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Local Policy Misperceptions and Investment: Experimental Evidence from Firm Decision Makers

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ABSTRACT

Local Policy Misperceptions and Investment: Experimental Evidence from Firm Decision Makers*

We study firm responses to local policies through a survey experiment, providing randomized information on the competitiveness of business tax rates and highway access in their headquarters' municipality. Firms often misperceive local policy competitiveness, especially for tax rates. Investment decisions respond asymmetrically to tax competitiveness. Positive tax rank information reduces investment intentions in neighboring municipalities. Compared to this, negative tax news increase relocation plans. However, most firms receiving bad news plan to continue investing in their headquarters' municipality, indicating home bias. These effects are strongest for mobile firms and corporations. Negative infrastructure news lower location satisfaction but do not influence investment.

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1. Introduction

Social protection policies tend to exhibit global trends, where innovations in policy design or implementation change in a common direction in many countries, often within relatively short timeframes. One notable example of such a trend is the "activation turn" (Bonoli 2013), where especially labour-market related social policies were recalibrated to strengthen employment (Immervoll and Scarpetta, 2012), facilitate participation in schooling or training, and in part also to promote public health (Rawlings, 2004). A key aspect of this trend has been an increased emphasis on conditionality (Watts and Fitzpatrick, 2018), meaning that access to benefits and services was increasingly tightly linked to "desirable" behaviour (e.g., active job seeking) and that "undesirable" behaviour (e.g., refusing employment) would be met with increasingly punitive sanctions.

Unsurprisingly, these developments have long received scholarly interest, and a sizeable literature has sought to describe, explain, and contextualise this "activation turn", linking it to a broader rise of social investment and activation frameworks (Bonoli 2013; Clasen and Clegg 2006; Lodemel and Moreira 2014; Moreira 2008), but also to political imperatives created by economic downturns (Knotz 2019). A large part of this work has focused on high-income countries in Europe, North America, and Australasia and their established social protection programmes, especially unemployment benefits (UB) and sometimes minimum income benefits (MIB) (notably Bonoli 2013; Clasen and Clegg 2011, 20; Eichhorst, Kaufmann, and Konle-Seidl 2008; Raffass 2017; Weishaupt 2011). However, there is also a separate literature mainly concerned with the Latin American region, particularly Conditional Cash Transfers (CCTs). Pioneered in this region, these programs provide regular cash transfers to vulnerable families – but eligibility is usually conditional on, for example, children's school attendance or participation in health check-ups (Antía et al., 2024; Bastagli, 2009; Cecchini and Madariaga, 2011; Fiszbein and Schady, 2009).

Each of these literatures has expanded our knowledge of the design of conditionalities in specific programmes, and the drivers behind these changes. But they rarely, if ever, speak directly to each other, and there is therefore currently no integrated assessment of the "activation turn" and its differences and commonalities across regions. Such a

comparison would be needed to understand, for example, the role of conditionalities at different stages of economic development or for formally and informally employed populations who live in poverty and require comprehensive and multidimensional support. Comparisons across regions could also shed light on political factors shaping reforms, and how these factors vary across different socio-economic settings and polities. Most importantly, without a cross-regional comparison, we fail to fully appreciate the global nature of this trend.

One obstacle for such global comparisons is the very different designs, goals, and constituencies of CCT programs in Latin America compared to unemployment benefits in high-income OECD countries: The Brazilian *Bolsa Familia* programme is clearly a different policy than, say, the German unemployment insurance (*ALG I*) programme. Still, while these and other programmes are difficult to compare directly, the *patterns of change* of relevant design features – e.g., activation requirements or sanction rules – can be compared to reveal the extent to which they follow (or defy) common global trends.

This paper provides such an analysis of welfare conditionality policies in the high-income OECD world – Europe, North America, and Australasia – and in Latin America. Specifically, we compare the strictness of conditionalities and its patterns of change in each region's support policies, for which conditionalities are most relevant – CCTs in Latin America and unemployment benefits in high-income countries – and assess similarities and differences in their trajectories. To do so, we combine three comparative longitudinal databases with granular policy information over the past 30-40 years. We are guided by hypotheses about expected policy trends across regions, specifically regarding a) degrees of overall strictness, b) diversity and convergence (as a potential indicator of policy diffusion processes), and c) continuity or volatility.

To briefly preview our results, we find that, on average, conditionality provisions in Latin America's CCTs were initially less stringent than in UB programmes in high-income OECD countries. However, CCT conditionality has subsequently become more demanding, with indicators even partly surpassing those for high-income OECD countries. Welfare conditionality in Latin America was also comparatively more volatile, possibly reflecting different extents of program institutionalization and specific political factors. Finally, we find that the initially very broad range of strictness scores across CCT

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programmes in Latin America has narrowed over time and is now broadly similar to those for unemployment benefits in the high-income OECD area.

As should be clear by now, our contribution is "merely descriptive" (Gerring, 2012). It is nevertheless relevant, as descriptive research highlights variation in need of explanations, which in turn, fuels further theory development (Geddes, 2003). In our case, the three patterns we find together constitute important policy variation that can – and should be – studied further, to enrich theories about the causes, correlates, and consequences of social policy reforms, and their similarities across the globe but also their differences. Further, and as argued by Gerring (2012, 733–34), phenomena that are inherently important deserve to be studied even in the absence of causal or explanatory frameworks. We suggest that cash benefit programs and their conditionality requirements shape poverty risks and daily living standards of millions of people globally, and therefore qualify as inherently important phenomena that deserves descriptive analysis their own right.

The remainder of this article is organized as follows. Section 2 describes the main features of welfare conditionality in high-income OECD countries, focusing on UB, and in Latin America, focussing on CCTs. Section 3 synthesizes existing knowledge on the determinants of welfare conditionality and derives a set of hypotheses regarding the expected evolution of programs in each region. Section 4 presents the methods and data used. Section 5 presents results, highlighting the main trends in welfare conditionality in both regions. Section 6 discusses the findings and offers concluding remarks.

