

Eligibility criteria, enforcement and labour market regimes : Discussion

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Importance of the issue

- To what extent do unemployment insurance (UI) systems explain the level of unemployment or the persistence of high unemployment?
- What can be expected from reforms of the UI systems: Time-profile of benefits, monitoring/sanctions, ...? Criteria?
(Un)employment rate? Poverty? Sustainability of UI systems? Welfare?



Discussion of J. van Ours' paper

- General Comments
 - Rigorous analysis of the effects on the “treated” (i.e. those affected by the reduction in potential benefit duration (PBD))
 - Exploits (arguably) exogenous variations in PBD to identify the **causal** effects of changes in PBD
 - Results in line with the literature about PBD. Rather strong effects in Slovenia: Cutting PBD by 2 (from 12 to 6 months) raises the hiring rate by 20 to 33% according to the group (Table 7)



Questions

- Identification of the causal effect requires that (calendar) time affects all five (age) groups in the same way. An identifying assumption cannot be tested. However, is this a valid assumption much before (after) the reform?
- Within each group, is the composition of entrants rather stable through (calendar) time?
- Evidence that other reforms (stricter monitoring...) were applied similarly in all groups?



Questions

- What are the welfare effects of such a reform?

Is increasing the hiring rate an objective per se?

Lower PBD + increase in job-search effort + higher hiring rates (at which wage level? Expected duration of jobs?) do not necessarily lead to a higher level of inter-temporal well-being (discount rate).

What about the welfare of those who do not exit before the end of entitlement?

(The distribution of) welfare versus labour market performance?



Limitation

- Micro evaluation allows to take account of heterogeneities in a refined way but...
- Needs to be complemented by an analysis of induced effects. Examples:
 - Lower PBD should induce a decline in wages...
 - And an increase in the the number of vacancies per unemployed;
 - Lower UI expenses should allow to reduce (pay-roll) tax rate
- Important in particular from the point of view of welfare



Discussion of B. Holmlund's paper

- General comments
 - A unique *up-to-date* survey about: (1) the optimal time sequencing of benefit payments; (2) the role of monitoring/sanctions; (3) the rationale for workfare.
 - Basic idea: (a) job-search effort is typically too low (neglected tax externalities); (b) if search was observable by the UI agency, 100% replacement ratios = optimal; (c) under asymmetric information, lowering the intensity of this asymmetry allows to raise replacement ratios (better insurance)



General comments

Result: *With* discounting, a two-tiered system dominates a program with indefinite payments of a constant benefit (based on simulations)

1. How wage bargaining is modelled matters (see Coles and Masters, 2003, 2004).
2. Scarring effect of unemployment duration (UK): wage tax as duration increases = a substitute for declining benefits?



3. With heterogeneous probabilities of getting a job offer, the time-profile should ideally be group-specific.

Example: Simulations with F&H(2001) model and 2 skills. For the *low-skilled*, the optimal potential benefit duration in the first tier should be close to 2.5 years in Belgium: Longer than currently for many categories (1 year)

Result: Monitoring/sanctions: A further improvement in welfare

1. Simulation result (with > 0 discount rates)
2. Cost of monitoring: if sanctioned people can appeal against the decision, some costs could be hard to measure (courts, administrative procedures,...)

Other remarks: Imperfect information again

- Only *formal search efforts* can be monitored. Those who cannot provide proofs of search are a mix of (at least) 3 categories:
 - a) Those who cheat
 - b) “Discouraged” jobless people (L.T.U.)
 - c) Marginalized people who cumulate several problems (housing, ...) and who search in an informal way and/or lose track of formal search activities

Monitoring cannot easily disentangle these 3 groups. Errors are made. Particularly painful for group c ... Welfare effects?



Remarks

- Possible side effects of monitoring and sanctions:
 - Substitution formal - informal search effort: efficient?
 - Search effort only in order to meet the requirements
 - Acceptance of offers to take part to active programmes (or workfare) to avoid a sanction: non motivated participants in ALMPS and decline in their (already relatively low) effectiveness?

Discussion of the Danish Ministry of Finance contribution

- General comments on “availability criteria”
 - A data base on job availability rules is most welcome
 - Important distinction:
 - Formal rules vs
 - Actual implementation
 - Underlying issue: trade-off between
 - strictness with which the benefit system is operated,
 - the levels and the duration of benefit
- Question: Short/loose answers in the survey -> a categorical indicator (1 - 5) per criterion. How?



“Evaluating labour market reforms in the 1990s”

- General comments:
 - A large literature exists where institutions and policies are taken as time-invariant. More recently, time-varying indicators of policies (Boone and van Ours, 2004, Nickell *et al*, 2005, your analysis).
 - Two views in the literature:
 1. Unempl. Rate = structural unempl. Rate + short-run deviations
 2. Unempl. Rate = long-run shifts in baseline variables X institutions & policies



Difficulties (1)

- Lack of a widely accepted theory that provides *the* determinants of the structural unemployment rate. Problem of omitted variables?
- Is the unemployment rate the best indicator?
 - Tautological effects (ALMPs)
 - Rules governing UI -> answers in surveysWhy not the employment rate, instead?



Difficulties (2)

- Endogeneity problems (true for many indicators):
“ALMP may have a negative effect on the unemployment rate but increasing unemployment may induce the government to expand expenditures on ALMP. The endogeneity problem also arises from the normalization of the ALMP-expenditures. If unemployment increases and there is a less than proportional increase in ALMP-expenditures a spurious negative correlation between the normalized ALMP-variable and the unemployment rate is introduced.” (Boone and van Ours, 2004)



Cultural/political/ethical differences...

... that lead to different *viewpoints/beliefs* in the EU on:

- What can/cannot be required from jobless people?
- The social-status derived from holding a job (a job *per se*? Other sources of social status?)
- The responsibility and the role of the individual (versus the firms, the State) in the process of finding a job.



Shifting the debate?

- Widespread perception (in “the South” of the EU?) Monitoring/sanctions = a way to cut in social security expenses, to lower the well-being of the unemployed + inefficient since “jobs are lacking”
 - Alternative view: trade-off between
 - strictness with which the benefit system is operated,
 - the levels and the duration of benefit
- + a balance between “supply” and “demand” policies (the latter at the EU level)

