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journal homepage: www.elsevier.com/locate/labecoLabour market effects of activating sick-listed workers[☆]Kai Rehwald^{a,b,c,d}, Michael Rosholm^{a,b}, Bénédicte Rouland^{c,d,*}^a Department of Economics and Business, Aarhus University, Denmark^b IZA, Germany^c Centre for Social Data Analytics, Auckland University of Technology, New Zealand^d LEMNA, University of Nantes, France

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ABSTRACT

Using data from a large-scale randomized controlled trial conducted in Danish job centers, this paper investigates the effects of activating sick-listed workers on subsequent labour market outcomes. Comparing treated and controls, we find an overall unfavourable effect on subsequent labour market outcomes. Using variations in activation regimes (both between job centers and between randomly assigned treatment and control groups within a given job center) as an instrument for participating in a specific activity, we compare the relative effectiveness of alternative activation strategies. Our results show that the use of partial sick leave increases the length of time spent in regular employment, and also reduces the time spent in unemployment and in early retirement. Traditional active labour market programs and the use of paramedical care appear to have no effect at all, or even an adverse effect.

1. Introduction

While most OECD countries provide sickness insurance (Heymann et al., 2010) and sickness policies are rapidly moving to center stage in the economic policy agenda (OECD, 2010), budgetary considerations are at stake. The expenditure on paid sick leave in OECD countries amounted on average to 0.8% of GDP in 2007.¹ Although this figure might seem rather low, it is nevertheless a matter of great concern in the current context of growing public deficits and debt burdens. In comparison, public spending on unemployment benefits

reached “only” 0.55% of GDP in the same year.² Furthermore, absence due to sickness also implies reduced labour supply, lost production, and health-related costs.³

Beyond the financial aspect of paid sick leave, the reintegration of sick-listed workers into the labour market is also a matter of great

² OECD data on Labour Market Programmes, extracted from OECD data bank (<http://stats.oecd.org/>). As for Denmark—the country under consideration in this paper—expenditure on paid sick leave amounted to 1.4%, while public spending on unemployment benefit reached 0.96% of GDP in 2007.

³ According to the Danish Ministry of Employment, absence due to sickness (short and long term) in 2006 reduced the supply of labour by five percent, which implies a cost of more than two percent of GDP.

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¹ OECD data on social expenditure, taken from the OECD (2010) report on *Sickness, Disability and Work*. The term ‘sickness’ refers to public and mandatory private paid sick leave programs (occupational injury and other sickness-related daily allowances).

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concern. Empirical research on the labour market has shown that frequent and/or long-term spells of absence are associated with a higher risk of unemployment (Hesselius, 2007), and can significantly reduce a worker's subsequent earnings or prospect of employment (Markussen, 2012). The probability that a worker will then become inactive and dependent on a permanent disability pension also increases.

The importance of well conceived sickness policies is clear in this context. Sickness policies have recently shifted from being passive towards a more employment-orientated approach, thus resembling the labour market policies for unemployed workers. The aim of such a shift is to counteract the moral hazard problem in social insurance (see Røed, 2012 for an enlightening discussion on activation strategies). In particular, activating sick-listed workers should both reduce benefit dependency and increase rates of employment.⁴ Taking Denmark as an example, activation measures were implemented in 16% of all periods of sickness benefit receipt in the years 2009–2011, compared to only seven percent in the period 2005–2007 (Boll et al., 2010). Activation measures for sick-listed workers include traditional active labour market programs (e.g., internships), paramedical care (e.g., physical therapy), and graded return-to-work (i.e., partial sick leave).

Our aim in this paper is twofold. First, we wish to assess the effects of a stronger activation strategy on sick-listed workers' subsequent labour market outcomes. Second, we aim to compare the relative effectiveness of alternative activation strategies. Specifically, we use results from a large-scale randomized controlled experiment conducted in Danish job centers in 2009 among newly registered sick-listed workers. The treatment lasted four months and consisted of a combination of weekly meetings with caseworkers and intensive mandatory return-to-work activities in the form of graded return-to-work (partial sick leave), traditional activation, and/or paramedical care.

Our empirical strategy and key results can be summarized as follows. We first rely on a simple difference-in-means approach to identify the causal effect of participating in more activation requirements—whichever type—on subsequent labour market outcomes for newly sick-listed workers. Specifically, we estimate a causal *intention-to-treat* effect on several outcome variables, namely the accumulated weeks in regular employment, self-sufficiency (i.e., all forms of non-reliance on benefits), sickness, unemployment, early retirement, disability and *fleksjob*. Second, in the spirit of Markussen and Røed (2014), we exploit variations in activation regimes, both between job centers and between treatment and control groups within a given job center, as an instrument for participating in a specific activity to compare the relative effectiveness of the alternative activation measures.

