Institut für Arbeitsmarkt- und Berufsforschung

Die Forschungseinrichtung der Bundesagentur für Arbeit

IAB-Colloquium

zur Arbeitsmarkt- und Berufsforschung

Einladung 12/2015

When the Going Gets Tough... Reducing Benefits in the Aftermath of the Great Recession

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In the aftermath of the Great Recession, the Spanish government reduced the replacement rate (RR) from 60 to 50 percent after 180 days of unemployment for all spells beginning on July 15, 2012. Using Social Security data and a Differences-in-Differences approach, we find that this reform increased the job-finding rate by 27%. To put it differently, it reduced the mean expected unemployment duration by 6.2%, implying an elasticity of 0.37. We find strong behavioral effects as the reform reduced the expected unemployment duration right from the beginning of the unemployment spell, 26 weeks before the reduction in benefits actually took place. In addition, the reform did not lowered wages or pushed workers to accept lower quality jobs, suggesting that it increased workers' search efforts. After 15 months, the reform reduced unemployment insurance expenditures by 12%, two fifths of which are explained by job seekers' behavioral changes.

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