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Unemployment and Unemployment Protection in Three Groups of Countries

Wayne Vroman

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Social Protection Unit
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UNEMPLOYMENT AND UNEMPLOYMENT PROTECTION IN THREE GROUPS OF COUNTRIES

Wayne Vroman*

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*Economist, the Urban Institute. This paper was prepared under a contract with the World Bank. Opinions expressed in the paper do not necessarily reflect the opinions of the World Bank or the Urban Institute. Constance Sorrentino provided helpful comments on an earlier draft.

UNEMPLOYMENT AND UNEMPLOYMENT PROTECTION IN THREE GROUPS OF COUNTRIES

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ABSTRACT

This report examines unemployment protection with emphasis on three groups of countries: 1) OECD, 2) Central-East Europe and Former Soviet Union and 3) East and South Asia. Section I notes the presence of various public social protection programs including pensions, work injury insurance, health insurance and unemployment benefits. Section II describes the measurement of unemployment in these countries and provides details of their unemployment protection programs including unemployment insurance, unemployment assistance and severance pay schemes. Section III explores the costs of providing unemployment protection. It decomposes the cost of unemployment protection into three components: 1) the unemployment rate, 2) the share of weeks of unemployment that are compensated and 3) the replacement rate (average benefits as a proportion of average wages). Cross country evidence regarding these components of costs is briefly reviewed. Comments of the potential costs of unemployment insurance for Asian economies are offered. Section IV examines alternatives to unemployment insurance and unemployment assistance for addressing the losses of earnings and increases in poverty associated with unemployment. Four alternatives are considered: 1) severance pay, 2) temporary public employment, 3) social investment funds and 4) community loan funds. Some observations are made on comparative strengths and weaknesses of these alternatives.

UNEMPLOYMENT AND UNEMPLOYMENT PROTECTION IN THREE GROUPS OF COUNTRIES

INTRODUCTION

Problems of high unemployment have been a persistent feature in many countries over the past decades. During the mid to late 1970s high unemployment was coupled with high inflation in several economies, forcing policy makers to confront unpleasant choices in dealing with stagflation. There followed a long period when several advanced western economies featured persistently high unemployment, leading to discussions of hysteresis or state-dependent unemployment regimes and euroschlerosis. With the dissolution of the political block headed by the former Soviet Union (FSU), high unemployment rates have been observed during the 1990s in most countries of Central and Eastern Europe and in the FSU successor states. Most recently, the crisis in Asian financial markets which commenced in late 1997 has already caused sharply higher unemployment in several Asian economies in 1998.

High unemployment signals problems for a country's macro economy as well as hardships for the individuals and families where it occurs. The loss of real output leads to widespread reductions in real living standards as hours of work decline even among those fortunate in avoiding outright unemployment. The costs of addressing unemployment through public programs such as unemployment insurance (UI) bring additional financing problems, particularly if the revenue system for financing benefit payments is not strong or does not have easy access to loans or other financing methods. After the onset of a recession, the advantages of having a pre-funding mechanism with large UI trust fund balances are obvious. Creating sustainable funding arrangements, however, is best accomplished when a country's economy is experiencing prosperity, not during a recession.

This paper gives an overview of unemployment and unemployment protection across three broad geographic areas of the world: 1) the OECD countries, 2) the countries of Central and Eastern Europe and the Former Soviet Union (CEE-FSU) and 3) the countries of East and South Asia. Each area encompasses a diverse set of economies. However, most countries included

within the OECD group have high per capita income[1] while those in the CEE-FSU grouping have modest income levels. The Asian economies selected extend from Afghanistan, India, Pakistan and Sri Lanka in the West to Japan, Taiwan, the Philippines and Papua New Guinea in the East. This is a diverse set of economies with 1996 per capita income ranging from over $20,000 (Hong Kong, Japan and Singapore) to less than $1400 (Afghanistan, Bangladesh, Cambodia, Laos, Myanmar and Nepal). Every country selected in the analysis has a total population of at least one million persons. The three samples combined encompass 71 different countries and had a total population of 4.4 billion persons as of 1996.

The paper explores four topics. 1) It provides descriptive data on the countries in the three geographic areas. Included in this description is summary information on social protection provided by governments. 2) It reviews the measurement of unemployment and use of labor force surveys in each of the three geographic areas. This section includes a summary of unemployment rate developments through 1997 and the changes that occurred in Asia in 1998. The discussion also extends to the measurement of underemployment. Finally, it examines the types of social insurance arrangements intended to alleviate the effects of unemployment that are offered in these economies. 3) It presents a simple framework for viewing the costs of unemployment insurance protection. This framework is then used to examine issues of UI costs and financing. 4) It discusses some alternatives to formal unemployment insurance schemes. These alternatives include severance pay, temporary public employment, Social Investment Funds (SIFs) and private schemes such as group loan funds. In each area, the presentation is descriptive and references are provided that support points made in the text.

I. THREE GROUPS OF ECONOMIES

Table 1 provides descriptive data on 71 economies spanning the countries affiliated with the OECD (22 economies), countries of Central and Eastern Europe and the Former Soviet Union (28 economies) and Eastern and Southern Asia (21 economies). Combined the 71 accounted for 77 percent of the world's population in 1996 (4.44 billion out of 5.75 billion) and occupied 59 percent of the world's land area (76.5 million out of 130.1 million square

[1] Exceptions to this statement are provided by Mexico, Portugal, Greece and Turkey. All four countries had per capita income below $15,000 in 1996.

kilometers). The Asian economies dominate the population totals with China and India accounting for more than 2.1 billion persons and four other countries having populations of more than 100 million. The remaining two countries in this set of 71 with populations above 100 million are Russia and the United States. Note that the CEE-FSU group only accounted for 418 million persons, and that the average population density of the Asian economies (164 per square kilometer) exceeds the density of every one of the 28 countries in the CEE-FSU group.

