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Does Culture affect Unemployment? Evidence from the *Barrière de Rösti*

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| le savoir vivant |

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Motivation

- Travellers are fascinated by culture
  - *Food culture: Beer* in Germany; *Haute cuisine* in France; *Lack thereof* in the UK; *Kroket in the Netherlands*
  - Political culture: Alexis' de Tocqueville's 1831/32 trip to the USA to study the prison system stimulating *Democracy in America*.
- *Culture*
  - *Set of norms* and *tastes* shared within *groups* with distinct *identities*
- Economists don't think that culture is relevant
  - « De gustibus non est disputandum »
  - Tastes are unobservable; not relevant for policy
- Unemployment research
  - 95 % on policy
  - Why are there regional differences in unemployment within same legal framework (same country; OECD 2000)

This paper

- Does culture matter for unemployment?
  - Quasi-experiment: change culture (hard) without changing anything else (even harder)

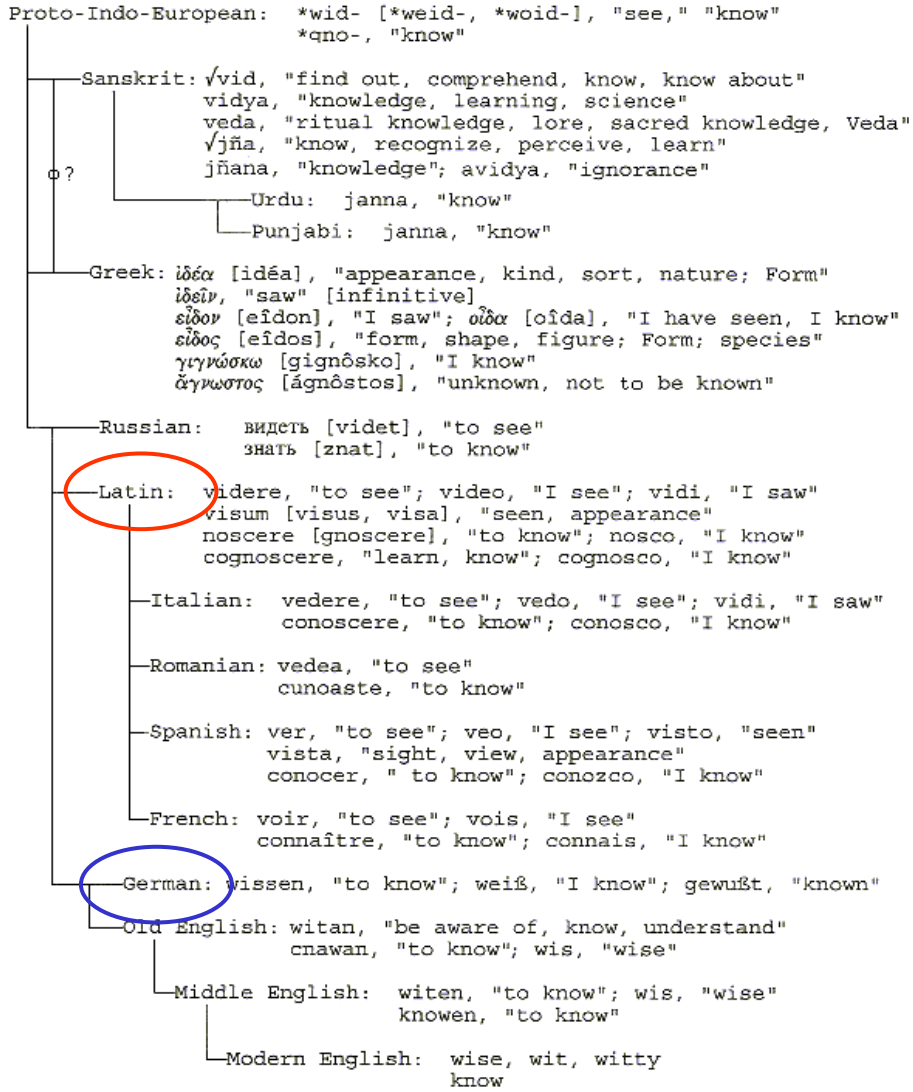
- What we do
  - Find a design that separate culture from institutions: « B*arrière de Rösti* »
  - Study unemployment differences @ *barrière*
  - Traditional explanations @ *barrière*
  - Culture based explanation @ *barrière*

What in the world is a Rösti?

Rösti (orange) and non-Rösti (non-organge) regions

Grouping Languages

cognates of *knowing*



Social identities

- Language delineates social groups
  - Language is critical to all social interactions; perfect group marker (Taijfel & Turner, 1979)
  - Language barrier is a residential barrier; barrier stable over time
  - Groups may develop different social identities
- Social identities in Switzerland

	German Swiss	Latin Swiss
Popular perception	mountain peasants (Heidi, Ueli der Knecht, etc.)	Bonvivants growing wine at the lake of Geneva
Historic and current reality	Independent cities and cantons in the center of Switzerland; Political majority	Controlled by German Swiss (1536-1798) and the French (-1536; 1798-1813); Political minority
Openness	Independent and neutral	Oriented towards France (35 hour week) and Italy (retirement @ 58)

Do social identities matter?

