Abstract

This paper explores the effects of a major reform of unemployment benefits in Germany on the labor market outcomes of individuals with some health impairment. The reform induced a substantial reduction in the potential duration of unemployment benefits for older workers. Our results provide causal evidence for a significant decrease in the number of days in unemployment benefits and increase in the number of days in employment. However, they also suggest a significant increase in the number of days in unemployment assistance, granted upon exhaustion of unemployment benefits. Transitions to unemployment assistance represent an unintended effect, limiting the success of a policy change that aims to increase labor supply via reductions in the generosity of the unemployment insurance system.

Introduction

Reform ⇒ Reduction in potential duration of unemployment benefits (UB-1) for older workers in 2/2006.

Table 1: Maximum duration (in months) of unemployment benefits (years 2004-2009)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>&lt;45</td>
<td>12</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>45-49</td>
<td>22</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>50-54</td>
<td>24</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>55-56</td>
<td>26</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>&gt;57</td>
<td>34</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

German Unemployment Insurance System:
- Unemployment benefits (UB-1) ⇒ conditioned on contributions, temporarily restricted.
- Unemployment assistance (UB-2) ⇒ upon exhaustion of UB-1, living at subsistence level.

Causal effects ⇒ DID design for natural experiment
- Increase days with employment?
- Decrease days with UB-1?
- Decrease days with UB-2 due to slip from UB-1?

Contributions: 1) Framework of institutional interactions. 2) A large sample of people with health impairment. 3) Cumulated labor market outcomes measured 1 year after rehabilitation.

Data and Methods

Administrative data of the German Statutory Pension Insurance: Longitudinal data set with a random sample of 20% of all people with medical rehabilitation treatments.

Table 2. Results Sample A (2005/2007, employed before rehabilitation)

<table>
<thead>
<tr>
<th></th>
<th>(1) UB-1</th>
<th>(2) UB-2</th>
<th>(3) WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>age=45</td>
<td>17.80***</td>
<td>-6.51***</td>
<td>-25.29***</td>
</tr>
<tr>
<td>year2005</td>
<td>[0.97]</td>
<td>[0.59]</td>
<td>[1.57]</td>
</tr>
<tr>
<td>age=45 x year2007 (post-reform)</td>
<td>-10.50***</td>
<td>4.62***</td>
<td>13.57***</td>
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<tr>
<td>R²</td>
<td>0.11</td>
<td>0.07</td>
<td>0.19</td>
</tr>
<tr>
<td>Mean dep. variable</td>
<td>39.58</td>
<td>6.15</td>
<td>261.68</td>
</tr>
<tr>
<td>N</td>
<td>94,990</td>
<td>94,990</td>
<td>94,990</td>
</tr>
</tbody>
</table>

Notes: Outcome variables are days per calendar year. Controls included in all models. OLS regressions. Robust standard errors in brackets. * p<0.1, ** p<0.05, *** p<0.01.

Summary and Conclusion

Results Sample A: Intended positive effects dominate ⇒ upper & lower bounds.
Results Sample B: Support for common trend assumption ⇒ ATT is likely unbiased.
Results Sample C: Non-intended negative effects dominate ⇒ better rating of prospects?

References


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Notes: Outcome variables are days per calendar year. OLS regressions. Controls included in all models. Robust standard errors in brackets. * p<0.1, ** p<0.05, *** p<0.01.