

# Luigi Guiso Eief

Discussion of  
Unemployment Insurance and Entrepreneurship: Evidence from a  
Natural Experiment  
By

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# Summary



- ❧ Dif in dif exercise on the effect of a of UI reform benefitting (mostly) the self employed in Denmark in 1995
- ❧ Reform encourages self employment: effect 0.05% or 2.5% of sample mean for an increase of 17% in UB (Large? Small?)
- ❧ Effect larger for low-earnings workers (inter: higher coverage for low earnings workers)
- ❧ Effect larger for workers in high unemployment industries (higher labor market risk)
- ❧ Effect is reversed for workers with  $< 1900 \text{ DK} \Rightarrow$  for these reform entails a higher UB for employees
- ❧

# No title



- ❧ Great individual, longitudinal data
- ❧ Very successful findings
- ❧ Room for more?

# Q&C: calibration?

∞ Effect kind of small



∞ How large needs RA to be to explain observed effect of reform on self employment ?

∞ Room for setting up a calibration exercise

∞ Can learn about employees and self employed preference parameters: preference for risk, preference for return

∞ Can help understand whether the empirical findings make sense

# Q&C: interpretation



- ❧ Effect larger for those with lower earnings
- ❧ Interpretation: receive more insurance in relative terms (UB is fixed)
- ❧ Alternative: not relative insurance but DARA
- ❧ Workers with lower earnings have, under DARA, higher risk aversion and thus react more to a *given* insurance coverage

# Q&C: sample



- ❧ Reform only affects those who actually contribute to one of the UI funds
- ❧ A fraction between 10-30% does not contribute (why interval so wide?)
- ❧ Test strictly speaking applies to contributors
  - ❧ Measurement error in left hand side variable
  - ❧ Potentially biases effect downward (some get into self employment without contributing=> effect of reform understated)
- ❧ But decision to contribute should also be affected (payoff higher)=> if unaccounted biases effect of reform (possibly upward)
- ❧ Do you know whether individual contributes to an UI fund?
  - ❧ If yes, run test on contributors and adjust for selection, need instrument

# Q&C: miscellaneous



- ❧ Two additional (smaller) issues
- ❧ **Exit**: exercise on fraction self employed and entry, but implication holds also for exit
- ❧ Show also exit data: perhaps effect on fraction self employed is just the reflection or lower exit
- ❧ If so, since this could be due to reasons other than the reform, show that this is not the case: e.g. exit lower among those who benefit more from the reform
- ❧ **Pre reform data**: Show data on self employment, entry and exit for years before 1994-1996 (88-90, 90-92, 92-94): want to make sure that only the data after 1996 is different

# Conclusion



- ❧ Very powerful data
- ❧ Qualitative evidence convincing
- ❧ Scope for a calibration exercise:
  - ❧ Would enrich the paper
  - ❧ Would shed light on the quantitative validity of the results