- National referendum in 1988

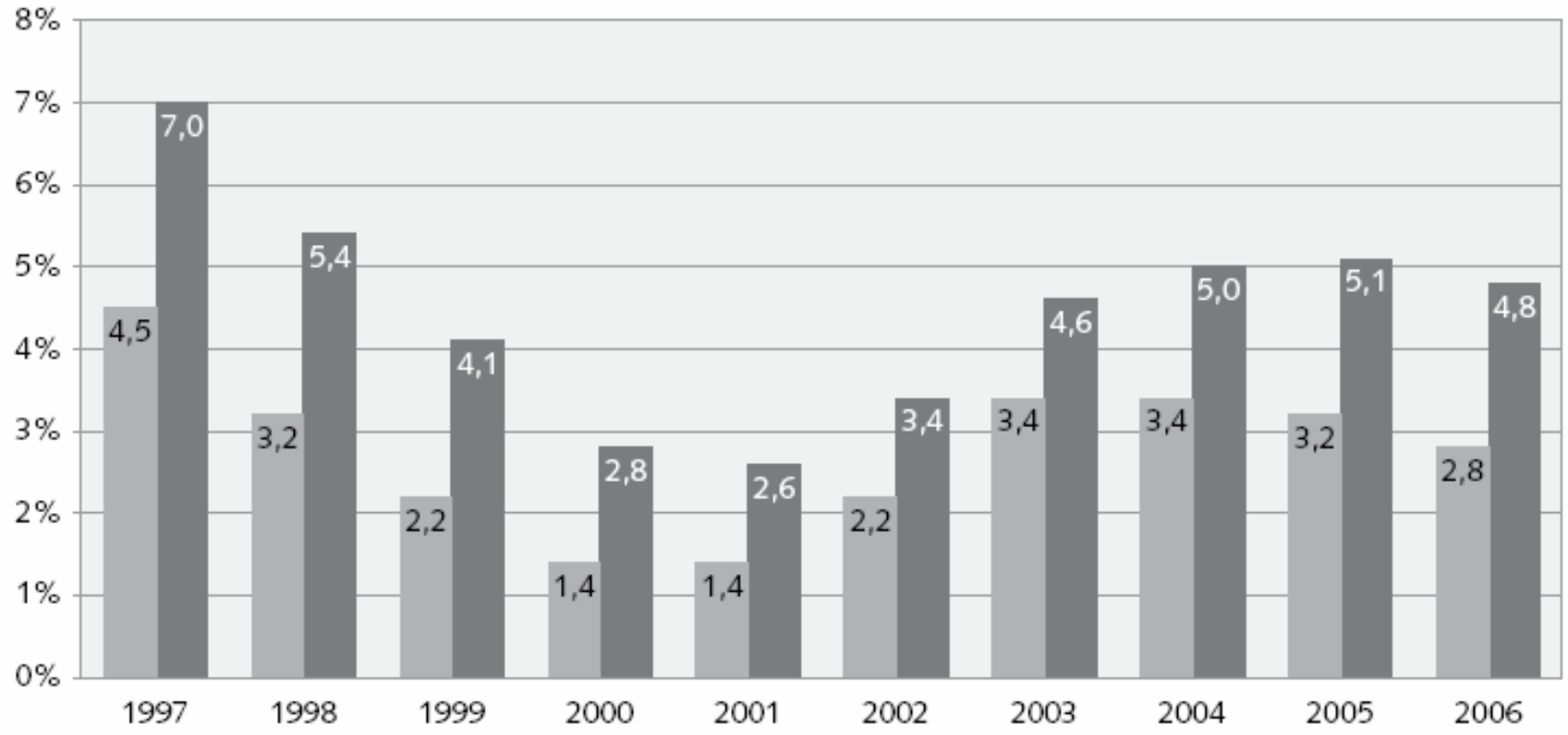
  „Should maximum weekly hours be reduced from 42 to 36“

- Support for reduced weekly hours

  31 percent YES in German-speaking region

  44 percent YES in Latin-speaking region

Unemployment rate in Latin (=dark) and German (=light) regions, 1997-2006



Identification problem

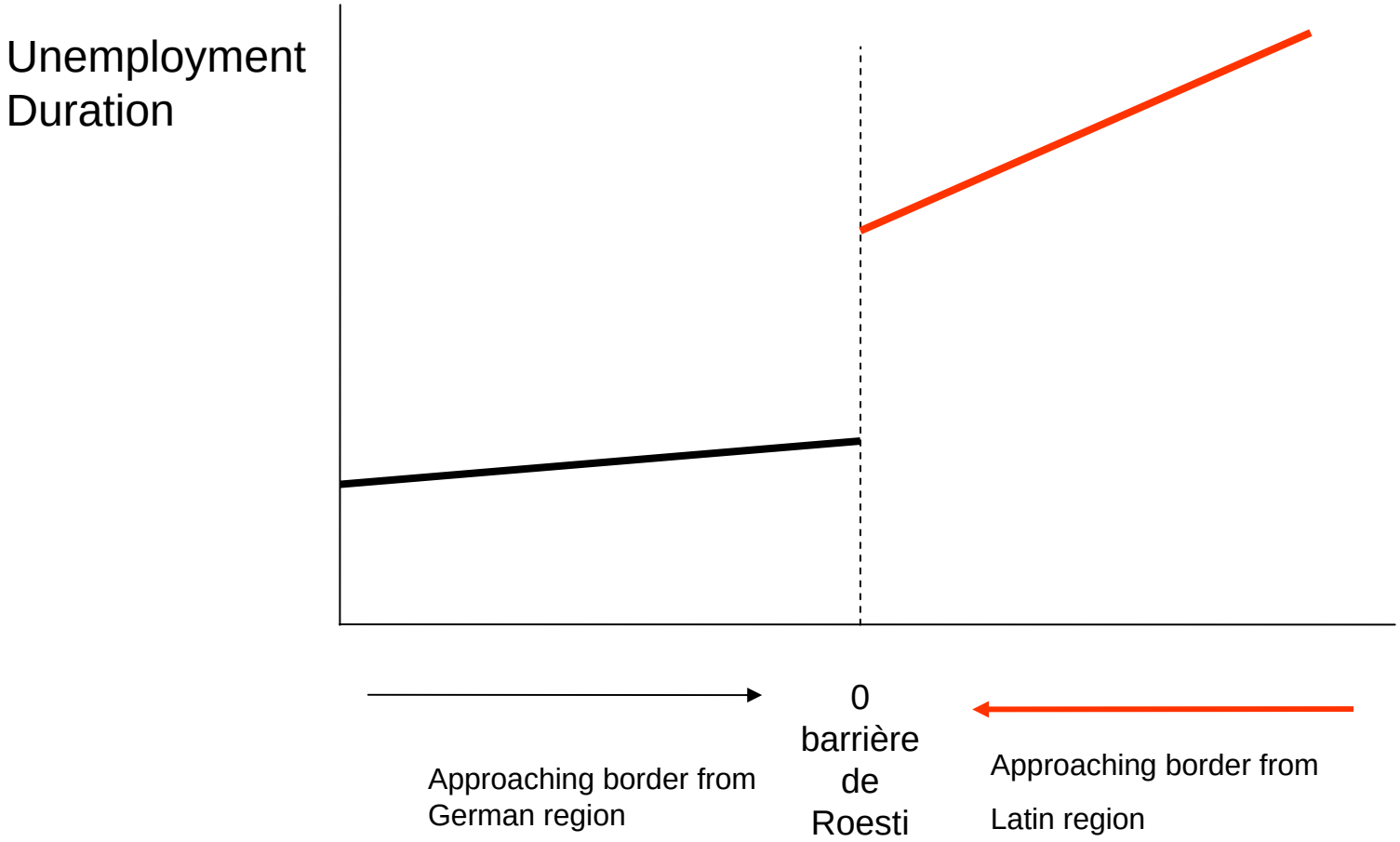
- Y_{ig} unemployment duration (person i in community g)
- D_g attitudes towards leisure in community g
- Canonical regression

