

The Effect of Unemployment Insurance Eligibility in Equilibrium *

Ying H. Chao[†]

University of Wisconsin, Oshkosh

Benjamin S. Griffy[‡]

University at Albany, SUNY

David Wiczer[§]

Stony Brook University

First version: Sept. 2022
This version [PRELIMINARY]: Jan. 2023.

Abstract

In the U.S., workers whose past earnings were below a threshold are ineligible to receive unemployment insurance (UI), which creates a discontinuous jump in their value of being unemployed. Exploiting this in a regression discontinuity design using administrative panel data, we estimate a sizable local effect from UI eligibility on earnings in the next employer, around \$300 or roughly 10% of quarterly earnings. This evidence of a UI treatment effect on re-employment outcomes, however, understates UI's causal effect and does not distinguish between underlying reasons, either a higher share of production or more productive matches. With both a tractable equilibrium and calibrate quantitative model, we interpret the quasi-experimental estimates in the context of endogenous non-compliance and search direction choices. The empirical estimates understate the true causal effect by 4.4% and this high pass-through of UI to earnings implies a low trade-off of between wage and finding rate, essentially very low bargaining power.

Keywords: Unemployment Insurance, Directed Search, Earnings

JEL: E24, E30, J62, J63, J64.

*We would like to thank Serdar Birinci, Eliza Forsythe, Fatih Karahan, Rasmus Lentz, Amanda Michaud, Kurt Mitman, Daphné Skandalis and seminar participants at the “Welfare and Inequality in the 21st Century” LAEF Conference (University of California - Santa Barbara) October 2021, Society of Economics Dynamics 2022, and the COCONUTS Virtual Search and Matching Workshop. We would also like to thank David Fuller for his generosity in sharing Unemployment Insurance Benefit Accuracy Measurement (BAM) data with us.

[†]Correspondence: Department of Economics, University of Wisconsin Oshkosh, 800 Algoma Blvd, Oshkosh, WI 54901. Email: chaoy@uwosh.edu.

[‡]Correspondence: Department of Economics, SUNY Albany, Room BA110, 1400 Washington Ave., Albany, NY, 12222. Email: bgriffy@albany.edu. Web: <https://www.bengriffy.com>

[§]Correspondence: Department of Economics, Stony Brook University, 100 Nicolls Rd, Stony Brook NY, 11794. Email: david.wiczer@stonybrook.edu.

1 Introduction

Unemployment spells are among the largest economic risks households face. Earnings are scarred, often permanently, human capital is lost, and workers may only regain employment at a less desirable occupation. Unemployment insurance (UI) is intended to mitigate these risks and, for many workers, UI offers vital income replacement. However, a significant fraction of the unemployed are ineligible and enter unemployment without the possibility of this buffer. Those ineligible workers are often among the most vulnerable to consumption risk because their ineligibility stems from earnings that were too *low* prior to separation. One in five workers in covered employment are ineligible because their annual earnings fall below a minimum threshold. With a limited ability to self-insure by drawing on savings, these low-income workers are exposed to significant consumption risk because of they are ineligible for UI.

In this paper, we address a crucial question: does UI improve earnings and employment outcomes? To answer this question, we exploit eligibility thresholds by income in a large administrative dataset to estimate the local, causal effect of UI eligibility. Then we construct an equilibrium directed search model with a detailed UI system to account for workers who are eligible, but never claim UI. In tandem, we show that eligibility has a sizable effect on earnings, particularly for workers at the margin.

Our empirical approach uses administrative data from the Longitudinal Employer-Household Dynamics (LEHD) dataset and a regression discontinuity design (RDD) to provide quasi-experimental evidence on the lost future earnings due to ineligibility. This dataset offers highly detailed earnings and employment data across 17 states from 1997-2014. Using the exact earnings criteria for eligibility, we look at re-employment earnings just below and just above state-level cut-offs. This identification strategy contrasts with other RDD-based estimates such as [Nekoei and Weber \(2017\)](#) or [Schmieder et al. \(2016\)](#) in that the treatment is on the extensive margin and the local effect is among workers with a higher marginal utility who are likely to exhibit a large response from UI receipt.

Our findings show a remarkable endorsement of the effectiveness of UI: we find a discontinuous jump of about \$300 in income during the next full quarter of employment. This \$300 is an increase of nearly 10% of quarterly re-employment earnings at the eligibility threshold. Our estimate is conservative: we do not directly observe UI receipt and those with no intent to claim likely do not vary across the threshold. This means that we likely understate the full effect of UI eligibility.

We construct a frictional model of the labor market to address this attenuation. We build on a canonical [Acemoglu and Shimer \(1999\)](#) or [Menzio and Shi \(2010\)](#) framework, incorporating a detailed UI system into an equilibrium directed search model with match-specific differences. In the model, workers search for jobs posted by firms. These jobs offer a fixed hourly wage, but subsequently hours vary due to idiosyncratic shocks. As a result, workers with identical wages may receive different earnings. These difference in earnings may

affect the workers eligibility for UI. Production in this economy is subject to idiosyncratic shocks, and firms must pay a fixed operating cost which is distinct from the wage each period. This causes firms to occasionally fire workers when productivity drops too low. Workers may also quit when employment is less valuable than returning to unemployment and searching for a new job. These features allow us to account for both key dimensions of UI eligibility: income and separation without cause.

2 Related Literature

This paper relates to the ample of empirical papers that document the treatment effect of unemployment insurance on workers' labor market outcomes and especially recent work on how the system can affect people differently, e.g. [Skandalis et al. \(2022\)](#). To get clean identification of the effect of UI policy, several exploit these differences in the form of natural experiments using regression discontinuity design. In the 1990s, [Card and Levine \(2000\)](#) utilized a discontinuity in the UI policy in New Jersey, USA. of a six-month extended benefit in 1996 and found that the program has a very modest effect on the UI claimants. [Lalive and Zweimüller \(2004\)](#) found a negative effect on transition rate (17%) after accounting for endogeneity of a unique policy change in Austria that prolonged UI duration from 30 weeks to 209 weeks. Similarly using policy design in Austria, [Card et al. \(2007\)](#) studied sharp discontinuity in eligibility for severance pay and extended unemployment insurance and found a negative effect on the job-finding rate (5-9%) of UI extension.

However, only a small fraction of the literature considers the effect of UI on other labor market outcomes such as match quality and post unemployment wage. Furthermore, the findings of these papers are mixed. [Centeno \(2004\)](#) showed that the more generous UI is, the longer job tenure is (i.e., the higher match quality is). [Ehrenberg and Oaxaca \(1976\)](#) uses National Longitudinal Survey (NLS) and found a positive effect of UI benefit level on average wage using cross-sectional variation in replacement rate. However, their result cannot be generalized due to the limitation of the data. [Griffy \(2021\)](#) reaches a similar conclusion using more recent data from the Survey of Income and Program Participation (SIPP) and between-state variation in replacement rates over time. He finds a positive effect on re-employment earnings and a negative effect on hazard rates, but lacks a natural experiment and faces the same endogeneity concerns addressed in this paper. [Addison and Blackburn \(2000\)](#) acknowledged the lack of research on the effect of UI on post unemployment wage outcomes and aimed to provide new estimates using Displaced Worker Survey in the period of 1983-1990. They found little evidence of a positive effect of UI on wage. However the data only includes UI claimants and so it is not a causal estimate.

Recently, [Schmieder et al. \(2013\)](#) uses quasi-experiment of UI policy changes in Germany to estimate the causal effect of extended UI duration on wage offers. Their estimate suggests a small and negative effect of UI extension on post unemployment wage. Nevertheless, by the nature of the design, the sample is

limited to those who are at the longer end of the UI duration.

3 Data

We begin by describing our data sources and their unique features that enable our empirical approach. We construct a panel of state-level UI laws, which includes eligibility requirements. We combine this panel with administrative data from the LEHD.

3.0.1 Unemployment Insurance eligibility requirements

Unemployment insurance is a progressive, conditional transfer program intended to provide consumption insurance for workers who lose their job. For recipients, UI replaces a fraction of previous income (typically around 50%) up to a maximum weekly amount. Not all workers who separate are eligible, however. In order to be eligible, a prospective applicant must have experienced a no fault job loss and have earned a minimum amount in qualified employment during the "base period," which typically constitutes the 4 quarters prior to job loss. This final stipulation may appear innocuous, but is crucial for our exploration.

Despite relatively low requirements, income eligibility is a relevant consideration for a large number of potential claimants. While the level of this threshold varies between is small in the overall distribution of earnings, it considerably higher in the job losers' distribution of earnings: on average, about $\frac{1}{5}$ of workers who lose their job earned less than this amount in qualified employment during the base period. Yet, many workers deemed "monetarily ineligible," having earned less than the minimum, still claim: monetary eligibility requirements account for about half of the rejections of initial claims, while the majority of the remaining fail to meet the no fault requirement. And among those who are ineligible and claim, many are still successful and receive UI. The reasons include a lack of enforcement and variability in laws over time and between states.