The data on per capita income show nearly uniformly high income levels in the OECD countries with the 1996 averages exceeding $15,000 in 18 of 22 and just two (Mexico and Turkey) with average income falling below $10,000. The $10,000 threshold is exceeded by just two countries in the CEE-FSU group (the Czech Republic and Slovenia) and by six Asian economies.[2]

Mean per capita income was computed for all three broad geographic areas. The average for the OECD countries of $20,103 was more than five times the averages for the other two broad areas, i.e., $3,949 for CEE-FSU and $3,716 for Asia. Thus the CEE-FSU and Asian economies are similar in their overall per capita income averages, but the top-to-bottom range is much wider across the Asian economies.

[2] Note that Korea and Japan are included with the Asian economies in Table 1 even though they are OECD members. Note also that three other OECD members, the Czech Republic, Hungary and Poland, are included within the CEE-FSU grouping.

Table 1.
Summary Measures of Population, Land Area, Real Output and Pension Protection in Selected Countries

Country	Population 1996	Land Area	Pop. Density	GNP (PPP) 1996	GNP per Capita 1996	Pop. 60+/ Pop.20-59 1990 - Pct.	Pensioners/ Pop. 60+ Pct.	Covered Wages/ GDP - Pct.	Public Pensions/ GDP - Pct.
OECD	856	32,489	26	17208	20,103				
Australia	18	7,682	2	363.9	19,870	27.3	74.3		3.9
Austria	8	83	100	174.5	21,650	36.4		33.5	14.8
Belgium	10	33	310	227.5	22,390	37.8			11.0
Canada	30	9,221	3	640.6	21,380	27.6	75.2	30.0	4.2
Denmark	5	42	120	116.4	22,120	36.2	87.5		9.9
Finland	5	305	20	93.6	18,260	32.8	96.9		10.3
France	58	550	110	1255.6	21,510	35.3			11.8
Germany	82	349	230	1729.2	21,110	35.2	88.0	36.3	10.8
Greece	10	129	80	133.3	12,730	37.4			12.3
Ireland	4	69	50	60.7	16,750	31.4			6.1
Italy	57	294	200	1141.3	19,890	37.2			14.4
Mexico	93	1,909	50	713.8	7,660	12.6		10.0	1.0
Netherlands	16	34	460	323.5	20,850	31.3	80.7	49.3	9.8
New Zealand	4	268	10	60.0	16,500	28.6	100.0		7.5
Norway	4	307	10	101.7	23,220	40.0	81.1		10.1
Portugal	10	92	110	133.6	13,450	34.5			7.7
Spain	39	499	80	600.3	15,290	34.8	80.0	29.4	7.5
Sweden	9	412	20	166.0	18,770	43.5	88.4		11.6
Switzerland	7	40	180	186.3	26,340	34.5	98.0	60.0	9.9
Turkey	63	770	80	379.9	6,060	14.9	76.9	3.8	2.4
United Kingdom	59	242	240	1173.3	19,960	38.8	83.6		9.5
United States	265	9,159	30	7433.3	28,020	30.3	82.9	38.5	6.5

Table 1.(continued)
Summary Measures of Population, Land Area, Real Output and Pension Protection in Selected Countries

Country	Population 1996	Land Area	Pop. Density	GNP (PPP) 1996	GNP per Capita 1996	Pop. 60+/ Pop.20-59 1990 - Pct.	Pensioners/ Pop. 60+ Pct.	Covered Wages/ GDP - Pct.	Public Pensions/ GDP - Pct.
C-E Europe-Former Soviet Union	418	24,660	17	1649	3,949				
Albania	3	27	120	4.4	1,290	16.7			7.9
Bosnia-Herzegovina	5	51	113	1.9	600				
Bulgaria	8	111	80	35.8	4,280	37.2			7.9
Croatia	5	56	90	20.5	4,290	32.3			
Czech Republic	10	77	130	112.1	10,870	32.3			8.2
Estonia	1	42	30	6.8	4,660	32.3			6.9
Hungary	10	92	110	68.6	6,730	35.9			9.7
Latvia	2	62	40	9.1	3,650	33.3			6.7
Lithuania	4	65	60	16.3	4,390	30.3			6.6
Macedonia	2	25	80	2.0	960				
Poland	39	304	130	231.7	6,000	27.8			12.4
Romania	23	230	100	103.5	4,580	29.4			6.9
Serbia and Montenegro	11	102	100	21.0	1,900	25.0			
Slovakia	5	48	110	39.9	7,460	32.3			
Slovenia	2	20	100	24.1	12,110	29.4			9.3
Armenia	4	28	130	8.2	2,160	21.7			3.6
Azerbaijan	8	87	90	11.3	1,490	18.5			5.6
Belarus	10	207	50	45.1	4,380	33.3			7.3
Georgia	5	70	80	9.8	1,810	30.3			11.0
Kazakstan	16	2,671	6	53.2	3,230	19.2			4.7

Table 1.(continued)
Summary Measures of Population, Land Area, Real Output and Pension Protection in Selected Countries

