 for each country in the dataset. Especially the United Kingdom, Ireland, Finland, Sweden, Austria, and Italy introduced significant reforms in this period, as indicated by strong increases in the sanctions-indicator. It is interesting to see also that sanctions are occasionally relaxed, but relaxations are not as common as restrictions. Only Australia and New Zealand have relaxed their sanctioning rules several times after around 1995. This suggests that there really is a ratcheting-up effect, as hypothesized above. Not all countries did introduce an equally large number of reforms. Japan, Belgium, or Denmark introduced only a few reforms despite increases in the unemployment rate. Greece introduced no significant reforms since 1980.

It is also apparent that there is covariation between the unemployment rate and the strictness of sanctions. Especially the cases of Australia and New Zealand are worth pointing out since the two variables follow each other rather closely in these two cases. There are also a number of countries where long-term increases in unemployment eventually led to the introduction of harsher sanctions. These include for instance Sweden and Finland in the early 1990s, the United Kingdom in the late 1980s and mid-1990s, and Ireland in the 1980s and 2009. One can also see that smaller increases of the unemployment rates in Canada, and Switzerland in the early 1990s were followed by the introduction of tighter sanctions a little later. Other cases where sustained increases in unemployment were followed by

Figure 2: Sanctions and unemployment since 1980

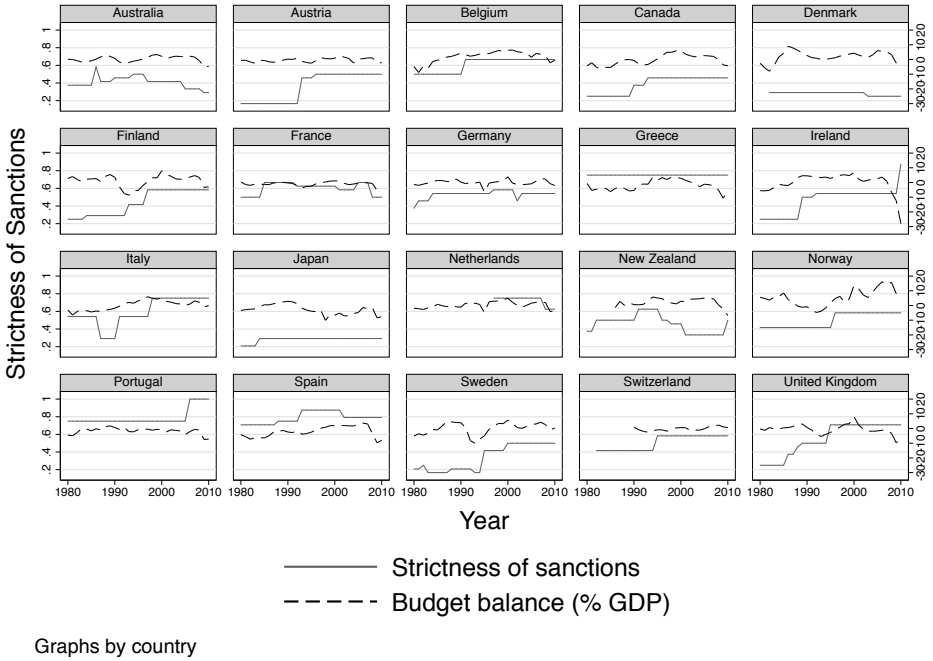


increases in sanction strictness are Portugal in the mid-2000s, Spain in the early 1990s, and France both in the early 1980s and the mid-2000s.

There are only a few cases where countries restrict sanctions after sustained decreases in unemployment. These include Belgium and Norway in the early 1990s, although Norway is a borderline case here. The unemployment rate was decreasing at the time of the reform, but it was still on a relatively high level compared to the 1980s. Austria also introduced a significant reform in the 1990s despite no significant change in the unemployment rate (this might be related to the budget balance, however, as shown below).

