Partial Unemployment Insurance and Hour Decisions

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Abstract

How do financial incentives embedded in unemployment programs affect job uptake? Partial Unemployment Insurance (PUI) programs allow jobseekers to keep their benefits when working, if the job abides by eligibility conditions. PUI programs operate as an in-work benefit scheme that aims towards labor market reintegration: allowing benefits as a top-up on earnings increases the value of employment relative to unemployment’s. We exploit a reform of the French PUI scheme introduced in 2006: the benefit eligibility hour threshold was decreased by 20%, offering a quasi-experimental setting. This paper studies labor supply responses when benefit availability is restricted. Using unique administrative data on unemployment spells and employment episodes, we estimate competing risks models with correlated risks to determine the propensity to exit towards PUI job intensities depending on whether they allow for benefits. We show the reform significantly increased the conditional probability to take up a PUI job below the new hour threshold. Hence, narrowed benefit availability contributes to a substantial decline in worked hours for PUI claimants. We use our parameter estimates to compute the hour elasticity to PUI earnings, which equals .142. Its small magnitude stems from labor market rigidities; yet, it is consistent with the bunching literature.

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