

The effects of unemployment benefits in Italy

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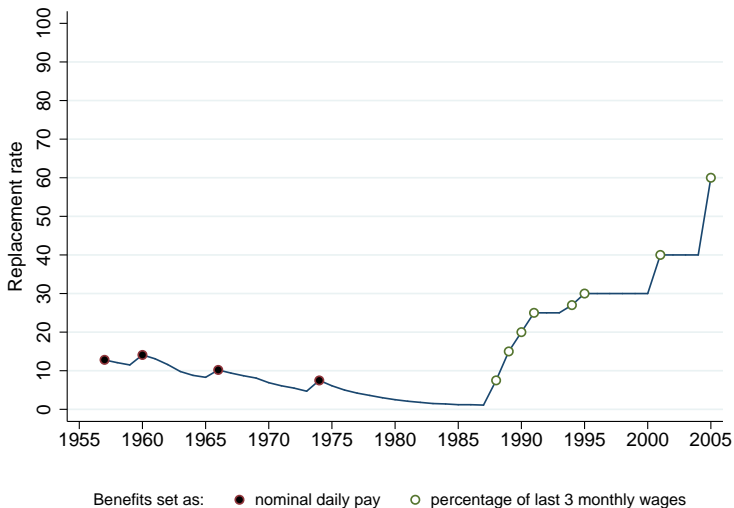
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Unemployment insurance in Italy

	Persons (000)	Days (000)	Mean dur. (days)	Daily ben.	Ave. ben.
All UI schemes					
2002	1303	25691	95	19	1781
2004	1437	42143	98	19	1860
2006	1432	46375	101	21	2099
Ordinary UI					
2002	233	29992	122	18	2133
2004	306	41020	127	18	2353
2006	360	50275	132	23	3029

Source: Anastasia, Mancini, Trivellato (2008)

Replacement rates in Italy



Purpose and effects of UI

UI provides insurance and allows to smooth consumption.

Therefore:

- ▶ Moral hazard and substitution effect
- ▶ Liquidity effect

Different welfare implications

Chetty (2008) shows the negative response of unemployment duration to UI in the US (el. 0.4) is mostly traceable to the liquidity effect

Our paper

Behavioral responses to a change in the ordinary UI scheme.

In 2001:

- ▶ Replacement rate from 30% to 40% for all
- ▶ Duration from 6 to 9 months for older than 50

Our paper

This change allows to quantify the effects of:

- ▶ Benefits duration
- ▶ Replacement rate

on:

- ▶ Time on benefits
- ▶ Job separation and take-up rates
- ▶ Time out of employment

Data

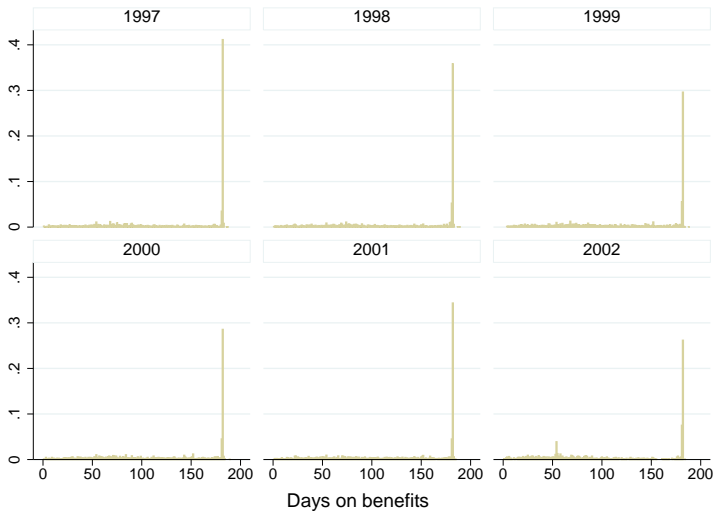
Social Security records - CLAP 1981-2002

Information on each relationship with Inps (employment, unemployment, disability, retirement, etc).

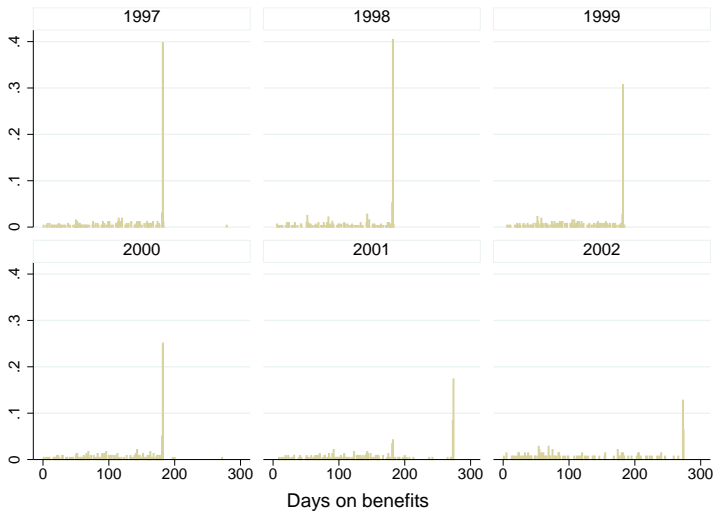
Period: 1997-2002 because of consistent classification of type of benefits collected.

Drop: self-employed, special unemployment or disability benefits recipients, early retirees.

The distribution of spells on benefits (20-49)



The distribution of spells on benefits (51-65)



The distribution of spells on benefits

Descriptive evidence shows no major change for < 50 and sharp shift to the right of expiration spike for > 50 .

Explore this evidence in regression framework:

$$d_{it} = \theta E_{it} + X_{it}\beta + u_{it}$$

d_{it} : i 's completed time on benefits for spell beginning at t

E_{it} : dummy for exposure to change

X_{it} : individual and aggregate controls

The distribution of spells on benefits

$E_{it} = 1$ if age > 50 and year \geq 2001.

Benefits extension				
	(1)	(2)	(3)	(4)
E	31.9** (6.7)	21.6 [†] (12.2)	21.7* (9.2)	29.5** (4.5)
Years	2000/2001	2000/2001	1997/2001	1997/2001
Age	51-65	45-48/51-55	45-48/51-55	20-48/51-65
Obs.	473	440	1079	10195

The distribution of spells on benefits

$E_{it} = 1$ if $\text{year} \geq 2001$. Sample: $\text{age} \in [20, 48]$.

Benefits increase				
	(1)	(2)	(3)	(4)
E	5.8 (3.5)	0.6 (3.6)	4.2 (5.3)	8.7 (5.3)
Years	2000/2001	2000/2001	1997/2002	1997/2002
Semester	1st	1st	1st	No 2:00, 2:02
Age	20-48	20-48	20-48	20-48
Obs.	1264	1060	4263	8871

The distribution of spells on benefits

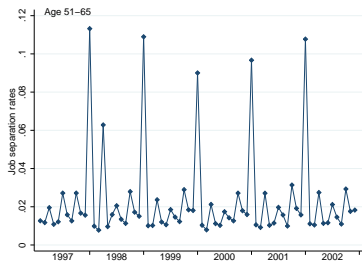
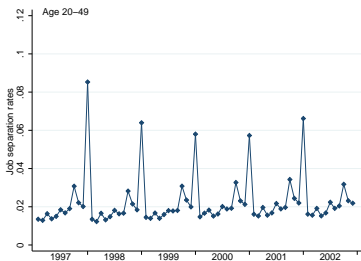
Main findings:

- ▶ Population entitled also to 90 additional days of benefits significantly increased benefits spell by 20-30 days
- ▶ Population entitled only to higher replacement rate did not change significantly time on benefits.

Is this evidence that unemployment duration increased?

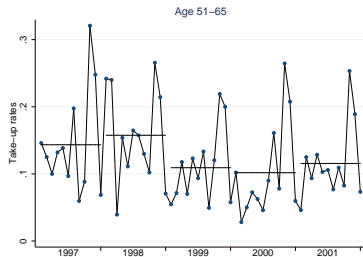
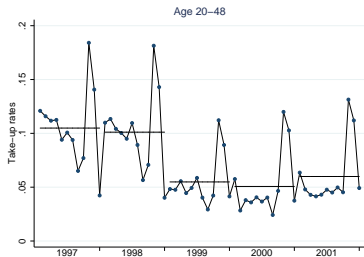
- ▶ Change in underlying population of recipients
- ▶ Time out of employment vs. time on benefits

Job separation rates



Cyclical and seasonal pattern but no evidence that separations increased across the relevant discontinuities.

Take-up rates



Increase in takeup in 2001 likely to reflect macroeconomic conditions rather than change in UI scheme.
Yet, it may have caused a change in the pool of recipients.