The fact that sanctions tend to be tightened in times of high unemployment is in line with my argument. This pattern is, however, difficult to explain if the mo-

Figure 3: Sanctions and budgetary crises since 1980



tive for these reforms were to tackle structural unemployment or if these reforms were particularly risky in times of crisis. In most cases, however, it took several years of increased or increasing unemployment before sanctions were eventually tightened. Finland, for instance, experienced several years of rising unemployment in the early 1990s before reforms were passed. This is certainly not implausible: unemployment benefit statutes are typically not adjusted to the prevailing economic conditions on an annual basis. It will take some time before political actors start to consider reforms and before reforms are then actually passed.

Figure 3 assesses the association between sanction reforms and the government budget balance. There is less obvious covariation between these two variables, but there are nonetheless fitting cases. The significant budget deficits in Sweden and

Finland, for instance, were followed by the introduction of tighter sanctions. Particularly illustrative are also the recent reforms New Zealand and Ireland in 2009. Both countries' budget balances deteriorated significantly – which in both cases coincided with reforms that tightened sanctions. Austria's budget balance turned slightly negative in the early 1990s, which was then followed by one significant and one smaller sanction restriction. The case of Spain in the early 1990s is a final fitting case.

Multivariate models I use a multivariate regression analysis to check more thoroughly whether there is a significant effect of unemployment and budget deficits on the strictness of sanctions. The descriptive analysis suggests that in particular the effect of unemployment may not be instantaneous, and I therefore estimate dynamic models that can detect both short- and long-term effects. To be more specific, I estimate general error-correction models (De Boef and Keele 2008, see also Beck 2011). The model is general since it makes no a priori assumptions about whether the predictors have effects in the short- or long-term (or both), and about how quickly any long-term effects decay over time.

The model is set up as follows: The current change in the independent variable is regressed on both the current changes and the lagged level of the predictors, as well as on the lagged level of the independent variable:

$$\Delta Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \beta_0 \Delta X_t + \beta_1 X_{t-1} + \epsilon_t$$

The coefficients for the current changes (β_0) can be interpreted as the short-term effects of these variables. The coefficient for the lagged level of a predictor (β_1) indicates the effect a change in this variable has at $t + 1$. The coefficient

of the lagged dependent variable (α_1) indicates how quickly this effect becomes weaker in the following time periods. The total long-term effect of a predictor can be calculated from the coefficients of its lagged level and the lagged level of the dependent variable, as explained in more detailed below.

I control for two other factors, partisanship and the strictness of dismissal rules. These are measured as the share of left parties in government and the strictness of dismissal rules for open-ended contracts, respectively. Lindvall (2014) finds that economic downturns tend to hurt the electoral prospects of left parties, at least initially. Left parties might at the same time also be less likely to tighten sanctions, at least according to the partisanship-hypothesis that has long been highly influential in welfare state research (e.g. Korpi and Palme 2003; Schmidt 1996).[10] This means government partisanship is a potential confounder that should be controlled for – an effect of unemployment might exist simply because right parties are at the same time more likely to be in office and more likely to tighten sanctions. This is, to be clear, not an implication of my own argument. I would expect that at least mainstream left parties do not behave differently than right parties. A possible partisan effect is at the same time not something I want to dismiss out of hand.

Stricter dismissal rules makes it more difficult to fire workers, which may slow the growth of unemployment in downturns or at least focus the risk of unemployment on outsider groups. If Margalit (2013) is right and the larger group of voters that is not directly exposed to unemployment actually becomes more opposed to increased social spending and more concerned about deficits, then the strictness

[10]But see Häusermann, Picot, and Geering (2013) for a review of recent scholarship on the role of partisanship for welfare state politics.

of dismissal rules might affect how strongly countries respond to unemployment crises (see also Rueda 2006; Saint-Paul 1998).

I control also for period-specific effects by introducing a set of year-dummies. The results are essentially the same, however, if I do not include period dummies, or when I include a simple linear time trend instead. The results are also robust to different model specifications, including using a moving-average of the previous last five years of the unemployment instead of the simple one-year lag (see tables A-II through A-V in the appendix). I use panel-corrected standard-errors (Beck and Katz 1995) to account for panel-heteroscedasticity.

