

Social and unemployment insurance: a comparative analysis for Europe

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Content of the module

- Public economics and the regulation of labour markets
- Unemployment insurance: a comparative analysis for Europe.
- Introduction to job search theory.
- Optimal unemployment insurance.
- Unemployment insurance: empirical evidence on its effect.
- Employment protection and its theoretical effects.
- Employment protection in Italy and in Europe.

Public Economics and Labour Markets

- Public economics deals with government interventions in the economy.
- Public economics tries to explain from an economic point of view:
 - Why governments should intervene in the economy.
 - How governments should intervene.
 - The consequences of public intervention

Reasons of interventions

- Among the reasons for government intervention there are:
 - 1) Market Failures (Externalities, Public goods etc...).
 - 2) Redistribution.
 - 3) Merit goods.

Public Economics and Labour Markets

- Government should intervene in the working of the labour markets:
 - For redistributive reasons (transferring money to workers earning too little or nothing).
 - To correct market failures that could be present in the labour market
 - To impose some ethical values that the markets may not promote (the merit goods)

Public Economics and Labour Markets

- In this module we are covering to main aspects of public intervetion of labour markets:
 - Support to unemployment in the form of **Unemployment Insurance**
 - Protection of the rights of employed workers in the form of **Employment Protection**

Money to unemployed workers

- Consider now a policy consisting in giving money to unemployed workers.
- Can this be motivated from from a public economics perspective?

Money to unemployed workers

- Giving money to unemployment can be motivated for redistributive reasons but also because of market failures.
- In this latter case the reasons for market failure comes from problems of asymmetric information and moral hazard.

Asymmetric information, moral hazard and unemployed workers

- A government can give money to unemployed workers to help him facing an unexpected period of time when he cannot find a job.
- But, alternatively, the worker could have obtained a private insurance to cover him in case of unemployed.
- That is, the worker could go to a private insurance company, pay them an amount each months and in exchange get back a larger amount of money if he lose a job.
- If this is the case, the market can take care of the problem of unemployment and public intervention is not needed

Asymmetric information, moral hazard and unemployed workers

- However a private insurance against unemployment can hardly exist because of:
- **Asymmetric Information:** the insurance company does not know exactly the quality of workers and does not know the probability that he lose the job (while workers knows this information).
- **Moral Hazard:** once the worker has a private insurance against unemployment his behaviour will change. He will put effort in the job (increasing the probability of being fired) and, in particular, once he becomes unemployed he will put less effort in finding a job (given that he is paid to be out of work!).

Asymmetric information, moral hazard and unemployed workers

- Given **Asymmetric Information** and **Moral Hazard** the private sector cannot provide an insurance against unemployment and therefore the public sector should intervene to create a public insurance against unemployment or some other transfer of money to people out of work.

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Social Insurance, Unemployment Insurance and Social Assistance

- **Social insurance:** it is an *insurance* that workers pay to some public institutions and that covers them in case of some events (usually illness, accidents, old age, unemployment and so on).
- **Unemployment insurance:** it is an *insurance* that workers pay to some public institutions and that covers them in case of unemployment.
- **Social assistance:** it is an amount of money that the governments transfer to individuals. It is not an insurance and these individuals did not pay anything to receive it.

Social Insurance, Unemployment Insurance and Social Assistance

- In this module we focus on unemployment insurance (and not much on social insurance in general).
- We will cover several aspects of unemployment benefits: practical, theoretical, empirical and comparative

Unemployment insurance

- Unemployment insurance systems consist in a mechanism that pays amounts of money (benefits) to certain individuals when they are unemployed.
- UI systems are usually made up of an infrastructure that is the same in all systems.

UI building blocks

- **Eligibility requirements:**
- In order to be eligible to receive benefits workers must satisfy some eligibility requirements.
- Often they are in the forms of previous months/years of employment and of contribution to some welfare funds.
- This, in general, prevent new entrants in the labour market to be eligible for benefits.
- If the system did not require any previous contribution it is not exactly structured as "insurance" but rather as "assistance"

UI building blocks

- **Requirement during benefits reception**
- Workers on benefits are often asked to maintain some behaviour during this period. Failure to maintain such compulsory behaviour should imply the suspension or termination of the benefits.
- Typical examples can be the requirement of active search (unemployed must prove to be actively searching for a job), of attending training courses and the obligation of not refusing job offers.

UI building blocks

- **Employment services during reception**
- Workers on benefits are usually offer some employment services during this period. In particular they are generally offered:
 - Counseling through several interviews with job counselor that advise them how to better search for a job.
 - Direct offers of jobs that appear to be suitable for the worker.
 - Training course to enhance the skills and the employability.
 - A personal plan which describe in details the course of action to follow in order to improve employability.
 - All this activities are in general carried out by public employment centre (even if private alternatives are sometimes offered).

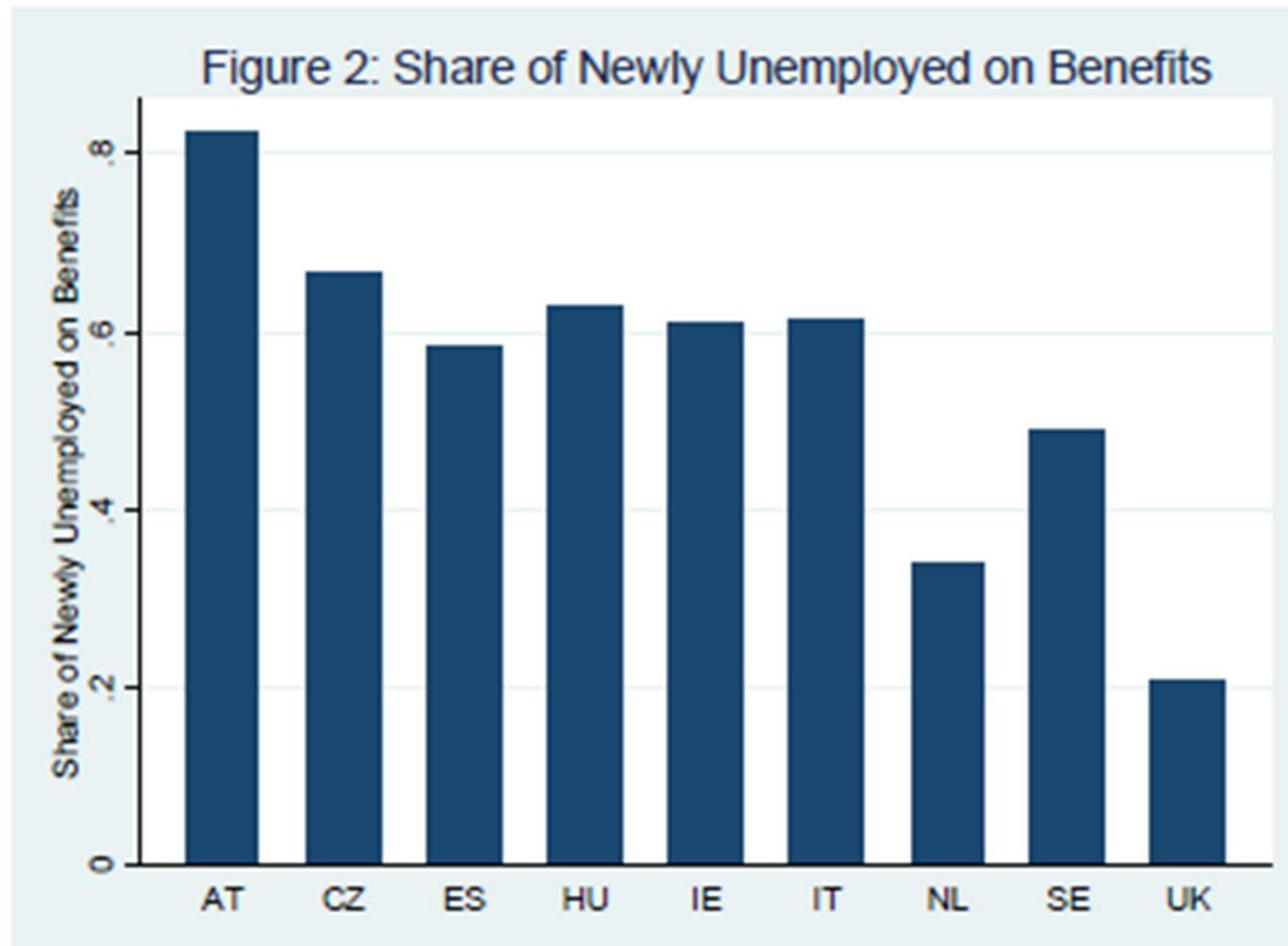
UI building blocks

- **Amount paid as benefits**
- The actually amount paid is usually computed as a percentage of last wage (or an average of wages during the last few years). A ceiling to the benefits is usually also added.
- In general benefits are taxed at the normal rate and in some cases (but not always) contains pension contribution.

UI building blocks

- **Maximum duration**
- Benefits usually have a maximum duration in months/years after which benefits expires and workers stop receiving them.
- In some case duration also affect the amount received: benefits amounts decrease through duration.
- Maximum duration usually depend on workers age (older get longer benefits) and on how long the worker contributed before becoming unemployed.

A comparison of European UI system



A comparison of European UI system

- We compare systems on two dimensions:
- The generosity of the system (amounts and duration)
- Active Employment Services and Search Requirements (how the unemployed is helped in finding a job and how stringent are the search requirements).

Unemployment benefits

Table 1: UI Schemes Characteristics

	Generosity Ranking among OECD	SA	Requiring previous employment	Amount of benefits	Max. Duration	Notes
Austria	9th/29	Y				
UI			Yes	55-60% of PW	20-30 weeks	Older individuals get extended duration
UA			No but requires UI	92% of UI	unlimited	Starts after UI is exhausted
Czech Rep.	23rd/29	Y				
UI			Yes	50% of PW (45% after 4th month)	6 months	Extended duration for older workers
UA			No	60% of PW	Depends on program	Only for workers in a training program
Hungary	20th/29	N				
UI			Yes	Initially 60% of AW, then 60% of MW	9 months	
UA			No but requires UI	40% of MW	3 months	Extended duration for older workers
Ireland	20th/29	Y				
UI			Yes	186 € per week	15 months	Amount change depending on family composition

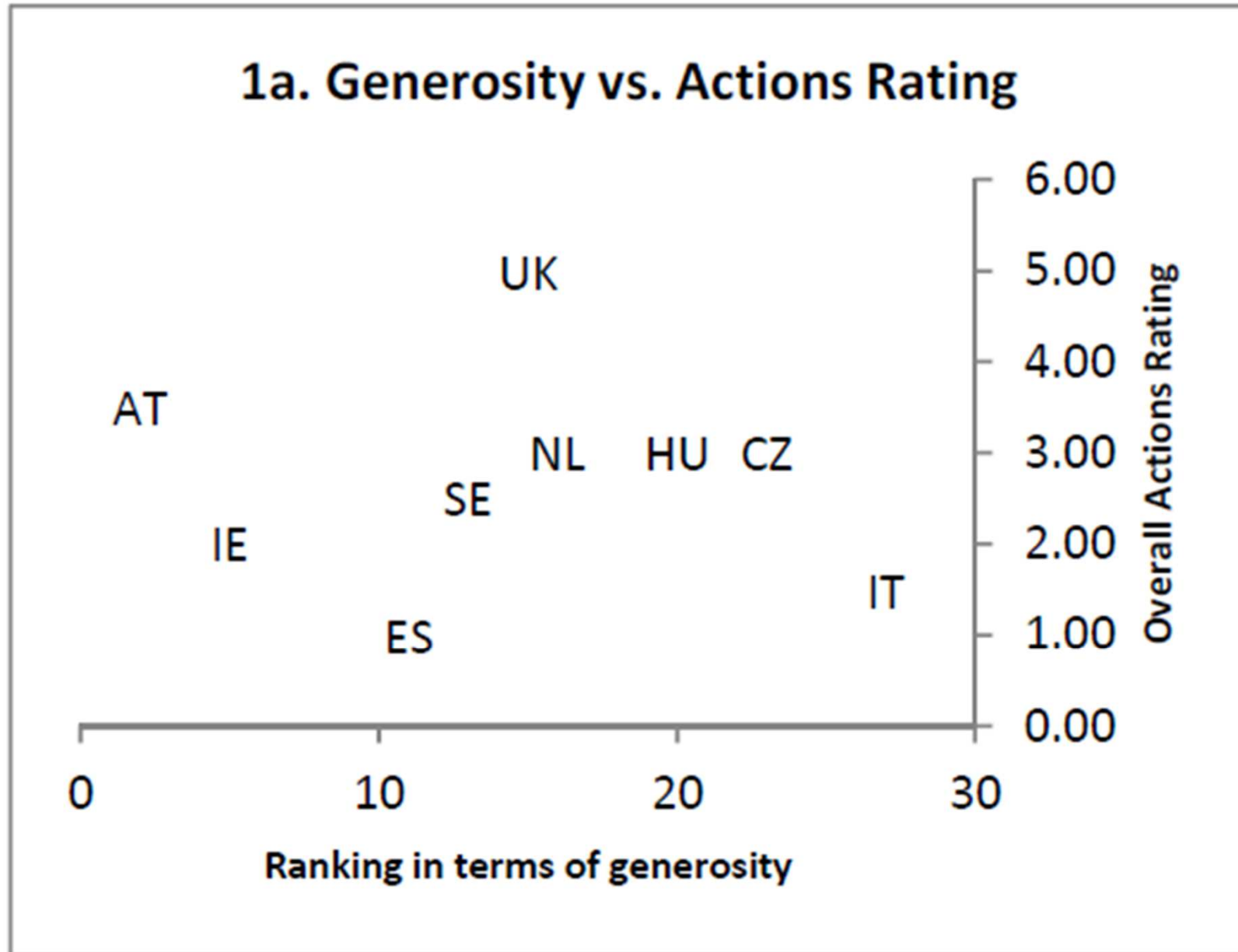
Unemployment benefits

Italy	27th/29	N				
UI			Yes	50% of PW (40% during last month)	7 months	Older individuals get extended duration
Netherlands	16th/29	Y				
UI			Yes	75% of PW (70% after 3rd month)	6-38 months depending on past contributions	A lower insurance exist for those not meeting contributions required
Spain	11th/29	N				
UI			No, but require contributions	70% PW (60% after 6th month)	12-24 months depending on past contributions	Has lower and higher limit that depends on family composition
UA			No, but requires UI	80% of base income (IPREM)	6 months extendible up to 18	Base Income (IPREM) is set by government and was 500€ in 2007
Sweden	13th /29	Y				S.A requires job search
UI			Yes	80% of PW for 200 days and then 70%	300 days	Voluntary
UA			Yes	360 SEK	300 days	It is not applied after UI is exhausted
UK	15th/29	N				
UI			Yes	59.15£	6 months	Lower amounts for workers below 25 years
UA			No	59.15 less actual income	unlimited	Amounts change depending on family composition

Measuring Active Employment Services and Search Requirements

- We evaluate several aspects:
 - 1) Placement efforts at initial registration
 - 2) If and when an individual action plan is devised
 - 3) Frequency of search of reports on search activity
 - 4) Whether a proof of search is revised
 - 5) Whether counseling is given also at later stages of unemployment spells.
- Point 1 and 2 makes up the "initial" activity of the system.
- Point 2,3,4 and 5 makes up the "continuing" effect of the system.
- We will give a score of 0, 0.5 or 1 to each of these aspects to each system and obtain a score for the "initial", "continuing" and "overall" activity.

Generosity and activity



Initial and continuity activity