Country	Population	Land	Pop.	GNP	GNP per	Pop. 60+/	Pensioners/	Covered	Public
	1996	Area	Density	(PPP)	Capita	Pop.20-59	Pop. 60+	Wages/	Pensions/
				1996	1996	1990 - Pct.	Pct.	GDP - Pct.	GDP - Pct.
Kyrgistan	5	192	20	9.0	1,970	19.6			6.1
Moldova	4	33	130	6.2	1,440	26.3			
Mongolia	3	1,567	2	4.6	1,820	12.7			
Russia	148	16,889	9	619.0	4,190	31.3			7.1
Tajikistan	6	141	40	5.3	900	15.9			
Turkmenistan	5	470	10	9.2	2,010	14.7			
Ukraine	51	579	90	113.1	2,230	35.7			13.0
Uzbekistan	23	414	60	56.9	2,450	15.4			10.3
Eastern and Southern Asia	3168	19,360	164	11771	3,716				
Afghanistan	22	648	34	18.1	800	9.8			
Bangladesh	122	130	930	122.9	1,010	12.0			0.0
Cambodia	10	177	60	7.7	710	9.7			
China	1215	9,326	130	4047.3	3,330	16.6	22.5		2.6
Hong Kong	6	1	6370	153.1	24,260	22.4	50.0		
India	945	2,973	320	1493.3	1,580	15.0		3.4	0.6
Indonesia	197	1,812	110	652.3	3,310	13.9	9.8	1.7	0.1
Japan	126	377	330	2945.3	23,420	30.9	68.5	21.4	5.0
Korea, South	46	99	460	595.7	13,080	13.7			
Laos	2	231	20	5.9	1,250	11.9			
Malaysia	21	329	60	213.7	10,390	12.5		20.6	1.6

Table 1.(continued)
Summary Measures of Population, Land Area, Real Output and Pension Protection in Selected Countries

Country	Population 1996	Land Area	Pop. Density	GNP (PPP) 1996	GNP per Capita 1996	Pop. 60+/ Pop.20-59 1990 - Pct.	Pensioners/ Pop. 60+ Pct.	Covered Wages/ GDP - Pct.	Public Pensions/ GDP - Pct.
Myanmar (Burma)	46	658	70	51.5	1,120	14.3			
Nepal	22	143	150	24.0	1,090				
Pakistan	134	771	170	213.6	1,600	11.2		1.2	0.6
Papua New Guinea	4	453	10	12.4	2,820	11.4			
Philippines	72	298	240	255.2	3,550	11.9	7.0	8.3	0.6
Singapore	3	1	4990	81.9	26,910	14.3		35.3	2.2
Sri Lanka	18	65	280	41.9	2,290	15.4		11.4	2.2
Taiwan	22	32	666	315.0	14,700	18.2			
Thailand	60	511	120	402.0	6,700	12.2			
Vietnam	75	325	230	118.3	1,570	15.6			

Source: Population, land area and GNP taken mainly from World Development Indicators 1998. Pension data from Averting the Old Age Crisis

Government provision of social protection differs widely across the three broad geographic areas. Table 1 displays indicators of public pension protection.[3] The first series shows the population aged 60 and older expressed as a percentage of the population aged 20 to 59, i.e., as a dependency ratio. In the OECD grouping these percentages all exceed 25.0 percent except for Mexico and Turkey, and 17 of the percentages exceed 30.0 percent. In contrast, only one of these percentages exceeds 25.0 percent in the Asian economies (Japan at 30.9 percent), one falls between 20.0 and 25.0 percent (Hong Kong at 22.4 percent) while 13 fall below 15.0 percent. Many of the CEE-FSU economies also have high dependency percentages, especially in the northern and western areas of this geographic block.

Table 1 then shows data for three indicators of the pervasiveness of public pensions in these countries. The three are: 1) pensioners as a percent of the population aged 60 and older, 2) wages in employment covered by the public pension system as a percent of Gross Domestic Product (GDP) and 3) public pension benefits as a percent of GDP. For all three measures, higher percentages signal a larger presence of public pensions in a country's economy. Note that these indicators have incomplete coverage, especially in the CEE-FSU economies. More recent data are undoubtedly available.

For present purposes, however, these data help to make an important point. Public pensions are prominent in the economies of OECD countries and the CEE-FSU countries. In contrast, public pensions are less ubiquitous in Asian economies. Note that pensioners as a percent of the population aged 60 and older exceeded 74.0 percent in every OECD country for which data are displayed. In contrast, the highest percentages in Asia are 68.5 percent in Japan and 50.0 percent in Hong Kong. The other three Asian percentages all fall below 25.0 percent. Similarly low Asian percentages are also observed for public pension benefits as a percent of GDP. In 18 of 22 OECD countries this percentage exceeds 5.0 percent as it does in 17 of 19 CEE-FSU countries. However, for the 10 Asian countries with data in Table 1, the highest percentage was 5.0 percent (Japan) while the range for the remaining nine was from 0.0 percent to 2.6 percent. All three measures of public pension incidence in Asia point to much lower penetration than in OECD and CEE-FSU countries. While these contrasts would be reduced

[3] These series were taken from the statistical appendices in World Bank (1994).

somewhat if a full set of demographic controls were included, the general point regarding lower public pension penetration in Asia would not be changed with a more complete analysis.

In practically all economies, the largest single social insurance program is the pension program. The detail on pension penetration shown in Table 1 is important to note in this paper whose prime concern is protection against the effects of unemployment. If Asian economies do not feature widespread public pension protection, it could suggest that the prospect for providing unemployment insurance is also less likely in the long run quite independent of the current unemployment situation.