Table 1: The effects of unemployment and deficits on the strictness of sanctions

	(1)	(2)	(3)
Sanctions_{t-1}	-0.06^{***}	-0.04^{***}	-0.06^{***}
	(0.01)	(0.01)	(0.01)
Δ Unemployment rate	0.04		-0.12
	(0.18)		(0.16)
$\text{Unemployment rate}_{t-1}$	0.19^{***}		0.19^{***}
	(0.05)		(0.05)
Δ Budget balance		-0.26^{**}	-0.30^{**}
		(0.12)	(0.12)
$\text{Budget balance}_{t-1}$		-0.10^{**}	-0.08^{*}
		(0.05)	(0.05)
Δ Dismissal rules	-1.36	-1.95	-1.13
	(1.92)	(1.85)	(1.89)
$\text{Dismissal rules}_{t-1}$	0.34	0.18	0.34
	(0.26)	(0.27)	(0.25)
Δ Left cabinet share	0.00	0.01	0.01
	(0.01)	(0.01)	(0.01)
$\text{Left cabinet share}_{t-1}$	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)
Constant	1.82^{**}	3.02^{***}	1.81^{***}
	(0.71)	(0.74)	(0.67)
Year FE	Yes	Yes	Yes
LRM Unemployment	3.28		3.45
	(0.07)		(0.06)
LRM Budget balance		-2.86	-1.45
		(0.18)	(0.43)
Observations	522	517	517
Countries	20	20	20
R^2	0.12	0.12	0.14
p-value	0.00	0.00	0.00

Panel-corrected standard errors in parentheses; * $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$

Results The main results are presented in table 1. The short-term effect of unemployment is not statistically significant and changes its sign across model specifications. Short-term fluctuations in the unemployment rate do, in other words, not immediately result in sanction reforms. This seems plausible and corresponds to the patterns shown in figure 2 above. The lagged level of the unemployment rate has a strong, significant, and robust effect, however. This suggests that there is a strong long-term effect of unemployment. (I will return to the long-term effects below.)

This is different in the case of budget deficits, where the short-term effect is statistically significant and goes in the expected direction. This suggests that sanction reforms tend to be introduced rather swiftly when countries experience deficits and have to cut spending. The fact that the lagged level is, albeit weaker, still significant, suggests that there is nonetheless an effect of long-term budgetary problems.

The government's budget balance and the unemployment rate are correlated, but not overly strongly ($\rho = -0.27;\ p < 0.000$). This suggests that there is not much redundancy in including both predictors into the same model. Doing so does change the results: The coefficient for the lagged level of the budget balance becomes smaller and is estimated less precisely, and the coefficient for the change in the unemployment rate becomes negative. The overall conclusion remains the same, however.

None of the other controls has a significant effect. The positive effect of the lagged level of the dismissal rules suggests that reforms in countries with stricter dismissal rules might go further than in countries with more flexible labor markets, and the negative short-term effect suggests that there may be some cases where

sanctions were tightened in the same year as dismissal rules were relaxed.[11] Both effects are not significant, which means that these are not systematic patterns.

Neither the change nor the lagged level of the share of left parties in government has any effect. Both are substantively and statistically insignificant. This finding is also consistent with anecdotal evidence: In Australia, sanctions were tightened both under Liberal/National as well as under Labor governments. The Christian democratic/liberal coalitions in Germany under Kohl did introduce tighter sanctions, as did the socialist PSOE government in Spain in the early 1990s.

Long-term effects The coefficient estimates do not reveal all the information that is contained in the models (De Boef and Keele 2008). The fact that only the lagged unemployment rate but not its contemporary change has a significant effect suggests that the effect of unemployment works only in the long-run. The question is then how large the total long-term effect is. As explained by De Boef and Keele (2008, 191-2), the total long-term effect of a predictor in an error-correction model is calculated as the long-run multiplier (LRM):

$$k = \frac{\beta_1}{|\alpha_1|},$$

where, as above, β_1 is the lagged level of the predictor and α_1 is the lagged level of the dependent variable.[12]

[11] Sanctions tended to become tighter whereas dismissal rules were mostly relaxed in recent decades. It is hence more likely that tighter sanctions were introduced alongside relaxed dismissal rules than vice versa.