$$Y_{ig} = \alpha + \beta D_g + \nu_i$$

- Regressing Y_{ig} on D_g suffers from
  - reverse causality
  - omitted variables bias
  - measurement error

- Panel identification won't work
  - culture changes slowly
  - Selection bias

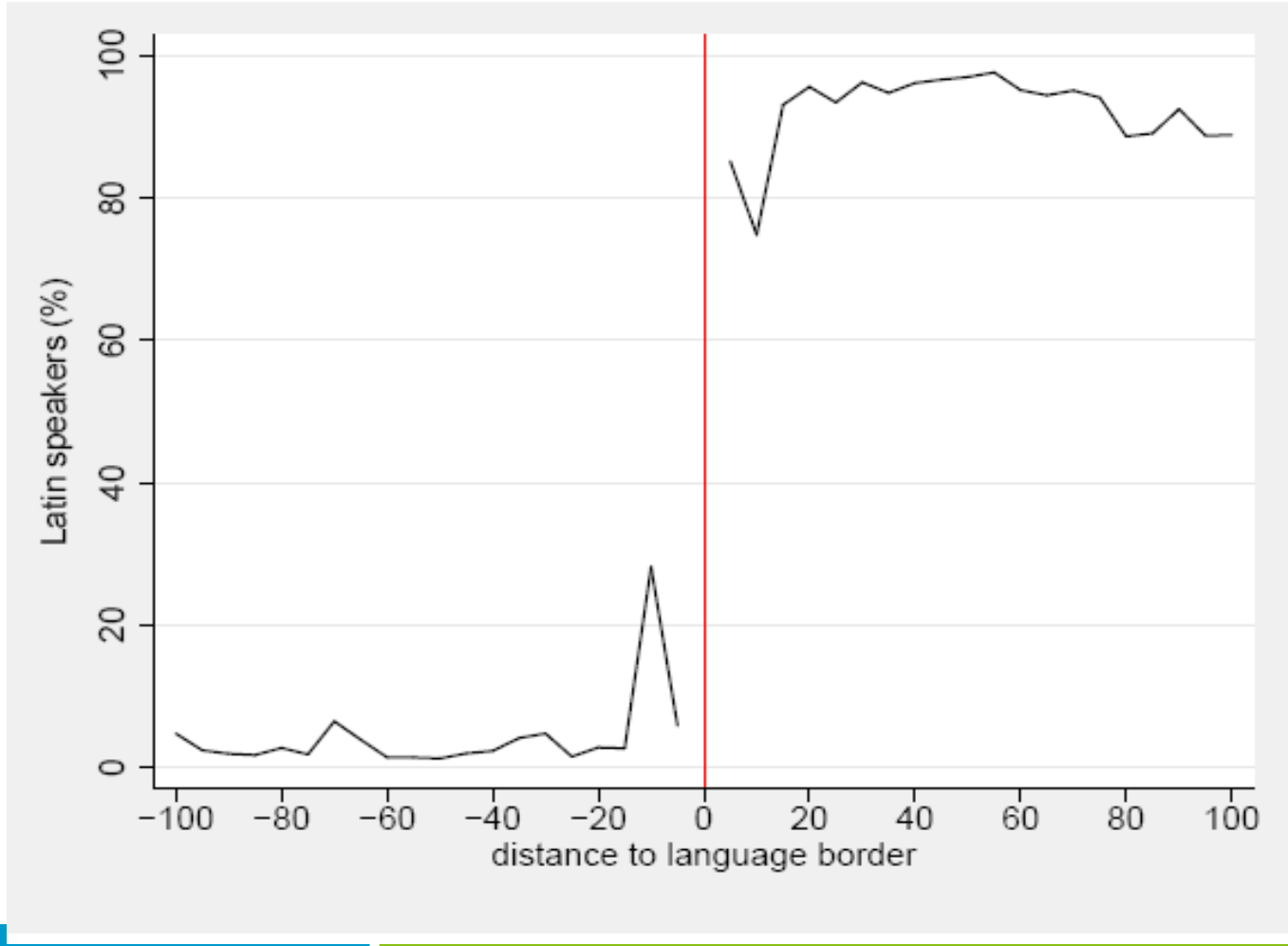
Spatial Discontinuity Design (SDD)



Distance to « Barrière »

- Distance to border
  - How far (in kilometers) do I have to drive to get from this community to the closest community in the other language region?
  - Code positive for Latin, negative for Non-Latin to distinguish this side from other side of border
- Examples
  - St. Gallen - 170 km -- Geneva 150 km
  - Zurich - 100 km -- Lausanne 65 km
  - Biel (bil.) - 6 km -- Fribourg (bil.) 7 km