Recipients' characteristics

Compare recipients in periods across the discontinuity.

	20-48		51-65	
	2000	2001-00	2000	2001-00
Age	34.0	0.4 (0.29)	55.3	0.06 (0.4)
Sex	0.48	0.015 (0.022)	0.47	-0.02 (0.056)
South	0.37	0.03 (0.02)	0.36	-0.01 (0.054)
Tenure at previous job (log)	5.83	0.06 (0.054)	5.85	0.075 (0.15)
Last wage (log)	3.98	0.04 [†] (0.022)	3.98	0.01 (0.053)
Average wage at last job (log)	3.88	0.007 (0.017)	3.93	-0.032 (0.054)

Re-employment probabilities: empirical strategy

Explore effects of exposure to new UI scheme on recorded days to next job.

Dependent variable is indicator of employment status after x days from separation.

Observed for recipients and non-recipients.

Re-employment probabilities: benefits extension.

Compare claimants 40-48 and 51-60 in 2001 or 1997-2001.

	Days to next job \leq :				
	30	60	180	270	330
Spec. 1: 2001, no controls.					
E	-0.023 (0.020)	-0.003 (0.035)	-0.072 (0.052)	-0.119* (0.049)	-0.138** (0.046)
Spec. 2: 2001, indiv. controls.					
E	-0.025 (0.021)	0.005 (0.037)	-0.09 [†] (0.050)	-0.121* (0.047)	-0.146** (0.045)
Spec. 3: 1997-2001, indiv. controls+age+time					
E	-0.024 (0.020)	0.030 (0.035)	-0.015 (0.051)	-0.026 (0.050)	-0.044 (0.049)

Re-employment probabilities: replacement rate.

Compare claimants 20-48 over time.

	Days to next job \leq :				
	30	60	180	270	330
Spec. 1: 2000-01, no controls.					
E	0.015 (0.020)	-0.005 (0.030)	-0.03 (0.040)	-0.05 (0.041)	-0.05 (0.040)
Spec. 2: 2000:01, indiv. controls					
E	0.02 (0.021)	-0.001 (0.030)	-0.04 (0.041)	-0.05 (0.042)	-0.05 (0.041)
Spec. 3: 1997:01, indiv. controls+time pol.					
E	0.07 (0.053)	0.05 (0.086)	0.17 (0.13)	0.15 (0.13)	0.13 (0.13)

Re-employment probabilities: replacement rate.

Compare all non-employed 20-48 over time.

	Days to next job \leq :				
	30	60	180	270	330
Spec. 1: 2000-01, indiv. controls+yr dummies.					
E	0.03 (0.036)	-0.015 (0.040)	-0.07 [†] (0.039)	-0.10** (0.035)	-0.11** (0.031)
C	-0.26** (0.027)	-0.25** (0.029)	-0.21** (0.029)	-0.19** (0.026)	-0.21** (0.023)
Spec. 2: 1997-01, indiv. controls+yr dummies.					
E	-0.01 (0.025)	-0.04 (0.028)	-0.10** (0.030)	-0.10** (0.028)	-0.11** (0.026)
C	-0.21** (0.010)	-0.23** (0.012)	-0.18** (0.012)	-0.18** (0.012)	-0.20** (0.011)

Conclusions...

Time on benefits increased significantly only for those entitled also to a longer duration (20-30 days)

Job separations are unaffected and populations of claimants before and after the change are broadly comparable.

Behavioral responses to the change in the UI scheme appear to be overall statistically insignificant and economically modest

Detect significant effects of *replacement rate* only in comparison to non-recipients; magnitude implausibly large given the limited amount of additional funds implied by the higher benefit ($\approx 100E$).

... and caveats

Findings are local, i.e. refer to the specific population and institutional change under investigation; no guarantee that same findings apply e.g. to larger increases in replacement rates.

Data only allow careful look at immediate effect of change; possibly potential claimants learned about (and exploited) the change over a longer period.

Limited sources of identification require stronger assumptions to claim estimates reflect causal effects.

Discussion

Finding of negative effects of UI on labour supply not informative on aggregate welfare change.

Improvement if due to slacker liquidity constraints.

Trade-off faced by optimal schemes is between insurance and incentives, but typically studied in a liquidity constrained framework.

Data on household characteristics and recipiency status needed to assess level of optimal benefits.