Discussion of K. Tatsiramos’s paper, “Unemployment Insurance in Europe”

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Effect of UI on durations of unemployment and employment

Do higher benefits make unemployed more lazy or more picky?

▶ Heterogeneity of jobs:
  ▶ more generous UI renders unemployed workers more picky
  ▶ unemployment and subsequent employment spells last longer
  ▶ if higher benefits only make unemployed more lazy, no effect on subsequent employment spells should be observed

▶ Heterogeneity of workers:
  ▶ good types work more
  ▶ are eligible to UI
  ▶ exit unemployment faster

▶ So there is a measurement problem.
What the paper does

- estimates the effect of UI on the durations of unemployment and subsequent employment
- allows for observed and *unobserved* heterogeneity (repeated spells; two types)
- finds that UI lengthened both unemployment and employment spells
Question 1

- evidence of a group of workers who exit both unemployment and employment faster. This is not what I expected heterogeneity to induce. The good type should exit unemployment faster but not employment.

- I do not understand the effect of unobserved heterogeneity on the duration of UI receipt.

- I am thus not totally convinced that spell repetition is enough to identify the distribution of unobserved heterogeneity.
Question 2

- Is there a way of distinguishing the level of benefits received from the length of receipt?
- State dependence should depend on the duration of receipt (reservation wage falls as the unemployment duration comes closer to UI limit of receipt).
- Is there any way of including these features in the reduced form model that is estimated?
I believe that the question formulated in this paper is an important one.

Evidence of positive externalities of UI requires a proper treatment of unobserved heterogeneity.

I think that this is hard to do that without incorporating more prior structure in the model.

It would be useful to think about a structural search model.