

Wage insurance, part-time unemployment insurance and short-time work in the XXI Century

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Challenges

- ▶ In advanced economies
 - ▶ about 15% of jobs are destroyed every year
 - ▶ about the same proportion is created
- ▶ Even more important reallocation of manpower across jobs
- ▶ This phenomenon
 - ▶ essential ingredient of productivity growth
 - ▶ has social costs
- ▶ New economy reshapes jobs
 - ▶ Automation of tasks, online platforms
 - ▶ ⇒ temporary work, part-time work, self-employment, alternative work arrangements

Challenges

- ▶ Rise in alternative work arrangements
 - ▶ + opportunities for more employee-friendly options (flexible schedules, working from home...)
 - ▶ + favor the labor market participation of women, students...
 - ▶ – job stability and quality

Challenges

- ▶ Rise in new forms of employment and in skills requirements \Rightarrow
 - ▶ growing numbers of individuals need support in maintaining income and transitioning between jobs
 - ▶ unemployment insurance plays a key role:
 - ▶ smooth consumption
 - ▶ reallocation towards more productive jobs
- ▶ Need to adapt unemployment insurance to the new economy

Challenges

- ▶ Two main challenges:
 - ▶ rise in new forms of employment, less stable
 - ▶ large losses of long-tenured displaced workers
- ▶ Tools:
 - ▶ instability → part-time unemployment benefits
 - ▶ large losses →
 - ▶ Wage insurance
 - ▶ Short-time work

Challenges

Adaptation of unemployment insurance: difficult task

- ▶ Adaptation of unemployment insurance: difficult task
- ▶ Moral hazard → need to provide incentives to look for jobs
 - ▶ provide only partial compensations for income drops
 - ▶ important to adapt the eligibility for unemployment benefits to the diverse forms of work arrangements
- ▶ Adverse selection → insurance attracts individuals with high unemployment risk
 - ▶ Insufficient insurance in new sectors with more unstable jobs → slows the new economy
 - ▶ Too generous insurance: attracts many workers with high unemployment risks
- ▶ Policival reasons
 - ▶ Interest groups can lobby to get favorable schemes
 - ▶ example: artists and technicians of the entertainment sector in France

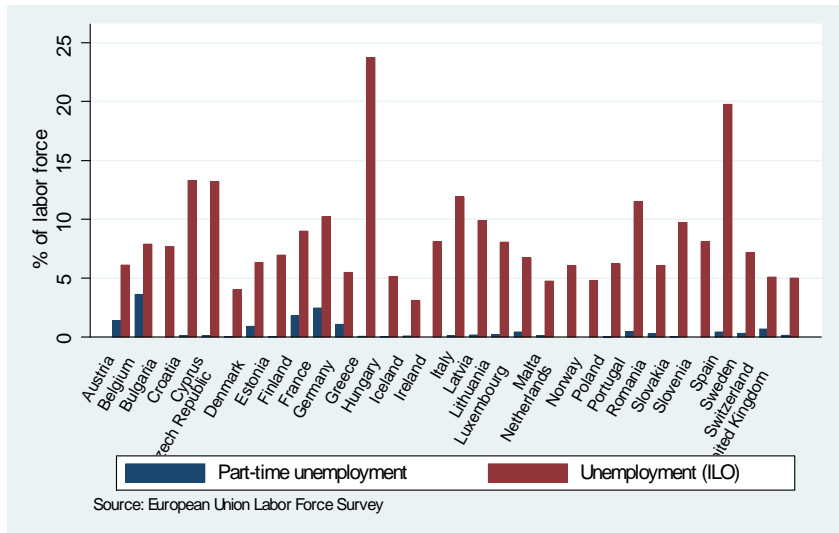
Challenges

- ▶ Needs to know in detail
 - ▶ how systems work
 - ▶ how people behave
- ▶ Plan
 1. Part-time unemployment insurance
 2. Wage insurance
 3. Short-time work

1. Part-time unemployment insurance

- ▶ Part-time unemployment insurance: benefits paid to persons working part time who have lost a full-time job or an additional part-time one, and are seeking a new job in order to work more hours.
- ▶ Government schemes providing part-time unemployment benefits: scarce and very small
 - ▶ Belgium, Finland, Portugal and Sweden
 - ▶ Less than 1% of labor force
- ▶ Private or semi-public schemes are more frequent, but remain small

1. Part-time unemployment insurance

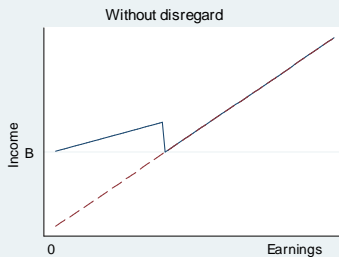
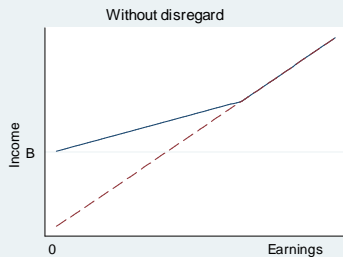