2. Background: Welfare conditionality in Latin America and in high-income OECD countries

Social policies incorporating conditionalities have developed differently in Latin America and in high-income OECD countries, emerging much earlier in the latter. Indeed, UB eligibility has always been conditioned on active job-seeking and acceptance of job offers, though to different extents (Clasen and Clegg 2007; Knotz 2018). Beyond UB, welfare conditionality in OECD countries has also become a more common feature of social policies supporting other vulnerable populations. MIBs[2], sickness and disability benefits,

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[2] MIBs were created as means-tested benefits and usually available for working-age adults and their families when they are at risk of poverty (Immervoll, 2010), generally conditional on recipients being available for work and on co-operating with other measures that aim to strengthen self-sufficiency.

social assistance policies for the homeless, housing benefits, or cash benefits for lone parents, have all adopted various types of conditionality (Dwyer and Wright, 2014; Geiger, 2017; Watts and Fitzpatrick, 2018; Whitworth and Griggs, 2013). However, unlike for UB, comparable information on the strictness of conditionality is much more limited, and interpreting existing information, e.g. for MIB, is not straightforward (Immervoll and Knotz, 2018).

In Latin America, welfare conditionality became widespread through CCTs, initiated in the late 1990s and extended to much of the region during the 2000s (Cecchini and Atuesta 2017; Cecchini and Madariaga 2011; Fiszbein and Schady 2009). The primary objectives of these programs include short-term poverty alleviation through direct cash transfers and longer-term poverty reduction through human capital investment. All CCTs provide cash transfers to poor or extremely poor families with children and adolescents, conditioned on various behaviours, such as children's school enrollment and attendance, and ensuring regular health check-ups. Although conditionalities are a common feature of all CCTs, there is considerable variation in how they are designed and implemented (Antía et al., 2024; Cecchini and Madariaga, 2011). In some programs, conditionalities play a secondary role compared to the monetary transfer. In others, conditionalities are the central mechanism of the program, aimed at changing the behaviour of recipients with respect to health and education (Cecchini and Madariaga, 2011; Rossel et al., 2022).

In both regions, governments monitor compliance with requirements and impose sanctions on beneficiaries who do not comply. Sanctions may include full or partial suspension of the monetary benefit, and their stringency varies widely, both across programmes and on the circumstances under which they are imposed.

Existing research suggests that, in each region, there has been a notable trend toward tightening behavioural conditions and sanctions during the past three to four decades (Antía, Rossel, and Karsaclian 2024; Immervoll and Knotz 2018; Knotz 2018; Langenbucher 2015; Watts and Fitzpatrick 2018). In an effort to grasp these developments, the literature focusing on welfare conditionality has grown considerably, and one major effort has been to measure conditionality provisions empirically and consistently (Horn, Kevins, and Van Kersbergen 2023; Knotz 2018; Immervoll and Knotz 2018; Langenbucher 2015; Marchal and van Mechelen 2017). In Latin America, a novel literature finds that conditionality varies significantly across the region's CCTs. Some

studies argue that CCTs in the region followed either Mexico's human capital model (with stringent conditionalities) or Brazil's basic income model (more tolerant) (Borges, 2022). However, others argue that when it comes to conditionality, programs have taken a range of paths, with numerous combinations of behavioral requirements, monitoring rules and sanctions (Antía et al., 2024). Studies also show that some CCTs adopted welfare conditionality as a formality initially (Rossel et al., 2022) and subsequently adjusted rules, making them more explicit (Antía et al., 2024).

As mentioned earlier, both regions have so far been studied separately and there are to our knowledge no studies that compare and contrast respective policy trajectories.

3. Welfare conditionality provisions across regions: Parameters of interest and theoretical expectations

A central quantity of interest in a comparison of benefit conditionality is the strictness of relevant rules. The strictness will strongly influence (if not determine) the actions of caseworkers and claimants on the ground and thereby produce outcomes of interest, be they desired (e.g., reduced unemployment or school attendance) or undecided (e.g., increased hardship among vulnerable groups). From a macro-sociological and a political science perspective, two additional quantities are relevant. The first of these is the diversity of policy configurations, and how it changes over time. For instance, increasingly similar rules (i.e., convergence) could be an indication of policy diffusion and learning processes (Weishaupt, 2011). A second additional dimension of interest is the degree of policy continuity, or conversely volatility, which should be of interest to political scientists (Kelly, 2017; Patashnik and Weaver, 2021; Pierson, 2000). Continuity could be taken as a sign of deepening institutionalization, whereas volatility could indicate either heightened political conflict around these rules or erratic policymaking.

We consider these quantities based on three hypotheses that we develop in the following. First, regarding overall strictness, we expect differences between Latin American CCTs and UB in high-income OECD countries due to the programs' dissimilar target populations. UBs are intended for unemployed working-age adults. as temporary support measures that cushion income reductions following job loss. They often, but not always, replace a certain percentage of in-work earnings, aiming to provide a degree of income insurance (Clasen and Clegg, 2011; Emmenegger et al., 2012; OECD, 2019). UB are

almost always time-limited and overall coverage is often low, e.g. across 24 OECD countries, on average fewer than one third of jobseekers reported receiving UB prior to the COVID pandemic (Immervoll et al., 2022).