While UI is federally mandated, states are allowed to set their own rules for eligibility and provisions for generosity. Replacement rates and maximum benefits vary, and many states include additional eligibility requirements, like a minimum for the highest earning quarter during base period. Crucially, while some states do create additional eligibility requirements, all create a threshold for minimum earnings over the "base-period." ¹

There is still variation between states in minimum levels of income for eligibility. We plot the distribution of these in Figure 1. While these differences reflect local wage levels to some extent, their dispersion is far larger than that of the state-level wages.

We use these eligibility cut-offs to determine the effect of UI eligibility on re-employment outcomes. (cut?)These multiple thresholds are both a help and

¹In almost all states, this is defined as the first four of the past five quarters so that it doesn't include the quarter of the separation.

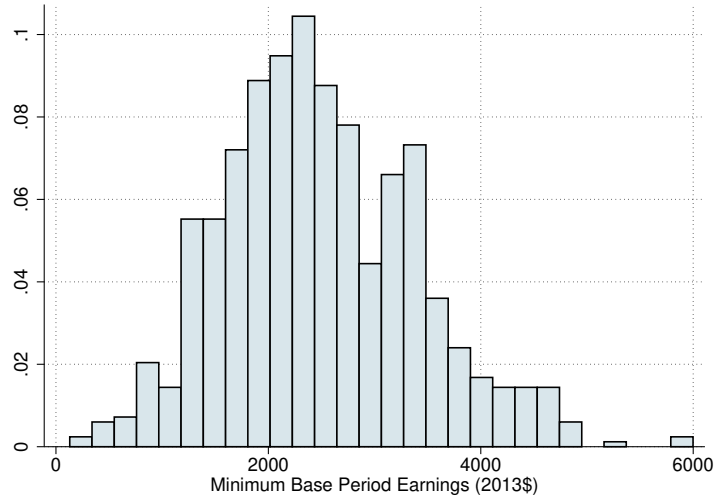


Figure 1: Distribution of state-year base period thresholds.

hindrance. In our baseline analysis, we will normalize our running variable to be percent deviations from the income eligibility threshold in a separator’s state. We then also present evidence that the threshold is significant even after conditioning on prior earnings, which now may differ across treatment categories. In further analysis we adjust for different local price-levels and then use multiple-cutoff methods to generalize slightly from our local effects. This is made possible by using these cut-offs in concert with highly accurate administrative earnings data.

3.0.2 Data on workers’ earnings history

To track each worker’s earning history prior to separation and after re-employment, we use data from the Census Bureau’s Longitudinal Employer-Household Dynamics (LEHD) program. The LEHD is administrative data on covered earnings collected by the states and used in their unemployment insurance systems to determine eligibility. This is crucial for our application: because it is administrative data, it abrogates many of the measurement error concerns to which we would be subject in survey data. And because it includes *all* covered employment, we are able to very precisely determine whether an individual is monetarily eligible when they separate. In addition to earnings it includes important job and individual characteristics, like state of employment, industry, occupation, tenure, sex, age and imputed education, and race. These features make it a nearly ideal dataset to study the impact of UI eligibility.

Despite its advantages, the LEHD does have some short-comings. Ironically, although it is the data used in state UI systems, it does not include data on UI receipt or application. In addition, it is constructed from quarterly data,

which limits our ability to track employment transitions at the same frequency as some available surveys. While these are both noteworthy limitations, our highly accurate earnings data along with the quarterly structure of state UI systems lend credence to the validity of our results. And as we discuss, any mis-classification of treated and un-treated groups is likely to bias our findings downward, meaning we are likely to understate the size of any effect.

We follow standard restrictions when constructing out LEHD sample. We create a panel following individuals in 17 states over the period of 1997-2014.² From this super-sample that represents approximately 40% of the U.S. labor force over this period, we draw a random 2% sample of individuals, maintaining the panel dimension for these individuals. The panel dimension allows us to identify separations and the resulting unemployment spells, using the approach from [Gregory et al. \(2021\)](#). This approach identifies a separation any time we observe one of three joint earnings and employment outcomes: first, if there is a full quarter of non-employment; second, if two employers abut but without a quarter in which both pay simultaneously; and third, if two employers abut with a quarter of overlapping pay, but which is lower than the minimum of the two adjacent quarters. The first case is unambiguously a separation into unemployment whereas the latter two attempt to separate job-to-job transitions from transitions through unemployment.

We use the state laws collected in section to calculate base-period earnings exactly as they would be calculated by state UI systems. Although the quarterly frequency of the LEHD seems like it could potentially inhibit our ability to accurately calculate earnings over the year prior to separation, a consistent idiosyncrasy of state UI laws proves highly beneficial: all states determine UI monetary eligibility by calculating income over *completed* quarters prior to separation, which solves this problem to the extent that we accurately classify separations. State UI systems calculate base-period earnings by adding up the earnings in all covered employment over the year prior to the last complete quarter of employment. Though the LEHD does not include some earnings from employment that is not covered by UI, e.g. at the Federal government, the structure of state UI systems again assists our approach: any earnings in non-covered employment also should not be included in base-period earnings calculations. We plot our calculated base-period earnings in the from zero to the highest state eligibility thresholds in [Figure 2](#). Although there is a spike near zero, there is no apparent bunching at any state eligibility threshold. We test this with a test akin to McCrary’s manipulation test. For this the test statistic is -1.4 and P-value 0.162. This means we cannot reject that the distribution is smooth in the location of the cutoff. Put another way, we cannot conclude there is manipulation, that workers cluster just over the threshold.

²The 17 states are California, Colorado, Hawaii, Idaho, Illinois, Indiana, Kansas, Maine, Maryland, Missouri, Montana, Nevada, North Dakota, Tennessee, Texas, Virginia and Washington.

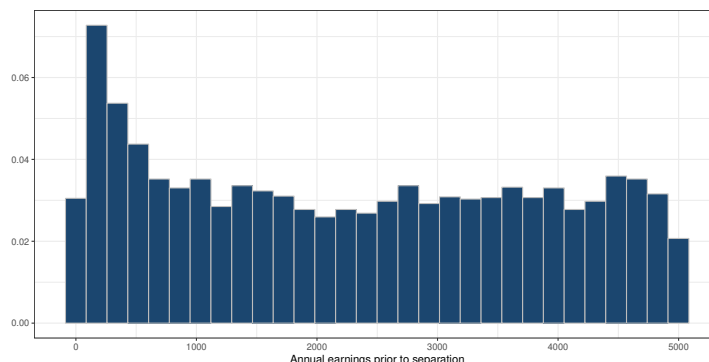


Figure 2: Histogram of base-period earnings prior to separation.

3.1 Benefit Accuracy Measurement Data

The Unemployment Insurance Benefit Accuracy Measurement (BAM) is a survey conducted by the department of labor to provide a comprehensive assessment of the accuracy of the unemployment insurance, assess improvements in program accuracy and integrity, and encourage more efficient administration of the program. Based on the survey designed of BAM, the finding of BAM should be consistent with official rules and written policies of the Federal and State Workforce Agency (SWA). Each week, each state is required to provide a weekly representative sample of paid claims (PCA), incorrect payments (Error), and disqualifying determination (DCA). Then, each provided individual is surveyed. As a result, with BAM, we will be able to observe invaluable information on surveyed individuals regarding their past earnings at base-period before and after the investigation (thus, improper payments), demographic characteristics (gender, age, occupation, education), employment history (job before application, employer before applications), job search behavior, and rejection reasons (Monetary, separation, and non-separation reasons).

4 Empirical evidence on the effect of UI eligibility

In this section we provide quasi-experimental evidence on the impact of unemployment insurance eligibility on workers' search behavior. We exploit a discrete cut-off in UI eligibility created by minimum previous income requirements as a source of variation for a regression discontinuity design (RDD). We use this RDD to document three key facts: First, UI eligible workers experience a 10% increase in earnings upon re-employment. Second, there is little or no difference in subsequent employment duration among eligible and ineligible workers. Third, for nearly and barely eligible workers, exposure to UI eligibility appears to be random. We start by describing our data, the longitudinal employer-household

dynamics (LEHD) dataset from the Census Bureau. Then, we discuss our research design and our findings. Last, we describe the implications of our findings for models of labor market search.

4.1 Discontinuity-based evidence on the earnings effect of UI eligibility

With the earnings data from the LEHD, we create a running variable in the RDD estimate. To normalize across states and years, we convert base-period earnings into a percent deviation from the state- and year-specific threshold. Let base-period earnings be $B_{i,t}$ for individual i in quarter t , which is the quarter or the separation. The threshold is given by $\underline{B}_{s(i,t),y(i,t)}$, indexed by the state s in which i resides during quarter t and year y , which corresponds to quarter t . Then we define the percent of the threshold as $\frac{B_{i,t} - \underline{B}_{s(i,t),y(i,t)}}{\underline{B}_{s(i,t),y(i,t)}}$. Most of our analysis will focus on 25% deviation, $-0.25 \leq \frac{B_{i,t} - \underline{B}_{s(i,t),y(i,t)}}{\underline{B}_{s(i,t),y(i,t)}} \leq 0.25$. On the left side of the cutoff that domain includes about 132,000 observations and the right side includes 101,000 observations.