1. Part-time unemployment insurance

Strong heterogeneity of programs across countries

- ▶ There is a great diversity of rules
 1. relation between the current earnings of individuals from short or part-time employment and current unemployment benefits
 2. implications of current part-time unemployment on future unemployment benefits entitlement
 3. duration of part-time unemployment benefits

1. Part-time unemployment insurance



1. Part-time unemployment insurance

Implications for unemployment benefits entitlement

- ▶ In some countries, the savings on benefits, which are not paid to claimants for periods in which they work, are carried forward and made available to these claimants at the end of the period of benefit entitlement (Canada, Finland, France, Israel, Norway, Poland, Sweden, U.S)
- ▶ In other countries (e.g. Germany, Hungary, Portugal), unpaid benefits are not carried forward to the end of the period of benefit entitlement
- ▶ The income earned by part-time unemployed workers can allow them to get eligibility for new periods of benefit entitlement

1. Part-time unemployment insurance

Duration of part-time unemployment benefits

- ▶ In general, the duration of part-time unemployment benefits is limited by the potential duration of unemployment benefit entitlement
- ▶ But this potential duration can be extended by part-time unemployment if the benefits which are not paid to claimants for periods in which they work are carried forward to the end of the period of benefit entitlement
- ▶ In order to limit the possibility that individuals remain entitled to part-time unemployment benefits for long periods, several systems limit their potential duration

1. Part-time unemployment insurance

The potential effects of part-time unemployment insurance

- ▶ Part-time unemployment insurance supplies incentives to job seekers who are looking for stable full-time jobs to accept part-time jobs or short full-time jobs in the mean time
- ▶ Pros:
 - ▶ better access to regular and more stable jobs if employers use non-regular jobs to screen workers
 - ▶ enlarge job search network
 - ▶ enables the acquisition of valuable new skills which raise the individual's ability to compete for regular jobs
 - ▶ cost effective for unemployment insurance
- ▶ Cons:
 - ▶ the promotion of non-regular employment may be detrimental to regular employment
 - ▶ raises income uncertainty
 - ▶ reduces the incentives to invest in human capital
 - ▶ impedes career prospects and long-term earning opportunities

1. Part-time unemployment insurance

Lessons from empirical studies

The main issue addressed by the empirical literature on part-time unemployment insurance is the impact of part-time unemployment benefits on access to non-regular and regular employment

- ▶ Part-time unemployed workers
 - ▶ matched with employers more frequently
 - ▶ access regular jobs faster
 - ▶ cost effective for unemployment insurance
- ▶ However, part-time unemployment benefits may favor short and part-time jobs at the expense of regular employment
 - ▶ strict eligibility conditions
 - ▶ monitoring and counseling

1. Part-time unemployment insurance

Lessons from empirical studies

- ▶ Exemple: part-time unemployment insurance benefit for show-business workers in France
 - ▶ If they work at least 2 months over any 10-month period, show-business workers can combine earned income with unemployment benefits indefinitely
 - ▶ The number of show-business workers claiming unemployment benefits jumped from 7000 to 113,000 from 2015
 - ▶ Show-business workers are paid 5.2 times more allowances than their contributions
- ▶ Inefficient system, difficult to reform

2. Wage insurance

Wage insurance in the OECD countries

Wage insurance provides partial replacement of lost wages to displaced workers who accept pay cuts

- ▶ Benefits are temporary and are reserved for workers who face wage losses when they change jobs
- ▶ Very rare, small programs, United-States, Germany, Japan, France, Canada

2. Wage insurance

Wage insurance in the OECD countries

- ▶ United States: Alternative Trade Adjustment Assistance (ATAA) for Older Workers (2002)
 - ▶ targets displaced workers over 50 year old, whose job destruction is caused by foreign trade
 - ▶ wage subsidies if they obtain full-time jobs that pay no more than \$50,000, earn less than they did in their prior jobs, and find employment within 26 weeks of becoming unemployed
 - ▶ The subsidy is equal to 50 percent of the wage drop for up to two years
 - ▶ It is capped at \$10,000
- ▶ The ATAA program is small: less than 100,000 workers begin receiving income support each year

2. Wage insurance

Wage insurance aims to compensate displaced workers for wage losses.

▶ Pros

- ▶ improves labor earnings for workers adversely affected by economic restructuring
- ▶ can reduce the periods of unemployment and increase employment and earnings
- ▶ can help improve the level of public support for international trade, and more widely, public acceptance of technological changes

▶ Cons

- ▶ Equity concern for difference of treatment of eligible and non eligible workers
- ▶ Wage insurance can induce workers to accept low quality jobs and to remain in these jobs as long they are getting compensated for their wage loss

2. Wage insurance

Lessons from the empirical literature

- ▶ Time-limited in-work benefits have
 - ▶ temporary positive employment effects
 - ▶ vanish when the benefits stop being paid

⇒ wage insurance

- ▶
 - ▶ has limited impact on the reemployment prospects
 - ▶ not proof of cost effectiveness for unemployment insurance

