



The effect of the potential duration of unemployment benefits on unemployment exits to work and match quality in France



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HIGHLIGHTS

- We evaluate the impact of a large increase in the max duration of unemployment benefits.
- We find no significant effects on post-unemployment wages or job stability.
- We find significant positive effects on unemployment and non-employment duration.

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ABSTRACT

Recent empirical literature finds very limited average effects of generous unemployment benefits on match quality. This study examines those effects in a setting where they could be large. We focus on workers with low employability and evaluate the impact of a large increase in potential benefit duration from 7 to 15 months. Our regression discontinuity design does not elicit significant short-term or medium-term effects on either employment duration or wages, whereas we find large positive effects on unemployment and non-employment duration.

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1. Introduction

There is a large body of empirical evidence on the impact of unemployment insurance (UI) generosity. Apart from insurance provision, the empirical literature mostly focuses on impacts on labor market transitions from unemployment to employment. When unemployment benefits (UB) are more generous, reservation wages may increase and/or the search effort may be lower. This leads to a decrease in the unemployment exit rate to jobs. At the same time, unemployment benefits may affect the match quality, either in a positive way as it encourages jobseekers to wait for higher productivity jobs (see Marimon and Zilibotti, 1999; Acemoglu and Shimer, 2000) or in a negative way if human capital depreciates over the unemployment spell or if employers discriminate against candidates on the basis of unemployment duration. Effects on match quality are far less documented than effects on labor market transitions (see the review in Addison and Blackburn, 2000).

Most recent studies, such as Card et al. (2007), Lalive (2007), van Ours and Vodopivec (2008), Centeno and Novo (2009), Caliendo et al. (2013) and Schmiuder et al. (2012b), do not find any average effects on match quality.¹ This paper provides additional evidence that effects on match quality are also limited for workers with low employability, even though we find strong effects on unemployment duration. Compared with previous studies, this evidence is all the stronger since it concerns workers whose employability is particularly low (they have worked at most one year over the two pre-unemployment years). This is at odds with the idea that those workers should in principle improve their match quality when UB is more generous, for at least two reasons. Low-employability workers typically lack productive or job search skills that they could acquire thanks to extended potential benefit duration (PBD). They are also likely to be financially constrained so that more generous UB could greatly change the value they attach to unemployment and increase their reservation wage.

¹ There are two very recent papers that find negative effects of the UI extensions on subsequent wages: Degen and Lalive (2013) and Schmiuder et al. (2016).

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Our evidence is also all the stronger because we estimate the effect of a large increase in UB generosity. In a regression discontinuity design (RDD) similar to Card et al. (2007), we estimate the impact of an increase from 7 to 15 months in potential benefit duration (PBD). In the 2000–2002 French UI system, when workers have been employed for more than 8 months during the year before job separation, they are entitled to an extra 8 months of UB: their PBD is more than doubled.² This large increase makes our design very instructive: effects are expected to be large. However this large increase could also undermine the exogeneity assumption of our RDD, because workers have large incentives to work over the 8-month threshold. If they did so and actually accumulated just after the threshold, then selection into treatment would be endogenous. Yet we do not find any mass point in the distribution of workers just after the threshold. The absence of selection could be explained by our sample features - young unemployed with no previous experience with the UI rules- and by the French institutions - social partners discuss the UI rules every 3 years and may change the thresholds. We can thus be confident in the validity of our RDD.

Our result is robust to different measures of match quality: employment duration and hourly wage of the first job after unemployment exit. We complement those two standard indicators with the wage two years after unemployment registration. This enables us to compare short and extended PBD claimants at the same horizon, whatever the effect of PBD on unemployment duration. These medium-term effects are particularly relevant because accepting a stepping-stone job could ultimately be as efficient as a longer job search for productive jobs.

The absence of match quality effects is all the more striking in that the extension of PBD actually slows down job finding. Jobseekers with extended PBD wait longer before exiting registered unemployment to take a job (roughly 2.5 months). In addition, we verify that effects on registered unemployment duration are not only driven by the claimants' obligation to be registered as unemployed, since PBD extension also increases the duration of non-employment by roughly 1.5 months. Yet jobseekers with extended PBD do not find better jobs.

Our paper starts with a review of existing estimations of the effects of UI generosity. Then we give background information on the institutional environment of jobseekers in the French labor market. We present our data and describe our sample. In the next section, we justify our regression discontinuity design. In the fifth part, we show that extended PBD slows down unemployment exits. Finally, we show that extended PBD does not have any significant effects on match quality.