As the dependent variable, define $y_{i,t}$ as the earnings in the first full quarter of re-employment. Note, t again refers to the quarter of the separation although these earnings occur at some date in the future. Figure 3 provides graphical evidence of the threshold effect. We include estimates of a 4-th order polynomial on either side of the threshold estimated over a domain of 25% above and below. The open circles are the binned scatter, average re-employment earnings in a bit optimally chosen by the methods of [Calonico et al. \(2019\)](#).

In our main specification, Equation 1, the coefficient of interest is that of the dummy for base-period earnings above the threshold. On either side, the regression has separate local polynomial regressions on $\frac{B_{i,t} - \underline{B}_{s(i,t),y(i,t)}}{\underline{B}_{s(i,t),y(i,t)}}$ characterized by vectors of parameters ψ_L, ψ_R for negative and positive values. We also include dummies for the state of separation and the period t . Because the threshold actually represents different values of the base period earnings, we also include $B_{i,t}$ as a separate covariate.

$$y_{i,t} = \mathbb{I}(B_t \geq \underline{B}_{s,y}) f\left(\frac{B_t - \underline{B}_{s,y}}{\underline{B}_{s,y}}, \gamma_R\right) + \mathbb{I}(B_t \leq \underline{B}_{s,y}) f\left(\frac{B_t - \underline{B}_{s,y}}{\underline{B}_{s,y}}, \gamma_L\right) + \beta B_{i,t} + D_y + D_s + \epsilon_{i,t} \quad (1)$$

The jump we observe is our coefficient of interest γ given by

$$\gamma = \lim_{B_t \rightarrow^+ \underline{B}_{s,y}} E \left[f\left(\frac{B_t - \underline{B}_{s,y}}{\underline{B}_{s,y}}, \gamma_R\right) \mid \cdot \right] - \lim_{B_t \rightarrow^- \underline{B}_{s,y}} E \left[f\left(\frac{B_t - \underline{B}_{s,y}}{\underline{B}_{s,y}}, \gamma_L\right) \mid \cdot \right]$$

Table 1 shows the estimates for our treatment effect γ , which is just over \$300 in 2013 US dollars. The bandwidths of the local polynomials are chosen independently on the left-hand and right-hand side following the data-driven

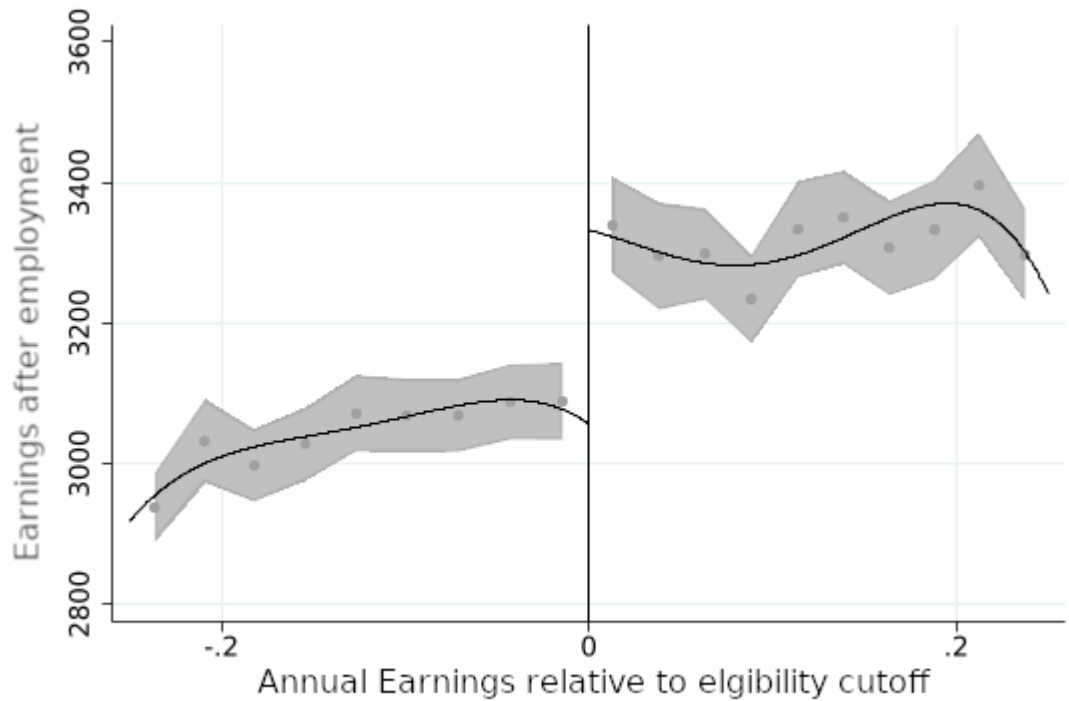


Figure 3: Annual earnings prior to separation as a percent deviation from the state eligibility cutoff against earnings in the next job. Binned scatter and 4th-order polynomial fit.

procedures of [Imbens and Kalyanaraman \(2012\)](#) We use the bias-correction methods presented in [Calonico et al. \(2014\)](#). The row uses the non-parametric bias-corrected estimator for the treatment effect, with the second estimator combines the bias-correction with robust standard errors. In the first and third column we are estimating without controls for the income level. In the second and fourth we include income controls, which is feasible because the eligibility cutoff differs across states.

4.2 Discontinuity-based evidence on the employment effect of UI eligibility

The earnings discontinuity could be caused either by differences in employment rates after re-employment or by differences in wages, and the two have potentially different economic interpretations. Relatedly, the very low earnings of workers near the eligibility threshold could be because of low base-period employment rates or low base-period wages. In this subsection, we disentangle this

| Dependent | $y_{i,t}$ | | $\frac{y_{i,t}}{B_{s,y}}$ | |
|--------------------|-------------------|--------------------|---------------------------|--------------------|
| | (1) | (2) | (3) | (4) |
| Bias-Corrected | 318.92 (67.47) | 276.913 (69.22) | 0.102 (0.0351) | 0.0970 (0.0328) |
| Robust | 318.92 (80.81) | 276.913 (82.71) | 0.102 (0.0415) | 0.0970 (0.0393) |
| With B_t control | | X | | X |

Table 1: Causal effect of UI receipt in 2013\$ or as a fraction of cutoff. Standard errors in parenthesis

using evidence from the LEHD and from the BAM.

The quarterly frequency of the LEHD, while better than much administrative earnings data and ideally suited to measure base-period earnings, is somewhat of a challenge to observe potential high-frequency moves into and out of non-employment. The BAM gives us direct measures of weeks employed during the base-period, but does not observe re-employment outcomes as we do in the LEHD. Hence, this section uses data from both, augmenting low-frequency employment rates before and after the spell with high frequency employment before.

Figure 4 shows the LEHD-derived employment rates prior to and after the unemployment spell as a function of base-period earnings. For example, those whose base-period earnings were two-times the state eligibility threshold were employed for about three of four quarters in the base-period and employed for nearly 90% of quarters in the year after re-employment. To interpret this figure, note it orders people by base-period earnings, which will be closely related to employment, and hence the red line almost has to be increasing sharply. That the re-employment line is far flatter partly because of mean reversion and partly because it only begins counting employment after the new job is found. The figure allows a break in re-employment earnings at the eligibility cutoff, fitting local linear fits independently on either side of the threshold. The jump after re-employment is only about 0.4pp: a minimal increase in employment at the threshold that is statistically indistinguishable from zero.

4.3 Observable characteristics and continuity at the cutoff

Of course, these estimators all rely upon continuity across the the cutoff and, that workers are not endogenously choosing to be above or below. This amounts to testing for manipulation and bunching of the distribution of the running variable.

To begin addressing these concerns, Table 2 shows several characteristics and their standard errors for a window of 2% in the running variable above and below the cutoff. Along most of the demographic dimensions that we can observe in the LEHD, there is little economically meaningful difference between those above and below the threshold. Of particular interest is the tenure variable,

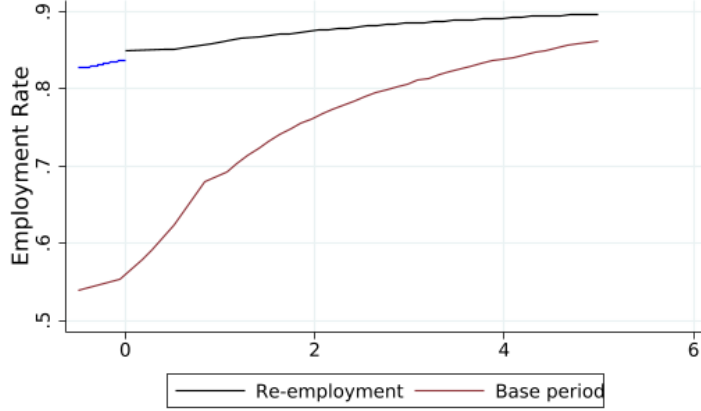


Figure 4: employment rates prior to and after the unemployment spell as a function of base-period earnings relative to state eligibility cutoffs.

which is calculated as the number of quarters their prior job lasted. Somewhat surprisingly, those under the threshold actually have slightly longer tenures. If the threshold were selecting “worse” workers below it, we would expect the opposite relationship.

| | Born | Tenure | College | Female | Non-white | Employment |
|-----------------------------|--------------------|------------------|-----------------|-----------------|-----------------|------------------|
| $B_t < \underline{B}_{s,y}$ | 1973.63 (0.058) | 12.85 (0.099) | 0.49 (0.002) | 0.54 (0.002) | 0.37 (0.002) | 0.54 (0.0015) |
| $B_t > \underline{B}_{s,y}$ | 1973.06 (0.065) | 12.48 (0.112) | 0.49 (0.002) | 0.53 (0.002) | 0.36 (0.002) | 0.51 (0.0017) |

Table 2: Characteristics within 2% of $B_{i,t} = \underline{B}_{s,y}$. Standard errors in parentheses.