A broad-based summary of social insurance protection across countries can be derived using comparative information published by the U.S. Social Security Administration. They summarize six types of social insurance protection in individual countries: 1) old age, disability and death, 2) cash benefits for sick leave and maternity leave, 3) medical care and/or hospitalization benefits, 4) work injury insurance, 5) unemployment protection and 6) family allowances.[4] Historically, protection 1) and 4) from the preceding list have usually been the first types of social insurance provided in most countries while unemployment protection has tended to be among the last to be provided. There is also a clear tendency for countries with above-average per capita income to provide a more comprehensive set of social insurance protection.

Chart 1 gives a visual summary of the social protection provided in the three groups of countries. For each geographic area the countries are arrayed high-to-low according to 1996 per capita income. Chart 1 then shows the availability of unemployment protection in each country. There is a single indicator for the presence of public unemployment insurance (UI) or unemployment assistance (UA).[5] Countries with UI and/or UA programs were assigned a value of $10,000 (in light grey) while a value of $0 was assigned if there was no public unemployment program. Finally, an index of combined social insurance protection was assigned to each of the 71 countries. The value for this index was based on all six of the possible social insurance protection identified in the preceding paragraph. A value of $3,000 was assigned for each

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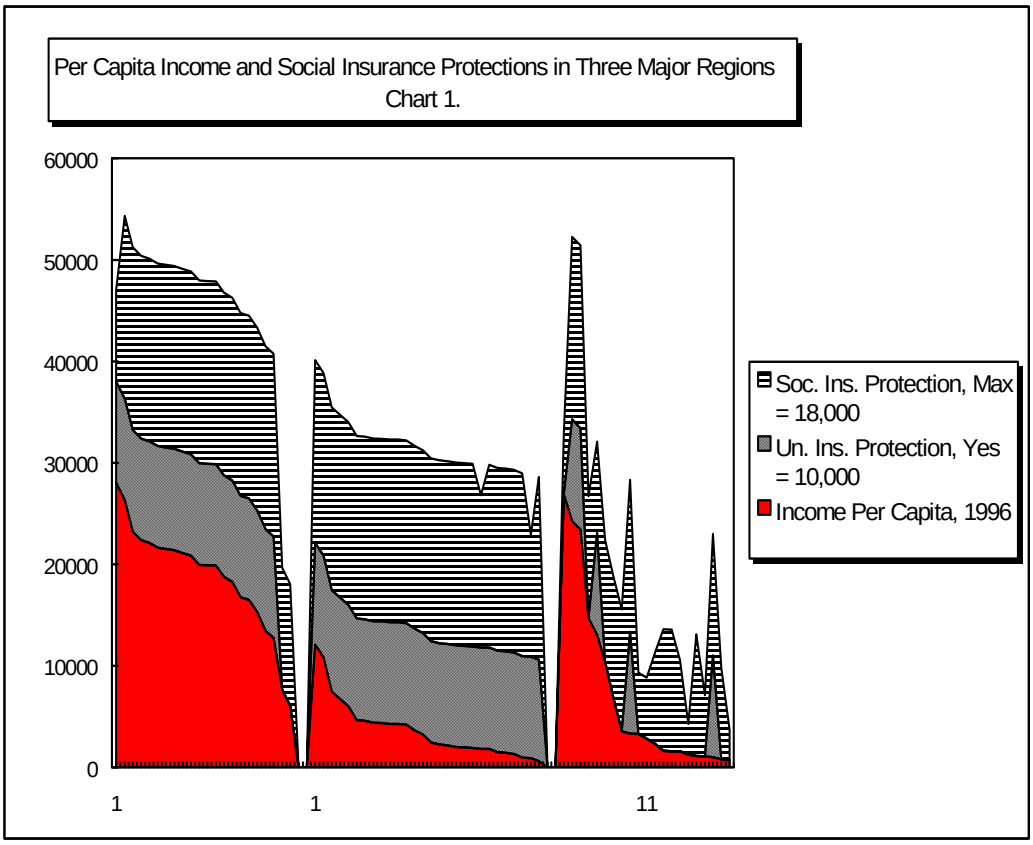
4 See the summary table entitled “List of Social Security Programs by Type” as well as the country summaries in U.S. Social Security Administration (1997).

5 Both UI and UA condition eligibility on several factors including past work history, availability-ability-and-willingness to work and (often) evidence of active work search. Additionally, UA limits

protection, yielding a potential maximum of $18,000. As the top band is thicker in Chart 1, it signals the presence of a more comprehensive set of social protection in a country.



Three features stand out in Chart 1. First, the OECD countries are characterized by high per capita income, widespread unemployment protection and pervasive social insurance protection. Unemployment protection are absent only from the two countries with lowest incomes: Mexico and Turkey.

Second, extensive unemployment protection and social insurance protection are provided in the CEE-FSU countries. Despite their much lower incomes compared to the OECD countries, UI-UA protection are present in all 28 countries, and most have the full set of six social insurance programs. Given the low levels of per capita income exhibited by these countries, there

eligibility to unemployed persons with low income.

are bound to be questions regarding the sustainability and adequacy of the protection provided through these programs.[6]

Third, public provision of social protection in general and of UI-UA in particular is much less common in Asian economies. Chart 1 shows that only five Asian countries have UI-UA programs. One of these five is Bangladesh which has very low per capita income. The scale of China's UI protection is also small due to its small geographic coverage, a limited number of provinces and urban areas. We understand that China may be considering the institution of a more comprehensive program of UI protection in the near future. The other Asian countries with UI-UA protection are the high income trio of Hong Kong, Japan and Korea. Each of these countries has per capita income that exceeds the average for all countries in the CEE-FSU block. The other types of social protection noted previously are also much less prevalent in Asia. The average index of social protection across all 21 Asian economies is $10,100, slightly more than half of the potential index value of $18,000 associated with having all six social insurance protection. Social protection provided through governments are far less common in Asia than in either OECD or CEE-FSU countries.