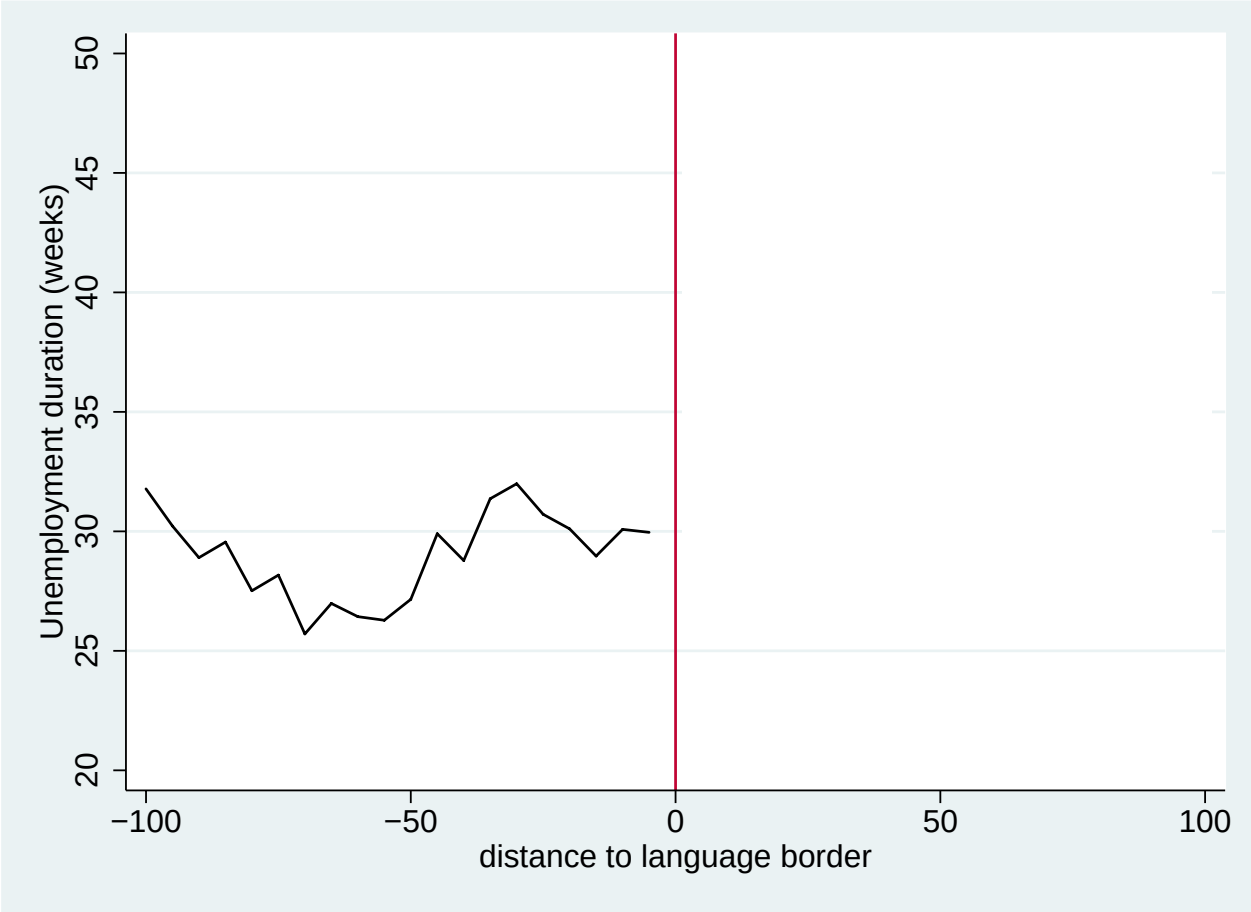
Percentage Latin-speakers, by distance to barrière (Swiss census 2000)



Unemployment duration @ barrière

- Swiss unemployment register data
  - Swiss males, 25-60 years, full-time benefit recipients
  - Unemployment duration
  - Entire inflow 1998-2003 (censored end 2004)
  - Detailed information on qualification and other characteristics
  - 183,738 unemployment spells

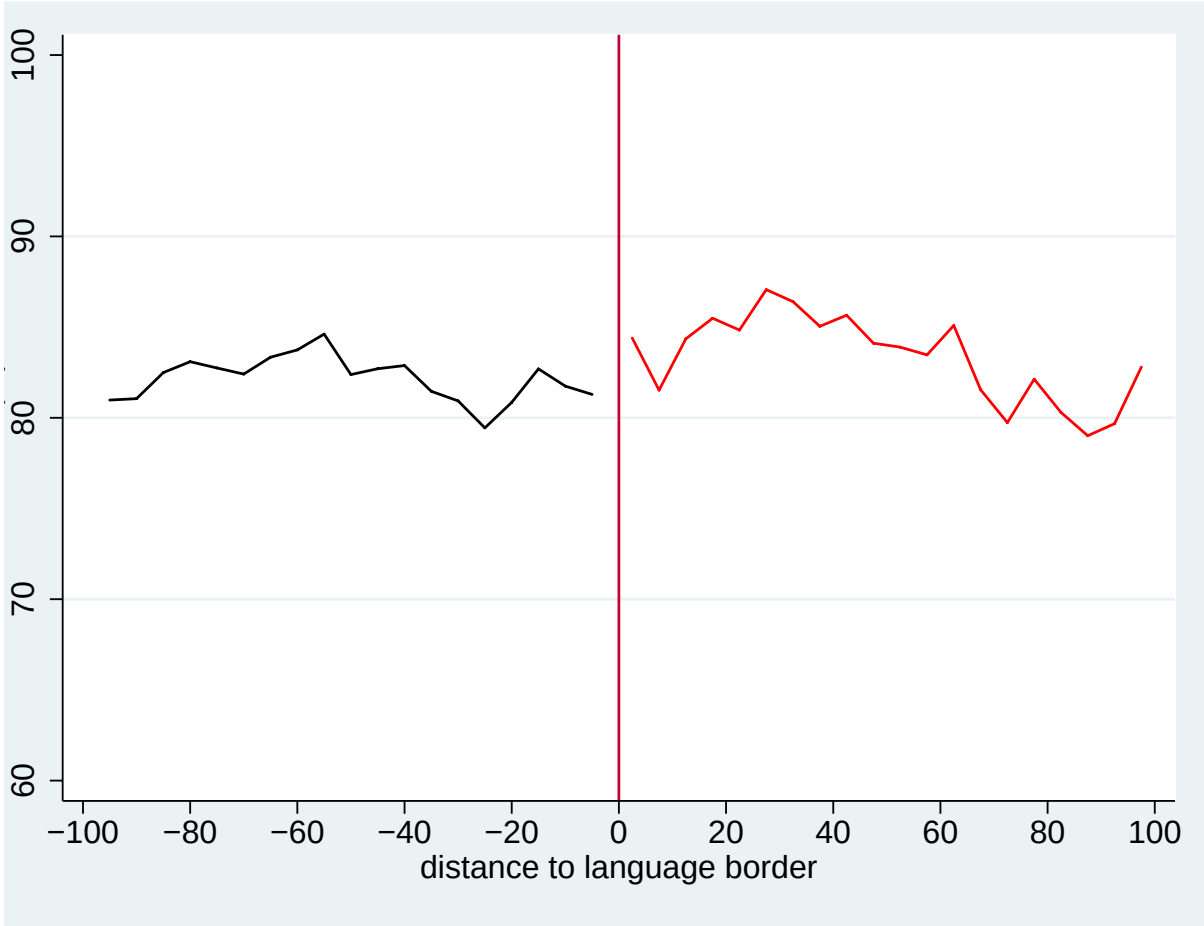
Unemployment duration at the « barrière »