The goal of this regression discontinuity design is to estimate the treatment effect of UI on the employment outcomes of unemployed workers. The regression discontinuity design has several advantages over looking at more aggregated data, like differences in outcomes for UI recipients and non-recipients, because at the threshold we can see exogenous variation in access to the program rather than the endogenous decision to take up the payments or not. However, the estimators can not be interpreted directly as the pure treatment effect of the UI program for several reasons. In this section, we discuss them and foreshadow how the model in Section 5 can be used to address them.

4.4 Interpreting the estimated treatment effects

While our empirical findings credibly establish that UI affects employment outcomes, it is a “fuzzy” regression discontinuity and so further interpretation is needed. First, our estimates cannot be interpreted as the “pure” treatment effect of UI on workers because many that are eligible do not comply and many that are above the earnings eligibility are ineligible for other reasons. Neither of these can be seen directly at the individual-level in the LEHD. Further, we cannot determine the sources through which UI affects earnings: we require a model to understand the degree to which these earnings gains reflect improvements in match quality or higher worker selectivity. In this section, we relate our findings to the underlying worker decisions and describe how these effects guide our subsequent construction of our model.

We start by describing how the decisions made by workers affect our estimates. The most obvious channel is through endogenous non-compliance in take-up by workers. Workers above the income threshold may choose not to take-up UI, while workers below the income threshold may claim and take-up UI if they are mistakenly deemed eligible. The cumulative effect of non-compliance is composed of three factors: the cause of separation, whether an individual claimed UI, and whether the UI agency accepted their claim. Prior to their unemployment spell in which they are observed, our workers face a decision to quit or not. This decision depends on their base period income as well as the impact that this decision will have on their likelihood of UI receipt. If they quit or they are fired, our workers must choose whether or not to apply for UI benefits. This is a costly process: applying involves spending time contacting the agency and collecting the required documents. Both of these decisions are affected by the probability that the state department of labor will accept their application, given their base period income and quit eligibility.

| | Ineligibility | Non-claiming |
|----------------|---------------|--------------|
| Non-Compliance | 0.405 | 0.434 |
| Implied effect | 536.55 | 946.20 |

Table 3: The underlying treatment can be 2 – 3× the raw coefficient

5 Tractable model of take-up and match quality

This section describes an economy with UI eligibility, endogenous take-up, and heterogeneous match quality. We begin with a simple, analytically tractable model to illustrate concepts and then present the full quantitative model. The model is intended to present a simplified version of the quantitative one in which we establish the main mechanisms at play: UI treatment (i) can affect either match quality or rents for the worker and (ii) may or may not be the same for noncompliers.

Consider a one-period economy in which workers begin unemployed, and firms post vacancies to hire them. Before making decisions regarding the search, the workers will choose to apply for unemployment insurance or not. An application costs ϕ and will be successful with probability ξ . They receive flow utility b if the application is successful and η if it is unsuccessful or they do not claim.

If a match forms, it produces $z \in (0, 1]$, distributed according to $F(z)$, and pays the worker wz . Matches are formed in a frictional labor market with tightness θ and posting cost $z\kappa$ workers and firms face finding rates $p(\theta) = \theta^{1-\alpha}$, $q(\theta) = \theta^{-\alpha}$, respectively. Search is directed. Workers choose a submarket indexed by w, θ . After a vacancy and a worker match, z is revealed to workers, so they also must choose a lower threshold for acceptable match qualities, \check{z} .

We will explore two scenarios, one in which ϕ differs across workers and the other in which η does. These two distributions will be G_ϕ, G_b . The workers' problem can be described in

$$U(\phi, \eta) = \max_{\ell \in \{0, 1\}} \ell \left\{ \xi (\max_{w, \check{z}} pw \int_{\check{z}}^1 z dF(z) + (1 - p(1 - F(\check{z})))b) \right. \quad (2)$$

$$\left. (1 - \xi) (\max_{w, \check{z}} pw \int_{\check{z}}^1 z dF(z) + (1 - p(1 - F(\check{z})))\eta) - \phi \right\} \quad (3)$$

$$+ (1 - \ell) \left\{ \max_{w, \check{z}} pw \int_{\check{z}}^1 z dF(z) + (1 - p(1 - F(\check{z})))\eta \right\}. \quad (4)$$

Firms post vacancies in submarkets that are specific to receipt or non-receipt and are z -, ϕ -, and η -specific. Denote this whole vector of characteristics as s . Because of free-entry, the value of any of these vacancies is 0. The value of such a vacancy is

$$V(s) = z(-\kappa + q(\theta(s))(1 - w(s))), \quad (5)$$

which implies a functional relationship between p and w that workers face for any ϕ, η and receipt or non-receipt, as in

$$1 - p^{\frac{\alpha}{1-\alpha}} \kappa = w. \quad (6)$$

Turning back to the solution to the workers' problem, then we denote the wage, finding rate and z -threshold choices of a worker who receives UI as $w_R(\phi, \eta), p_R(\phi, \eta), \check{z}_R(\phi, \eta)$ and the wage and z -threshold choices of a non-receiver as $w_N(\phi, \eta), p_N(\phi, \eta), \check{z}_N(\phi, \eta)$. The optimal decisions can be expressed as $\check{z}_x(\phi, \eta) = \int_{\check{z}_x(\phi, \eta)}^1 t dF(t) / (1 - F(\check{z}_x(\phi, \eta)))$.

From solving the above problem, a worker claims UI ($\ell = 1$) if the value of receiving UI is greater or equal to the value of not receiving UI, as in

$$U_R(\phi, b) \geq U_N(\phi, \eta) \Leftrightarrow \max_{p, \tilde{z}} p w \int_{\tilde{z}}^1 z dF(z) + (1 - p(1 - F(\tilde{z})))b - \frac{\phi}{\xi} \quad (7)$$

$$\geq \max_{p, \tilde{z}} p w \int_{\tilde{z}}^1 z dF(z) + (1 - p(1 - F(\tilde{z})))\eta. \quad (8)$$

From (7), we show that the heterogeneity can drive the difference between the true and observed treatment effect in ϕ or η . Moreover, the true treatment will only be inflated by non-compliance through G_ϕ and not G_η . In the first of the two scenarios where $\phi \sim G_\phi$, the observed treatment can be expressed as

$$\widehat{\Delta w} = \int_{\phi} (w_R(\phi) - w_N) \mathbb{I}_{U_R(\phi) \geq U_N} dG_\phi(\phi), \quad (9)$$

and the true treatment can be expressed as equation

$$\Delta w = \frac{\int_{\phi} (w_R(\phi) - w_N) \mathbb{I}_{U_R(\phi) \geq U_N} dG_\phi(\phi)}{\int_{\phi} \mathbb{I}_{U_R(\phi) \geq U_N} dG_\phi(\phi)}. \quad (10)$$

In the second scenario where $\eta \sim G_\eta$, the observed and the true treatment can be expressed as

$$\widehat{\Delta w} = \int_{\phi} (w_R - w_N(b_N)) \mathbb{I}_{U_R \geq U_N(b_N)} dG_b(b_N). \quad (11)$$

Observing higher post-unemployment wage in the data can be translated into two things: the match quality and the surplus of the match is higher, thus a higher payoff. Or, workers have higher outside options (having access to UI) to extract more of the surplus. One of the key advantages of having a model is to further decompose the causal effect of UI take-up on post-unemployment wage into better match quality and higher rents. In

$$w_x(\phi, \eta) \tilde{z}_x(\phi, \eta) = \alpha \tilde{z}_x(\phi, \eta) + (1 - \alpha) b_x \quad , x = \{R, N\}, \quad (12)$$

the wage received by matched workers $w_x \tilde{z}_x$ can be expressed as a fraction of \tilde{z}_x , and worker's outside options b or η , with the fraction as α . One can think of α as the competitive search analog of Nash bargaining weight in random search. As bargaining weight α goes to zero, the change in wage is almost all caused by the change in outside option. (i.e. As $\alpha \rightarrow 0$, $\frac{\partial w}{\partial b} \frac{b}{w} \rightarrow 1$)

6 Quantitative model

6.1 Environment

Our economy is populated with a continuum of infinitely-lived workers of measure one, and firms with positive measure. Time in our economy is discrete

and continues forever, and both firms and workers discount future value at an identical rate, β . Workers and firms are ex-ante homogeneous, but workers become ex-post heterogeneous as a result of their income history, μ . Workers may be employed or unemployed and receiving UI, or unable to receive UI. Upon separating, workers choose whether or not to claim UI, which is a stochastic process that depends on their income history (μ) and whether they separated to unemployment by quitting, $q = 1$, or being fired, $q = 0$. Unemployed workers of either UI status are able to direct their search to vacancies posted by firms in different submarkets, which are indexed by $(\mu, w) \in \mathbb{R}_+ \times \mathbb{R}_+$, the income history and piece-rate.

