

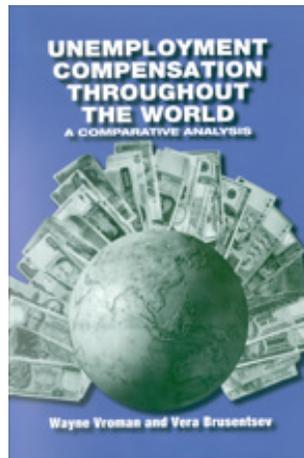
Upjohn Institute Press

---

## Introduction

Wayne Vroman  
*Urban Institute*

Vera Brusentsev  
*University of Delaware*



Chapter 1 (pp. 1-6) in:

**Unemployment Compensation Throughout the World: A Comparative Analysis**

Wayne Vroman, Vera Brusentsev

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2005

# 1

## Introduction

This book springs from the knowledge that many people are worried about unemployment, concerned about the attendant loss of income, and anxious about their ability to sustain the standard of living to which they have become accustomed. Public programs that provide temporary income support during periods of unemployment can ease the anxiety and concerns associated with joblessness. Yet, unemployment protection programs themselves lead to other worries: adequacy of program benefits, costs of administration, disincentive effects, the extent of coverage, and potential long-term dependency. This list is by no means comprehensive, but it does highlight various concerns about unemployment protection programs. It is understandable that such programs should conjure up these worries. The challenge is to find successful compromise between the competing sets of concerns. The responses to these concerns differ in individual countries, but the responses reflect deliberate policy choices.

This book examines unemployment compensation (UC) throughout the world. Unemployed workers in many countries receive cash payments from UC programs. Such benefits provide income support for temporary periods, replacing part of the loss of earnings caused by unemployment. Unemployment compensation is a long-established social protection program that is present in most of the world's major geographic areas. At the start of the twenty-first century, approximately 70 countries have UC programs.

While the subject has been discussed in a multitude of articles and books, several recent developments have led to institutional changes in the world economy, commonly described as globalization. With such changes comes new information and new insight. Three important developments call for a general assessment of the current state of international UC. First, the number of countries with UC increased sharply in the 1990s with the introduction of new programs in Central and Eastern Europe (CEE) and in the successor states of the former Soviet Union (FSU).

Second, the East Asian financial crisis saw a dramatic shift from a path of high growth to a sharp decline in economic activity, damaging both the economic and social fabric of countries in the region, particularly in Indonesia, Malaysia, the Philippines, Korea, and Thailand. Responses included the introduction of programs to provide income support for the unemployed as well as increasing caseloads for established programs.

Third, the structure and administration of UC programs have changed in a number of countries. For instance, some recently implemented changes in Bulgaria, Chile, Germany, and Korea have potential for adoption in other countries. In particular, the new unemployment insurance (UI) program in Chile presents a strong contrast not only with UI programs in its own immediate past but also with other programs from the region and elsewhere in the world. Because of its strong emphasis on individual accounts, its evolution will be watched with interest by many countries. In Bulgaria, matching information on benefit payments and covered earnings has resulted in improved benefit payment accuracy.

These recent developments in the global economy present an opportunity for reviewing and assessing the challenges facing UC programs. This volume provides a self-contained discussion of UC that requires no specific training in economics. While maintaining a rigorous style, it is readily accessible and provides extensive material from which to learn about developments, trends, issues, and problems related to UC. The broad coverage of topics makes it appropriate for a wide audience, including policymakers and administrators of UC programs.

As the title suggests, a study of UC throughout the world covers a wide range of issues. This book presents up-to-date treatment of the subject by highlighting selected topics. While the book provides a global perspective and reviews UC programs in a number of different countries throughout the world, the specific problems addressed in the final chapter are more relevant for developed countries.

The book has four principal objectives. The first is to establish the link between macroeconomic performance in the product market and the labor market and to argue for the necessary role of unemployment protection. In the long run, growth in employment is influenced by

growth in real output. This linkage shows that strong (or weak) performance in the product market is transmitted to the labor market. And when output growth slows, employment growth is adversely affected. For workers and families who experience unemployment, income decreases and it is difficult to sustain the standard of living to which one is accustomed. If self-protection, insurance, or coping mechanisms leave the unemployed unprotected, then there is a definite role for public programs of income support and other services. Strong real output growth raises employment, reduces unemployment, and decreases both the need for, and the costs of, unemployment protection.

The second objective is to provide an overview of UC programs throughout the world, supported by case studies of individual countries from four specific regions. The overview includes an accessible survey of the prevalence and growth of UC by geographic area. It also undertakes a statistical (regression) analysis of the determinants of UC in countries. This is a logical way of analyzing the developments and trends in international UC in the last 50 years.

