Converging Unemployment Insurance Schemes in the EU: Budgetary, Distributional and Stabilizing Effects

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Introduction

- High on the EU's political agenda: Strengthening economic policy coordination and setting EU-wide standards
- Proposed convergence of unemployment insurance schemes, with targets:
 - Strengthen automatic stabilization effects of UI
 - Increase the Eurozone's resilience against macroeconomic shocks
- \Rightarrow We assess the effects of converging UI systems along several dimensions:
 - What are the costs, distributional, and stabilizing effects of such reforms?
 - Which EU Member States would be affected the most?

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Why the Need for a New Model?

Existing models (EUROMOD) allow for a simulation of unemployment benefits, but with several important restrictions:

- Cross-sectional input data: lack of information on previous earnings and work history
- Rather rough simulation: precise calculation of monthly benefits, i.e. by assuming the maximum benefit duration in countries with varying benefit durations
- Back-of-the-envelope calculations cannot be applied to previously uncovered people who become eligible under a reform
- Impossibility of precisely distinguishing between short- and long-term unemployed



Our Model

- Detailed microsimulation model for 26 EU Member States' unemployment insurance systems
- Based on 2012 longitudinal EU-SILC micro household data
- Supplemented with LFS and EUROMOD data
- Allows simulation of:
 - Precise individual gross monthly unemployment benefits
 - Net benefits after taxation and withdrawal of other forms of unemployment assistance
 - Effect on coverage rates
 - Gross and net budgetary costs
 - Distributional effects by income quintiles
 - Effect on inequality indicators

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Reform Scenarios

Reform scenarios in line with EU policy considerations:

- Minimum standards in the baseline scenario:
 - Maximum qualifying to reference period ratio of 50%
 - Minimum duration 6 months
 - ▶ 50% net replacement rate for wages below 67% of average wages
- Separate and joint analysis of reform scenarios
- Sensitivity analyses with more generous reforms
 - Maximum qualifying to reference period ratio of 40%
 - Minimum duration 12 months
 - ▶ 60% net replacement rate for wages below 80% of average wages

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Simulation Procedure

- Focus on short-term unemployed individuals (< 1 year) only
- Detailed simulation of each country's unemployment benefit system, accounting for individual characteristics
 - > Age, family status, work experience etc. as benefit determinants
- Validation with LFS
- Simulations of reform scenarios: Introduction of common minimum standards
- Comparison of the reform scenarios to the status quo benchmark



Changes in Coverage Rates



Figure: QTR ratio 0.5, 6 months duration, 50% net replacement rates

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Changes in Gross Benefits



Figure: QTR ratio 0.5, 6 months duration, 50% net replacement rates

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Change in the Gini Index



Figure: QTR ratio 0.5, 6 months duration, 50% net replacement rates

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Changes in Coverage Rates



Figure: QTR ratio 0.4, 12 months duration, 60% net replacement rates

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Changes in Gross Benefits



Figure: QTR ratio 0.4, 12 months duration, 60% net replacement rates

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Change in the Gini Index



Figure: QTR ratio 0.4, 12 months duration, 60% net replacement rates

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Conclusion

- We develop a detailed microsimulation model to analyze the effects of convergence in EU Member States' unemployment insurance systems
- Focus of the model: Coverage, costs, and distributional effects
- Introduction of common minimum standards has a differential effect:
 - Largest impact on Portugal, Belgium, Estonia and Eastern European countries
 - Many Western crisis countries (Greece, Spain, Italy) less affected

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Next Steps

- Simulate the effects of macroeconomic shocks
 - How would the reformed UI systems react to a crisis?
 - Simulation of labor market shocks in line with the past financial crisis: Use the magnitude of the 2009 shocks
 - Or: simulate a shock of the same size for all countries
 - Contrast the responses of the status-quo and reformed systems



Thank you for your attention! Comments? Questions?

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