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Konstantinos TATSIRAMOS, *Geographic labour mobility and unemployment insurance in Europe: a cross-country comparison using the ECHP*

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The purpose of this paper is to study how unemployment insurance benefits affect the incentives of unemployed to accept a job which requires a move. Conventional wisdom suggests that unemployment benefits create a stronger geographic attachment by lowering the willingness of the unemployed to accept job offers. This paper develops a stylised model of job search in which the incentives for benefit recipients to move for a new job are enhanced if benefits are used to subsidise the cost of moving. We assess empirically the effect of benefits on geographic mobility using individual data from the ECHP (1994-1999) for France, Germany, Italy, Spain and the UK. Contrary to the conventional wisdom, we find that unemployment benefits do not create an adverse incentive effect on the probability to move for a new job. In particular, we predict that among recipients the probability to move is the lowest for those in the UK, which has the least generous benefit system. The estimation is based on binary choice panel data models. To account for endogeneity of the unemployment and benefit status with unobserved individual heterogeneity, we follow Chamberlain (1980) by estimating random and fixed effects models. The results for the effect of unemployment benefits on mobility are invariant to the estimated model.

Apart from the effect of unemployment benefits, we provide evidence on the effect of labour market status and other individual characteristics on mobility. The empirical findings confirm the results in the literature according to which the unemployed are more likely to move compared to the employed. Young individuals are more mobile in the North (France, Germany and the UK) compared to Italy and Spain, reflecting the importance of family and its effect on the decision of young to move the parental home. Being married and the number of children have also a negative effect on mobility in Italy and Spain, while they are not significant for the other countries. Higher education enhances mobility, which may be justified by the fact that highly educated individuals have access to the national labour market compared to the low skilled who tend to search more into the local labour market. Home ownership is found to prevent mobility confirming Oswald's hypothesis, which states that owners are less mobile due to the costs associated with buying and selling their home.

JEL classification: J61; J65; C23; C25;

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