"Can Unemployment Insurance Spur Entrepreneurial Activity? Evidence from France" by Hombert, Schoar, Sraer and Thesmar

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Overview of Remarks

- An intriguing policy intervention
- A very interesting set of empirical results and a well-written paper – lots to like!
- The discussion and analysis of how to think about the mapping from the policy intervention to the outcome variables is underdeveloped.
  - The main focus of my remarks
- Other matters

An Interesting Policy Intervention

- **Goal 1:** Reduce unemployment and stimulate new firm formation at the same time.

- **Goal 2:** Over time, through the induced formation of new firms, transform (some) unemployed workers into new job creators.

- **Goal 3:** Mitigate other institutional and policy barriers to work, entrepreneurship, job creation, etc.

- **Goal 4 (My view):** Shift mindset of unemployed workers from passive recipients of social benefits and job opportunities to individual who take charge of their own economic fortunes.

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Plugging My Own Work

- Davis et al. (2009) study 40 U.S. industries with high nonemployer business shares.
  - Small migration rate to employer businesses.
  - Because they are so numerous, however, migration from nonemployer status accounts for much new business activity in the 40 industries:
    - Migrants from nonemployer status account for 28% of firms and 20% of revenues among young employer firms (3 years or less since first hire)
- See "Measuring the Dynamics of Young and Small Businesses" in *Producer Dynamics,* edited by Dunne, Jensen and Roberts, U of C Press.

From Policy Intervention to Estimated Treatment Effects

Policy intervention (multiple elements, timing)

➡️ More unemployed who start new firms (complex dynamics, depends on macro conditions)

➡️ Extra new firms are more concentrated in industries with high values of treatment variable.

➡️ Estimate treatment effect from difference in the Post-Pre change between industries with high and low values of the treatment variable. (complex mapping, depends on several parameters)

The Policy Intervention Has Multiple Elements

**PARE Agreement (2001-2002)**

- Individual retains rights to unemployment benefits for up to three years if he/she starts a firm

- He/she can also tap UI to supplement income from a new firm when it falls short of UI benefits level

ACCRE and EDEN Subsidies

- In place before the PARE agreement

- February 2002: A determination that unemployed persons could draw on PARE, ACCRE and EDEN.

Implementation Is Spread out over Time

Figure 3: Growth Rate in Firm Creation: Treated vs. Control
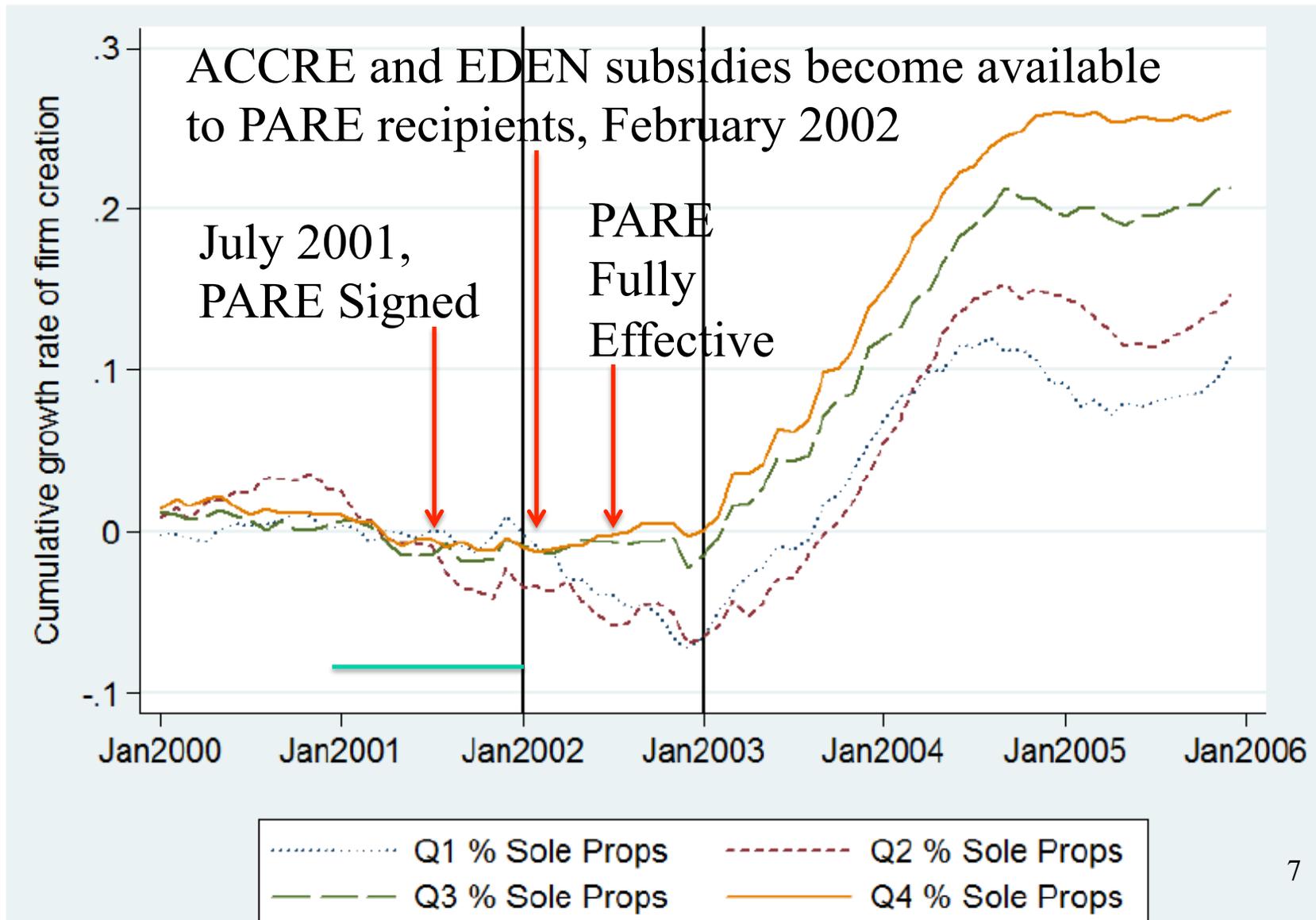
Nature of Policy Intervention, 1