Our findings reveal firstly that the experimental intervention as a whole has been ineffective. Sick-listed workers initially assigned to the treatment group spent less time in regular employment and self-sufficiency than their peers in the control group. Nevertheless, our results based on IV also show that a greater emphasis on offering graded return-to-work programs is associated with an increase in regular employment and self-sufficiency, and lower unemployment and early retirement. On the other hand, traditional activation and paramedical care appear to have either no impact at all, or even an adverse impact. Taken together, our results suggest that programs focusing on graded return-to-work are the most effective in improving sick-listed workers' subsequent labour outcomes. These programs are associated with strong and long-lasting effects, but only for workers sick-listed from regular employment and for those with physical (non-mental) disorders.

In line with the rich literature on the effectiveness of active labour market policies for unemployed workers (see Card et al., 2010 for a meta-analysis), our study relates to the expanding literature on the im-

pacts of return-to-work policies for (long-term) sick-listed workers.⁵ Return-to-work can be associated with various forms of interventions, including workplace-based,⁶ educational, medical, and social interventions. The results are mixed, however; Frølich et al. (2004) for example, found that rehabilitation programs for the long-term sick (more than four weeks) in Sweden had no favorable effects at all, but that workplace interventions were less damaging than the alternative strategies. In a randomized study of the inflow of Swedish sick-listed individuals, Engström et al. (2015) found some negative effects associated with having early meetings to assess individuals' work capacity (more sickness absence and a higher probability of receiving disability benefits). In contrast, Everhardt and de Jong (2011) found strong positive impacts of return-to-work activities for long-term (nine months) sick employees in the Netherlands in terms of their likelihood of returning to work.

Some of the literature on workplace-based interventions focuses specifically on the effects of graded return-to-work programs, i.e., some combination of part-time work and sickness benefits.⁷ While accurate and reliable evidence remains scarce, Markussen et al. (2012) provides an exception. Using data collected from Norwegian administrative registers, the authors concluded that the use of graded (partial) rather than non-graded (full) sickness absence certificates reduces the length of periods of absence, and significantly improves the propensity for employment in subsequent years. Interestingly enough, Kools and Koning (2018) find that work resumption can be achieved faster when graded return-to-work is started earlier or at a higher rate of initial work resumption. Andrén and Svensson (2012) found that Swedish employees with musculoskeletal disorders assigned to part-time sick leave were more likely to recover to full work capacity than those assigned to full-time sick leave. From a randomized controlled trial performed in Finland among 63 patients with musculoskeletal disorders, Viikari-Juntura et al. (2012) showed that part-time sick leave reduced both the time taken to return to regular duties and the amount of sickness absence in the one-year follow-up period. In the Danish graded return-to-work program, Høgelund et al. (2010) found that participation in such a program significantly increased the probability that sick-listed workers returned to regular working hours. However, Nielsen et al. (2014) showed that its effect on the return to self-support differed substantially among the municipalities, and therefore warned against generalizing the results of the study to other Danish municipalities. Moreover, Høgelund et al. (2012) found no impact of the Danish graded return-to-work program for workers with mental health problems.

Based on a large-scale experimental design, the present study adds to the existing literature by offering a comprehensive evaluation of intensive mandatory return-to-work activities (activation requirements). In particular, we focus not only on workplace-based interventions but also on paramedical care, and thus compare the relative effectiveness of alternative intensive interventions (traditional activation vs. paramedical

⁵ There is also another branch of the literature that relates to the impacts of return-to-work policies for temporary disabled workers. See for instance Aakvik et al. (2005) and Markussen and Røed (2014) for a study of the Norwegian Vocational Rehabilitation program. While there is no absolute definition of long-term sick leave, workers typically call on a temporary disability insurance system following a period of sick pay (which is more generous than the disability insurance); however this is available only for a limited period of time (usually around one year).

⁶ Reviewing recent medical research, Van Oostrom et al. (2009) concluded that workplace interventions are effective in reducing sickness absence among workers with musculoskeletal disorders compared with normal forms of care, although they are not effective in improving health outcomes.

⁷ Partial sick leave and partial sickness benefits are currently available in Sweden, Norway, Denmark, and Finland. The authorities have strongly promoted the use of these in recommending partial sick leave as the mechanism of choice, where sick leave is needed. See Kausto et al. (2008) for a review of the use of partial sick leaves in the Nordic countries. A similar arrangement has also been in place in the UK since 2010 (known here as the "Fit Note").

⁴ Refer to OECD (2010) for an outline of the main trends in recent reforms across the OECD.

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