In contrast, CCT in Latin America coverage has reached over 130 million people (Cecchini and Atuesta 2017; Figueroa 2024). With a large number of households depending on CCT support, the extent to which strict conditionality provisions can be applied is arguably limited, both functionally and politically. Second, state capacity likely plays a crucial role. Unlike in high-income countries, where benefit administrations are long-established institutions, generally with significant capacity to effectively administer social services and income transfers, state capacity, resources and experience cannot be taken for granted in middle-income and emerging economies, and can represent key bottlenecks (see Baehler 2023). Research consistently points to sizeable challenges in Latin American countries in terms of infrastructural state capacity (Giraudy, 2012; Kurtz, 2013; Soifer and Vom Hau, 2008), understood as "the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm" (Mann, 2003: 54). Capable and adequately resourced institutions are particularly crucial for running sizeable programmes covering large segments of the population, and effective monitoring and enforcement of conditionalities is particularly complex and demanding (Pellerano and Barca, 2014; Schubert and Slater, 2006). The existence of accessible education and health services linked to cash transfers is also a crucial prerequisite for the effective implementation of conditionality linked to these services (Huber et al., 2022). Countries might therefore be expected to opt for a mild approach to conditionalities, as long as capacity constraints are a limiting factor. Recent accounts have defined such an approach to conditionalities "as a formality in policy designs [rather] than as an effective instrument to achieve social investment" (Rossel et al., 2022: 383). In the same vein, program maturation and state capacity development may, however, lead to improved management, administrative and program capacity (Cecchini, 2023), allowing for more demanding conditionality provisions over time. Based on these considerations, we hypothesize that

> H1: Conditionality provisions in LA countries are overall less demanding than in high-income OECD countries.

Regarding the heterogeneity or homogeneity of policy settings within the regions, and potential convergence over time, we expect that differences in the degree of institutionalization -- and therefore path dependency (Pierson, 2004) – will play a role. Simply put, policy diffusion processes, by which countries learn from one another, and subsequently adopt practices and reforms seen as successful in other countries, are likely to matter both in developed and developing contexts (Brooks, 2005; Helmdag and Kuitto, 2018; Kuhlmann et al., 2020; Weyland, 2006). However, in the latter, due to weaker institutional legacies, diffusion is expected to play a more significant role and contribute to faster convergence.

Studies on labor market activation and unemployment benefits reforms in OECD countries have long shown that governments look to relevant peer countries for reform ideas and experiences. Notable examples include adopting welfare-to-work policies pioneered in the United States and the United Kingdom in the 1980s and 1990s (King, 1992). Likewise, the literature about the development of CCTs in Latin America points strongly to a diffusion process (Borges Sugiyama, 2011; Fenwick, 2013; Osorio Gonnet, 2020). Government policies have been informed by the ideas of international organizations, such as the World Bank, the IDB, or ECLAC, and there has also been a diffusion process between governments directly. In particular, the pioneering *Progresa* (Mexico) and *Bolsa Familia* (Brazil) have served as models for other countries as they considered or designed their CCTs (Borges, 2022; Borges Sugiyama, 2011; Osorio Gonnet, 2020). Diffusion processes played a powerful role in adopting CCTs across all LA countries between the first CCT (México's *Progresa*, created in 1997) and the most recent introduction (Panama's Programa de Asistencia Social Educativa Universal, established in 2020).

Due to path dependency in social protection architectures, diffusion patterns should have a more powerful effect on newer programs, and in contexts of relatively weak institutional legacies. Both factors suggest stronger diffusion effects in Latin America than in high-income OECD countries, where benefits programs for working-age adults have long traditions, sometimes dating back to the early 20th century (e.g., Flora and Alber 1981). In the Latin American context, in contrast, income support policies for individuals below retirement age are much more recent and less institutionalized. Therefore, we hypothesize that

Finally, regarding the degree of volatility or stability, differences in program claimant populations are again relevant. The literature suggests that, in the Latin American context, CCTs bring significant electoral benefits to incumbents through recipients' votes/support (Baez et al., 2012; De la O, 2013; Diaz-Cayeros et al., 2016; Manacorda et al., 2011; Zucco, 2013). These studies also suggest that CCTs' incumbency effects are being fostered mainly through the high visibility of the programs and their characteristics, rather than through narrower electoral clientelism or patronage politics (De La O 2013; Zucco 2013). Political elites then have strong incentives to change rules as public opinion evolves (see also Stimson, Mackuen, and Erikson 1995). For example, in situations where public opinion turns against state assistance to the poor, increasing conditionality may become a political priority, with governments shifting to more stringent conditionality rules or enforcement, e.g. to signal efforts to control high or increasing "caseloads" in income support programs (Rossel et al., 2023). The region's higher economic and political instability (Bértola and Ocampo, 2010; Roberts, 2015) is a further, possibly related, factor that may contribute to more volatile conditionality provisions.

In the OECD area, conditionality rules have not been stationary either, with changes variously linked to changes in macro-economic conditions (Atkinson, 1990; Clasen, 2000b; Horn et al., 2023; Oschmiansky et al., 2003)

and government partisanship and ideology (Clasen, 2000b; Horn et al., 2023; King and Ward, 1992). Some studies also point to the importance of political competition in explaining changes in the stringency of conditionality (Moreira et al., 2014). Still, given the generally smaller target populations of UB programs in this context, a comparatively lower political salience, and more stable economies and institutions, we hypothesize that

H3: Conditionality provisions in LA countries have been more prone to volatility than in high-income OECD countries.

In sum, the theoretical literature leads us to expect conditionalities in LA countries to be milder and more vaguely formulated than in high-income OECD countries. We also expect that they have become more similar within the region (convergence) and to show greater volatility than in high-income countries in the OECD area. To be clear, we take

these expectations as a guiding structure for assessing regional similarities and differences in the development of conditionalities. We do not analyze the driving factors of observed patterns and trends.

4. Data and Methods

Our analysis is primarily quantitative, drawing on three cross-sectional time series datasets of benefit conditionality in OECD countries and in Latin America. In addition, we supplement the quantitative evidence with illustrative historical examples to verify our results and to highlight underlying developments (see also Clasen, Clegg, and Goerne 2016).

The datasets by Knotz and Nelson (2019) and OECD (2022) build on earlier efforts to collect comparative data on the conditionality of UB by the OECD and, earlier, the Danish Ministry of Finance (Hasselpflug, 2005; Immervoll and Knotz, 2018; Kristine Langenbucher, 2015; Venn, 2012). These projects have conceptualized conditionality along two main dimensions: behavioral requirements (mainly the definition of "suitable work" and job-search reporting requirements) and sanctions rules, and provided cross-sectional data for individual years on these aspects.