3. Short-time work

- ▶ Short-time work is a public program intended to preserve jobs in firms experiencing temporarily low revenue income support to employees whose hours of work are reduced
 - ▶ employees keep their jobs
 - ▶ compensated for the non-worked hours
 - ▶ cost shared by the employer and the state

3. Short-time work

The design of short-time work schemes

- ▶ Eligibility criteria
 - ▶ evidence of slowdown in their economic activity
 - ▶ existence of collective agreements
 - ▶ eligibility for unemployment insurance benefits
- ▶ Often conditional on actions to be taken by firms or employees
 - ▶ commitment not to dismiss employees for a certain period
 - ▶ job search requirements design of a recovery plan
 - ▶ training of employees

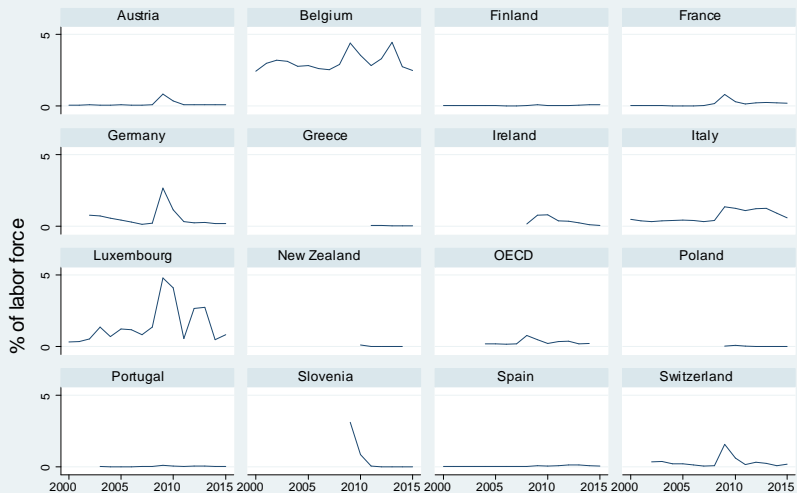
3. Short-time work

The coverage of short-time work

- ▶ The fraction of the labor force using short-time work under normal circumstances is low in most OECD countries
 - ▶ in 2015, from zero in many countries to 2.5% in Belgium
 - ▶ low share of public expenditure, from zero to 0.28% of GDP

3. Short-time work

Short-time work take-up rate



OECD Data

3. Short-time work

The potential effects of short-time work

- ▶ Pros
 - ▶ reduce layoffs, the social costs of which are high
 - ▶ evidence of inefficient layoffs during recessions because credit constraints
 - ▶ effective means to subsidize employment compared to other policies like wage or hiring subsidies
 - ▶ equitable because it distributes the adjustment burden of hours of work over a large number of workers
- ▶ Cons
 - ▶ distorts downwards the number of hours worked per employee
 - ▶ recurrent use of short-time work by firms facing seasonal activity fluctuations
 - ▶ dampens the reallocation of jobs toward the most productive firms
 - ▶ mostly benefits permanent workers \implies may accentuate the labor market segmentation between stable and unstable jobs

3. Short-time work

Lessons from empirical studies

- ▶ Macroeconomic evaluations
 - ▶ positive impact of short-time work on employment during the 2008-2009 recession
 - ▶ 1 percentage point increase in short-time work compensation take-up rates \Rightarrow decrease of one percentage point in unemployment
 - ▶ no significant impact on temporary workers
- ▶ Microeconomic evaluations
 - ▶ scarce and mostly use firm level sources in Germany and France
 - ▶ Diverging results, so far
- ▶ Empirical evidence, scarce and insufficient, suggests that short-time work can be effective at saving jobs in recessions

Concluding remarks

- ▶ Many possibilities to improve current insurance systems

1. Part-time unemployment insurance

- ▶ key to support the development of new forms of employment
- ▶ However, to limit the substitution of non-regular employment for regular employment, the contributions of non-standard workers should balance the benefits they receive
 - ▶ Equal mandatory contributions for standard and non-standard workers
 - ▶ adjust the eligibility conditions for each type of worker to ensure that their contributions balance their benefits.

→ avoids the selection issue and facilitates transitions between standard and non-standard employment

Concluding remarks

2. Short-time work can be effective at saving jobs in recessions
 - ▶ limited to firms facing genuine difficulties
 - ▶ time-limited to avoid reducing hours worked excessively and dampening the reallocation of jobs toward productive firms
 - ▶ Experience-rated in order to prevent abusive and repeated use
3. Little support for wage insurance systems
 - ▶ difficult to justify on equity grounds
 - ▶ little incentive effects, if any, for individuals to find and keep regular jobs
 - ▶ may be used together with other interventions (training, monitoring)

Concluding remarks

- ▶ Very little empirical evidence about the consequences of large-scale schemes likely to significantly favor sustained and inclusive growth
- ▶ Second, there is a strong demand for insurance expressed by interest groups whose purposes are not necessarily aligned with the general interest.

⇒

1. the implementation of new insurance schemes should be undertaken cautiously
2. must rely on empirical evidence demonstrating their effectiveness