Early determinants of work disability in an international perspective (Hanemann et al.)

Pierre Koning, January 19
Netspar meeting Leiden
Strength of this paper

• Connection between Work Disability and Disability Insurance receipt – both in data
  – Targeting issues at the heart of DI policy discussion

• Cross-country
  – Large variation in design of DI

• Institutional information
  – Health effects of flexible labor markets
Potential weakness of this paper

• Connection between Work Disability and Disability Insurance receipt
  – But how informative WD really? (substantive introduction)

• Cross-country
  – Just pooling data?

• Institutional information
  – Variables come with measurement errors, especially for specific groups
Main policy finding

• OECD DI policy summary indicator matters most for explaining cross-country differences in DI receipt
• Good to show this evidence....but what drives this exactly? And what drives variation in indicator?
  – Coverage: probably very important, but not surprising
  – Minimum and maximum DI level
  – Medical and vocational assessment
Main finding (for policy)

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  – Coverage: probably very important, but not surprising
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  – Medical and vocational assessment
  – [ DI as insurance scheme or poverty relief scheme?]
Figure 6: Generosity of DI systems over time and by countries

Source: Own calculation based on OECD (2003, 2010)
Identification problem

- Strong identification of micro-chars
- Weak identification of country-information

- So why not taking a somewhat different perspective on the data?
  - Which institutional settings have implications for the effect of some other (individual) variables?
  - If so, what can we infer from this?
Koning and Van Vuuren (2007, 2010)

- Idea: UI and DI as substitute pathways
- Use exclusion restrictions on DI inflow that should have coefficients equal to zero without substitution effects (IV approach)
  - Business cycle in sectors
  - Firm growth
- From this, we can infer the ‘hidden UI component’ in DI
  - First estimate reduced form, then derive structural parameters from Minimum Distance Estimation
Back to current paper....

• Suppose a higher generosity leads to over-use of DI scheme of a particular country
• If moral hazard is higher, this is likely to vary with respect to factors not directly related to health, particularly with strong controls for health
  – Business cycle
  – Labor market vulnerability
  – Household status, gender
Estimation strategy

• Obtain data on benefit receipt other than DI
• For each country, estimate reduced form parameter for inflow into DI and other benefits (or: non-participation)
• Infer hidden component in DI
• Try to cluster countries with highest hidden component
• This exploits the data more than two-stage decompositions