For Latin America, Antía, Rossel, and Karsaclian (2024) build on Knotz and Nelson (2019) to measure welfare conditionality in Latin America's CCTs. Accordingly, they focus on the same three dimensions of analysis: behavioral requirements (including education, health, training activities and participation in workshops), monitoring rules (how often behavioral requirements are checked and whether beneficiaries have to provide evidence of compliance with the behavioral requirements), and sanction rules (the extent to which the sanction is applied at the first instance of non-compliance, whether it involves a full or partial reduction of benefits, and whether it is refundable). These measures are comprised in the CONDLA database.

The information and periods covered by these databases are presented in Table 1. The specific indicators of welfare conditionality provisions in UB and CCT programs are considered functional equivalents. Following earlier region-specific work, we present an overall index of conditionality strictness, along with three sub-indicators: stringency of behavioral requirements, monitoring, and sanctions. In all three underlying sources, indicators are constructed by scoring the strictness of different eligibility criteria on

numerical scales. The resulting scores are then aggregated into a synthetic indicator of overall strictness, with sub-indices from the two sources weighted to give consistent aggregate scores.

Table 1. Databases and indicators of welfare conditionality

	OECD (Knotz and Nelson 2019; OECD 2022)	**Latin America** **CONDLA database (Antía et al., 2024)**
	Unemployment benefits	Conditional Cash Transfers
Period covered	Early 1980s to 2012 (Knotz and Nelson, yearly) and 2011 to 2022 (OECD 2022, ca. every 3 years).	1997 to 2019 (yearly).
Welfare conditionality indicators		
Strictness of behavioral requirements	Availability requirements: the extent to which claimants can limit their availability to their own occupation, the extent to which claimants' earnings are protected, and the number of other valid reasons for refusing job offers.	Education requirements: enrolment in school, regular attendance at school, or achievement of certain educational outcomes. Health requirements: immunization and frequency of regular health check-ups for children, pregnant women or adults. Work and training requirements or participation in workshops.
Strictness of monitoring rules	Frequency of job-search requirements.	Frequency of checks on the behavior of beneficiaries. Are beneficiaries required to sign a voluntary or

	Are claimants required to sign a jobseeker agreement or individual action plans?	mandatory binding agreement with the program?
Strictness of sanction rules	Sanctions for: (1) voluntary unemployment, (2) first refusal of a job offer, (3) repeated refusal of a job offer, (4) failure to comply with job search requirements.	Sanctions for non-compliance with relevant requirements: (1) whether applied at first instance of non-compliance, (2) whether total or partial reduction of benefits, (3) whether sanction is refundable or definitive.
Overall conditionality	Geometric mean to aggregate behavioral requirements and sanctions at sub-indicator (secondary) level. Scores are then divided by its theoretical maximum to reach an overall score varying between 0 (no condition/no sanction) and 1 (very strict).	Geometric mean to aggregate behavioral requirements, monitoring, and sanctions at the secondary level of the concept. Scores are then divided by the theoretical maximum to reach an overall score varying between 0 (no condition/no sanction) and 1 (very strict).

Operationalization

To test hypotheses H1 to H3, we proceed as follows. For H1 ('less demanding conditionalities in LA than in OECD'), we compare the overall conditionality index and the three sub-indicators in Latin America (from 1997 to 2019) and high-income OECD countries (from early 1980 to 2022). Higher levels of strictness in the high-income OECD world would confirm H1.

For H2 ('faster convergence over time in LA'), we compare the coefficient of variation (standard deviation divided by the mean) in the overall conditionality index between countries within each region at different points in time, focusing on Latin America (from 1997 to 2019) and high-income OECD countries (from early 1980 to 2022, across the two datasets). A steeper decline in the coefficient of variation in LA countries than in high-income OECD countries would confirm H2.

For H3 ('conditionality provisions more volatile in LA'), we use a very simple summary measure of changes in policy rules. Measuring time-series volatility is not as straightforward as it may seem initially, and the development of relevant estimators has long been a subject of discussion in econometrics (see e.g., Kendall 1945). As we are working here with comparatively short time series per country (i.e., small Ns), we compute each country's year-on-year changes in each conditionality dimension per country and then calculate two separate aggregates: One is the sum of all positive changes (increases), the other is the sum of all negative changes (decreases). Countries with a high degree of volatility are characterised by large aggregate positive and negative changes, reflecting frequent increases and decreases in benefit conditionality. By contrast, countries with stable policy provisions exhibit small aggregate changes in either direction.

Limitations

Our analysis is not free of limitations that should be kept in mind when comparing conditionality provisions across countries and, in particular, across regions. First, the exercise we present here compares conditionalities across UBs and CCTs, distinct transfer programmes that have different purposes and traditions. As is the case for any comparative analysis, they also operate in different policy and socio-economic contexts: while UBs are oriented towards formal-sector workers, CCTs target poor and extremely poor populations that are not covered by formal welfare policies. Second, although our

policy data for the two regions follows the same general principles and structure, there are some differences in how strictness scores are derived and aggregated. For example, while "strictness of monitoring" in Latin America's CCTs is based on the frequency in which the policy checks compliance with required behaviors (e.g. children's school attainment), in high-income countries' UBs the frequency of job-search requirements is included in the "behavioral requirements" sub-indicator and "strictness of monitoring" refers more to whether claimants are required to sign a jobseeker agreement or individual action plans. For more details, see Antía, Rossel, and Karsaclian (2024); Immervoll et al. (2022); Knotz and Nelson (2019).

Third, our focus is exclusively on welfare conditionality and we do not consider other important dimensions of these policies – such as coverage, generosity or other rules (regarding programme entry, for example). Finally, our analysis focuses exclusively on conditionality provisions established in policy designs, i.e. the stringency of formal, legal rules. Implementation aspects and enforcement also vary across countries and over time, especially in contexts such as Latin America (Rossel et al., 2023). However, as already pointed out elsewhere (Immervoll and Knotz 2018, 9–10; Knotz 2020, 125), formal rules are important and informative in their own right as the result of political decision-making. They also set a definite frame within which caseworkers and benefit claimants operate.