II. UNEMPLOYMENT AND PUBLIC UNEMPLOYMENT PROTECTION

National labor market information systems in advanced economies typically derive information from surveys of households and establishments and from administrative data generated by programs that provide unemployment benefits, job matching and other services to workers and employers. Household surveys provide nationally representative and consistent information on employment and unemployment for all working age members of the labor force. The following discussion will initially focus on information about unemployment derived from labor force surveys.[7]

Labor Force Surveys

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6 The example of Tajikistan may be instructive. It has a statute on unemployment insurance but has not made payments in recent years.

7 A more complete analysis of labor market information systems would also have to devote attention to employer surveys which are a key source of information on employment, hours worked, wage rates and employer-provided fringe benefits.

Periodic labor force surveys conducted on a consistent basis provide the best means for deriving labor market information on unemployment and underemployment. The former is involuntary non-employment by someone available and seeking work while the latter applies to persons who are employed but working shorter hours than preferred or working in a job at a wage rate below the person's normal wage rate. Absent these surveys, information on unemployment is likely to be seriously incomplete and dependent on administrative data from unemployment protection programs. To the extent the latter do not exist or have a limited presence in a country, policy makers would lack the information necessary for assessing levels and changes in unemployment and underemployment.

Table 2 provides information on the presence of labor force surveys in the three sets of countries under consideration. The left hand half of the table identifies countries with labor force surveys, their start date and frequency within a given twelve month period. It also shows the population age group that is surveyed and the reference period for job search for persons to be considered as unemployed. All 22 OECD countries conduct a labor force survey. In contrast, 14 of 28 CEE-FSU countries have a labor force survey, as do 13 of 21 Asian countries. While the CEE-FSU countries instituted their surveys between 1991 and 1996, observe the contrast between the CEE subset and the FSU subset, i.e. 11 of 15 versus three of 13.[8]

8 Note that the three Baltic countries have been included within the CEE grouping in Table 2.

Table 2.
Presence of Labor Force Surveys and Unemployment Protection in Selected Countries

Country	Unemployment Rate Measurement				Unemployment Protection:					
	LF Survey, Start Date & Ann. No.	LF Survey Age Limits	Job Search Ref. Period	Avg. Unemp. Rate - Pct. 1990-97	Unemployment Insurance	Unemployment Assist.	Union or Industry Admin	Dependents' Allow	No Public Program	Severance Pay
OECD										
Australia	1960 -12	15+	4 Wk.	9.3		X		X		
Austria	1968 - 4	15+	4 Wk.	3.8	X	X		X		
Belgium	1973 - 1	14+	4 Wk.	11.6	X		X			
Canada	1945 -12	15+	4 Wk.	10.0	X			X		
Denmark	1967 - 1	15-74	4 Wk.	8.2	X		X			
Finland	1959 -12	15-74	4 Wk.	13.4		X	X	X		
France	1950 - 1	15+	1 Mo.	11.3	X	X				
Germany	1957 - 1	15+	4 Wk.	7.8	X	X				
Greece	1974 - 1	14+	4 Wk.	9.2	X			X		
Ireland	1975 - 1	15+	NA	13.8	X	X		X		
Italy	1959 - 4	14+	4 Wk.	11.7	X			X		
Mexico	1973 - 12-a	12+	2 Mo.	3.7					X	X
Netherlands	1973 -12	15+-b	4 Wk.	6.7	X	X	X			
New Zealand	1985 - 4	15+	4 Wk.	8.1		X				
Norway	1972 -12	16-74	4 Wk.	5.3	X			X		
Portugal	1972 - 4	12+	1 Mo.	5.9	X	X				
Spain	1964 - 4	16+	4 Wk.	20.5	X	X				
Sweden	1959 -12	16-64	4 Wk.	6.2		X	X			
Switzerland				3.0	X					
Turkey	1966 - 2	12+	6 Mo.	7.5					X	X
United Kingdom	1973 - 1	16+	4 Wk.	8.3	X	X				
United States	1940 -12	16+	4 Wk.	6.1	X					

Table 2. (continued)
Presence of Labor Force Surveys and Unemployment Protection in Selected Countries

Country	Unemployment Rate Measurement				Unemployment Protection:					
	LF Survey, Start Date & Ann. No.	LF Survey Age Limits	Job Search Ref. Period	Avg. Unemp. Rate - Pct. 1990-97	Unem-ployment Insurance	Unem-ployment Assist.	Union or Industry Admin	Depend-ents' Allow	No Public Program	Sever-ance Pay
Central - Eastern Europe - formerly Soviet Union										
Albania					X			X		
Bosnia-Herzegovina					X					
Bulgaria	1993 - 3	15+	4 Wk.	18.0-d	X					
Croatia					X					
Czech Republic	1991 - 4	15+	1 Wk.	4.0-d	X					
Estonia	1995 - 1	15-74	1 Wk.			X				
Hungary	1992 - 4	15-74	4 Wk.	10.4-d	X					
Latvia	1995 - 2	15+	4 Wk.	17.2-d	X					
Lithuania	1994 - 2	14-74	1 Wk.	13.9-d	X					
Macedonia	1996 - 1	15+	1 Wk.		X					
Poland	1992 - 4	15+	1 Wk.	13.1-d	X					
Romania	1994 - 4	15+	1 Wk.	7.2-d	X	X				
Serbia and Montenegro					X					
Slovakia	1993 - 4	15+	4 Wk.	12.0-d	X					
Slovenia	1993 - 1	15+	1 Wk.	8.0-d		X				
Armenia	1996 - 1	16+	1 Wk.		X					
Azerbaijan					X			X		
Belarus					X					
Georgia					X					

