

Ronald Bachmann (RWI and IZA) and Boris Beimann (RWI):
Unemployment Insurance and Material Well-Being in Europe

The global economic and financial crisis has led to a strong and persistent increase in unemployment in many European countries. This leads to a number of adverse effects, in particular income losses at the individual and household level. Workers tend to employ different insurance mechanisms against such labour income shocks, including credit markets, intra-family transfers and public unemployment insurance. As pointed out by Bentolila and Ichino (2008), the use of these mechanisms greatly differs between industrialized countries. In particular, they show for Italy, Spain, Great Britain and the US that the welfare state provides very different levels of support in these countries; nevertheless, food consumption losses following a transition to unemployment of the household head are very similar. They argue that this is due to family support and the welfare state substituting each other in alleviating the material effects of unemployment shocks.

In this paper, we extend and qualify the analysis by Bentolila and Ichino (2008) in two directions using the European Union Survey on Income and Living Conditions (EU-SILC) data set. First, rather than proxying material well-being by food consumption, we make use of direct information on material well-being and the financial situation of individuals and households contained in the EU-SILC data set. Second, our analysis covers virtually all EU countries, enabling us to perform detailed cross-country comparisons.

The aim of the paper is to answer the question by how much the material well-being of individuals in different Members States of the European Union (EU) drops when they become unemployed, and to what extent this effect is mitigated by the provision of payments by the unemployment insurance system. In order to answer this question, we proceed as follows. First, we use the EU-SILC data to provide descriptive evidence on our main variables of interest. On the one hand, these consist in two indicators of material well-being, i.e. the “ability to make ends meet” and the “ability to face unexpected financial expenses”. On the other hand, we compute the extent and the generosity of the unemployment insurance systems in the Members States of the European Union by calculating the coverage rate, i.e. the share of the unemployed who receive unemployment insurance payments, and the net replacement rate, i.e. the ratio of unemployment insurance receipts relative to previous earnings.

In the second step of the analysis, we investigate econometrically how the payments of unemployment insurance are related to material well-being in the case of a transition from employment to unemployment. We do so in two ways. First, to uncover the link between well-being and unemployment insurance at the country level, we run separate regressions for our indicators of unemployment insurance and material well-being at the individual level, and extract the country fixed effects from these regressions. This yields estimates of our variables of interest at the country level which are adjusted for the composition of the population. Correlating these fixed effects shows the link between unemployment insurance and material well-being at the country level. Second, we run regressions with the indicators of material well-being as dependent variables and indicators of the unemployment insurance system as explanatory variables. In doing so, we use the two indicators of the unemployment insurance system computed from the EU-SILC data as described above, as well as institutional indicators at the country level such as the length of benefit entitlement in a particular country. The

coefficients of these explanatory variables provide a measure of the role of unemployment insurance payments for material well-being at the level of the individual.

The EU-SILC data set is particularly well suited for this analysis for several reasons. First, the panel structure of the data set allows to follow individuals over time and to identify transitions from employment to unemployment, as well as individual and household characteristics both before and after this transition. Second, the data set contains detailed information on the amount of unemployment insurance payments received by unemployed individuals and information on material well-being. Third, the data set offers internationally comparable information at the micro level, thus allowing inference about the research question at hand, i.e. differences in the importance of the unemployment insurance for material well-being between European countries.