5. Results

Overall strictness

Looking at the overall level of strictness of UB conditionality (overall and the sub-indicators) in the high-income OECD countries between 1980 and 2021 (left-hand panel in Figure 1), we find that countries started from a relatively high level (~0.4 on the 0-1 scale) and increased further from there. The increase was most pronounced regarding sanction rules, while availability requirements and job-search monitoring ("conditions") increased less (see also Knotz 2018 for further details).

The left-hand graph also suggests that much of the change happened in the 1990s, while there was more stability from the mid-2000s onward. The right-hand side panel, which presents corresponding data from the OECD, indicates that this stability continued largely since 2011, although the data also indicate a slight decrease in the strictness of job-search monitoring.

Figure 1. Strictness of conditionality provisions: Unemployment benefits in the OECD area
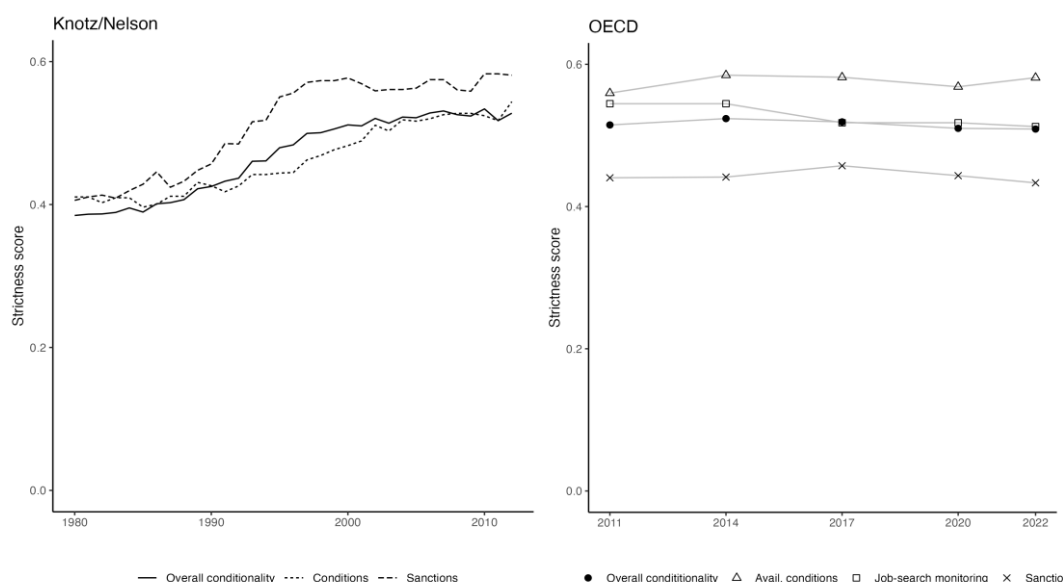
Note: Average across OECD countries covered in both Knotz & Nelson (2019) and OECD (2022), see Table 1. <u>Availability requirements</u>: leeway that claimants have in selecting among available job offers without risking their eligibility to benefits. <u>Job-search monitoring</u>: type and number of job-search actions that claimants must complete in a given period of time and how this is monitored. <u>Sanctions</u>: temporary or permanent disqualifications from benefit receipt following failure to comply with relevant requirements. Source: Authors' elaboration based on Knotz & Nelson (2019) and OECD (2022).

In Latin America, CCT policy rules also became more stringent from the early 2000s to 2015. But rules were much less stringent than in the OECD area initially and the change was much faster (Figure 2). After 2015, the trend reversed somewhat before remaining stable. The region started from a relatively low level (~0.3 on the 0-1 scale) at the beginning of the 2000s, but around the mid-2000s, it started to grow, reaching around ~0.5 in 2014, after which it remained relatively stable. Much of the increase in stringency occurred due to changes in sanctions and monitoring regulations. The average strictness of behavioural requirements was broadly the same in the years 2000 and 2019, even though unchanged. The period between 2005 and 2010 saw the introduction of new rules for monitoring compliance, along with sanctions for infringements and sanction rules were, once again, tightened between 2012 and 2015.

Figure 2. Strictness of conditionality provisions: CCTs in Latin America

‐ ‐ · Behavioural Requirements   · · · · Monitoring   —— Overall Conditionality   – – Sanctions
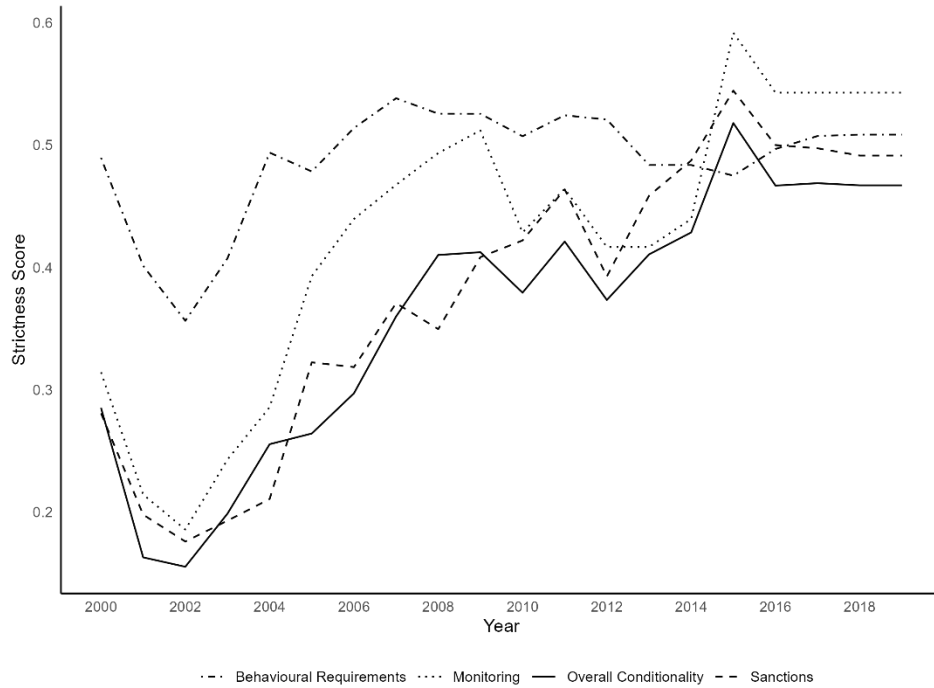
Note: Average across different numbers of countries depending on the year (see Table 1 for more detail).
<u>Behavioral requirements</u>: the types of activities beneficiaries are required to undertake, such as education, health check-ups, training sessions, or participation in workshops. <u>Monitoring</u>: The frequency with which compliance with behavioral requirements is verified and whether beneficiaries are required to provide evidence of such compliance. <u>Sanction</u>: temporary or permanent disqualifications from benefit receipt following failure to comply with behavioral requirements.
Source: Authors' elaboration based on CONDLA database (Antía et al., 2024).

Cross-country variation & convergence

The average strictness scores for OECD and LA shown above abstract from between-country variation. Figures 3 and 4 add this aspect, providing a perspective on potential convergence or divergence patterns. For OECD countries, results show a notable convergence between 1980 and 2012, driven by narrowing country differences in both conditions and sanctions. Interestingly, the convergence of overall conditionality scores is stronger than for either of the two components, suggesting that some countries traded off stricter sanctions against more lenient conditions, or vice versa.

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Figure 3. Between-country variation: Unemployment benefits in the OECD area
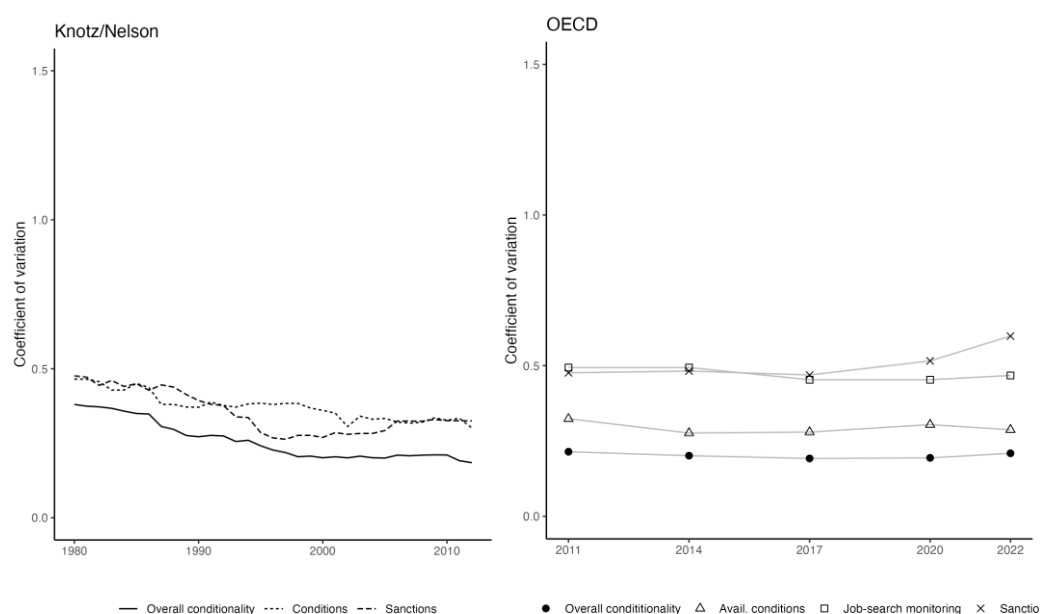
Note: See notes to Figure 1.
Source: Authors' elaboration based on Knotz & Nelson (2019) and OECD (2022).

The convergence in the strictness of sanction rules between 1980 and 2000 is arguably driven by two trends. On the one hand, many countries introduced more sophisticated and graduated sanctioning rules for refusals to accept job offers (see also Knotz 2018, 98-100). A good example is the sanctioning schedule that was introduced with the "Hartz-I" reform act in Germany in 2002, which replaced the previous 12-week sanction for refusals of job offers with a graduated scheme that applied a three-week sanction for the first, a six-week sanction for the second, and a twelve-week sanction for all subsequent refusals of job offers. In the case of availability requirements and job-search monitoring, major drivers of convergence include the introduction of "individual action plans" or "jobseeker agreements" and more defined monitoring requirements, as well as the decreasing emphasis on "occupational protection" in the definition of suitable work (see e.g., King 1992; Knotz 2018, 97). A related trend is the introduction of an explicit requirement to be not only "available for" but "actively seeking" suitable work (e.g., in the UK in 1989 and in Australia in 1991; see also Finn and Schulte (2008)). Other countries subsequently

adopted very similar formulations (e.g., Sweden in 2000 or Spain in 2002). However, countries continued to differ regarding other aspects of suitable work (Langenbucher 2015, 18). After 2012, OECD data indicate that country differences remained practically unchanged from 2011 onwards. An exception is a growing diversity of sanctions rules, likely reflecting smaller sanction reforms made in some countries during the COVID-19 pandemic (see Immervoll et al. 2022, 16).

Latin America initially saw a great deal of heterogeneity in the strictness of CCT conditionalities, followed by a notable convergence of overall conditionality, as well as sanctions, and monitoring. However, rules defining the underlying required behavior did, in fact, not converge significantly over the years. A driver of convergence has been the clarification of monitoring provisions. Indeed, in several cases (CCTs in Bolivia, Colombia, Chile, Panama, and Uruguay), programme rules initially did not specify the required frequency of monitoring but featured clear guidelines later on. Several countries also introduced comprehensive formal agreements between benefit claimants and benefit agencies, listing the behavioural conditions that are prerequisites for receiving a cash transfer. As part of a strategy to overcome extreme poverty, Chile's *Solidario* programme pioneered these agreements in 2002 requiring claimant families to sign a contract detailing 53 specific requirements (Larrañaga, 2013). Subsequently, more than half the CCT programs in the region adopted this type of agreement, including Paraguay, El Salvador, Honduras, Colombia, Costa Rica, Guatemala and Peru (Antía et al., 2024; Osorio Gonnet, 2023).