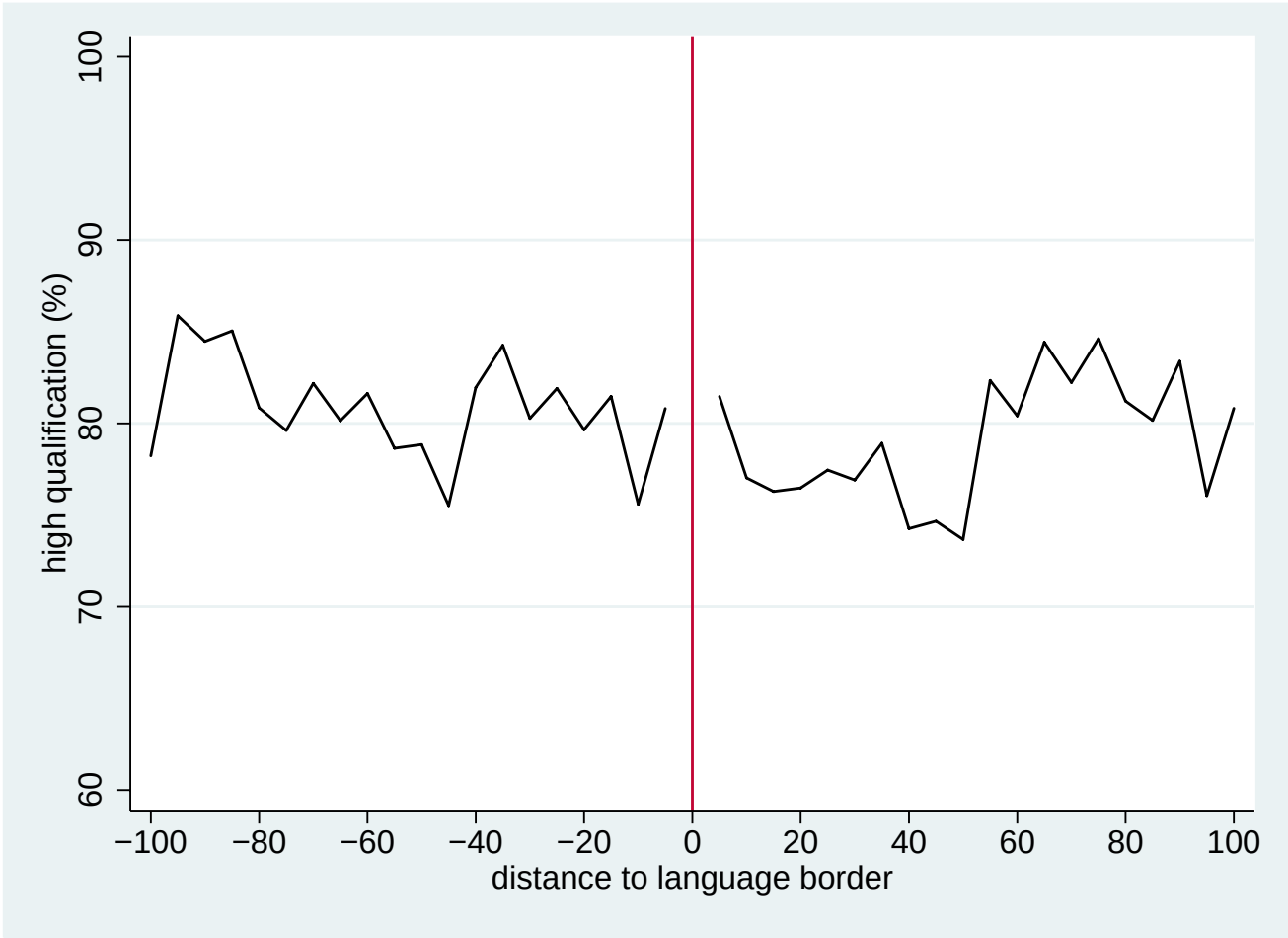
Standard Explanations

- Geography (census data)
  - Education
- Supply side (job seeker data)
  - Composition: Qualification
  - other: language skills, age, placement chances (caseworkers assessment), number of dependents
- Demand side
  - Sectoral composition
  - Other: Δ#firms, Δ#jobs, V/U ratio, Firm census 1998,2001, Vacancy register data (AVAM data 2000)
- Markets not integrated
  - Work across the border

