Unemployment Insurance and Reservation Wages
Evidence from Administrative Data

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Motivation

- Reservation wage: key concept of job search models
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- Very few **direct** empirical evidence on its main determinants, esp. unemployment insurance
Our paper

- Administrative data on reservation wages
  - At the beginning of their claim, job-seekers state their reservation wage, their desired hours worked, commuting time and type of jobs (temporary/permanent)
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- 2 identification strategies:
  - Difference-in-difference leveraging a French UI reform
  - Regression discontinuity based on an age-threshold (50 years)
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- 2 identification strategies:
  - Difference-in-difference leveraging a French UI reform
  - Regression discontinuity based on an age-threshold (50 years)

- Comparison of elasticity estimates with predictions of a canonical non-stationary job search model
Our results

1. Cannot reject that elasticity of reservation wage wrt potential benefit duration (PBD) is zero
   - Very precise estimation: rule out elasticities greater than 0.006
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4. Claimants with short PBD: higher elasticity

5. Calibrated job search model with endogenous search effort predicts elasticities of reservation wage around 0.03
Website of the Public Employment Service at registration
Institutions

- Statements about desired job are used by case workers to propose vacancies
  - truthful declaration
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- Statements about desired job are used by case workers to propose vacancies
  - truthful declaration

- Controlling/monitoring search effort: compare posted wage of vacancies to past wage (not reservation wage)
Distribution of reservation wages over past wages

70% of job-seekers accept a wage-cut
Median of reservation wage rate (over past wage): 0.93
### Table: Socio-demographic determinants of reservation wages

<table>
<thead>
<tr>
<th></th>
<th>Monthly reservation wage (in €)</th>
<th>Log</th>
<th>Ratio / past wage</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<tr>
<td>Dummies for 20 equal sized bins of past wage</td>
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<td></td>
<td></td>
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<tr>
<td>Female</td>
<td>-0.0282*** (0.000919)</td>
<td>-0.0289*** (0.000904)</td>
<td></td>
</tr>
<tr>
<td>Married × female</td>
<td>-0.0131*** (0.00112)</td>
<td>-0.0129*** (0.00107)</td>
<td></td>
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<tr>
<td>Married × male</td>
<td>0.0227*** (0.00112)</td>
<td>0.0220*** (0.00111)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>0.00138*** (5.64e-05)</td>
<td>0.00148*** (5.53e-05)</td>
<td></td>
</tr>
<tr>
<td>Experience (in years)</td>
<td>0.00494*** (9.34e-05)</td>
<td>0.00456*** (9.16e-05)</td>
<td></td>
</tr>
<tr>
<td>Education (in years)</td>
<td>0.0149*** (0.000136)</td>
<td>0.0141*** (0.000138)</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>180,637</td>
<td>180,637</td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.454</td>
<td>0.237</td>
<td></td>
</tr>
</tbody>
</table>
### Table: Unemployment duration and reservation wage

<table>
<thead>
<tr>
<th></th>
<th>Log actual benefit duration</th>
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<tbody>
<tr>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Log reservation wage</td>
<td>-0.155*** (0.0149)</td>
</tr>
<tr>
<td>Time FE</td>
<td>yes</td>
</tr>
<tr>
<td>Indiv. Controls</td>
<td>yes</td>
</tr>
<tr>
<td>Indiv. FE</td>
<td>no</td>
</tr>
<tr>
<td>Obs.</td>
<td>180,637</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.063</td>
</tr>
</tbody>
</table>
2009 reform in France: simplification of UI rules

Potential benefit duration schedule

Number of days worked in the previous 26 months

Before 2009
After 2009
Reservation wage

Quarter of separation

Change in PBD after reform ≤ median (30 days)
Change in PBD after reform > median (30 days)
Identification strategy

4.4

4.6

4.8

in logs

2006q1

2007q3

2009q1

2010q3

2012q1

Quarter of separation

Change in PBD after reform <= median (30 days)

Change in PBD after reform > median (30 days)

Actual duration of benefits
Econometric model

\[
\log Y_{i,n} = \text{Indiv.F.E.}_i + \alpha \log PBD_{i,n} + \sum_{j=6}^{26} \delta_j D(\text{Tenure}_{i,n} = j) + \gamma X_{i,n} + Year \times QuarterF.E. + \epsilon_{i,n}
\]

where \( D(\text{Tenure}_{i,n} = j) \) indicates whether the past tenure of individual \( i \) before her \( n \)th claim is \( j \) months

→ we instrument \( PBD \) by the set of tenure group dummies interacted with the reform dummy \( After_{i,n} \)
**Table: Elasticity of the reservation wage and benefit duration with respect to PBD**

<table>
<thead>
<tr>
<th></th>
<th>OLS (1)</th>
<th>IV (2)</th>
<th>FE (3)</th>
<th>FE,IV (4)</th>
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</thead>
<tbody>
<tr>
<td><strong>Log of reservation wage</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>log PBD</td>
<td>0.000954</td>
<td>0.00473</td>
<td>-0.000132</td>
<td>-0.000535</td>
</tr>
<tr>
<td></td>
<td>(0.00854)</td>
<td>(0.00691)</td>
<td>(0.00310)</td>
<td>(0.00318)</td>
</tr>
<tr>
<td>Obs.</td>
<td>180,637</td>
<td>180,637</td>
<td>180,637</td>
<td>180,637</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.474</td>
<td>0.474</td>
<td>0.340</td>
<td></td>
</tr>
<tr>
<td><strong>Log of actual benefit duration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log PBD</td>
<td>0.227***</td>
<td>0.232***</td>
<td>0.314***</td>
<td>0.306***</td>
</tr>
<tr>
<td></td>
<td>(0.0274)</td>
<td>(0.0257)</td>
<td>(0.0317)</td>
<td>(0.0325)</td>
</tr>
<tr>
<td>Obs.</td>
<td>180,637</td>
<td>180,637</td>
<td>180,637</td>
<td>180,637</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.062</td>
<td>0.062</td>
<td>0.095</td>
<td></td>
</tr>
<tr>
<td><strong>Indiv. FE</strong></td>
<td>no</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

Standard errors clustered by monthly tenure group in Col (1) and (2).
### Table: Heterogeneity analysis

<table>
<thead>
<tr>
<th></th>
<th>Tenure</th>
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<tbody>
<tr>
<td></td>
<td>Low tenure (1)</td>
<td>High tenure (2)</td>
</tr>
<tr>
<td>log PBD</td>
<td>Log of Reservation wage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00964**</td>
<td>-0.00272</td>
</tr>
<tr>
<td></td>
<td>(0.00379)</td>
<td>(0.00557)</td>
</tr>
<tr>
<td>log PBD</td>
<td>Log of Actual Benefit duration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.514***</td>
<td>0.202***</td>
</tr>
<tr>
<td></td>
<td>(0.0399)</td>
<td>(0.0558)</td>
</tr>
<tr>
<td>Obs.</td>
<td>90,364</td>
<td>90,273</td>
</tr>
<tr>
<td>Indiv. F.E.</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

Low tenure: below the median tenure (13 months)
Regression Discontinuity Design: jump in potential benefit duration at age 50
Regression Discontinuity Design: density around the cutoff
Regression Discontinuity Design: log of reservation wage

Regression function fit

- Sample average within bin
- Polynomial fit of order 4
Regression Discontinuity Design: log of actual benefit duration

Regression function fit

Sample average within bin

Polynomial fit of order 4
### Table: RDD estimates of elasticities wrt PBD

<table>
<thead>
<tr>
<th>Age excluded</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[49.9, 50.1]</td>
<td>[49.75, 50.25]</td>
<td>[49.5, 50.5]</td>
<td></td>
</tr>
<tr>
<td>Log of Reservation wage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log PBD</td>
<td>0.0116</td>
<td>0.0172</td>
<td>0.00457</td>
</tr>
<tr>
<td>(0.0149)</td>
<td>(0.0162)</td>
<td>(0.0141)</td>
<td></td>
</tr>
<tr>
<td>Log of Actual benefit duration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log PBD</td>
<td>0.211***</td>
<td>0.242***</td>
<td>0.175**</td>
</tr>
<tr>
<td>(0.0786)</td>
<td>(0.0669)</td>
<td>(0.0692)</td>
<td></td>
</tr>
<tr>
<td>Obs.</td>
<td>470,082</td>
<td>456,280</td>
<td>432,431</td>
</tr>
</tbody>
</table>
Non-stationary job search model with endogenous search effort

- Job-seekers draw benefits until $T$, then on welfare
- Stationary job offer distribution $F(.)$ (logarithmic)
Non-stationary job search model with endogenous search effort