With regard to sanctions provisions, convergence is, in part, driven by the introduction of sanctions in programs that initially did not feature them at all (Colombia, Bolivia, Argentina, Brazil). In addition, some other countries with initially milder sanctions strengthened them in later years (Chile, Ecuador).

Figure 4. Between-country variation: CCTs in Latin America
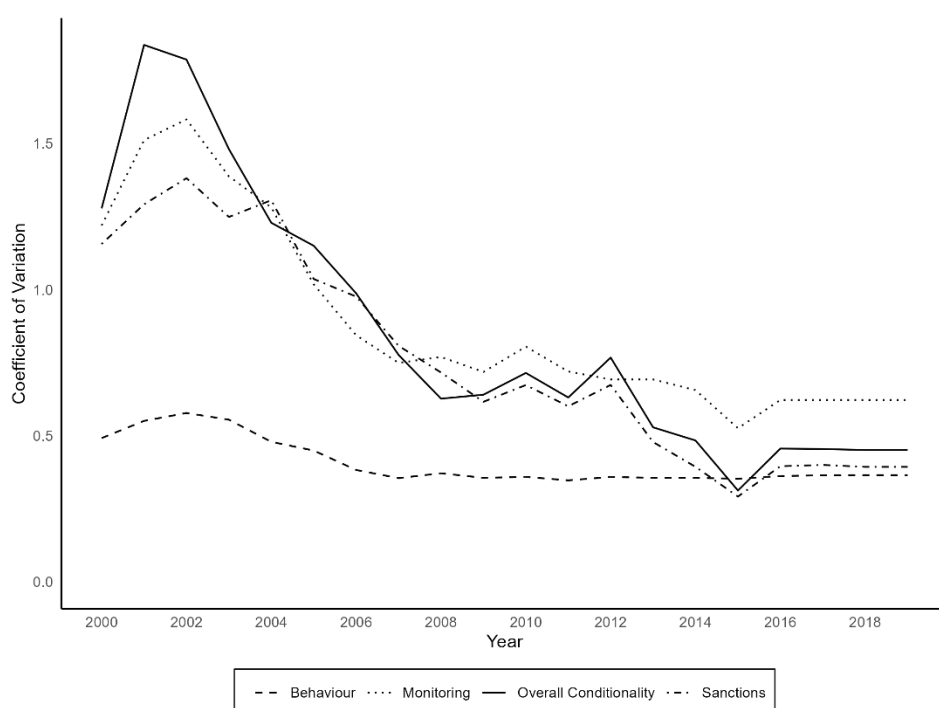
Note: See notes to Figure 2.
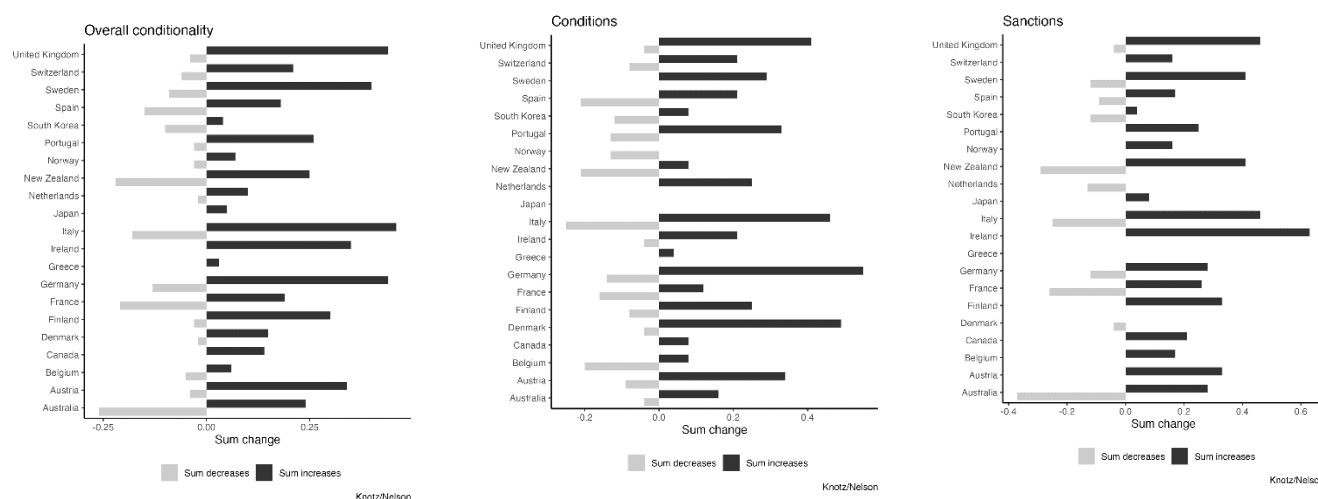Source: Authors' elaboration based on CONDLA database (Antía et al., 2024).

Volatility

For OECD countries, much prior research on the activation turn point to a clear trend towards stricter conditionality of UB, but without considering whether that tightening was continuous or interspersed by significant fluctuation of applicable rules, e.g. because of temporary policy reversals. Figure 5 provides a perspective on policy volatility by summarising changes by country for the period between 1980 and 2012.[3] For overall conditionality (left-hand panel), a large majority of countries show a consistent tendency toward more demanding conditionality, with only limited countervailing moves. Exceptions are Australia, New Zealand, France, Italy and, to some extent, Germany and Spain. The centre and right-hand panels of Figure 5 show that volatility of conditionality rules have been largely a result of successive reforms to both sanction provisions and to job-search and availability requirements (France, Italy, New Zealand). In Australia,

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[3] We limit this analysis to the Knotz & Nelson (2019) data since the OECD (2022) data are not annual, which makes it impossible to calculate year-on-year changes.

volatility was almost exclusively by sanctions, and in Spain largely by job-search and availability requirements (see also Knotz 2019, 622; Negash and Van Vliet 2024, 1628), for additional details of within-country changes in OECD countries).