Matched firms produce using a linear technology, z , where z is a stochastic productivity process composed of an idiosyncratic and persistent component. At the beginning of the period, an idiosyncratic shock realizes, with probability $p_0(z)$, and the match produces a trivial amount \underline{z} , reflecting a period where the firm does not require output and the worker is not paid. With complementary probability, the match is productive and z follows an AR(1) process: $z' = \rho_z z + \epsilon_z$, where $\epsilon_z \sim N(0, \sigma_\epsilon)$. $p_0(z)$ is a decreasing function of productivity: $p_0(z) = \bar{p}_0 - \nu_{p_0} z$. Firms pay piece-rate wages w , which yields a wage bill of wz , and are subject to a stochastic fixed cost of operating, χ . After observing the productivity and hours shocks, the firm decides whether to fire their worker, which we denote with the indicator $d_f(w, z, \mu, \chi)$. Matches may also dissolve because workers quit, which depends on a time cost shock, γ , realized by workers each period. For some values of γ , workers prefer to quit and enter unemployment. This yields an indicator function $D(w, z, \mu) = \max\{d_f(w, z, \mu, \chi), d_q(w, z, \mu)\}$, the expectation of which is the probability a match dissolves between periods. We assume that a firm's decision to fire a worker occurs before the worker's decision to quit, should both realize.

Workers are risk-averse with utility $u'(c) \geq 0$, $u'(0) = \infty$ and do not have access to savings technology. While they are employed, their income history updates according to $\mu' = (1 - \frac{1}{T})\mu + \frac{1}{T}w$, where T is the "look-back" period, over which previous income is calculated for eligibility and level of benefits (52 weeks in our calibration). After producing, the quit shock realizes. If a worker separates, they choose whether or not to claim UI.

The likelihood of UI reciprocity depends on two factors: whether the worker was fired and whether or not their income history falls above or below a monetary eligibility threshold, $\bar{\mu}$. While neither factor unilaterally precludes a worker from receiving UI, quitting or having income below the threshold hamper their likelihood of receipt. If a worker fails to meet either the separation or monetary eligibility requirement, they face a likelihood ξ_l of being deemed eligible if they claim. If they meet both criteria, they have a probability ξ_h of receipt should they claim. Claiming UI entails a cost, $\epsilon \sim \text{Gumbel}$ as well as a fixed cost η , both of which linearly decrease utility. If they are successful, they receive $b_{UI} = \max\{b_{RR}\mu, b_{RR}\bar{\omega}\}$ in UI benefits. They face a probability λ_0 of exogenously losing benefits, and may only receive benefits for at most T_b consecutive periods. If they are not receiving UI or have exhausted their benefits, they receive

$b_n < b_{RR}(\bar{\omega})$.

Firms post vacancies at a cost κ . Vacancies are one-firm one-worker contracts that specify a piece-rate to which the firm can commit for the duration of the contract. In each submarket, there exists a constant return to scale (CRTS) matching technology, $M(u, v)$, where u is the number of unemployed in the submarket, and v is the vacancies. We define the market tightness θ as $\frac{u}{v}$. We define the job-finding rate as $\frac{M(u, v)}{u} = p(\theta)$ and the job-filling rate $\frac{M(u, v)}{v} = q(\theta) = \frac{p(\theta)}{\theta}$. p is a strictly increasing and concave function such that $p(0) = 0$, and $p'(0) > 0$, and q is a strictly decreasing and convex function such that $q(0) = 1$, $q'(0) < 0$, and further the composite function $p(q^{-1})$ is concave. We assume that the free entry condition holds in any open submarket.

The aggregate state of this economy is given by a tuple (y, e, u) , the aggregate productivity, and measures of employed and unemployed, respectively. The equilibrium is stationary and block recursive, so we suppress this notation for ease of exposition.

6.2 Worker's Problem

We first describe the problems solved by employed and unemployed agents. Unemployed agents may be in one of four discrete states: they may be receiving, eligible to receive, ineligible but not rejected, or rejected and ineligible to receive UI. We first describe the quit decision and subsequent production phase for the employed worker.

6.2.1 Production and Quit Decision

Each period an employed worker is subject to a cost of time shock, γ , that in concert with their productivity shock, z , determines whether or not they choose to quit. If they choose not to quit, they may be fired by the firm. An employed worker has state $s_E = (w, z, \mu)$, $s'_E = (w, z', \mu')$, $s_U^0 = (\mu', d_q = 0)$. Such a worker faces the following problem during the production phase, and his value function is

$$U_E(s_E) = (1 - d_f(s_E))\{u(c) - \gamma + \beta E[U_E(s'_E)]\} + d_f(s_E)U_C(s_U^0)$$

$$\text{s.t. } c = \begin{cases} wz & z > \underline{z} \\ b_n & z = \underline{z} \end{cases} \quad (13)$$

$$\mu' = \left(1 - \frac{1}{T}\right)\mu + \frac{1}{T}wz \quad (14)$$

$$z' = \begin{cases} \underline{z}, & w / \text{prob. } p_0(z) \\ z' = \rho z + \epsilon_z, & w / \text{prob. } 1 - p_0(z) \end{cases} \quad (15)$$

They receive income wz , where z is realized before the period. They consume

their income, $c = wz$.³ After age advances and shocks realize, the worker may choose to quit exogenously with probability δ , or be fired if $d_f(s_E) = 1$, which is determined by the firm's problem.

Prior to production, the worker chooses whether or not to quit, probabilistically. This probability is given by

$$\Pr(U_E > U_C) = \frac{\exp\{(U_E - U_C)/\sigma_\gamma\}}{1 + \exp\{(U_E - U_C)/\sigma_\gamma\}} \quad (16)$$

which is a standard result when the shock, γ , is Gumbel distributed. They may also quit exogenously with probability δ .

6.2.2 UI Take-Up and Receipt

Each period, an unemployed worker who is still eligible chooses whether to apply for UI benefits. He makes this decision based on the probability of acceptance, $\xi(\mu, Q)$, which depends on income eligibility and quit status ($Q \in \{0, 1\}$). Should he chooses to apply for UI benefits, he pays a fixed cost η and a stochastic utility cost $\epsilon \sim Gumbel$. If he is rejected for UI, he becomes ineligible. If he is successful, he receives $b_{UI} = \max\{b_{RR}\mu', b_{RR}\bar{\omega}\}$ and has τ periods remaining of receipt. Hence, the states for workers who can claim, $s_C = (\mu, Q)$, are currently receiving, $s_R = (\mu, b_{UI}, \tau)$ or are ineligible $s_X = (\mu, b_n)$. His value function is

$$U_C(s_U) = \max_{\ell \in \{0,1\}} u(b_n) + \beta E[\mathbb{I}_{\{\ell=1\}}\{\xi(s_U)R_R(s'_R) + (1 - \xi(s_U))R_X(s'_X) - \eta - \epsilon\} + \mathbb{I}_{\{\ell=0\}}R_C(s'_U)] \quad (17)$$

$$s.t. \quad \mu' = (1 - \frac{1}{T})\mu \quad (18)$$

$$\xi = \begin{cases} \xi_h e^{\xi Q} & \text{if } \mu \geq \bar{\omega} \\ \xi_l e^{\xi Q} & \text{if } \mu < \bar{\omega} \end{cases} \quad (19)$$

where R_R , R_X , and R_C are the values of searching for receivers, ineligible, and potential claimants, respectively, during the search subperiod. Because ϵ is realized prior to applying, potential claimants have apply with probability

$$\begin{aligned} \Pr(E_{z'|z}\{\xi R_R + (1 - \xi)R_X - \eta - \epsilon\} > E_{z'|z}[R_C]) \\ = \frac{\exp\{(\xi R_R + (1 - \xi)R_X - \eta - R_C)/\sigma_\epsilon\}}{1 + \exp\{(\xi R_R + (1 - \xi)R_X - \eta - R_C)/\sigma_\epsilon\}}, \end{aligned}$$

which is increasing in the likelihood of acceptance (ξ) and decreasing in costs ϵ and η . Notably, ϵ can take values less than zero, which can cause workers to claim even if they are ineligible and unlikely to receive UI.

³Because our focus is on workers barely eligible or ineligible for UI, unlikely to be able to self-insure much, we abstract from a savings decision.

