

Unemployment Insurance and Unemployment Dynamics in Europe

Konstantinos Tatsiramos* and Jan C. van Ours†

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Abstract

UI provides unemployed workers with benefits in order to smooth consumption but also creates disincentives for employed workers to retain their jobs and unemployed workers to find new jobs. With the emergence of the Great Recession attention focused on the insurance part of UI, but UI disincentives are still a major issue of policy concern. In this paper, we discuss results from recent empirical studies that relate UI design features to unemployment dynamics in European countries. Furthermore, we discuss the potential to strengthen financial incentives to increase the outflow from unemployment to work. We conclude that UI systems have disincentive effects which may be reduced through a clever design. Accompanying financial incentives may reinforce these design features.

Keywords: Unemployment insurance, unemployment dynamics

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*University of Leicester and IZA; tatsiramos@iza.org

†Department of Economics, CentER, Tilburg University, The Netherlands; Department of Economics, University of Melbourne, Parkville, Australia; CEPR, CESifo and IZA; vanours@gmail.com.