Table 2. (continued)
Presence of Labor Force Surveys and Unemployment Protection in Selected Countries

Country	Unemployment Rate Measurement				Unemployment Protection:					
	LF Survey, Start Date & Ann. No.	LF Survey Age Limits	Job Search Ref. Period	Avg. Unemp. Rate - Pct. 1990-97	Unem-ployment Insurance	Unem-ployment Assist.	Union or Industry Admin	Depend-ents' Allow	No Public Program	Sever-ance Pay
Kazakstan					X					
Kyrgistan					X			X		
Moldova					X					
Mongolia					X					
Russia	1992 - 1	15-72	1 Wk.	7.2-d	X			X		X
Tajikistan					X					
Turkmenistan					X					
Ukraine	1995 - 1	15-70	1 Wk.	7.4-d	X					X
Uzbekistan					X			X		
Eastern and Southern Asia										
Afghanistan									X	
Bangladesh					X					X
Cambodia									X	
China	1978 - 4-a			2.7	X					
Hong Kong	1975 -12	15+	1 Mo.	2.1		X				
India	1955 -0.2-c	5+	1 Wk.						X	X
Indonesia	1975 - 4	10+	1 Wk.						X	

Table 2. (continued)
Presence of Labor Force Surveys and Unemployment Protection in Selected Countries

	Unemployment Rate Measurement				Unemployment Protection:					
	LF Survey,	LF Survey	Job	Avg. Unemp.	Unem-ployment	Unem-ployment	Union or Industry	Depend-ents'	No Public	Sever-ance
Country	Start Date	Age	Search	Rate - Pct.	Insurance	Assist.	Admin	Allow	Program	Pay
	& Ann. No.	Limits	Ref. Period	1990-97						
Japan	1947 -12	15+	1 Wk.	2.7	X					
Korea, South	1963 -12	15+	1 Wk.	2.4	X					
Laos									X	
Malaysia	1972 - 4	15-64	3 Mo.	3.5					X	
Myanmar (Burma)									X	
Nepal									X	
Pakistan	1963 - 4	10+	1 Wk.						X	X
Papua New Guinea									X	
Philippines	1976 - 4	15+	1 Wk.	8.3					X	
Singapore	1974 - 4	15+	4 Wk.	2.5					X	
Sri Lanka	1980 -0.2-c	10+	12 Mo.						X	
Taiwan	1961 -12	15+		1.8					X	
Thailand	1963 - 3	13+	1 Mo.	0.4					X	
Vietnam									X	

Source: Information on Labor Force Surveys from the ILO. Average unemployment rates for 1990-1997 computed at the Urban Institute.
Information on unemployment protection taken mainly from Social Security Programs Throughout the World - 1997 and from Gornick (1998).

A - Unemployment measured in urban areas.	b - Unemployment measured for persons aged 15-64.
C - Labor force census conducted every five years.	d - Average based on 3 to 7 years of data in the 1990s

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Most labor force surveys set the minimum age for inclusion between 14 and 16 but there are several exceptions: three OECD countries and five Asian countries. The three OECD countries (Mexico, Portugal and Turkey) all have low per capita income (Table 1) relative to the OECD average. Similarly, four of five Asian countries with low age thresholds have average per capita income below the Asian average.[9]

To be measured as unemployed, labor force surveys usually require three separate indications of joblessness: 1) without work, 2) available for work and 3) seeking work.[10] The latter implies some form of active attempt by the person to end joblessness. However some countries do count as unemployed so- called discouraged workers, i.e., those who have stopped actively searching because of a perceived unavailability of jobs. The reference period for job search activity is either the past week, the past four weeks or the past month in nearly all countries. Countries with longer reference periods are Turkey, Malaysia and Sri Lanka.

Employment has various definitions in labor force surveys. Employment is almost always measured for the reference week (the week prior to the survey). The individual may have to work for at least 15 hours during the reference week to be considered as employed or the minimum cutoff can be as low as 1 hour worked during the reference week. Most countries use one hour as the minimum cutoff for employees and for own account (self employed) workers. The cutoff may be higher than one hour for unpaid family workers, e.g., fifteen hours in the U.S., but not necessarily. Even among those who report working a substantial number of hours in the reference week, hours may be less than what the person desires leading to the closely related issue of underemployment (to be discussed below).

Once each person is classified as employed, unemployed or inactive, household survey data can be used to estimate labor force participation rates (employed plus unemployed as a proportion of all persons regardless of economic activity) and the unemployment rate (unemployed as a percent of unemployed plus employed). The fourth data column in Table 2 displays unemployment rate averages for the eight year period 1990 to 1997 for countries with labor force surveys.

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9 Thailand is an exception to this statement.

10 These definitions are discussed by Lawrence (1996).

In measuring annual unemployment rates, countries frequently supplement information from household surveys with other information from unemployment insurance claims and/or employment data from other sources. These procedures vary by country depending upon the frequency of the labor force survey, the size of survey and the availability of alternative data such as UI claims. Several OECD countries with annual labor force surveys use the annual survey but then derive monthly estimates of total unemployment in other months by inflating UI claims. Countries with quarterly and monthly household surveys, usually derive annual averages solely from the labor force survey data.[11]

Labor force surveys are invaluable for assessing the level and changes in unemployment. They also provide insights into the demographic profile of unemployment (age, gender and, perhaps, ethnicity), unemployment duration and the reason for unemployment (job losers, job leavers, new entrants into the labor force and labor force reentrants). These kinds of details are less reliable when based on administrative data since the latter reflect coverage and eligibility rules of a country's UI program, e.g., the length of the waiting period, the maximum potential duration of UI benefits and eligibility rules associated with different reasons for unemployment.

