

**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

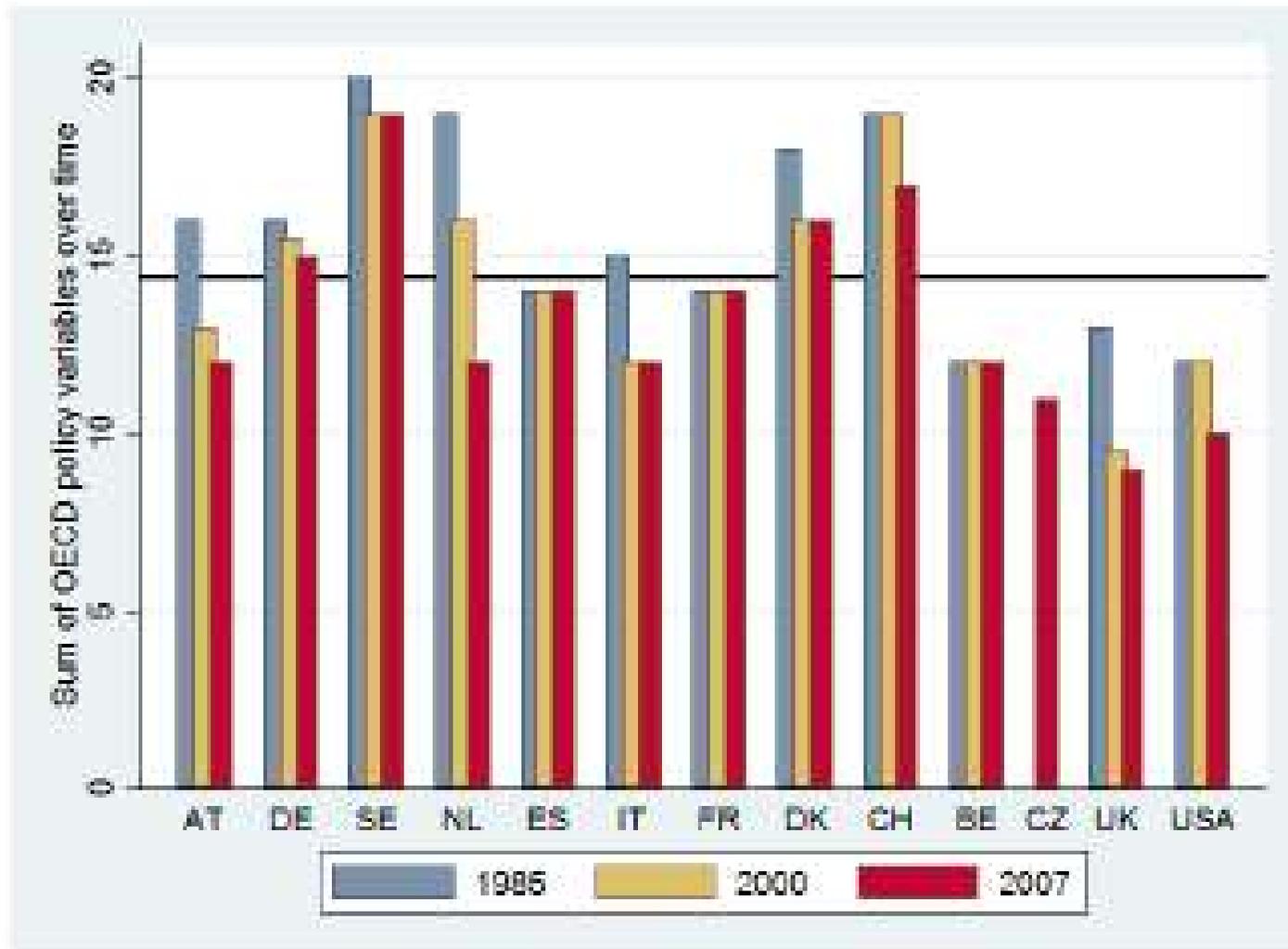
# Main policy finding

- 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