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The effect of active labor market policies on crime: Incapacitation and program effects[☆]

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ABSTRACT

We estimate the effects of active labor market policies on men's crime. To do this, we exploit a local policy change in Denmark that targeted unemployed people without unemployment insurance. Our results show that crime rates decreased among treated men relative to both untreated unemployment insured and uninsured men. Lower property crime accounted for the decrease in overall crime. Increased earnings from higher employment rates cannot explain the decrease in crime. Instead, participation in the active labor market program reduced young men's propensity to commit crime. The results suggest that active labor market programs have substantial secondary effects on criminality.

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1. Introduction

In 2015, OECD countries spent on average 0.53% of their GDP on active labor market programs (ALMPs), although research has shown that the direct effects of such programs on employment and income are modest (Card et al., 2010; Crépon et al., 2013; Heckman et al., 1999; Kluve, 2010). Nevertheless, the programs may have important secondary effects. First, mandatory ALMPs resemble workfare and can prevent the not-so-needy from claiming benefits intended for others (Besley and Coate, 1992, 1995). Second, making ALMPs mandatory can reduce problems of adverse selection into unemployment insurance (UI) schemes by separating workers with high and low utility of leisure

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(Kreiner and Tranæs, 2005). Third, policymakers have argued that being active has a value in itself (Torfing, 1999), for example by reducing anti-social behavior among the unemployed.¹

In this article, we study the effects of ALMPs on one type of anti-social behavior, namely crime. The social benefit obtained from crime reduction can be substantial. Crime and its consequences impose strong negative externalities on both individuals and the community (see, for example, Aizer and Doyle, 2015; Czabanski, 2008; McCollister et al., 2010). Conventional methods of reducing crime, such as incarceration or increased policing, are generally costly. The crime-reducing effect of ALMPs does not have to be very large in order for ALMPs to represent net savings for the public purse compared to the cost of trials, incarcerations, victimization, and other expenses associated with crime.

ALMPs may impact crime both directly and indirectly. Indirectly through an increase in income either because the policies have an employment effect, or because some programs offer compensation at a higher level than unemployment benefits, lowering the relative benefit of crime in expected terms (Engelhardt et al., 2008). Participating in an ALMP can, however, also have a direct effect on crime, either because relief work, training, and education all reduce leisure time and thus leave less time for crime—an incapacitation effect (Aizer, 2004; Anderson, 2014; Berthelon and Kruger, 2011; Jacob and Lefgren, 2003)—or

¹ From now on, we will use the terms *mandatory work and training requirement*, *mandatory work requirement*, *workfare*, *activation policy*, *active labor market policy*, and *active labor market programs* interchangeably, with the same meaning.

because the programs positively change the lifestyle and goals of the participants—a socialization effect.

To test whether ALMPs affect crime, we study the relationship between a local active labor market policy and crime in Denmark, focusing on the effect for unemployed uninsured welfare recipients—a group with a high crime rate and for whom the employment effect of ALMPs has been particularly weak.² Building upon research showing that unemployment stimulates crime (e.g., Bell et al., 2014; Corman et al., 2014; Fougère et al., 2009) and that school attendance and after school programs can have an incapacitation effect (Aizer, 2004; Anderson, 2014; Berthelon and Kruger, 2011; Jacob and Lefgren, 2003; Landersø et al., 2017), we aim to identify the effect of “being active” on young men’s propensities to commit crime.

We address the endogeneity issue of program participation by exploiting a radical municipal reform. In 1987, the Danish municipality of Farum (situated to the north of the Danish capital of Copenhagen) introduced immediate ALMP participation requirements for all individuals without unemployment insurance (no-UI individuals) who received welfare benefits. In the rest of Denmark, ALMP participation would normally not occur until no-UI individuals had received welfare benefits continuously for much longer periods, with very few exceptions to this rule—the Danish government did not introduce nationwide mandatory ALMP participation until the 1990s (and for most people only when they were far into their unemployment spells). Our results show that the introduction of the ALMP significantly and substantially reduced crime for no-UI men. We find that the main force behind the reduction was a decrease in property related offenses. The decrease occurred both on the intensive and extensive margin, and was driven at least partly by individuals who remained on welfare. The findings suggest that the effect of ALMPs on crime potentially is long-lasting and at least partly due to incapacitation.

The remainder of the paper progresses as follows: In Section 2, we discuss the relationship between unemployment and crime. Section 3 explains the institutional details of active labor market programs in Denmark. In Sections 4–7 present and analyze the Farum policy. In the final section we discuss the implications of our findings.