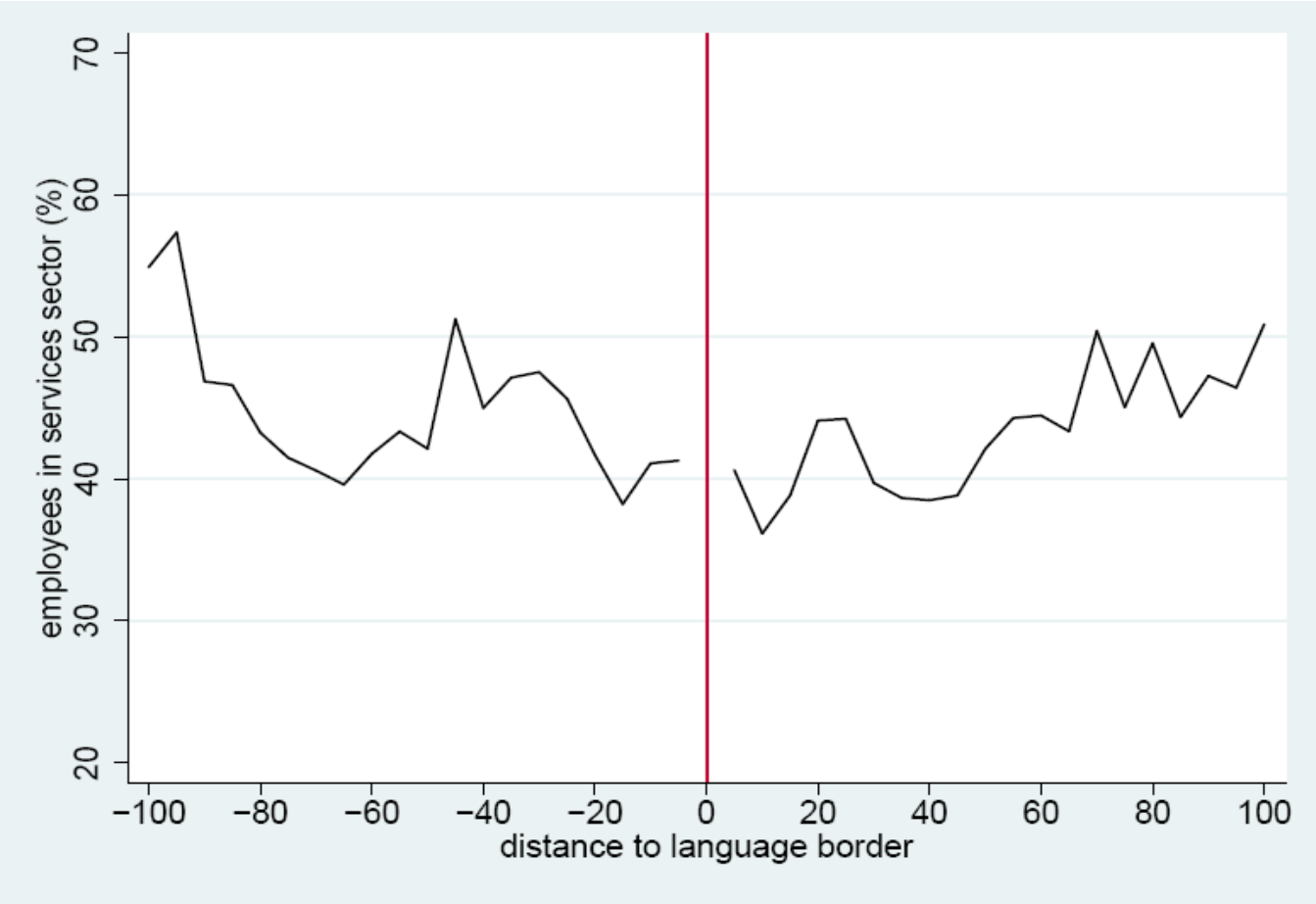
Secondary education



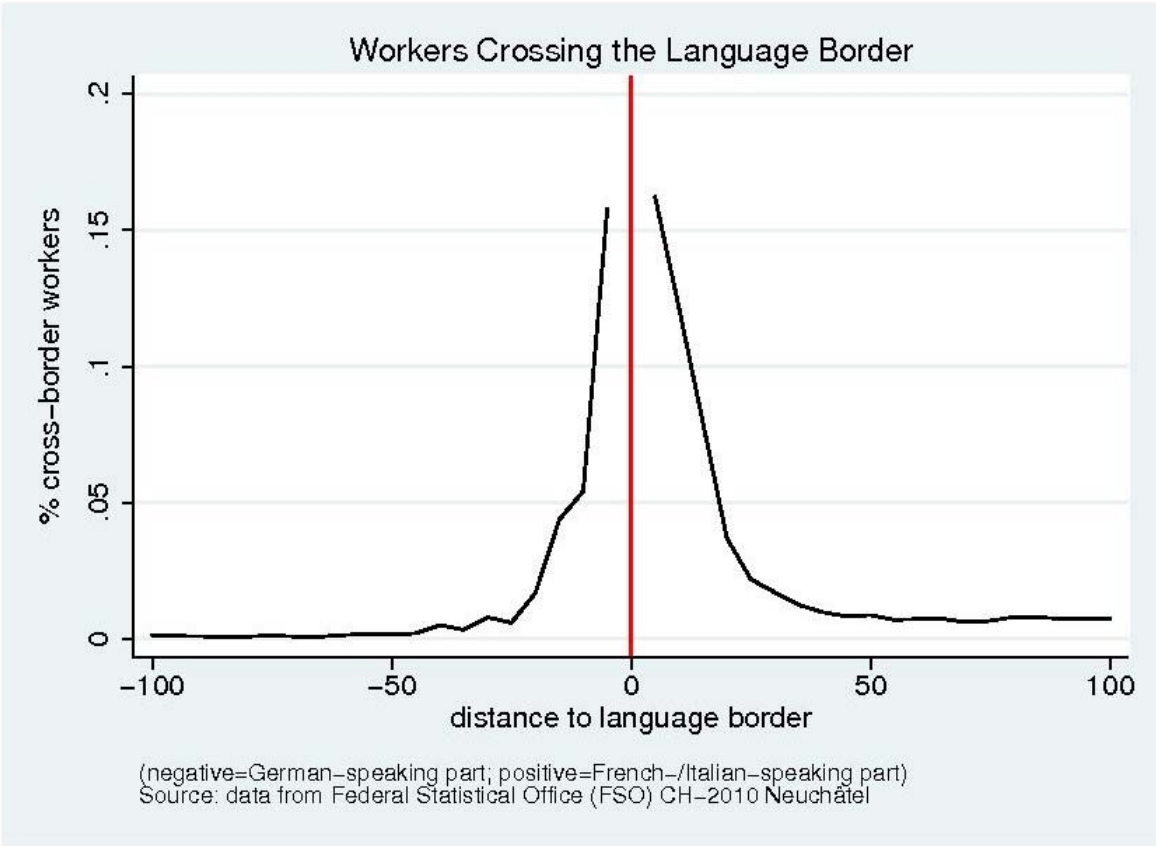
Apprenticeship or higher



Workers in service sector



Market integration
Percentage residents working in other language region



Estimation strategy

- What is the average effect of searching for work in the Latin culture (Y_1) compared to the German culture (Y_0) on those who are living at the language border?