An unemployed worker who is receiving UI has the value function

$$U_R(s_R) = u(b_{UI}) + \beta E[(1 - \lambda(\tau))R_R(s'_R) + \lambda(\tau)R_X(s'_X)].$$

$$\begin{aligned} s.t. \quad \mu' &= \left(1 - \frac{1}{T}\right) \mu \\ \lambda(\tau) &= \begin{cases} \lambda_0 & \tau > 0 \\ 1 & \tau = 0 \end{cases} \end{aligned}$$

where λ determines whether he becomes ineligible for UI after the search subperiod. While he still has periods of eligibility ($\tau > 0$), he faces a probability λ_0 of losing UI, reflecting the probability that his receipt is discontinued.⁴ Once he has exhausted his UI, he no longer receives UI after the search subperiod ($\lambda = 1$).

An ineligible worker faces a similar problem, with zero probability of regaining UI without first finding employment. His value function is

$$U_X(s_X) = u(b_n) + \beta E[R_X(s'_X)].$$

$$s.t. \quad \mu' = \left(1 - \frac{1}{T}\right) \mu$$

6.2.3 Job Search

After producing, separating, and resolving the claims decision, an unemployed worker searches for a job. This defines three component values, R_R , R_X , and R_C for receivers, ineligible, and potential claimants, respectively. The value function is

$$\begin{aligned} R_R(\mu, b_{UI}, \tau) &= \max_w E[p(\theta) \int \max\{U_E(w, z, \mu), U_R(\mu, b_{UI}, \tau)\} d\Phi(z) + [1 - p(\theta)]U_R(\mu, b_{UI}, \tau)] \\ R_X(\mu) &= \max_w E[p(\theta) \int \max\{U_E(w, z, \mu), U_X(\mu)\} d\Phi(z) + [1 - p(\theta)]U_X(\mu)] \\ R_C(\mu, \mathcal{Q}) &= \max_w E[p(\theta) \int \max\{U_E(w, z, \mu), U_C(\mu, \mathcal{Q})\} d\Phi(z) + [1 - p(\theta)]U_C(\mu, \mathcal{Q})] \end{aligned}$$

where b_{UI} and τ can be suppressed for ineligible or potential claimants and $\Phi(z)$ is the stationary distribution of z implied by the AR(1) process described above.

⁴Claims may be discontinued for violations of the receipt agreement, like not actively searching for a job.

6.3 Firms's Problem

In our model, firms may be matched with a single worker, or unmatched. Matched firms produce and choose whether or not to continue the match. Unmatched firms choose whether or not to post a vacancy.

6.3.1 Production and Firing

A matched firm produces z units of output each period and pays wz in income. It also pays a fixed cost ψ associated with operating the firm. Productivity, z , is stochastic and realizes prior to the separation decision (D). It also faces a risk that its employee may quit prior to production. Should this not occur, a matched firm in the production stage faces the following problem:

$$\begin{aligned}
 J(w, z, \mu) &= \max_{d_f \in \{0,1\}} (1 - d_f) \{ (A - w)z - \chi + \beta \{ (1 - d_q(w, z', \mu')) J(w, z', \mu') \} \\
 \mu' &= \left(1 - \frac{1}{T} \right) \mu + \frac{1}{T} wz \\
 z' &= \begin{cases} \tilde{z}, & w / \text{prob. } p_0(z) \\ z' = \rho z + \epsilon_z, & w / \text{prob. } 1 - p_0(z) \end{cases}
 \end{aligned}$$

where we have imposed the equilibrium free entry condition that $E[V(w, \tilde{z})] = 0$ in the interest of brevity. A Firm fires workers, $d_f(w, z, \mu) = 1$, if the value of continued employment falls below the value of searching for a new worker, $J(w, z) < E[V(w, \tilde{z})] = 0$, a rate governed by χ . If the firm chooses not to fire the worker, the worker may quit with probability $d_q(w, z', \mu') \geq \delta$. Because χ is Gumbel-distributed, the probability that the firm fires a worker is given by

$$\Pr(J(w, z, \mu) > 0) = \frac{\exp\{J(w, z, \mu)/\sigma_\chi\}}{1 + \exp\{J(w, z, \mu)/\sigma_\chi\}} \quad (20)$$

6.3.2 Vacancy Creation and Free Entry

An unmatched firm can post a vacancy at cost κ that specifies a wage w . With probability $q(\theta)$ it contacts a worker during the following week and draw an idiosyncratic productivity, z . An unmatched firm has the value function

$$V(w) = -\kappa + \beta q(\theta(w)) E_{z'} [(1 - D(w, z')) J(w, z')]. \quad (21)$$

We assume that the free entry condition holds in equilibrium, which yields the following worker contact rates

$$q(\theta(w)) = \frac{\kappa}{\beta E_{z'} [(1 - D(w, z')) J(w, z')]} \quad (22)$$

in a submarket.

6.4 Equilibrium

A *Block Recursive Equilibrium* (Shi (2009) and Menzio and Shi (2010)) in this model economy is a set of policy functions for workers, $\{\ell, w\}$, value functions for workers U, R , value functions for firms with filled jobs, J , and unfilled jobs, V , as well as a market tightness function $\theta(w)$. These functions satisfy the following:

1. The policy functions $\{\ell, w\}$ solve the workers problems, U, R .
2. $\theta(w)$ satisfies the free entry condition for all submarkets (w) .
3. The aggregate law of motion is consistent with all policy functions.

As in the prior literature, the equilibrium is “Block” Recursive in that the first two blocks of the equilibrium, i.e. the individual decision rules, can be solved without conditioning upon the aggregate distribution of agents across states, i.e. the third block of the equilibrium. In our context, this has implications for how we interpret the RDD because firms know they are getting either treated or untreated workers and the equilibrium finding rate reflects the firms’ internalization of the workers’ outside option.

7 Calibration

[PRELIMINARY]

To draw quantitative conclusions from the model, we calibrate it to match standard search and matching model targets, features specific to UI and the jump in earnings observed in Table 1. We target earnings and employment dynamics as well as the estimated treatment effect to capture the incomplete exposure to UI as in the data so that we can assess the underlying treatment effect that generates our observed, quasi-experimental treatment. In matching the RDD estimated treatment, we will also be able to infer frequently difficult to observe parameters governing the workers’ share of the surplus.

7.1 Preset Parameters and Functional Forms

We make standard functional form assumptions from the related labor search literature. We assume that workers have CRRA utility, $u(c) = \frac{c^{1-\sigma}}{1-\sigma}$, and that matching technology takes the form from den Haan et al. (2000), $M(u, v) = n_0 \frac{uv}{(u^{n_1} + v^{n_1})^{1/n_1}}$. This matching function implies a job finding rate of $p(\theta) = n_0 \frac{\theta}{(1+\theta^{n_1})^{1/n_1}}$ and $q(\theta) = n_0 \frac{1}{(1+\theta^{n_1})^{1/n_1}}$ for vacancy filling. Our productivity process for z is set to an AR(1), $\ln(z') = \rho \ln(z) + \epsilon_z$, where $\epsilon_z \sim N(0, \sigma_z)$, with temporary separation probability Π_z during each period.

7.2 Targeted Moments

The model is calibrated by matching simulated moments. The frequency of the model is weekly, and the parameters calibrated to the model are shown in Table 4. The first panel shows the fixed parameters calibrated outside of the model. For the parameters regarding UI policies such as b_{rr} , \bar{b}_r , $\bar{\omega}$, and λ , the values are fixed according to the U.S Department of Labor. Then, the parameters regarding worker’s productivity process is directly estimated from SIPP, with auto-correlation 0.8 and standard deviation 0.2. Vacancy cost 0.2 is commonly used in literature, as in Petrongolo and Pissarides (2001). TFP is normalized to one.

The free parameters in the second panel of Table 4 is calibrated by matching simulated moments. There are three sets of moments are important to the success of this paper: the UI status distribution, the labor market transitions, and the jump in earnings observed in the data. ?? shows the comparison between the moments estimated from the data, and the ones generated from the model. The data moments of the UI status are estimated from the Non-monetary Determinations Activity reports and the Benefit Rights and Experience reports from the Employment and Training Administration (ETA).⁵ The data moments on labor market transitions and the jump in earnings are estimated from SIPP and LEHD. One interesting result is the value of the matching elasticity n_1 . The matching elasticity, as we derived in Section 5, plays a key role in determining how much earnings is coming from the productivity of a worker and how much of that is from workers’ outside options. Another sets of results worth mentioning is the probability of receiving UI conditional on the earnings eligibility status ξ_h, ξ_l . Having sufficient earnings to qualify for the monetary eligibility requirement gives the applicant a three times higher probability of receiving UI.

The model does quite well matching several key moments, including the re-employment earnings jump from maintaining base period earnings that imply monetary eligibility. It also matches the claim, rejection and ineligible receipt rates well. It is less successful matching labor market flows.

⁵ETA reports are from the National Office database that is populated by collecting data from the 50 States, Washington DC, Puerto Rico, and the Virgin Islands. The data in the Non-monetary Determinations Activity reports are used by the U.S Department of Labor to project budgets and to assess the disqualification processes. The Benefit Rights and Experience reports are used to evaluate state benefit formulas

| Parameter | Value | Comment |
|-------------------|---------|--|
| δ | 0.0110 | Exogenous separation probability |
| ν_δ | 0.0000 | Slope of separation probability |
| ξ_h | 0.9150 | Monetarily eligible UI receipt probability |
| ξ_l | 0.1750 | Monetarily ineligible UI receipt probability |
| n_1 | 0.3930 | Matching elasticity |
| p_0 | 0.5000 | Probability of no hours |
| b_n | 0.0043 | Outside subsistence income |
| η | 0.0320 | Fixed application cost |
| ν_{p_0} | 0.0001 | Slope of no hours probability |
| σ_ϵ | 2.94 | Gumbel parameter for worker cost shock |
| σ_τ | 1.25 | Gumbel parameter for firm cost shock |
| φ | -0.3660 | Quitting UI receipt probability penalty |
| β | 0.998 | Discount rate |
| n_0 | 0.5 | Matching efficiency |
| $\bar{\omega}$ | 0.0540 | Monetary eligibility threshold |
| ρ_z | 0.8 | Auto-corr. of z shock |
| σ_z | 0.2 | SD of z shock |
| λ | 0.0010 | Exogenous probability of losing UI |
| b_{RR} | 0.555 | UI replacement rate |
| κ | 0.25 | Vacancy creation cost |
| σ | 2 | Risk aversion |
| T | 52 | Base period lookback |

Table 4: Parameter values.

| Moment | Data | Model |
|---|---------|---------|
| Re-Employment gains from UI mon. elig. | 0.102 | 0.0983 |
| Claiming rate | 0.7340 | 0.7472 |
| Monetarily ineligible rejection rate | 0.0736 | 0.1186 |
| Separation rejection rate | 0.1249 | 0.1521 |
| Ineligible receipt rate | 0.1000 | 0.1377 |
| E-to-U rate | 0.3070 | 0.0775 |
| E-to-U slope in earnings | -0.0238 | -0.0191 |
| U-to-E rate | 0.3069 | 0.2564 |
| Employment rate | 0.560 | 0.6733 |
| Employment rate slope in base period earnings | 0.105 | 0.1465 |
| No-work rate | 0.262 | 0.1615 |

Table 5: Estimated Moments.

8 Findings

[PRELIMINARY]

In this section, we use our calibrated model to interpret our empirical findings in [subsection 4.1](#). First, in [subsection 8.1](#), we decompose the total treatment effect and quantify the underlying true treatment effect by comparing the baseline model with four other alternatives that groups workers by their UI receiving status. Then, in [subsection 8.2](#), we quantify the impact of both monetary eligibility requirement and no-quit requirement by performing counterfactual policy exercises.

8.1 The True Effect of UI on Re-Employment Wages

We start by exploring the true effect of UI receipt on re-employment earnings. While our baseline result strongly suggests that UI receipt leads to higher re-employment earnings, we are unable to observe claim and receipt status in the data, which could affect the magnitudes of the underlying true effect. Here, we use our model to construct an appropriate counterfactual and estimate the causal effect of UI on re-employment wages.

To do this, we estimate a local average treatment effect (LATE). On each side of the threshold, we use receivers as the treatment group and non-receivers as the control. Then we average these two treatment effects to get the “true” treatment effect of UI on re-employment wages. Formally, we estimate the following:

$$LATE = P(\mu \leq \bar{\omega}) \times \Delta_{UI\ Recv'd}^{\mu \leq \bar{\omega}} + (1 - P(\mu \leq \bar{\omega})) \times \Delta_{UI\ Recv'd}^{\mu > \bar{\omega}} \quad (23)$$

where

$$\Delta_{UI\ receipt}^T = \ln(Y)_{UI\ receipt}^T - \ln(Y)_{Non-receipt}^T$$

We average across a subpopulation with base period earnings within 20% on either side of the threshold. We display our quantitative results from our model in [Table 6](#).

| Subset | Above | Below |
|---------------------|-------|-------|
| Base | 0.65 | 6.99 |
| Receivers | 7.78 | 7.22 |
| Non-Receivers | 7.17 | 6.52 |
| Diff. Rec - Non (%) | 8.5% | 10.7% |
| LATE (50-50) | 9.6% | |

Table 6: Comparison of re-employment earnings for different claimant and receipt statuses.

From [Table 6](#), we find that the overall effect is roughly 4.4% (0.4pp) larger than our model’s prediction of 9.2%. The results align with intuition: For workers below the threshold, the precautionary effects are stronger, producing a nearly 11% jump in earnings, while above produces an 8.5% jump.

Now we determine whether this difference comes primarily from improvements in match quality, i.e., higher average z for the duration of the match, or higher rents accrued by the worker (equivalently, in a random search model, a higher bargaining power). We repeat our comparisons for both z and μ for the groups above. We start with match quality and present our results in [Table 7](#).

[Table 7](#) shows the average productivity z below, above the threshold and the differences. A negligible share of the overall effect comes from improvements in match quality, similar to our empirical findings in [section 4](#). Our LATE estimate suggests that only 0.7% of the overall improvement is due directly to increases in match quality. As before, below the threshold produces a larger increase, consistent with a stronger precautionary motive.

| Subset | Above | Below |
|---------------------|-------|-------|
| Base | 1.06 | 1.05 |
| Receivers | 1.06 | 1.05 |
| Non-Receivers | 1.06 | 1.05 |
| Diff. Rec - Non (%) | 0.7% | 0.8% |
| LATE (50-50) | 0.7% | |

Table 7: Comparison of match quality for different claimant and receipt statuses.

Next we turn to rents, w and present our findings in Table 8. Table 8 shows the average rents w below, above and the differences. Much like our empirical findings in section 4, we find that differences in rents make up the bulk of the increase in re-employment earnings. Once again, those below the threshold demonstrate a larger response to UI receipt than those above.

| Subset | Above | Below |
|---------------------|--------|--------|
| Base | 0.7340 | 0.6800 |
| Receivers | 0.7490 | 0.7010 |
| Non-Receivers | 0.6870 | 0.6390 |
| Diff. Rec - Non (%) | 9.0% | 9.7% |
| LATE (50-50) | 9.4% | |

Table 8: Comparison of worker rents for different claimant and receipt statuses.

These results strongly suggest that the addition of UI changes a worker’s reservation wage by changing their outside option. An increase from subsistence benefits, $b_n = 0.021$, to the minimum level of UI, $b_{UI} = 0.21$ (the threshold, 0.375 times the replacement rate, 0.555), produces a 9.4% increase in re-employment earnings, producing an elasticity of roughly 0.1.

8.2 The Impact of Eligibility Requirements

In this section, we consider the elimination of each of the eligibility requirements. First, we remove the base period earnings requirement. Then, we move the no-quit requirement. Finally, we consider the impact of both being removed simultaneously. In reality, elimination of the first requirement was actually implemented during the pandemic within the CARES Act. Few papers have discuss the effect of removing such requirement during the pandemic, this exercise allow us to move away from that special event and only focus on normal time. Also, even though no-quit requirement has not been removed in the United States, there are countries that do not have no-quit requirement as eligibility requirement at the first place. For example, in Argentina, workers are allow to apply for UI even if they quit in their previous job. Therefore, understanding those effects are non-trivial.

We start by considering the role of the base period earnings requirement. The eliminate this barrier, we set $\bar{\omega} = 0$, meaning that all agents in the economy are monetarily eligible for UI should they experience a separation. They may still suffer a reduction in receipt likelihood, however, should they quit. Next, we

turn to the no-quit requirement. To emulate this policy, we set the φ parameter to 0, which means that a worker who quits will not be subject to a penalty be rejected as a result. Last, we consider the removal of both requirements at once, implementing the same restrictions as in the previous two experiments simultaneously. We focus on two key quantities that characterize much of the behavior of the economy, employment and wages, as well as UI receipt among the unemployed. We report each of these quantities relative to our baseline and present our results in [Table 9](#).

| Variable | $\bar{\omega} = 0$ (%) | $\varphi = 0$ (%) | $\bar{\omega} = 0, \varphi = 0$ (%) |
|-----------------|------------------------|-------------------|-------------------------------------|
| Employment Rate | -32.3% | -0.1% | -51.3% |
| Wage | 10.6% | 0.0% | 21.3% |
| Receiving UI | 47.6% | 2.5% | 50.0% |

Table 9: Comparison of outcomes when BPE requirements are lifted.

Unsurprisingly, among our subset of the population, UI receipt has a large effect on employment, decreasing it between 0.1% and 51%, when the no fault requirement and both requirements are waived, respectively. There is also a large effect on wages, when the monetary eligibility requirement is waived, increasing wages by up to 21.3% among the employed. As before, this shows a strong precautionary response. In both monetary eligibility counterfactuals, there is a sizable increase in UI receipt among the unemployed.

These results show the importance of the monetary requirement for these low pay workers. Lifting both requirements closely mirrors the impact of lifting the monetary requirement exclusively, because this group of workers is most vulnerable to extended spells of unemployment.

9 Conclusion

In this paper, we first present a robust empirical evidence using regression discontinuity design to identify the local effect of UI. We show that an unemployed worker, who is UI eligible, receives a \$300 or roughly 10% increase in their post unemployment quarterly earnings. This provides robust evidence of a non-zero treatment effect of UI on unemployment outcomes, however, it understates UI's causal effect and does not distinguish between a higher share of production or more productive matches as the underlying reason.

Then in order to pick up the true treatment effect of UI, we decompose the total effect by using a tractable equilibrium directed search model with endogenous match quality and take-up. With the model, we are able to show that almost half of the increase in the post unemployment earnings is due to the increase in match quality. Last, we perform counterfactual exercises to quantify the impact of removing both the monetary eligibility requirement and the no-quit requirement. We find that removing the no-quit requirement do not have significant impact on the workers because quitters are not a big portion of the workers who are around the earning threshold. On the other hand,

removing monetary eligibility requirement has a more sizeable impact, especially on workers' average earnings and employment rate.

References

- ACEMOGLU, D. AND R. SHIMER (1999): "Efficient unemployment insurance," *Journal of Political*, 107, 893–928.
- ADDISON, J. AND M. BLACKBURN (2000): "The effects of unemployment insurance on postunemployment earnings," *Labour Economics*, 7, 21–53.
- CALONICO, S., M. D. CATTANEO, M. H. FARRELL, AND R. TITIUNIK (2019): "Regression Discontinuity Designs Using Covariates," *The Review of Economics and Statistics*, 101, 442–451.
- CALONICO, S., M. D. CATTANEO, AND R. TITIUNIK (2014): "Robust Nonparametric Confidence Intervals for Regression-Discontinuity Designs: Robust Nonparametric Confidence Intervals," *Econometrica*, 82, 2295–2326.
- CARD, D., R. CHETTY, AND A. WEBER (2007): "Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market," *The Quarterly Journal of Economics*, 122, 1511–1560.
- CARD, D. AND P. B. LEVINE (2000): "Extended benefits and the duration of UI spells: evidence from the New Jersey extended benefit program," *Journal of Public Economics*, 78, 107–138, proceedings of the Trans Atlantic Public Economics Seminar on.
- CENTENO, M. (2004): "The Match Quality Gains from Unemployment Insurance," *Journal of Human Resources*, 39.
- DEN HAAN, W. J., G. RAMEY, AND J. WATSON (2000): "Job Destruction and Propagation of Shocks," *American Economic Review*, 90, 482–498.
- EHRENBERG, R. G. AND R. L. OAXACA (1976): "Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain," *The American Economic Review*, 66, 754–766.
- GREGORY, V., G. MENZIO, AND D. G. WICZER (2021): "The Alpha Beta Gamma of the Labor Market," 43.
- GRIFFY, B. S. (2021): "SEARCH AND THE SOURCES OF LIFE-CYCLE INEQUALITY," *International Economic Review*.
- IMBENS, G. AND K. KALYANARAMAN (2012): "Optimal Bandwidth Choice for the Regression Discontinuity Estimator," *REVIEW OF ECONOMIC STUDIES*, 79, 27.

LALIVE, R. AND J. ZWEIMÜLLER (2004): “Benefit entitlement and unemployment duration: The role of policy endogeneity,” *Journal of Public Economics*, 88, 2587–2616.

MENZIO, G. AND S. SHI (2010): “Efficient Search on the Job and the Business Cycle,” 0–56.

NEKOEI, A. AND A. WEBER (2017): “Does Extending Unemployment Benefits Improve Job Quality?” *American Economic Review*, 107, 527–561.

SCHMIEDER, J. F., T. VON WACHTER, AND S. BENDER (2013): “The Causal Effect of Unemployment Duration on Wages: Evidence from Unemployment Insurance Extensions,” .

——— (2016): “The Effect of Unemployment Benefits and Nonemployment Durations on Wages,” *American Economic Review*, 106, 739–777.

SHI, S. (2009): “Directed Search for Equilibrium Wage–Tenure Contracts,” *Econometrica*, 77, 561–584, publisher: Wiley Online Library.

SKANDALIS, D., I. MARINESCU, AND M. N. MASSENKOFF (2022): “Racial Inequality in the U.S. Unemployment Insurance System,” Working Paper 30252, National Bureau of Economic Research.

A Appendix: Policy functions

In this section, we show some relevant policy functions. In the following figures, we plot the wage policy and the corresponding market tightness over past earnings (or past earnings at take-up for receiver) conditional on UI status. ?? shows the wage policy and the corresponding market tightness of UI non-receivers. And ?? shows that of UI receivers.

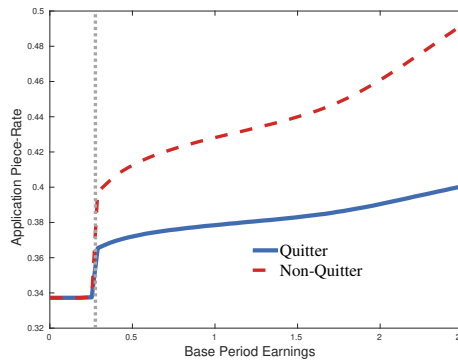


Figure 5: By quit status.

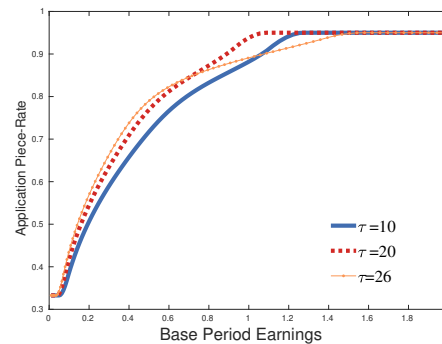


Figure 6: UI receivers.

These figures show that once a worker has past earning past the monetary eligibility threshold, the value of applying for UI increases as past earning increases. As a result, worker search for a higher wage since their outside options increase. Moreover, since non-quitters have a higher probability of getting accepted with UI, their targeted wage is even higher than quitters.

For a worker who is already receiving UI, his UI benefit is a function of the past earnings at the time when they decide to apply. Therefore, the wage they search for is a function of that past earnings. Moreover, since receiver can only receive UI for at most 26 weeks under regular state program, given a same past earnings, optimal wage decreases as τ increases. This is due to the fact that for workers who almost reach the end of the maximum UI duration, they value the expected value of getting back to employment much more than staying unemployed since being employed again means another opportunity to renew UI.

Next we show the distribution of the workers from the simulation. Here, we only look at workers who found a job. [Figure 7](#) shows the distribution of those workers' base period earnings, and the distribution of post unemployment quarterly earnings, which $\sum_{t=1}^{13} w_t z_t$ since reemployment. Then we show the discontinuity at the monetary eligibility cut-off (past earning at 2.6) in post unemployment earnings generated by the model [Figure 8](#).

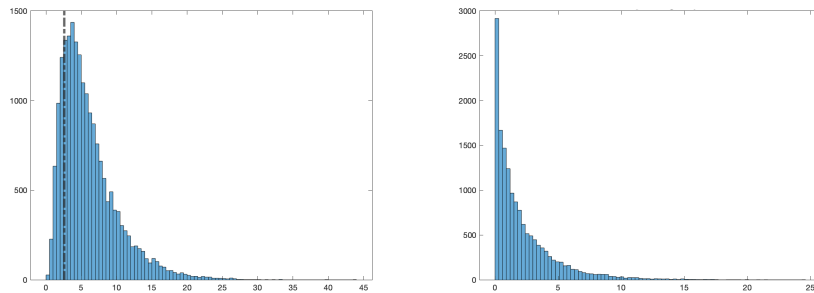


Figure 7: Annual Base Period Past Earning (left) and Quarterly Post unemployment Earning (right)

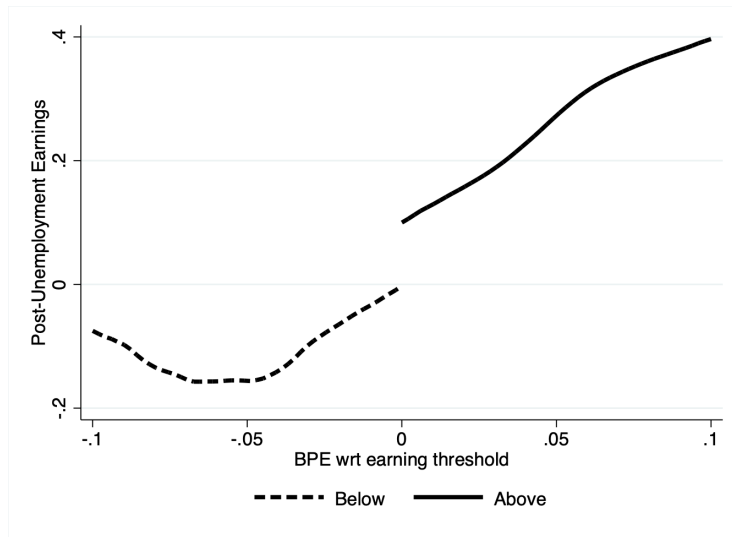


Figure 8: Post unemployment earnings conditional on base period earnings