- Job-seekers draw benefits until $T$, then on welfare
- Stationary job offer distribution $F(.)$ (logarithmic)
- Intertemporal value of unemployment $U_t$ writes:

$$\rho U_t = u(vb_t) - c(e_t) + e_t \int_{\phi_t}^{\infty} [W(w) - U_t]dF(w) + \dot{U}_t$$

- $u(.)$ log utility and $v$ depreciation associated to non-pecuniary aspects of unemployment
- $c(.)$ quadratic cost of effort that delivers job offers at rate $e$

$\rightarrow \phi_t$ is the reservation wage
Calibration of the job search model

- Calibrate according to the behavior of our DiD sample

- 2 targets:
  1. average unemployment duration: 6 months (PBD=12 months)
  2. elasticity of unemployment duration to PBD: 0.33

- Other parameters set at institutional values (replacement rates) or consensus estimates (discount rate)

→ Simulation of the model
Theoretical predictions: Evolution of the elasticities of the reservation wage along the unemployment spell

95% CI around point estimates rule out:

→ average elasticity above 0.006
→ elasticity for low tenure group above 0.017
Conclusion

- Reservation wages at the beginning of the job search spell do not respond to UI generosity, while U duration does

- Results suggest that UI is too generous in France
  - Shimer and Werning (2007)

- Effect of UI on accepted wages?

- Lack of responsiveness at odds with standard job search theory: Further explorations?
Contributions

1. Precise quasi-experimental evidence of the UI effect on reservation wages

2. Results suggest that UI is too generous in France
   - Shimer and Werning (2007)

3. Effect of UI on accepted wages?
## Table: Summary statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>0.599</td>
<td>0.49</td>
</tr>
<tr>
<td>Foreign born</td>
<td>0.111</td>
<td>0.314</td>
</tr>
<tr>
<td>Age</td>
<td>31.301</td>
<td>7.873</td>
</tr>
<tr>
<td>Married</td>
<td>0.353</td>
<td>0.478</td>
</tr>
<tr>
<td>Divorced</td>
<td>0.068</td>
<td>0.252</td>
</tr>
<tr>
<td>Has a child</td>
<td>0.363</td>
<td>0.481</td>
</tr>
<tr>
<td>Education (in years)</td>
<td>11.59</td>
<td>3.272</td>
</tr>
<tr>
<td>Occupational Experience (in years)</td>
<td>4.628</td>
<td>5.149</td>
</tr>
<tr>
<td>Past Contract is long-term</td>
<td>0.353</td>
<td>0.478</td>
</tr>
<tr>
<td>Sum of past tenures over the last 2 years (in days)</td>
<td>427.708</td>
<td>218.351</td>
</tr>
<tr>
<td>Past tenure at last employer (in days)</td>
<td>393.648</td>
<td>573.158</td>
</tr>
<tr>
<td>Potential Benefit Duration (in days)</td>
<td>413.156</td>
<td>208.855</td>
</tr>
<tr>
<td>Actual Benefit Duration (in days)</td>
<td>192.403</td>
<td>163.184</td>
</tr>
<tr>
<td>Past Monthly Wage (gross, in euros)</td>
<td>1721.631</td>
<td>388.383</td>
</tr>
</tbody>
</table>

Source: FNA-FH (Pole emploi).
Appendix

Distribution of nominal monthly reservation wages

Note: Vertical line is minimum wage level in 2009.
Distribution of reservation wages over minimum wage
Distribution of change in reservation wage rates (over past wages) across claims
## Other dimensions of job selectivity

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Looking for a long-term contract</td>
<td>0.895</td>
<td>0.307</td>
</tr>
<tr>
<td>Looking for a full-time job</td>
<td>0.971</td>
<td>0.167</td>
</tr>
<tr>
<td>Maximum commute time accepted (in minutes)</td>
<td>44</td>
<td>20</td>
</tr>
<tr>
<td>Maximum commute distance accepted (in kilometers)</td>
<td>32</td>
<td>24.4</td>
</tr>
<tr>
<td>No geographical constraint</td>
<td>0.02</td>
<td>0.138</td>
</tr>
</tbody>
</table>
2007

Fraction over the past 2 years (in months)

- Fraction 5
- Fraction 10
- Fraction 15
- Fraction 20
- Fraction 25

Past tenure over the last 2 years (in months)
Appendix

2008

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

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Past tenure over the last 2 years (in months)

