

## **Sickness absence and the business cycle**

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Most Western countries have implemented tax-financed co-payment for sick leave pay to workers that are absent from work, either short-term or long-term. As sickness absence seems to increase when economic outlooks improve, the anatomy of the relationship to the business cycle matters for the public budget as absence from work roll into sickness benefit claiming. In this paper, we analyze the link between the business cycle conditions and sickness absence by utilizing granular Danish employer-employee matched data on daily absence in the period 2007-2019. We distinguish between different theoretical explanations such as direct health effects, compositional effects and moral hazard and carefully meter out the importance of the geographical, industrial, occupational, and time dimension of the business cycle in explaining the correlation between unemployment and sickness absence. While the previous literature has found mixed results on the relationship between unemployment and absence, we conclude that when the local unemployment rate increases, short-term absence decreases while long-term absence is marginally affected. Furthermore, we show that neither compositional changes in the workforce nor work accidents seem to drive the pro-cyclical pattern of absence leaving room for behavioural explanations such as shirking and presenteeism as drivers of the relationship.