

THE EFFECT OF DECLINING UNEMPLOYMENT BENEFITS ON TRANSITIONS TO EMPLOYMENT: EVIDENCE FROM BELGIUM

Five minutes discussion by Stijn Baert



UNIVERSITEIT
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APPRECIATION

- Very interesting research, according to the state-of-the-art of microeconomic policy evaluation.
 - The **most relevant study ever on the previous reform** of the declining of our unemployment benefits.
- The authors are rightly **cautious about the external validity** of this study.
 - The evaluation says something about a previous reform within a certain institutional context and framework.
 - In particular, the reform but not supported by a simplification of the system itself.
 - In particular, this is a reform where the substantial declining of the benefits is introduced very late for many unemployed or becomes never substantial.
 - Thus, the **conclusion of "little ground in favour of a further accentuation" can only be substantiated for reforms that would otherwise make such unfortunate choices.**
- There is a lot of attention for the insurance value of the pattern of declining, against hardly any for its justice value (quid pro quo), related to the **societal support for the system** and its sustainability, which can normatively underpin declining benefits too.



CONSISTENCY WITH EARLIER RESEARCH

- The findings seem (!) to contradict what empirical research generally indicates:
 - That is: more generous benefits are associated with lower search intensity and higher unemployment.
 - See for instance IZA literature review (<https://wol.iza.org/articles/unemployment-benefits-and-unemployment/long>).
- However, there are **logical reasons why no beneficial effect of the introduced incentives could be found here**.
 - Incentives must be substantial enough and sufficiently clear to work (e.g., DellaVigna et al., 2017).
 - Quod non!
 - Incentives must be introduced sufficiently quickly during the unemployment spell (e.g., Van Belle et al., 2018).
 - Quod non!

POLICY REFLECTION

- My advise is completely in line with that of the OECD rapport.
 - I agree with the authors in a sense that: “Under a new and **simpler set of rules**, the overall time profile of UB could ~~remain unchanged~~ or be adjusted to ensure **fewer but larger steps** even while maintaining the initial and long-term benefit at their current levels.”
 - Reform in the direction of substantial and clear incentives.
 - With respect to the “little scope for reducing the number of steps or increasing size since [low wage workers’] benefit schedule tends to be largely flat already”, I believe the operationalisation by former Minister Kris Peeters provides a solution.
 - This operationalisation includes a strengthening of another principle: the solidarity principle. By introducing a **fixed base**, the benefit at the beginning of unemployment increases more for the lowest wages than for the highest wages, introducing more bandwidth for financial incentives.
 - This is in line with “flat amount + % of wage” in OECD recommendation.
 - In addition, I believe, for reasons mentioned earlier that the **first substantial decline(s) should be early enough**.