2. Unemployment, crime, and ALMPs

The social science literature has argued for the existence of a strong positive relationship between unemployment and crime for almost a hundred years (see Cantor and Land, 1985 for details). Early reviews of the literature can be found in Wilson (1983), Long and Witte (1981), and Chiricos (1987). A growing number of recent studies corroborates the earlier findings (e.g. Corman et al., 2014; Fougère et al., 2009; Imai and Krishna, 2004). When examining specific types of crime, research finds positive relationships between unemployment and especially property crime (see Chalfin and McCrary, 2014, for review), and has also linked long-term unemployment to violent crime (Nordin and Almén, 2017).

In his seminal 1968 work, Becker posited that individuals engage in crime when the expected returns to crime are higher than the expected returns obtainable through earnings on the labor market. Both individual employment status and local unemployment levels affect expected earnings, and through that the likelihood of engaging in criminal activity. However, the unemployed likely also forgo other pro-social benefits

of employment that also affect crime. First, when employed, people engage in a number of forms of routine behavior under the auspices of other non-criminal peers. Routine action theory (RAT) (e.g., Cohen and Felson, 1979) predicts that the presence of such capable guardians, as well as the absence of suitable targets for crime when working, will dampen the likelihood of committing crime even for people who are likely offenders. Based on RAT, employment functions as a form of incapacitation similar to what research on the relationship between school attendance, supervision, and crime has found (Aizer, 2004; Anderson, 2014; Berthelon and Kruger, 2011; Jacob and Lefgren, 2003; Landersø et al., 2017). Simply put, spending time at work leaves less time, energy, and opportunity to engage in criminal activities.

Second, employment may function as a turning point for both potential and active offenders (Hagen, 1993; Sampson and Laub, 1995; Uggen, 2000). Work embeds people in pro-social environments. In such environments, peers may expose potential offenders to law-abiding norms (Buonanno et al., 2009; Mehlkop and Graeff, 2010), thereby either causing a normative shift, or imposing a fear of sanctions from peers among individuals considering engaging in criminal activities. In both cases, employment imposes a socializing effect.

Although ALMPs are not regular employment, they do share structural aspects with regular employment (and are intended, at least officially, to lead to regular employment). Whereas employees sell their labor for wages, participants in mandatory ALMPs have to participate in order to remain eligible for welfare benefits. ALMP participants have to adhere to a time schedule similar to a work schedule, and are subject to the same drug and alcohol policies that most employees are. ALMPs also embed participants in new social groups – either through job training at actual companies, or through participation in other types of activation alongside other ALMP participants (although such peers may be more crime prone than colleagues met through regular employment). In these ways, ALMPs are similar to normal employment, with the differences being that welfare benefits are lower than wages, ALMP participation is meant to be temporary, and the average ALMP participant may be less law abiding than the average employed individual. We do believe, however, that there exist enough similarities between ALMPs and employment to expect that introducing mandatory ALMPs may have a substantial effect on crime—both because ALMPs impose incapacitating time constraints, and because ALMPs force participants into new social environments.

As mentioned above, unlike the pro-social peer environments created by employment, ALMPs may create a more criminogenic milieu if ALMPs allow a large number of crime-prone individuals to interact with each other (see Bayer et al., 2009; Corno, 2017; Damm and Dustmann, 2014, for studies of the effect of direct and indirect exposure to criminal peers). Whether negative peer effects occur will likely depend on the concentration of active criminal peers in each particular ALMP, raising important questions about external validity of individual ALMPs depending on peer mixing. Although this line of inquiry would likely have high scientific value, studying the moderating effect of peer group composition is outside the scope of the present study.

3. Unemployment and welfare in Denmark

In Denmark, unemployed individuals fall into two categories: those who are members of an unemployment insurance fund (UI fund), which is a voluntary public system in Denmark (see Parsons et al., 2015), and those who are not. The former are entitled to UI benefits and the latter to means-tested social assistance benefits (also called welfare benefits). Unemployed individuals with personal savings or an employed spouse may not be entitled to any assistance, or may be subject to some reduction in the amount of benefit they can receive unless they are members of a UI fund. At the beginning of the 1990s, an individual had to be working for an employer, be self-employed, or to have participated in a recognized type of post-secondary education for at least 18 months to qualify for membership of a UI fund.

² For Denmark, both Bolvig et al. (2003) and Graversen (2004) find that most training programs have a large lock-in effect, which reduces the transition out of unemployment during the program period, but that they only have modest treatment effects after the program-period. Bolvig et al. (2003) find negligible lock in effects and strong treatment effect for both private and public employment programs, whereas Graversen (2004) finds the treatment effect only for the private employment programs. But Graversen also finds that private employment programs are more effective with workers who have characteristics that make them more employable than the other welfare recipients. Recent international meta-analyses finds similar results (Card et al., 2010; Kluve, 2010).

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