[12] The standard error of a long-run multiplier, in turn, can be calculated as (dropping the subscripts):

$$SE(k) = \sqrt{Var(k)} = \sqrt{\left(\frac{1}{\beta^2}\right) Var(\alpha) + \frac{\alpha^2}{\beta^4} Var(\beta) - 2\left(\frac{\alpha}{\beta^3}\right) Cov(\alpha, \beta)}$$

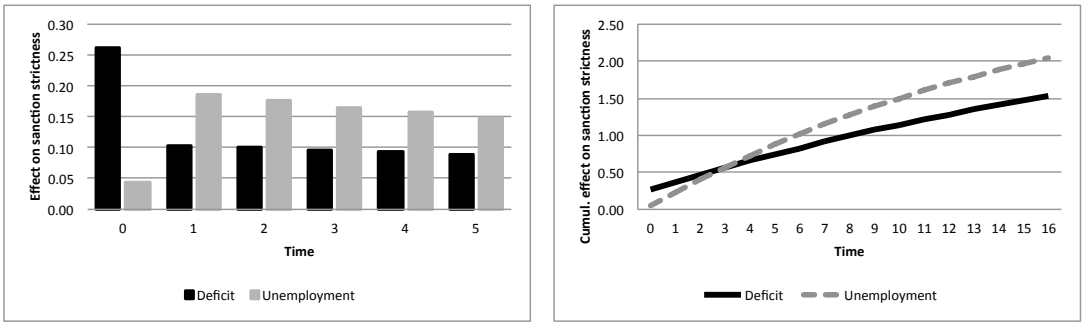
The long-run multiplier is the total effect that a change in the predictor has over multiple time-periods, starting at $t + 1$. I list the long-run multipliers for unemployment and budget deficits and their standard errors at the bottom of table 1. All long-run multipliers are estimated sufficiently precisely to interpret them as different from zero (all are greater than 1.96 times their standard errors).

An increase in the unemployment rate has a robust and strong long-term effect on sanctions. Depending on the model, an increase in the unemployment rate will result in an around threefold increase in the sanctions-indicator. This is consistent with the descriptive results: The Swedish unemployment rate increased by around eight percent between 1990 and 1994, which resulted in a reform that increased Sweden's score on the sanctions-indicator by a bit more than 20 points (see figure 2).

The long-run multiplier of the budget balance is weaker and not as precisely estimated. Controlling for unemployment in model 3 also reduces the LRM of budget deficits considerably. In this specification, the long-term effect of budget deficits is only a bit more than half of the long-term effect of unemployment. The conclusion is, again, that the effect of unemployment unfolds over the longer run while budget deficits have a more immediate impact.

To show more clearly how these effects unfold over time, I calculate the lag distributions for a sudden one percentage-point increase in the unemployment rate and an equal increase in the budget deficit (in other words, a decrease in the budget balance). The lag distributions are shown in graph (a) in figure 4. The graph shows that the effects of unemployment and budget deficits unfold differently over time. The immediate impact of an increase in unemployment is small. The real

Figure 4: The predicted short- and long-term changes in the strictness of sanctions for a one percentage-point increase in the unemployment rate and the budget deficit



(a) Lag distribution (b) Cumulative effect

Notes: The calculations are based on models 1 and 2 in table 1.

effect unfolds during the years following the increase and decays only very slowly. An equally strong decrease in the budgetary balance results in a response that is immediately very strong, but much weaker already one year after the shock. The slow decay of the effects over time might seem strange at first sight. It is not very surprising, however, when considering that the dependent variable changes only relatively infrequently (Australia and New Zealand are exceptions). My dependent variable, in other words, would elsewhere be considered an institution. The effects decay slowly because the dependent variable changes equally slowly.

The incremental effects displayed in graph (a) eventually add up to the predicted long-term effect. How this unfolds in the case of the two key predictors is shown in graph (b) in the same figure. The stronger long-term effect of unemployment becomes visible in this graph; the overall effect of a change in the unemployment rate is stronger than the effect of a change in the deficit after around four to five years. Note that this is a hypothetical example assuming a

single one-percent increase in the unemployment rate. Real unemployment rates increase over multiple years and sometimes also by more than one percent in a single year. The hypothetical curve shown in graph (b) would then be steeper.

