

The Effect of Punitive Sanctions on the Transition rate from Welfare to Work

-An empirical analysis of the Danish labor market-

By

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Very preliminary

Abstract: As a basic element of the active labor market policy, unemployed workers in Denmark who receive transfer incomes are generally required to meet some form of workplace-readiness demands, and welfare recipients are not exception. For welfare recipients, workplace-availability requires that the recipients accept reasonable job offers, or participate in vocational training or other programs designed to improve their employment prospects. Should the recipient fail to meet these requirements – for instance, if a welfare recipient misses a job interview – the failing is registered as a ‘negative incident’ that may potentially lead to economic sanctions, i.e. the worker’s welfare payments may be docked. Applying a Mixed Proportional Hazard Timing-of-Events Model in the confines of a search model, punitive sanctions are in the current study found to have positive effect on the transition rate from welfare to work. Furthermore the empirical analysis of this paper also reviles, that the magnitude of this positive effect dependents on the type of a sanction; that the effect of sanctions attenuates over time; that the effect a sanction is heterogeneous across the sample, and finally, that the existence of alternate “escape routes” from the welfare system, other than employment, does not undermine the positive effect of a sanction on the transition from welfare to work.