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

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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

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?
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
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
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
Results

Baseline Scenario

Changes in Coverage Rates

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

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Results

Baseline Scenario

Changes in Gross Benefits

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

Baseline Scenario

Change in the Gini Index

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

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Converging UI Schemes
Changes in Coverage Rates

Figure: QTR ratio 0.4, 12 months duration, 60% net replacement rates
Changes in Gross Benefits

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

More Generous Scenario

Change in the Gini Index

[0,0] (0, -0.015] (-0.015, -0.045] (-0.045, -0.075] (-0.075, -0.22] No data

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

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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
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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