One of the most valuable aspects of labor force survey data is the detail on unemployment across geographic regions. Many countries have wide geographic variation in unemployment rates. Above-average unemployment rates are characteristic of the maritime provinces in Canada (New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island), southern Italy, eastern Slovakia, western Ukraine and eastern Poland to name a few examples. Absent a labor force survey, this variability may be less obvious from UI administrative data, particularly if ability to spend for unemployment protection is tied to regional payroll tax revenues, i.e., budgets in high unemployment regions may not be able to compensate many even though need for benefits is high.

The shortcomings of labor force surveys also must be recognized. 1) Because definitions and procedures related to measuring employment and unemployment vary from

11 The various methods of measurement are discussed by Lawrence (1996).

country to country, care must be taken in making comparisons across countries.[12] 2) Surveys periodically increase the minimum age for inclusion, e.g. the U.S. from 14 to 16 in 1967, the Philippines from 10 to 15 in 1976 and Thailand from 11 to 13 in 1989. 3) Surveys often increase in frequency in more recent periods which again raises issues of comparability, e.g., the Netherlands moved to a continuous monthly survey in 1987. 4) The geographic coverage of the survey may be expanded. In the mid 1970s the survey in Mexico covered just three very large cities (Mexico City, Guadalajara and Monterrey) whereas it now covers 44 urban areas. Depending on the type of comparison being made, all of these could be important considerations in conducting either time series or cross-country analysis.

Many labor force surveys attempt to measure underemployment, but country-specific methodologies vary widely. Underemployment is a concept subject to different definitions. An international labor statistics conference at ILO in October 1998 devoted considerable attention to this topic but did not reach consensus on definitions of underemployment.[13] One form of underemployment is working short hours per week involuntarily due to slack demand for labor. In the U.S., this is termed part-time for economic reasons. A second form of underemployment occurs in situations where a person works below their skill level or wants to work more hours than available from the present job. This is described as "inadequate employment situations" or hidden underemployment, and it too is measured in labor force surveys. The phenomenon is widespread, but its scope differs (partly according to the level of development in a country) and measurement is not standardized.

Because labor force surveys can provide so much information about conditions in the labor market, political officials may be reluctant to release data in a timely fashion or in a way that make the data easy to interpret. Delays may have electoral motivations. One simple example relates teenage unemployment. Rates for teenagers are frequently three to five times the overall unemployment rate for an economy. Publishing just percent distributions of the labor force and of unemployment by age group effectively hides this from some part of the audience interested in the data. Restricting access to survey results is apt to increase as unemployment increases.

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[12] Procedures for providing consistent cross-country estimates of unemployment rates are undertaken at the ILO, OECD and at the U.S. Bureau of Labor Statistics (BLS). This work is ongoing and coverage is expanding to include more countries. All three organizations publish "comparable" unemployment rates for sets of countries and differences in these rates are diminishing.

Unemployment Rates in Three Groups of Countries

Table 2 displays average unemployment rates in the 1990s for those among the 71 countries with a labor force survey and data for at least three years. The three year restriction means that averages are not shown in the table for three CEE-FSU countries with labor force surveys. The data have been assembled from the obvious international sources. For the Asian data, the original country publications have been consulted along with an unpublished memo prepared by BLS staff (U.S. Department of Labor, 1997). These series are more consistent through time for a given country than consistent across countries at a point in time.[14]

The distributions of average unemployment rates across the three regions are instructive. For the OECD countries the median of the 22 averages was 8.2 percent and the simple average was 8.7 percent.[15] Note that only five of the 22 averages fall below 6.0 percent while seven exceed 10.0 percent.

For the CEE-FSU economies the medians and simple averages were respectively 10.4 percent and 9.6 percent. These averages were higher than for OECD countries, but the percent differences in the two all-area averages fall into the 10-25 percent range, not larger as might be expected. Note the low unemployment rate for the Czech Republic and the high averages for Bulgaria and Latvia.

The most dramatic aspect of the unemployment rate averages are those for the Asian countries. The medians and simple averages were respectively 2.5 percent and 2.9 percent with seven of nine falling below 3.0 percent for the 1990-1997 period. Only the Philippines has an average (8.3 percent) which would not stand out if placed in the set of OECD or CEE-FSU countries.