The case studies are intended to help the reader understand the unique issues facing UC programs in each region. For instance, persistently high inflation is a particular problem in many South American countries. Most of the countries in this geographic area have more than one program that provides income security to the unemployed. Without effective indexation provisions, however, high inflation would quickly erode the real value of monthly UC benefits and benefits from other programs.

The third objective is to introduce the reader to the issues of actuarial costs of UC programs. Here the approach is quantitative and comparative, but the exposition is relatively nontechnical. The fitted equations are straightforward algebraic expressions that depict macroeconomic relationships. With data increasingly available from international organizations as well as individual country statistical agencies, one can secure a wealth of information on labor market indicators, UC program statutes, and quantitative data on UC program performance.<sup>1</sup> This volume utilizes several of these sources of information.

Finally, three important problem areas of UC are examined: coverage, continuing benefit eligibility, and the activation of the long-term unemployed. While these three problem areas extend across a broad

range of countries, they differ for high-income compared to low-income countries. The treatment of the issues is strongly oriented toward high-income countries of the developed world, an in-depth treatment that permits a more thorough discussion.

There are nine chapters in this book. Chapter 2 introduces several topics relating to macroeconomic performance and provides important background information for the rest of the book. First, it reviews key indicators of economic activity for a sample of 150 countries, each having a population of at least one million in 1999; the countries are grouped into eight major geographic regions. The macroeconomic indicators from the product markets of these economies include per-capita real gross domestic product (GDP), real GDP growth, and the inflation rate. This chapter highlights contrasts across the eight regions for these indicators in the years from 1970 to 1995. Second, the chapter reviews key labor market indicators, with attention on the measurement of unemployment and the unemployment rate, emphasizing data from labor force surveys. Finally, the chapter examines the linkage between changes in real GDP and changes in employment for selected Organisation for Economic Development and Co-operation (OECD) and Asian economies. It finds a smaller response of employment to changes in real GDP in Asian economies.

Chapter 3 briefly surveys several types of unemployment protection arrangements and then devotes primary attention to UC. It traces growth in the prevalence of UC programs from 1949 to 1999 and examines the linkage between economic development and the presence of UC programs across the 150 countries. The chapter also introduces an actuarial framework useful for examining the cost of UC. In this framework, costs are measured relative to the aggregate volume of wages and salaries in a country's economy. Costs as a percent of payroll depend on three factors: 1) the underlying unemployment rate, 2) the share of the unemployed who collect UC benefits (the reciprocity rate), and 3) the level of benefits relative to average wages (the replacement rate). Given that the cost framework is general, it is used to compare UC programs across countries. Quantitative estimates of UC costs for the 1990s are calculated for a sample of 24 countries drawn from the regions that account for most UC programs. The analysis shows that the costs of UC are systematically higher in OECD countries than

elsewhere. Finally, the chapter traces the increased importance of unemployment assistance in countries where the unemployed are supported by both unemployment insurance and unemployment assistance.

Chapters 4–7 focus, respectively, on four specific regions of the world: 1) Western European and the English-speaking OECD countries, 2) CEE and FSU countries, 3) Asia, and 4) Latin America and the Caribbean. The problems of unemployment are examined in each geographic area as well as questions of UC costs and program administration. Problems specific to individual regions are addressed, such as inflation in Latin America, activation of UC claimants in OECD countries, and the establishment of new UC programs in CEE-FSU and Asian countries.

Chapter 8 examines three problem areas that extend across a broad range of countries and regions: 1) UC coverage, 2) issues of continuing UC benefit eligibility, and 3) policies to shorten the duration of unemployment and UC benefit duration. Coverage issues are present for countries at all levels of economic development, although the types of coverage problems differ for high-income versus low-income countries. The analysis of continuing eligibility and benefit duration draws mainly upon experiences of high-income countries. The chapter identifies and discusses evolving practices intended to activate claimants, such as mandating stricter work search requirements and revising (widening) the concept of suitable work. In particular, it discusses the use of statistical profiling to identify the long-term unemployed and the application of profiling in Australia, the Netherlands, and the United States.

Chapter 9 provides concluding comments. It highlights selected findings from this volume and offers some suggestions about the various UC programs throughout the world.

The approaches that countries in various regions of the world have taken in supporting the unemployed are diverse. We trust that the book will provide useful information about country-specific programs as well as highlight regional problems. We believe this volume should serve as an up-to-date review of, and as a basis and inspiration for, continuing work on UC. At the same time, we acknowledge that the coverage of topics, while extensive, has left many issues unaddressed.

## Notes

1. A short list of international organizations include the International Labour Office, the International Monetary Fund, the Organisation for Economic Development and Co-operation, the International Social Security Association, Eurostat, the Division of Foreign Labor Statistics of the U.S. Department of Labor's Bureau of Labor Statistics, and the World Bank.