

# **Unemployment Insurance (UI) Entitlement and the Wage Effect of Increasing the UI Benefit Rate: Empirical Part**

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## **Abstract :**

Jäger et al. (2020) do not find any effect of the UI benefit rate on wages in the context of four Austrian UI reforms. Their findings thus contradict standard theories of wage setting.

In the empirical part of my paper, I carry out an alternative test of the standard theory concerning the wage effect of increasing the UI benefit rate in the context of the 2001 Austrian UI reform. A side effect of the reform was an increase in the UI benefit replacement rate for individuals earning around and below the median. I find that the entry wages of affected individuals who start a UI claim during the month following the reform are, on average, higher than the entry wages of affected individuals who start a UI claim during the month leading up to the reform, using observations from surrounding years as a control group. What I find is thus in line with standard theories of wage setting, although the estimates are only marginally statistically significant.

The difference in findings relative to Jäger et al. (2020) is, in part, attributable to the difference in the population studied: while Jäger et al. (2020) focus on the population of individuals who are employed throughout the year leading up to the reform, a significant share of individuals included in my analysis regularly claim UI benefits (partly due to their seasonal employment patterns).