2. Related literature

Empirical evidence of the negative effect of UI generosity on the unemployment exit rate is abundant. In his seminal work, Meyer (1990) identifies the effect of UI generosity in the US through variations across states. Since the adoption of more generous UI is potentially endogenous at the state level, Card and Levine (2000) focus on exogenous variations in UI generosity due to targeted unanticipated policy change. Using the same identifying method, positive effects of potential benefit duration (PBD) on unemployment duration³ are found in European countries, such as Germany (Hunt, 1995), Austria (Winter-Ebmer, 1998; Lalive and Zweimuller, 2004; Lalive et al., 2006), Poland (Puhani, 2000), Slovenia (van Ours and Vodopivec, 2006), Finland (Kyrrä and Ollikainen, 2008) and Portugal (Addison and Portugal, 2008). Other authors rely on discontinuities in the UI system to identify the effects. Those discontinuities are usually age thresholds, as in Lalive

(2008), Caliendo et al. (2013) and Schmieder et al. (2012a). One exception is Card et al. (2007), who use discontinuities based on past employment thresholds. We follow their strategy.

By contrast, empirical evidence of the effect of UI generosity on match quality is scarce and mixed (see the review in Addison and Blackburn (2000)). Using a structural model, Belzil (2001) finds that increasing the PBD by one week leads to an increase in subsequent employment duration of between 0.5 and 0.8 days. Jurajda (2002) and Tatsiramos (2009) compare UB claimants with unemployed people not eligible for benefits and find large positive effects of eligibility on employment duration. Centeno (2004) estimates that a 10% increase in UI generosity translates into a 3% increase in subsequent job tenure. In more recent studies, authors focus on identifying causal effects using difference-in-difference methods (van Ours and Vodopivec, 2008) or regression discontinuity methods (Card et al., 2007; Lalive, 2007; Centeno and Novo, 2009; Caliendo et al., 2013; Schmieder et al., 2012b). They do not find any average effects of PBD on subsequent wage or employment duration. However, Centeno and Novo (2009) and Caliendo et al. (2013) show that match quality effects are heterogeneous. Centeno and Novo (2009) find that unemployed who are more financially constrained experience an increase by 3 to 8% in their earnings when PDB increases by 6 months. Caliendo et al. (2013) find that unemployed people who find jobs just before their unemployment benefits run out accept less stable jobs than comparable claimants with longer entitlements.⁴

As in Card et al. (2007) and Centeno and Novo (2009), we estimate the effect of UI generosity on younger unemployed people than in most existing RDD, which usually take age threshold late in the worker's career (greater than 40 years old). Part of the analysis of Centeno and Novo (2009) is based on a discontinuity at 30 years old. In the sample of Card et al. (2007), the average age is 31 years old. We specifically compare our results to theirs.

Our paper extends this empirical literature by estimating the effect of unemployment generosity on French workers with low employability.⁵ In contrast to existing RDD studies, we focus on workers with low employability (that have unstable work history). They have been employed at most twelve months during the previous two years. In Card et al. (2007), workers have been employed for about 2.5 years during the 5-year period before unemployment; in Lalive (2007), individuals have worked over 9 years; in Schmieder et al. (2012b), the work history requirement amounts to 5 years; in Centeno and Novo (2009), eligible Portuguese workers have worked one year and a half over the two pre-unemployment years. Low-employability workers should in principle improve their match quality when UB is more generous, for at least two specific reasons. They typically lack productive or job search skills that they could acquire thanks to extended PBD. They are also likely to be financially constrained so that more generous UB could greatly change the value they attach to unemployment and increase their reservation wage. However, the match quality effect on low employability workers could be limited by the fact that they face very narrow hourly wage distribution (typically constrained by the high minimum wage in France). To address this issue, we consider a broad set of match quality indicators which encompasses employment duration and medium-run outcomes (and not only hourly wage).

⁴ Those positive effects of UI extensions on specific subpopulation contrast with the results from two very recent papers: Degen and Lalive (2013) and Schmieder et al. (2016). Degen and Lalive (2013) focus on workers older than 50 years old and find that medium-run earnings are reduced by UI extension (using a difference-in-difference method). Schmieder et al. (2016) use a regression discontinuity design around the 42 and 45 years old threshold and find that subsequent wages are lower for workers with longer PBD.

⁵ Dormont et al. (2001) study the introduction of decreasing replacement rates during the unemployment spell in France. Because the policy affected all the unemployed, they do not compute difference-in-difference estimates, nor do they implement regression discontinuity on the date of policy introduction. To our knowledge, this paper is therefore the first evidence in the French case on both unemployment exits and match quality. Fremigacci (2010) also applies a RDD method in the context of a French reform, but it focuses on senior jobseekers and only estimates effects on registered unemployment.

² All recent RDD studies, except Card et al. (2007), rely on discontinuities in age (usually late in the workers' career) to estimate the impact of UI extensions. Our paper is the second study to rely on discontinuities in past employment duration. One contribution of this paper is thus to estimate the effect of UB generosity on younger individuals.

³ Positive effects of replacement ratios are also found using difference-in-difference methods in Sweden (Carling et al., 2001 or Benmarker et al., 2007) and Finland (Uusitalo and Verho, 2010).

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