The overall conclusion from this analysis is that sanctions are changed in response to both changes in the unemployment rate and in the government's budget balance. Changes in the budget deficit have a very immediate effect, whereas the effects of changes in the unemployment rate unfold over the long run. This is what the descriptive analysis already hinted at: governments do not adjust sanctions on an annual basis. It will take a prolonged increase in the unemployment rate to trigger a reform. Sudden budget deficits, on the other hand, do result in reforms.

Once again, the fact that sanction reforms are significantly associated with increased unemployment does not suggest that these reforms become harder in times of increased need – to the contrary. And especially the significant short-term effect of budget deficits supports the idea that the underlying cause for sanction reforms is austerity, not structural unemployment.

4 Conclusion

Most advanced industrialized democracies have since the 1980s introduced tighter sanctions for 'choosy' or 'lazy' unemployment benefit claimants. The main strand of research that has so far explored the causes of this development has been the literature on the activation turn in labor market policies (Bonoli 2013; Eichhorst, Kaufmann, and Konle-Seidl 2008; Weishaupt 2011). Sanctions were seen as a tool to reduce unemployment: faced with the possibility of a benefit reduction or (temporary) cancellation, claimants would be more cooperative with the employment

services and more eager to engage in job-search.

I show in this paper that sanctions and unemployment are indeed associated with each other, but not in the way often assumed. Sanctions are not so much a tool for reducing unemployment than a tool to reduce the *costs* of unemployment and to address popular concerns about welfare fraud and overpayments of unemployment benefits. The logic of my argument is best exemplified by a statement made in the Australian House of Representatives in 1986 during the deliberations of a budget reform package that included tighter sanctions. A representative for the then governing Labor Party argued:

> "This legislation provides also for a major crackdown on social security fraud. That is fundamental to the whole philosophy of this Budget. If economic conditions are tight, if there is not a bottomless pit of money from which to give handouts to community groups, it is absolutely crucial that the Budget revenue that is available is directed to the people who need it most and that money is not wasted on people who are able to cheat, defraud or in other ways manipulate the social security system".[13]

This occurred against the backdrop of a significantly higher budget deficit than expected, a resulting drop in the exchange rate, rising interest rates, a slowing economy, and rising unemployment.[14] In addition, newspaper articles describing cases of claimants that had fraudulently received unemployment benefits and the extent and costs of overpayments appeared in addition to news about the worsening economic conditions. It was estimated that many more people were claiming

[13] John Mansfield Brumby, House of Representatives Official Hansard No. 151, 1986 (Friday, 17 October 1986), p. 2266.

[14] *Sydney Morning Herald* (p. 16) on August 8, 1986; see also Australian Journal of Politics & History (1987).

benefits than were actually looking for work, having resulted in additional costs of 25 Million Dollars per year since 1981.[15] The government had also dropped in opinion polls (Australian Journal of Politics & History 1987).

My findings suggest that sanction reforms elsewhere were introduced under very similar circumstances and for very similar reasons. I have shown that voters across Europe are more concerned about fraud and overspending during times of austerity, when unemployment rates are high and when their governments run deficits. The results of my pooled time-series analyses suggest, furthermore, that similar considerations as the ones expressed in the Australian House of Representatives have motivated the introduction of tighter sanctions across advanced democracies since the 1980s. Sanctions are tightened following long-term increases in unemployment or short-term increases in the budget deficit.

These findings have implications for research on the politics of welfare state retrenchment. Early studies of the politics of retrenchment assumed that retrenchment is necessarily unpopular and electorally costly (Pierson 1996; Weaver 1986). Later studies showed that inaction may be even more costly than retrenchment, but they still retained the assumption that retrenchment was unpopular (Bonoli 2012; Vis 2009a,b). Others have shown, however, that voters have other concerns that maintaining social protection standards. Retrenchment can, when these other concerns become more pressing, therefore also be driven by popular demand and can be used to claim credit (Davidsson and Marx 2013; Picot 2009, see also Cox 2001). This paper provides further evidence for the latter thesis. In fact, a key implication of this paper is that popular support for retrenchment, at least for some

[15]See for instance the *Sydney Morning Herald* (p. 3) on October 24, 1985, on (p. 3) May 23, on (p. 3) May 29, on (p. 3) June 17, on (p. 3) June 28, on (p. 3) July 10, and also (p. 12) on February 1, 1986.

forms of it, might be greater than often thought. Future research could expand on this and look, for instance, at popular support for a broader range of social policies and at whether this support deteriorates in economic downturns. This could provide further insights into whether retrenchment really is unpopular, and under which conditions some types of retrenchment are not.

