Earnings shocks and welfare buffers. Southern Europe in comparative perspective

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Is welfare able to buffer earnings losses? Drawing inspiration from recent contributions focusing on the European context (Helgason 2016; Ehlert 2016; Di Nallo and Oesch 2020), we want to further assess the buffering role of welfare in the case of significant earnings losses at household level. Using longitudinal EU-SILC and SOEP data, we compare four Southern European countries (Greece, Italy, Spain, and Portugal) to four comparator countries (Denmark, France, Germany, and the United Kingdom) along three time-periods occurring before, during and after the Eurozone crisis (2004-2008, 2009-2013 and 2014-2018). Our driving research questions are:

- How many of the households suffering earnings shocks were offered income support? (that is the Coverage rate);
- What proportion of lost earnings was made up by income support (in those households who were offered income support, a rate that we called Compensation)?
- What proportion of total earnings losses was made up by income support (among all households suffering an earnings shock, that is the Buffer effect)?

We define a household earnings shock as a 20% loss (or higher) of the total earnings perceived by the household in a year (t1) as compared to the previous year (t0). Our sample corresponds to a selection of all households with at least one earner aged 15-64, dropping out all households with older members and/or perceiving pensions or invalidity benefits, which structurally contribute to household income and may bias the welfare buffering role as respect to earnings losses that we want to test. We also excluded from the analysis those households whose total disposable income decreased less than 10% in t1 while total earnings dropped at least 20%, keeping the welfare component constant in t0 (not to account for an eventual increase).

Our measure of welfare buffer includes all the subsequent in-cash benefits: unemployment benefits (including Cassa integrazione/Kurzarbeit, severance pay, retirement bonus); other individual benefits (sickness benefits and education grants); family benefits (related to children); other household benefits (housing and minimum income schemes). Coverage, Compensation and Buffer rate are computed first on the whole sample, and then on the subsequent set of sub-samples of households:

- Below and above the poverty line;

- With children and without children;
- Single earner (including also single parents and single breadwinner households) and multiple earners (including also three earners households, e.g. parents with working son or daughter);
- With dependent employee/s only and with at least one self-employed.

Finally, to discuss the macroeconomic implications of our findings and suggest more effective public policies, we also checked whether welfare buffers in Europe can be considered either counter-cyclical or pro-cyclical. On the one hand, as citizens' earnings contract (e.g. in a recession), income support policies can kick in to mitigate their loss, acting counter-cyclically as 'social stabilizers'. On the other hand, income support policies may also be retrenched during a recession, as happened in the Eurozone crisis due to Austerity measures. In the last case welfare buffers act pro-cyclically, making the recession deeper. Our results inform about how effectively the welfare systems across Europe worked in respect of both citizens' income protection and the overall economy over the last huge crisis.