

Unemployment Insurance Generosity in the Period of Crisis: the Effect on Post-Unemployment Job Quality

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Abstract

Search theory predicts that the hazard to leave unemployment into employment rises when the end of the benefit period approaches, because unemployed people increase their job search intensity and also their reservation wage declines. Extensions of search theory predict that more generous unemployment benefits might increase post-unemployment job quality by relaxing the restrictions on job search and allowing people to search for a job longer. The current study explores whether at least partly the increase in the hazard rate in the end of benefit period stems from people becoming less selective and accepting jobs with lower quality i.e. with lower wage. The study uses recent data from the deep recession period for unemployment insurance benefit recipients in Estonia. The estimations show that a rise in the hazard to enter employment is always accompanied by accepting a larger drop in the wage i.e. a decrease in post-unemployment job quality.