

Unemployment insurance design: Inducing moving and retraining[☆]

John Hassler^{a,*}, José V. Rodríguez Mora^b

^a*Institute for International Economic Studies, Stockholm University, S-106 91 Stockholm, Sweden, IZA, CEPR and CESifo*

^b*University of Edinburgh, Universitat Pompeu Fabra, CREA and CEPR*

Received 8 September 2006; accepted 14 August 2007

Available online 6 September 2007

Abstract

Evidence suggests that unemployed individuals can affect their job prospects by undertaking a costly action like deciding to move or retrain. Realistically, such an opportunity only arises for some individuals and the identity of those may be unobservable *ex ante*. The problem of characterizing constrained optimal unemployment insurance in this case has been neglected in previous literature. We construct a model of optimal unemployment insurance where multiple incentive constraints are easily handled. The model is used to analyze the case when an incentive constraint involving moving costs must be respected in addition to the standard constraint involving costly unobservable job-search. Absent wealth effects on behavior, we derive closed-form solutions showing that when the moving/retraining incentive constraint binds, unemployment benefits should increase over the unemployment spell, with an initial period with low benefits and an increase after this period has expired.

© 2007 Elsevier B.V. All rights reserved.

JEL classification: J65; J64; E24

Keywords: Unemployment benefits; Search; Moral hazard; Adverse selection

[☆]This is a substantial revision of a previous version that circulated under the title “Should UI benefits really fall over time?”.

*Corresponding author. Tel.: +46 8 162070; fax: +46 8 161443.

E-mail addresses: John@Hassler.se (J. Hassler), sevimora@gmail.com (J.V. Rodríguez Mora).

1. Introduction

An important feature of the modern welfare state is the existence of an extensive unemployment insurance (UI) system. It is now well established that the design of the unemployment insurance affects the incidence of unemployment by distorting the incentives of unemployed to search for a job (see, e.g., [Holmlund, 1998](#) for a survey). This has motivated a growing literature on how the UI system should be designed to make an optimal trade-off between providing good insurance, on the one hand, and not distorting the incentives too much, on the other. The key informational friction in this literature is that search activity cannot be monitored, so sufficient search incentives must be provided.

The contribution of this paper is twofold. The first contribution is to focus on an important informational friction that has been largely neglected in the literature. We will consider the case when individuals who become unemployed have different opportunities to find a new job. However, we assume that the insurer cannot (perfectly) observe these differences. Specifically, we assume that some, but not all, unemployed can increase the probability of being hired by undertaking a costly investment, e.g., by retraining or moving to a location with better employment prospects. Under the realistic assumption that the insurer is unable to observe who has this option, an incentive problem arises and failure to take this into account may lead to sub-optimal UI-design. One direct way of mitigating the problem would be to offer subsidies to moving or retraining. While we will discuss this case at the end of the paper, our main case is when full cost-compensation is not feasible, for example because the insurer cannot fully distinguish voluntary and involuntary job-separations.

Although an empirical investigation is outside the scope of this paper, we argue that the consequences of not providing reasonable incentives for people to move or retrain may be of substantial quantitative importance. For instance, [Bartel \(1979\)](#) documents that the proportion of geographical mobility in the U.S. caused by the decision to change jobs is one-half of all migration decisions for young workers and one third of all migration decisions for workers aged above 45. Furthermore, geographical mobility is substantially lower in continental Europe, and [Hassler et al. \(2005\)](#) document in panel-data a negative correlation between geographical mobility and UI-generosity as well as between mobility and aggregate unemployment rates. Other empirical documentations of the link between unemployment and geographical mobility are [DaVanzo \(1978\)](#), [Pissarides and Wadsworth \(1989\)](#) and [McCormick \(1997\)](#).

The second contribution of our paper is more methodological. Search incentives and incentives to move are generally not independent and should therefore be jointly analyzed. The reason why moving incentives are not included in the standard analysis is that multiple incentive constraints with different characteristics are difficult to analyze. Including both search and moving/retraining incentive constraints complicates the analysis, since it is difficult to evaluate which of many constraints are binding, in particular when unemployment benefits are allowed to be non-constant. Suppose, for example, that the benefit schedule contains x tiers, so that the benefit level b is an element of $B \equiv \{b_1, b_2, \dots, b_x\}$. The incentive constraint for an individual at a particular tier then depends on benefits in all tiers that the individual could eventually end up, in general all elements of B . The methodological contribution of the paper is to show that the problem of finding the optimal benefit structure can be formulated in such a way that all incentive

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات