

How to Mitigate the Risk of Moral Hazard?

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- A European UI or a European UA?
 - Not only risk-sharing
 - The role of extended benefits (UA) during the GR
- Moral hazard across jurisdictions
 - Central vs. Local Financing
 - Nature of the copayment
- Cross-country policy experimentation and moral hazard of workers and firms (lessons from STW)

Not only risk-sharing

- A case for a European UB based on theory of Fiscal Federalism (Oates, 1999)
- Centralized Provision if:
 - ① Relatively homogenous Preferences
 - ② Economies of scale in provision
 - ③ Relevant spillovers across jurisdictions
- UI are much different, while all countries (except Italy and Greece) have some MGI, acting as extended UB. Spillovers via welfare magnets effects more relevant in UA (and SA in general) provision than UI.
- UI have diseconomies of scale due to moral hazard of workers/firms. Better monitoring locally. Moral hazard less of a problem in UA.

The role of extended benefits during the GR

- Is UB an effective stabilizer? More important UI or UA?
- It depends on whether $U \uparrow$ because *inflows* \uparrow or *outflows* \downarrow
- Evidence from a "dynamic" LM: US, 2008-2009 recession (Vroman, 2010):
- The regular UI program closed about 10.5% of real GDP shortfall caused by recession
- Further 8.5% closed by extended benefits
- Overall, UB program closed 18.3% of the gap in real GDP caused by recession
- Stronger stabilization power during 2008-2009 recession as compared to other crises, as extended benefits' response has been particularly strong

Central vs. Local Financing

- Centrally funded and locally delivered is the worst possible combination
- Rules for eligibility and entitlement are incomplete: considerable local discretion (less in UA than UI?)
- Allow for co-payment at the local level
- Use the level of the copayment as incentive device, e.g., adjust it not only based on cyclical conditions, but also policy evaluation

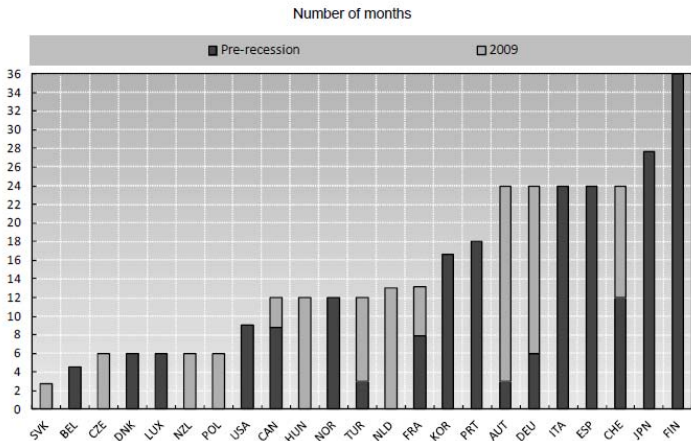
Nature of the Copayment

- Only basic, fixed amount per person and period is paid centrally. State can integrate.
- Fixed EUB established at the lowest level of UBs in the Euro area? Do not index it to choice variables of Govts
- PPP adjusted? At the national or regional level?
- Do experience-rating at the national level? Only countercyclically (prefunding)

► A problem with PPP adjustment

Learning from experience with adjustments of STW during the GR

Figure 3. Maximum duration of short-time work



Source: Hijzen A. and Venn D. (2011), *The Role of Short-Time Work Schemes during the 2008-09 Recession*, OECD Social,

Large cross-country heterogeneity

	Unweighted Average	Coefficient of Variation	Min value	Max value	Range
Eligibility criteria	0.52	0.40	0.20	1.00	0.80
Entitlement criteria	0.21	0.82	0.00	0.50	0.50
Cost to employer	0.14	1.29	0.00	0.62	0.62
Elasticity of STW to hours	0.54	0.39	0.10	0.81	0.71

Note: it includes Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Switzerland, Turkey, United States

Source: own calculations on data from Hijzen and Venn (2010)