It seems that similar dynamics as the ones behind sanction reforms are also at work in other policy areas. One example is criminal justice policy, where it is found that changes in incarceration rates are driven by changes in public support for being tough on crime (Enns 2014). A second and currently highly relevant case is asylum policy in Europe. Austria, Germany, and Sweden experienced an exceptionally large inflow of asylum seekers in the second half of 2015, which will require these countries to increase spending on housing, education, health care, labor market policies, and social benefits in the coming years. The governments of these countries have responded by tightening family reunification rules and announcing increased efforts to swiftly deport those whose applications were rejected. The political leaders of these countries were eager to emphasize that deportation numbers will increase and that support and protection will only be granted to those who really require it.[16] All this happened in the context of declining popular support for the respective governments and increasing support for populist right-wing parties like the Swedish Democrats (*Sverigedemokraterna*), the Austrian Freedom Party (*FPÖ*), or the Alternative for Germany (*AfD*).[17] In these two cases, as in

[16] See the declarations by German Chancellor Merkel (Bundesregierung), by Austrian Chancellor Faymann (Bundeskanzleramt), and by Swedish Prime Minister Löfven (Regeringskansliet); last access on February 18, 2016.

[17] On the rise of populist right-wing parties in 2015 see e.g. Neue Züricher Zeitung (September 9, 2015), Aftonbladet (August 20, 2015), or Handelsblatt (October 7, 2015); last access on February 18, 2016. See also Funke, Schularick, and Trebesch (2015).

the case of unemployment benefit sanctions, vote-seeking politicians impose coercive measures on politically and economically weak groups to assure the general public that tax revenues are not spent on the 'undeserving'.

Appendix

The construction of indicators for the strictness of benefit sanctions

I construct the indicator as follows. I consider the following types of sanctions:

- sanctions for self-induced/voluntary unemployment,
- sanctions for the first refusal of an offer of employment,
- sanctions for repeated refusals of employment, and
- sanctions for failures to comply with job-search requirements.

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I rate the strictness of each of these rules on a scale from 0 to 6. The coding scheme I use to assign the scores is presented in table A-I. [18]

The overall indicator is then computed as follows: the scores assigned to each of the types of sanctions (s) are summed up:

$$S = \sum s \tag{1}$$

The result is then divided by the theoretical maximum to obtain an overall score of between 0 and 1:

$$S^* = \frac{\sum s}{S_{max}} \tag{2}$$

[18] Summary statistics for all constituent variables can be found in supplementary materials, which can be downloaded via this link.

Table A-I: Coding scheme – sanctions indicator (S)

Item	Coding
(6) Voluntary unemployment	0: No sanction 1: less than 5 weeks 2: $\geq 5; < 9$ weeks 3: $\geq 9; < 12$ weeks 4: $\geq 12; < 26$ weeks 5: ≥ 26 weeks 6: Loss of eligibility
(7) First refusal	0: No sanction 1: Undefined period: no payment until re-compliance 2: $> 0; \leq 4$ weeks 3: $> 4; \leq 9$ weeks 4: $> 8; \leq 13$ weeks 5: > 13 weeks 6: Loss of eligibility
(8) Repeated refusals	0: Milder sanctions for subsequent refusals 1: No specific rules defined or same penalty as for first refusal 2: $> 0; \leq 2$ additional weeks or disqualification until re-compliance 3: $> 2; < 10$ additional weeks 4: $\geq 10; < 18$ additional weeks 5: $\geq 18; \leq 169$ additional weeks 6: Loss of eligibility
(8) Failure to report/conduct job-search	0: Not defined or no sanction 1: disqualification until re-compliance 2: $> 0; < 42$ weeks 3: $\geq 4; \leq 6$ weeks 4: $> 6; \leq 8$ weeks 4: > 8 weeks 5: > 8 weeks 6: Loss of eligibility

Note: based on Venn (2012, 11); see also Hasselpflug (2005) and Ministry of Finance Denmark (1998).