$$\text{Estimand}: \quad E(Y_1 - Y_0 \mid L = 1, S = 0)$$

$$\text{Factual}: \quad E(Y_1 \mid L = 1, S = 0)$$

$$\text{Counterfactual}: \quad E(Y_0 \mid L = 1, S = 0)$$

- Estimation: spatial RDD

$$Y_{ig} = \alpha_Y + \delta_Y L_g + \mu_Y S_g + \lambda_Y L_g S_g + C_{ig}'\gamma_Y + \nu_i^Y$$

Table 2: The language barrier effect in unemployment durations

Dependent variable is (log) duration in unemployment				
	(1)	(2)	(3)	(4)
Latin	0.192			
	(0.040) ∗ ∗			∗
Distance (100km)	0.011			
	(0.039)			
Distance * Latin	−0.080			
	(0.061)			
Other controls	Yes	Yes	Yes	Yes
Community characteristics	No	Yes	Yes	Yes
Labor demand	No	No	Yes	Yes
ALMP controls	No	No	No	Yes
Observations	183,738	183,738	183,738	183,738
R^2	0.12	0.12	0.12	0.12

What explains this result?

- Job search process
  - Individual: search, apply, accept or reject
  - Caseworker: search, assign, control, sanction
  - Firm: advertise, talk with casworker
- Data
  - Exits to job.self: a job the individual found
  - Exits to job.PES: a job the caseworker found
  - Exits to unknown: jobseeker leaves without reporting destination
- Which actor is crucial?
  - Exits to job.self: individual
  - Exits to job.PES: caseworker
  - Exits to both: all actors

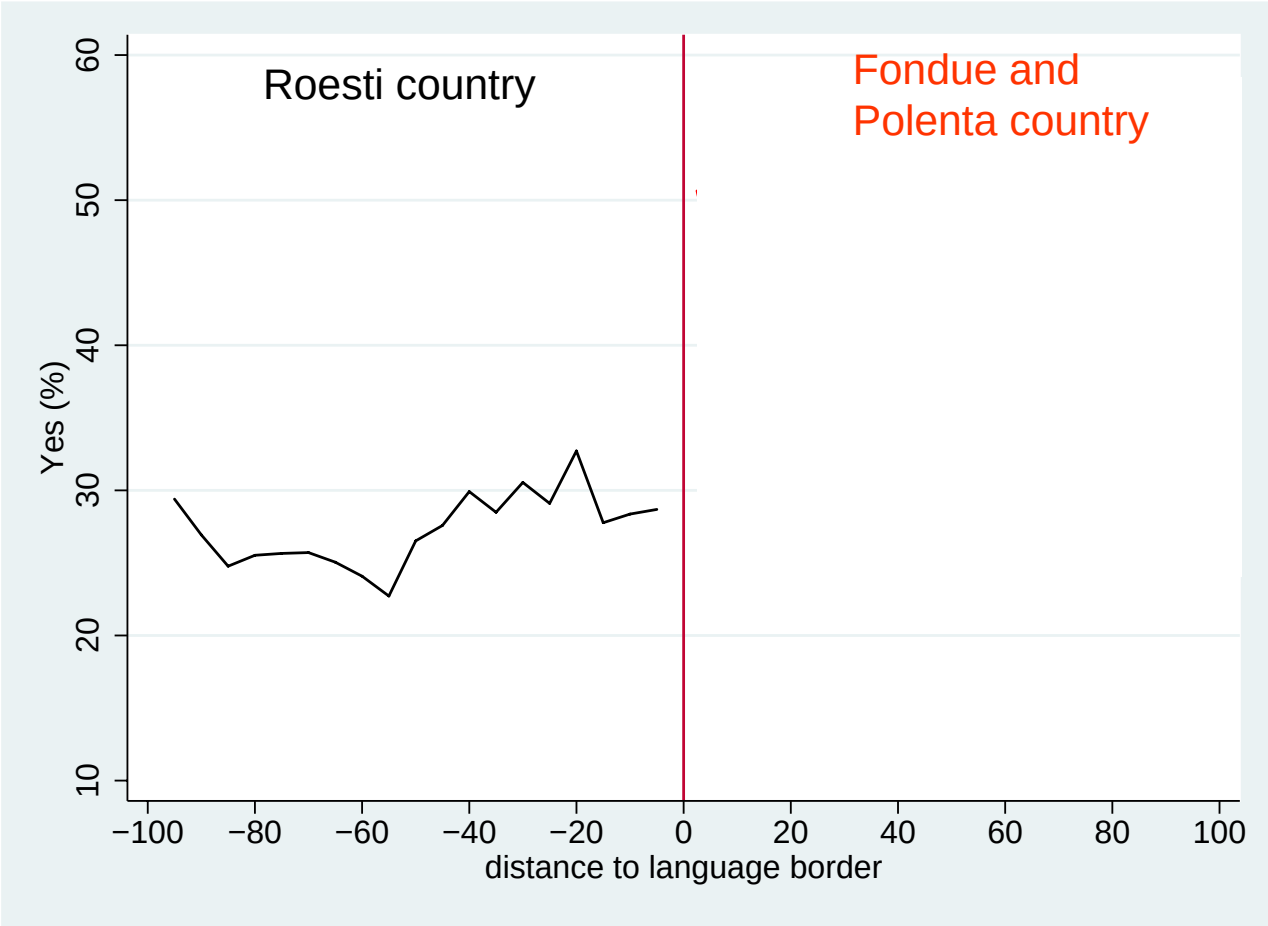
Table 4: The importance of various exit channels at the language barrier (competing risk analysis)

Cox Proportional Hazard Models (dependent variable is (log) unemployment duration)				
Model	Single Risk	Competing Risks		
Destinations	All	Job.Self	Job.PES	Unknown
Percent	0.81	0.47	0.17	0.17
	(1)	(2)	(3)	(4)
Latin	−0.313			
	(0.034) **			
Distance (in 100km)	0.049			
	(0.031)			
Distance * Latin	0.043			
	(0.054)			
Other controls	Yes	Yes	Yes	Yes
Observations	183,738	183,738	183,738	183,738