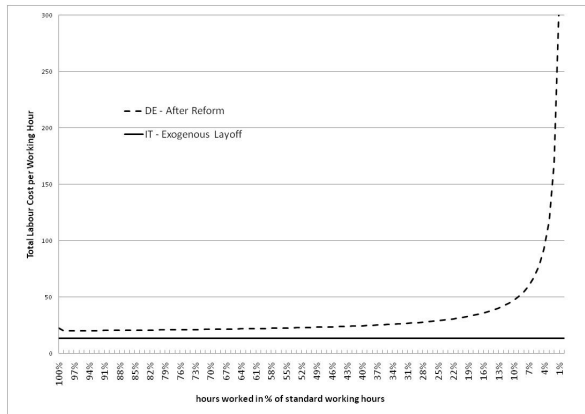
Germany vs. Italy

The Italian and German STW are the two largest schemes in the OECD area.

- the German scheme is explicitly designed for temporary shocks, while the Italian system allows for STW in case of structural adjustment (CIGS)
- the German system involves higher costs for the employers
- both involve job search requirements, but better enforced in Germany
- the German system unlike the Italian system discourages reduction of hours to zero

Costs at zero hours

Hourly labour cost of STW schemes in Germany (reformed Kurzarbeit) and Italy (CIGS with exogenous layoffs)

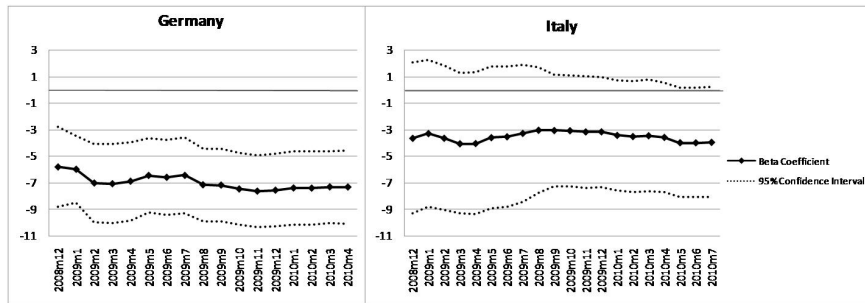


Source: for Italy, INPS (Istituto Nazionale Previdenza Sociale); for Germany, Statistik der BA, Zeitreihen - Zeitreihe zu Kurzarbeiter Deutschland.

Elasticity of take-up rates to Economic Activity

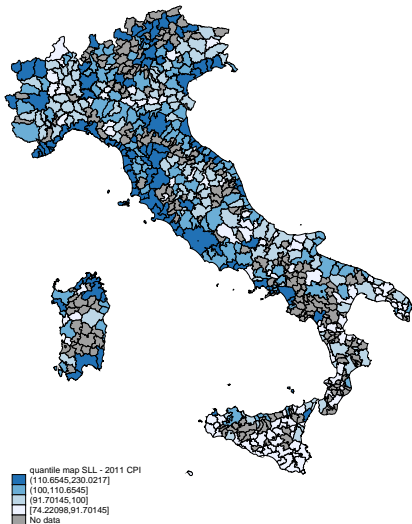
Rolling regressions: $\Delta \log(STW) = \alpha + \beta \log(IPI) + \varepsilon$, where STW is hours in industry and IPI is industrial production index.

In Italy, no decline since Q2 2009.



Source: for Italy, INPS (Istituto Nazionale Previdenza Sociale); for Germany, Statistik der BA, Zeitreihen - Zeitreihe zu Kurzarbeiter Deutschland.

A problem with PPP adjustment



◀ Nature of the Copayment

Final remarks

- Safety nets are also effective stabilizers
- and stronger case for centralization than unemployment insurance also during normal times.
- They better reconcile solidarity and fiscal discipline (Governments can fail if the poorest are protected).
- Need to work on intersection between UA and SA (categorical vs. means-testing)
- Learn from policy experimentation
- Devil is in the details