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The choice of insurance in the labor market

Abstract:

Employment protection and unemployment benefits are considered as the most prominent insurance devices for workers to protect themselves against the risk of unemployment.

It occurs that societies either choose a high level of employment protection relative to unemployment benefits or vice versa. The speech explains where countries locate on this trade-off. It is argued that higher coverage of voters out-of-the labor force with intra house-hold transfers yields a politico-economic equilibrium with relatively high employment protection and relatively low unemployment benefits. Cross country data and survey data on voters' preferences are presented that corroborate the outcomes of the model.