Summary and conclusions

This thesis consists of four studies which investigate the effects of labor market policies in the Netherlands. This chapter summarizes the main findings and discusses the policy implications.

The first chapter estimates the effects of the entitlement period to UI benefits on job finding and post-unemployment job quality using two identification strategies. It exploits a substantial UI reform in the Dutch UI system which reduced the entitlement period for most - but not all - unemployed workers in a difference-in-difference model and it uses discontinuities in the calculation of the entitlement period in a regression discontinuity approach. The results from both approaches concur and are in agreement with earlier literature. Reducing the UI entitlement period increases the job finding rate, which suggests that providing UI benefits causes moral hazard. Moral hazard is not necessarily bad if unemployed workers can improve the post-unemployment job quality by being more selective on job offers. The results show, however, at most modest effects of the entitlement period on the quality of the first job after unemployment. With shorter entitlement periods job seekers are somewhat more inclined to accept a temporary job, but these effects disappear in the long run.

The Dutch UI reform of October 2006 reduced the average entitlement period with four months. Simulations based on the empirical results indicate that if this reform had been implemented one year earlier, the governmental expenditures on UI benefits would have been reduced by 86 million euros, which is a reduction of 3.1 percent. At the same time, the cumulative earnings from employment would have increased with 182 million due to increased job finding. The total income of
individuals who entered UI in the year before the reform would have increased with 96 million euros, which is an increase of 0.6 percent.

Although the empirical results suggest that a shorter UI entitlement period increases both job finding and the average cumulative income without decreasing job quality, this does not necessarily mean that all unemployed workers are better off with a short entitlement period. Shorter entitlement periods can also imply that more unemployed workers exhaust their UI benefits and suffer a drop in income after UI exhaustion. Moreover, the effects of the UI entitlement period are heterogeneous and appear to be most substantial for those with already relatively short entitlement periods. If the UI entitlement period becomes too short, the UI benefits fail to act as a search subsidy and unemployed workers can be forced to accept a less suitable job or suffer an income loss.

Chapter three studies the effect of firm experience rating on DI inflow and DI outflow. It exploits the removal of experience rating for small firms between 2003 and 2007 in a difference-in-difference design. The estimation results indicate that before 2005 - when the sick leave period preceding DI benefits was equal to one year - the removal of experience rating increased the DI inflow and reduced the DI outflow for workers of small firms. The total DI stock in 2004 was about 0.4% larger because of the reform.

However, the effects of DI experience rating seem to depend on the institutional setting. For example, the cap that was used for the experience-rated premiums had substantial disincentive effects. Firms paying the maximum premium had higher DI inflow rates and lower DI exit rates, suggesting that they responded to the absence of prevention and reintegration incentives (at the margin). In addition, after the sick leave period was extended from one to two years, there is no evidence suggesting that DI experience rating affects DI inflow or outflow. Because firms are already financially responsible for the sick leave period preceding DI benefits and that these costs are generally substantially larger than the experience-rated premium, the additional incentive of DI experience rating no longer seems to contribute to lower DI rates.

Policymakers often argue that with DI experience rating firms may have to bear financial risks that are beyond their scope of control, particularly benefit costs that stem from non-occupational diseases or worker moral hazard. This could cause financial distress amongst firms, but it could also lead to strategic behavior of firms to avoid future costs. Chapter four investigates whether increases in the experience-rated DI premium have an effect on firm exits, layoffs and substitution to other
social security schemes. To disentangle the effect of the disability risk from the effect of the experience-rated premium, it exploits exogenous variation in the mapping of disability risks to DI premiums over the years.

In line with the expectations of policymakers, the estimation results indicate that a positive premium adjustment due to experience rating increases the probability of a firm exit. In particular, an upward adjustment of the DI premium of one percentage point increases the probability of a bankruptcy with 0.44 percentage point and the probability of a merger with 0.20 percentage point. While bankruptcies are signals of financial distress, mergers point at strategic behavior of firms, as firms start paying the minimum premium again after they move to another firm. The findings also suggest that a premium adjustment increases the inflow into UI. Most of this effect is driven by layoffs of firms that exit the market. There is no evidence of substitution of workers with health problems to the not-experience-rated DI scheme.

Combined with the results from chapter three - especially the absence of effects of DI experience rating on DI inflow and outflow after 2005 - one may argue that the positive effects of the experience-rated premium on firm exits and inflow into UI are reasons to remove the incentive of DI experience rating. At the same time, however, it should be stressed that the vast majority of firms has gained from experience-rated premiums, as they paid minimum premiums only. Therefore, more research is needed to come to an overall assessment of the welfare implications of DI experience rating.

The last chapter evaluates the effects of STEP, a job search program targeted at older unemployed workers. In a large-scaled randomized experiment which involved around 50,000 individuals, job seekers who were randomly assigned to the treatment group are invited to participate in STEP while job seekers in the control group do not receive an invitation. The results show that participating in STEP increases the outflow from UI of older job seekers. In particular, their probability to exit UI within one year is increased with 4.4 percentage points and most of this outflow is to work. Considering a longer time window of 18 months the estimated effect on UI outflow persists while the effects on employment become insignificant. This implies that STEP leads to faster job finding instead of additional job finding.

The returns of the program - measured as the reduction in cumulative UI benefits - exceed the costs of the program. For every participant, STEP earns roughly €250 in the first eighteen months of UI. At the same time, the total income of participants is not affected by participating in STEP, as they substitute UI benefits with earnings from employment. Despite these positive effects of STEP, policymakers should consider for which job seekers the program becomes available. For example, the
program is not effective for individuals with at most vocational education. These job seekers are also less likely to participate in STEP, which means that caseworkers were successful in providing STEP to job seekers who would benefit more from the training.