



Motivation of “Ezio Tarantelli” Prize 2020

“The Medium-Term Effects of Unemployment Benefits”

Vincenzo Scrutinio

The paper by Vincenzo Scrutinio uses rich and novel administrative data from Italy to study the effects of potential benefit duration (PBD) on labour market outcomes (employment status, job quality, wages and job tenure) over 4 years after layoff. This paper presents several strengths:

- it uses good administrative labour market data, which is finally available also in Italy thanks to INPS (VisintINPS program);
- it leverages an institutional feature of the Italian unemployment benefit system, namely an age discontinuity, to estimate the medium-term causal effects of unemployment benefits;
- it contributes to an already well-developed literature, concluding that in the medium term, the employment costs of longer unemployment benefits duration may be lower than the estimates commonly reported in the literature.

More in detail, to obtain causal estimates, the identification exploits an age at layoff rule, which determines a 4-month increase in potential benefit duration if the worker is fired after turning 50 years old. Workers with longer potential benefit duration spend more time on unemployment benefits and in nonemployment before finding a new job. They are also slightly more likely to find a permanent and full-time contract. Over the 4 years following layoff, however, the difference in time spent in nonemployment between workers with shorter and longer benefits is substantially reduced. Frequent transitions between employment and nonemployment, and a faster transition of workers with longer benefits towards new firms explain this discrepancy. These findings are important from a policy perspective as they suggest that classical measures of the cost of unemployment benefits tend to overestimate the negative employment effects of potential benefit duration.

The AIEL executive board believes that the paper is highly deserving of the Tarantelli Prize since it has all the characteristics that recent good empirical research in labour economics has. It uses very *good administrative* data on the whole Italian population, and a *credible estimation strategy* to investigate a very *policy-relevant issue*. In particular, the findings are very important for policy making. The paper shows that workers with longer PBD close relatively quickly the gap in employment with respect to workers with shorter durations. This is related to both frequent transitions between employment and nonemployment and to faster transitions of workers with longer PBD towards a second job afterwards. This finding is crucial from a policy perspective as it suggests that standard estimates of the negative effects on employment of benefit duration overestimate the actual costs of longer PBD and may lead to too short optimal durations.