4.1 Robustness checks

Table A-II: The effects of unemployment on the strictness of sanctions

	(1)	(2)	(3)	(4)	(5)
Sanctions_{t-1}	-0.04^{***}	-0.06^{***}	-0.06^{***}	-0.06^{***}	-0.06^{***}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Δ Unemployment rate	0.06	0.11	0.13	0.04	0.12
	(0.14)	(0.15)	(0.15)	(0.18)	(0.15)
$\text{Unemployment rate}_{t-1}$	0.16^{***}	0.21^{***}	0.21^{***}	0.19^{***}	0.21^{***}
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)
Δ Dismissal rules		-1.10	-1.13	-1.36	-1.11
		(1.82)	(1.86)	(1.92)	(1.86)
$\text{Dismissal rules}_{t-1}$		0.36	0.35	0.34	0.36
		(0.26)	(0.27)	(0.26)	(0.27)
Δ Left cabinet share			0.01	0.00	0.01
			(0.01)	(0.01)	(0.01)
$\text{Left cabinet share}_{t-1}$			0.00	0.00	0.00
			(0.00)	(0.00)	(0.00)
Constant	1.46^{***}	1.32^{**}	1.28^{*}	1.82^{**}	1.18^{*}
	(0.41)	(0.67)	(0.68)	(0.71)	(0.69)
Year FE	No	No	No	Yes	No
Trend	No	No	No	No	Yes
LRM Unemployment	3.89	3.52	3.52	3.28	3.50
	(0.06)	(0.06)	(0.06)	(0.07)	(0.06)
Observations	619	523	522	522	522
Countries	20	20	20	20	20
R^2	0.04	0.05	0.06	0.12	0.06
p-value	0.00	0.00	0.00	0.00	0.00

Panel-corrected standard errors in parentheses; * p < 0.10 ** p < 0.05 *** p < 0.01

Table A-III: The effects of budget deficits on the strictness of sanctions

	(1)	(2)	(3)	(4)	(5)
Sanctions$_{t-1}$	−0.03***	−0.04***	−0.04***	−0.04***	−0.04***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Δ Budget balance	−0.16*	−0.16*	−0.18*	−0.26**	−0.19*
	(0.09)	(0.09)	(0.10)	(0.12)	(0.10)
Budget balance$_{t-1}$	−0.10**	−0.13***	−0.13***	−0.10**	−0.14***
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)
Δ Dismissal rules		−1.94	−2.03	−1.95	−2.05
		(1.79)	(1.84)	(1.85)	(1.83)
Dismissal rules$_{t-1}$		0.24	0.22	0.18	0.16
		(0.26)	(0.27)	(0.27)	(0.27)
Δ Left cabinet share			0.01	0.01	0.01
			(0.01)	(0.01)	(0.01)
Left cabinet share$_{t-1}$			0.00	0.00	0.00
			(0.00)	(0.00)	(0.00)
Constant	2.03***	2.26***	2.17***	3.02***	2.68***
	(0.43)	(0.73)	(0.73)	(0.74)	(0.79)
Year FE	No	No	No	Yes	No
Trend	No	No	No	No	Yes
LRM Budget balance	−3.63	−3.02	−3.14	−2.86	−3.67
	(0.14)	(0.14)	(0.13)	(0.18)	(0.11)
Observations	605	518	517	517	517
Countries	20	20	20	20	20
R^2	0.03	0.04	0.04	0.12	0.05
p-value	0.00	0.00	0.00	0.00	0.00

Panel-corrected standard errors in parentheses; * p < 0.10 ** p < 0.05 *** p < 0.01

Table A-IV: The effects of budget deficits and unemployment on the strictness of sanctions, adding controls

	(1)	(2)	(3)	(4)	(5)
Sanctions_{t-1}	-0.04^{***}	-0.06^{***}	-0.06^{***}	-0.06^{***}	-0.06^{***}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Δ Unemployment rate	-0.16	-0.13	-0.12	-0.12	-0.12
	(0.15)	(0.16)	(0.16)	(0.16)	(0.16)
$\text{Unemployment rate}_{t-1}$	0.16^{***}	0.21^{***}	0.21^{***}	0.19^{***}	0.21^{***}
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)
Δ Budget balance	-0.22^{**}	-0.23^{**}	-0.25^{**}	-0.30^{**}	-0.25^{**}
	(0.10)	(0.10)	(0.11)	(0.12)	(0.11)
$\text{Budget balance}_{t-1}$	-0.09^{*}	-0.10^{**}	-0.11^{**}	-0.08^{*}	-0.11^{**}
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Δ Dismissal rules		-0.99	-1.06	-1.13	-1.06
		(1.82)	(1.85)	(1.89)	(1.85)
$\text{Dismissal rules}_{t-1}$		0.36	0.34	0.34	0.34
		(0.24)	(0.25)	(0.25)	(0.25)
Δ Left cabinet share			0.01	0.01	0.01
			(0.01)	(0.01)	(0.01)
$\text{Left cabinet share}_{t-1}$			0.00	0.00	0.00
			(0.00)	(0.00)	(0.00)
Constant	1.41^{***}	1.30^{**}	1.24^{**}	1.81^{***}	1.23^{*}
	(0.37)	(0.62)	(0.63)	(0.67)	(0.65)
Year FE	No	No	No	Yes	No
Trend	No	No	No	No	Yes
LRM Unemployment	4.02	3.56	3.54	3.45	3.54
	(0.06)	(0.05)	(0.06)	(0.06)	(0.06)
LRM Budget balance	-2.16	-1.74	-1.82	-1.45	-1.81
	(0.29)	(0.30)	(0.29)	(0.43)	(0.28)
Observations	605	518	517	517	517
Countries	20	20	20	20	20
R^2	0.05	0.07	0.07	0.14	0.07
p-value	0.00	0.00	0.00	0.00	0.00

Panel-corrected standard errors in parentheses; * $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$

Table A-V: The effects of budget deficits and unemployment on the strictness of sanctions, using a moving average of unemployment (last five years)

	(1)	(2)	(3)	(4)	(5)
Sanctions$_{t-1}$	-0.04^{***}	-0.04^{***}	-0.05^{***}	-0.05^{***}	-0.05^{***}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Δ Unemployment rate	0.10	-0.13	-0.10	-0.08	-0.10
	(0.15)	(0.16)	(0.18)	(0.17)	(0.18)
MA(5) Unemployment rate	0.12^{***}	0.12^{***}	0.15^{***}	0.15^{***}	0.15^{***}
	(0.04)	(0.04)	(0.05)	(0.05)	(0.05)
Δ Budget balance		-0.21^{**}	-0.23^{**}	-0.30^{**}	-0.23^{**}
		(0.10)	(0.11)	(0.12)	(0.11)
Budget balance$_{t-1}$		-0.12^{***}	-0.15^{***}	-0.11^{**}	-0.15^{***}
		(0.04)	(0.05)	(0.05)	(0.05)
Δ Dismissal rules			-1.65	-1.53	-1.67
			(1.87)	(1.90)	(1.87)
Dismissal rules$_{t-1}$			0.31	0.32	0.30
			(0.26)	(0.26)	(0.26)
Δ Left cabinet share			0.01	0.01	0.01
			(0.01)	(0.01)	(0.01)
Left cabinet share$_{t-1}$			0.00	0.00	0.00
			(0.00)	(0.00)	(0.00)
Constant	1.66^{***}	1.62^{***}	1.50^{**}	2.12^{***}	1.63^{**}
	(0.41)	(0.37)	(0.64)	(0.68)	(0.68)
Year FE	No	No	No	Yes	No
Trend	No	No	No	No	Yes
Observations	619	605	517	517	517
Countries	20	20	20	20	20
R^2	0.02	0.04	0.06	0.13	0.06
p-value	0.00	0.00	0.00	0.00	0.00

Panel-corrected standard errors in parentheses; * p < 0.10 ** p < 0.05 *** p < 0.01

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