- The policy intervention directly hits certain individuals, not firms or industries
  - Unemployed w/ accumulated UI benefits eligibility
- Giving rise to complex dynamics:
  - Initial stock of eligible unemployed
  - Unemployment outflow depletes stock
  - Inflow of eligible unemployed expands stock
  - Among the eligible: response lags and learning over time about subsidies & returns to starting a firm
  - Among the eligible: Mix changes over time, probably shifting toward those with less capacity to start a firm.

Nature of Policy Intervention, 2

Implications

1. In light of dynamics sketched on previous slide, mapping from policy intervention to treatment variable (and treatment outcomes) varies through time during the Post period.

2. Policy effects on the treatment variable (and on treatment outcomes) depend on conditions at time of intervention:

   – Number of eligible unemployed

   – Entrepreneurial propensity of eligible unemployed

The Authors' Treatment Variable

- Treatment variable (Industry level) = Fraction of sole proprietorships among new firms

- Treatment group = industries for which sole props are high percent of new firms (Pre-reform)

- Control group = industries for which sole props are low percent of new firms (Pre-reform)

- "Our treatment group should have a larger exposure to reform than control group."

- How large is the exposure difference?

The Mapping From The Policy Intervention to the Outcomes

- The foregoing slides highlight complexity in the mapping from the Policy Intervention to the Policy Effect on the Treatment Variable.

- My accompanying notes consider the mapping from the Policy Effect on the Treatment Variable to the Diff-in-Diff Estimate for the Outcome Variables.
  - The second mapping is also complicated!
  - Formalizing this mapping is useful.

From Policy Effect on the Treatment Variable to Estimated Treatment Outcomes

- This mapping depends on several parameters *and* on the size of the policy effect on the treatment variable induced by the policy intervention.

- Diff-in-diff estimate + parameter values (calculable from data) can be used to identify the induced policy effect on the treatment variable.

- → Express treatment outcomes per unit of policy effect on the treatment variable

  - Probably more useful for external comparisons and for the evaluation of other policy interventions.

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Do the Effects Stick?

- To avoid contamination from later reforms, the authors choose to focus on 1999-2005.

- But later reforms do not preclude an informative analysis of whether effects due to 2001-2002 policy intervention persist beyond subsidy period. Do we see effects in 2008-09 on:

  - The number of firms that are 6-7 years old?
  - The number of such firms with employees?
  - The quality of such firms?

Efficiency

"It is of course very difficult to make any welfare statements in our context."

- Right!

- The paper contains no effort to quantify the net fiscal costs of the policy intervention or the fiscal cost per new firm, new job, etc.

- Data can't speak to effects on competitiveness of product markets or "Goal 4" on Slide 2 above.

- Limited ability to address longer term productivity and job creation responses and GE effects.