Figure 5. Volatility of policy rules: Unemployment benefits in the OECD area

Note: See notes to Figure 1. Based on annual data. Countries ranked alphabetically. 'Missing' bars indicate that there was no change.
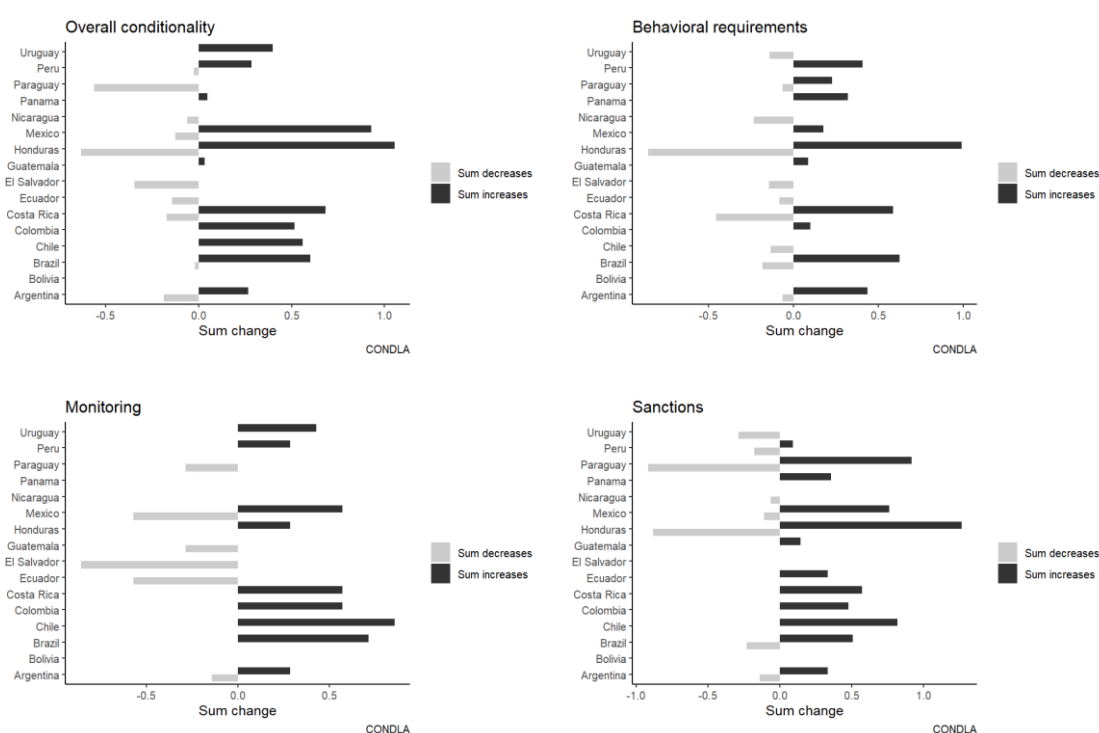Source: Authors' elaboration based on Knotz & Nelson (2019).

In Latin America, overall conditionality has also tended to tighten (Figure 6, with data for years 1997-2019) in most countries. It is notable that, unlike in the OECD area, reforms were unidirectional in many countries. Indeed, overall conditionality essentially increased with every new data collection in Brazil, Chile, Colombia, Peru, Uruguay. In several others with increasing conditionality, reforms sometimes relaxed certain provisions but these changes were small (e.g. in Mexico). More demanding conditionality was mainly due to stricter monitoring rules and sanctions. For instance, the three successive programs in Mexico (*Progresa, Oportunidades* and *Prospera*) tended to add additional requirements and sanctions, with monitoring rules fluctuating slightly (e.g., between monthly and bimonthly monitoring).

Contrasting with the broader regional trend, and also unlike the OECD area, there are a few notable cases of mostly easing conditionality provisions: El Salvador and Ecuador. In both countries, monitoring provisions were either removed entirely (El Salvador) or relaxed (Ecuador). Honduras is an example of rule volatility, with provisions and reform

directions varying considerably over time, between programs (PRAF I, II, III and *Programa Presidencial Bono Vida Mejor*) and between type of regulation. Finally, in a few cases, there is not significant change in conditionality provisions over time. For example, the Bolivian *Bono Juancito Pinto* shows no change due to the fact that for several years it is not possible to build a conditionality measure because of lack of information of policy designs. In 2016, rules were clarified but the existing information does not indicate a change in strictness of monitoring and sanctions.

Overall, conditionality rules in Latin American programmes are much more volatile than those in high-income OECD countries. This is evident from the scale of Figures 5 and 6, which are substantially larger for the former than for the latter.

Figure 6. Volatility of policy rules: CCTs in Latin America

Note: See notes to Figure 2. Based on annual data. Countries ranked alphabetically. 'Missing' bars indicate that there was no change.
Source: Authors' elaboration based on CONDLA database (Antía et al., 2024).

6. Discussion & concluding remarks

Conditionality has become a common feature of social and labour market policies worldwide. In high-income OECD countries, this has been the case for decades. More recently, Latin American countries have introduced conditionalities as the defining feature of CCTs. Having analysed the strictness of conditionality and its patterns of change in high-income OECD countries and Latin America, we our results reveal that although UBs and CCTs are distinct policy instruments, they share important similarities in the stringency and trajectories of their conditionality provisions, underscoring the global dimension of conditional policies.

Our findings obviously come with limitations – most notably that our analysis, with its focus on aggregate changes and patterns, does not account for the underlying differences in policy designs and features between Latin American CCTs and UB programs elsewhere. Secondly, there are other lower-resource settings such as Africa, which we have not covered here. Thirdly, our study has not looked at the conditions and drivers behind the changes in conditionality provisions. Nevertheless, our results are a foundation that future research on these questions can directly build on.

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