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Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

Fraction

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Fraction

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Fraction

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Fraction

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)

Fraction

Past tenure over the last 2 years (in months)
2009

Fraction

Past tenure over the last 2 years (in months)
Past tenure over the last 2 years (in months)
Reduced-form equation

\[
\log Y_{i,n} = \sum_{j=6,\text{excl.7,12,23}}^{26} \beta_j D(Tenure_{i,n} = j) \times After_{i,n} \\
+ \sum_{j=6,\text{excl.7,12,23}}^{26} \delta_j D(Tenure_{i,n} = j) \\
+ \gamma X_{i,n} + Year \times Quarter F.E. + Indiv. F.E. + \nu_{i,n}
\]
Reduced form effect for the reservation wage (in logs)

Potential Benefit Duration

Reservation wage

Previous employment duration (in months)
Reduced form effect for the actual duration of benefits (in logs)
Table: Effect of PBD on other dimensions of job selectivity

<table>
<thead>
<tr>
<th></th>
<th>Looking for a long-term contract (1)</th>
<th>Looking for a full-time job (2)</th>
<th>Max. commuting time/distance (log) (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>log PBD</td>
<td>-0.00462 (0.00825)</td>
<td>0.000111 (0.00496)</td>
<td>-0.000931 (0.0132)</td>
</tr>
<tr>
<td>Indiv. FE</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>IV</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Obs.</td>
<td>180,637</td>
<td>180,637</td>
<td>163,192</td>
</tr>
</tbody>
</table>
Table: Heterogeneity analysis - DiD

<table>
<thead>
<tr>
<th>Gender</th>
<th>Past wage level</th>
<th>Log of Reservation wage</th>
<th>Log of Actual Benefit duration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female (1)</td>
<td>Male (2)</td>
<td>Low wage (3)</td>
</tr>
<tr>
<td></td>
<td>log PBD</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.00156</td>
<td>-0.00245</td>
<td>0.00323</td>
</tr>
<tr>
<td></td>
<td>(0.00454)</td>
<td>(0.00435)</td>
<td>(0.00340)</td>
</tr>
<tr>
<td></td>
<td>0.332***</td>
<td>0.292***</td>
<td>0.321***</td>
</tr>
<tr>
<td></td>
<td>(0.0508)</td>
<td>(0.0423)</td>
<td>(0.0448)</td>
</tr>
<tr>
<td>Obs.</td>
<td>72,472</td>
<td>108,165</td>
<td>90,203</td>
</tr>
<tr>
<td>Indiv. F.E.</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>VARIABLES</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Log of reservation wage</td>
<td>2007</td>
<td>2008</td>
<td>2010</td>
</tr>
<tr>
<td>Log PBD</td>
<td>0.00979</td>
<td>0.00709</td>
<td>0.00755</td>
</tr>
<tr>
<td></td>
<td>(0.00655)</td>
<td>(0.00654)</td>
<td>(0.00582)</td>
</tr>
<tr>
<td>Obs.</td>
<td>30,603</td>
<td>30,603</td>
<td>36,422</td>
</tr>
<tr>
<td>Indiv. F.E.</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>
### Table: Estimates of discontinuities in reservation wage at placebo age cutoff

<table>
<thead>
<tr>
<th>Placebo Age cutoff</th>
<th>47</th>
<th>48</th>
<th>49</th>
<th>51</th>
<th>52</th>
<th>53</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.00194</td>
<td>0.00149</td>
<td>-0.000106</td>
<td>-0.000254</td>
<td>0.0123**</td>
<td>-0.00552</td>
</tr>
<tr>
<td></td>
<td>(0.00327)</td>
<td>(0.00329)</td>
<td>(0.00365)</td>
<td>(0.00396)</td>
<td>(0.00591)</td>
<td>(0.00417)</td>
</tr>
<tr>
<td>Obs.</td>
<td>521,034</td>
<td>499,192</td>
<td>478,334</td>
<td>441,441</td>
<td>427,481</td>
<td>412,624</td>
</tr>
</tbody>
</table>
Theoretical predictions: Evolution of the reservation wage along the unemployment spell
Theoretical predictions: Evolution of the search effort along the unemployment spell
Theoretical predictions: Evolution of the elasticities of the hazard rate along the unemployment spell