Puzzle

- Findings @ border:
  - Strong difference in unemployment duration
  - No (or weak) differences in terms of geography / composition / demand / market integration
  - Strong differences in rate of leaving to job.self; none to job.PES, Unknown
- Can cultural differences explain this?
  - Necessary: different attitudes @ border

Want to retire earlier? (1988)



Leisure culture

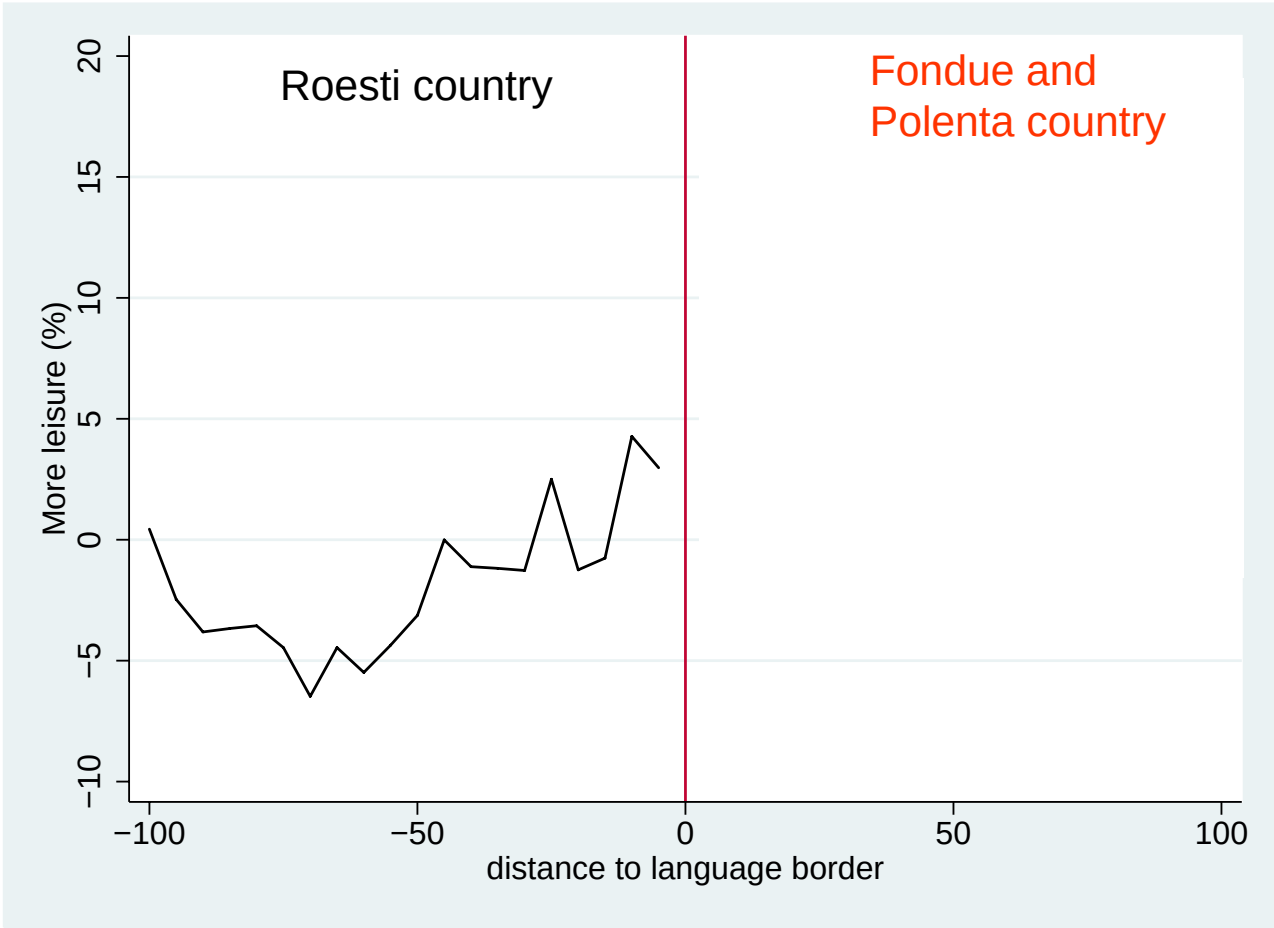


Table 5: The effect of culture on unemployment duration: IV results

Instrumental Variable Estimates (instrumental variable is culture)			
Dependent variable	(log) Duration	Culture	(log) Duration
	OLS	OLS	IV
	(1)	(2)	(3)
Culture (% favoring leisure)			0.025
			(0.006) ∗ ∗
Latin	0.207	8.107	
	(0.033) ∗ ∗	(1.433) ∗ ∗	
Distance (in 100km)	−0.006	8.218	−0.215
	(0.038)	(1.455) ∗ ∗	(0.085)∗
Distance * Latin	−0.120	−11.048	0.162
	(0.058)∗	(2.558) ∗ ∗	(0.096)
Other controls	Yes	Yes	Yes
Observations	183,738	183,738	183,738
R^2	0.12	0.54	0.11

How large an effect is this?

	Duration elasticity	Reference
Tastes for leisure	About 1	Brügger et al. (2008)
Benefit level	About 1	Carling et al. (2001)
Benefit level	About 1 (men) About 0.5 (women)	Roed & Zhang (2003)
Benefit level	0.16	Lalive et al. (2006)
Benefit duration	0.125	Card & Levine (2000)
Benefit duration	.09 (30-39 wks) .17 (30-52 wks)	Lalive et al. (2006)

Discussion

- Does culture matter for unemployment?
  - Setting where culture and institutions can be separated
- Four key findings
  - Strong unemployment (duration and rate) difference exactly *@ barrière*
  - Standard explanations unlikely to be important
  - Job seekers
    - less likely to leave to a job they locate themselves
    - PES and other reasons for exit do not differ
  - Strong differences in attitudes to work limits
  - > Culture may matter for unemployment
- Doesn't culture matter for more?

Culture and Babies