

Some Labor Supply Effects of Unemployment Insurance

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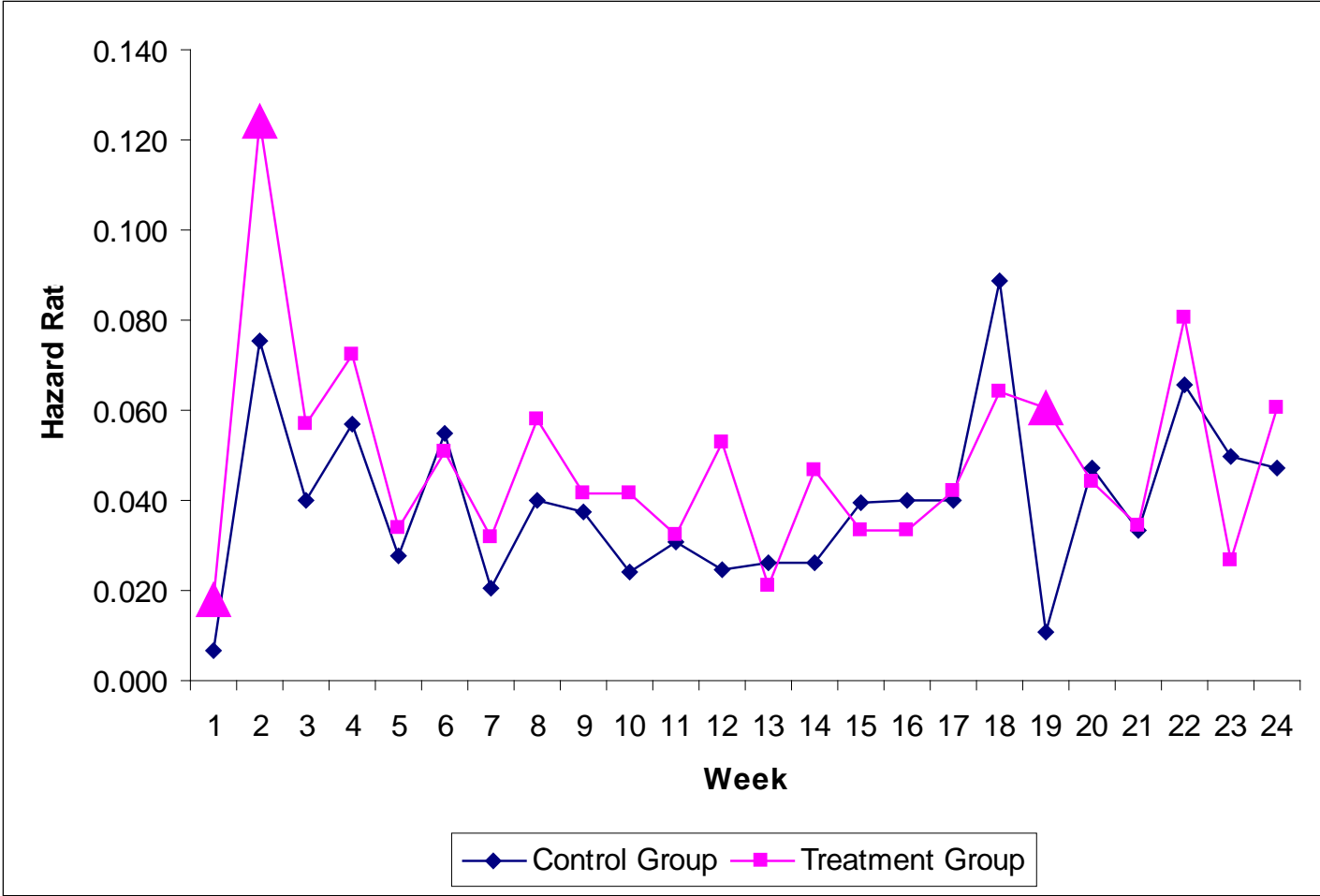
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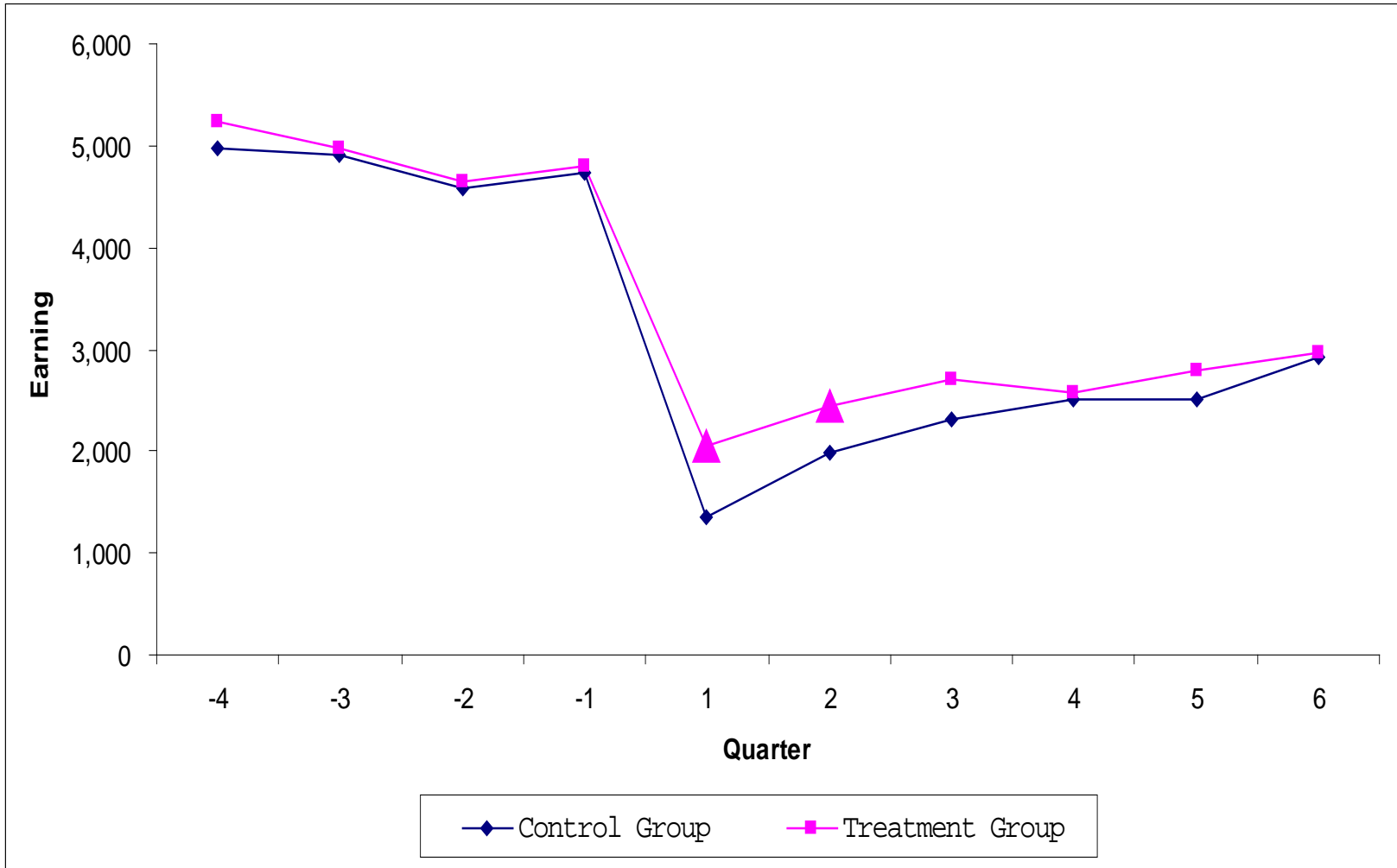
Observations:

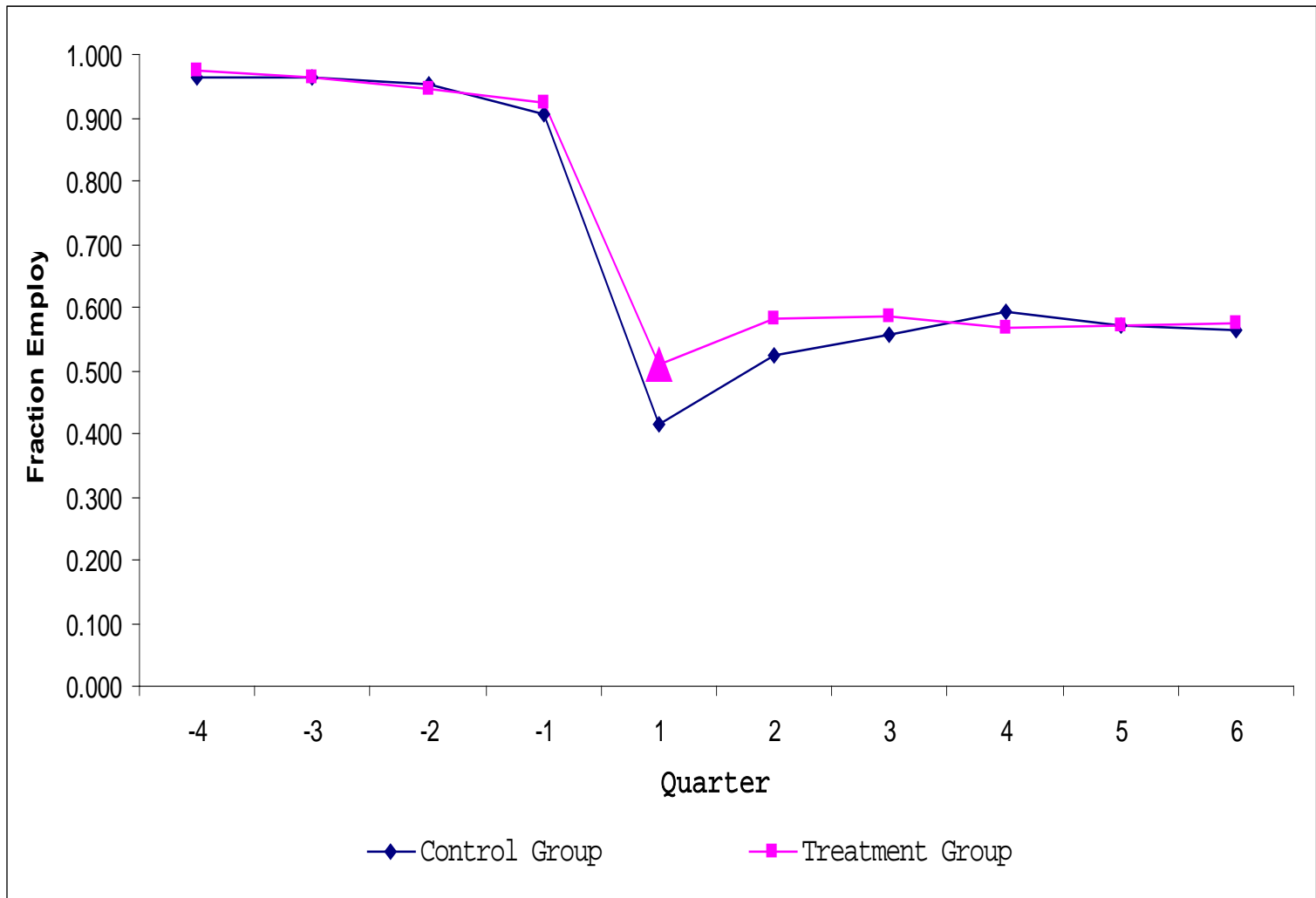
- It is hard to do good, but Unemployment Insurance (UI) tries.
- Some economic truisms:
 - People do not like the income losses associated unemployment.
 - People like to insure against these income losses.
 - People like leisure.
 - UI is our attempt to provide insurance against the income losses associated with unemployment while encouraging people not to enjoy too much leisure.
 - Must trade off the inefficiencies associated with too little search against the need for additional insurance.
 - How do we do?

Observations:

- Bruce Meyers shows that the workers tend to increase their hazard rate just before they exhaust their benefits.
- Difficult to interpret these findings, but we should be concerned with the sharp peak at the end of eligibility.
- Even harder to think about the rest of the path, but this does not look like most optimal path under most assumptions.
- Need a more interpretable experiment that allows us to determine some of the inefficiencies.
- Enter the Kentucky Profiling and Reemployment Services experiment.







Observations:

- The treatment effect accounts for about 2.2 weeks of unemployment and extra earnings of about \$1,000.
- If you don't like the stick, Woodbury and Spiegelman show that “bonus experiments” increased exits from UI by the 11th week of benefits by over five percent.
- Benefits of targeting: Can you identify people for whom the program is going to work?
- Current method of profiling for benefit exhaustion is probably not getting the greatest possible efficiency