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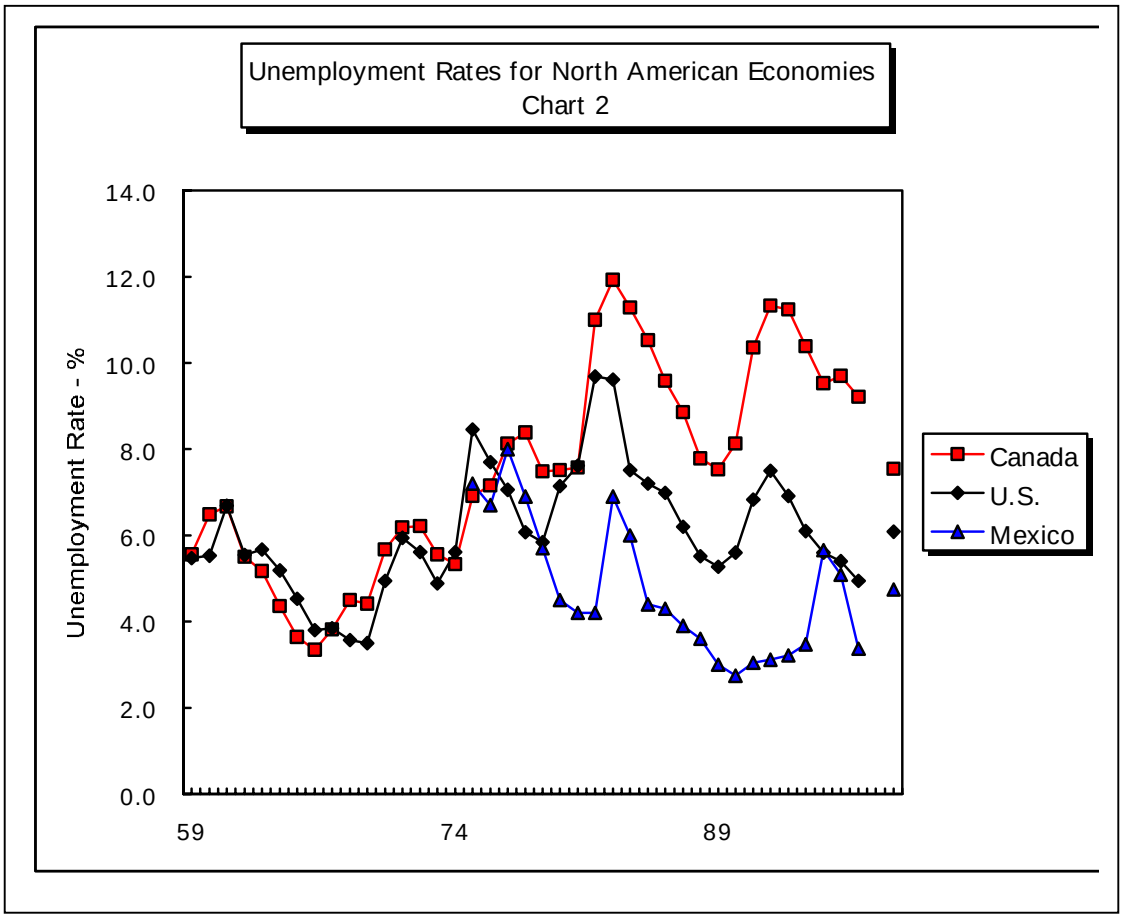
13 See International Labor Office (1998).

14 Breaks in country data are noted in the underlying spreadsheets from which these averages are drawn.

15 Simple averages are noted to keep the discussion focused on countries, i.e., to weight each country equally regardless of size.

To provide a longer term perspective on unemployment experiences, a series of charts have been assembled. Where possible the data extend back to 1959. Chart 2 focuses on Canada, Mexico and the U.S.. A growing gap between the unemployment rates (or TURs[16]) in Canada and the U.S. is apparent in this chart. Perhaps most surprising to many readers, however, is the low average for Mexico in data which commence in 1975. For the 23 years of Mexican data, the average TUR was 4.7 percent compared to 9.2 percent in Canada and 6.8 percent in the U.S..



An analysis of Mexican unemployment rates was undertaken by Fleck and Sorrentino (1994). Besides providing a survey of the major types of employment and unemployment data available from Mexico, they directly address several key measurement issues. They discuss

16 TUR will be used as shorthand for total unemployment rate, i.e., the rate based on the labor force survey which measures unemployment regardless of whether the person is in UI benefit status or not.

problems caused by the Mexico's large informal sector (with many unpaid family workers and own account workers, i.e., self employed but with no employees). Additionally, they focus on the changing geographic scope of the labor force survey and the liberal definition of employment. Counted among the employed are: 1) persons with as little as one hour of employment for barter or pay or self employment, 2) any work as an unpaid family worker, 3) temporary absences from work due to illness and 4) persons expecting to start a new job or to be recalled to a job within 30 days.

Fleck and Sorrentino made calculations for 1988, 1989 and 1993 where they applied U.S. labor force survey definitions to Mexican data and found it raised the unemployment rate by 50 to 70 percent. Thus, if the 4.7 percent average Mexican TUR of 1975-1997 were raised by 60 percent, the resulting average (7.5 percent) would actually be higher than the 6.8 percent U.S. average for these years. Fleck and Sorrentino also cite work by the Mexican Statistical Institute on eleven alternative indicators of unemployment and underemployment for 1987-1993 that yield much higher estimates of unemployment than survey estimates. Much of the increase is due to treatment of part time employment and employment at low income jobs (two aspects of underemployment).

A primary conclusion of their analysis is that the low TURs in Mexico reflect mainly the use of labor force survey concepts that are more appropriate to a high income economy where open unemployment (as reflected in a TUR) captures much or most of worker hardship. Use of these concepts in a low income economy where underemployment is a more pervasive phenomenon leads to serious underestimates of the level of unemployment. The indicators of hardship yield even higher estimates when income insufficiency is also taken into account.

Chart 3 provides a time series summary of TURs for the four largest European OECD countries: France, Germany, Italy and the U.K.. It provides a good visual summary of their problems of high unemployment in the 1980s and 1990s. Three of the four (all but Italy) had TURs that averaged below 2.0 percent during the 1960s whereas during the 1990s the averages ranged from 7.8 percent (Germany) to 11.7 percent (Italy). Only the U.K. exhibits a downward trend in its TUR during the mid to late 1990s.

Generous unemployment benefits are among the factors often cited for the persistence of high unemployment in Western Europe. To square this assertion with the time series patterns in

Chart 3, it would be important to establish that UI program generosity increased prior to or coincident with the increases in the average TURs of the 1980s and 1990s.

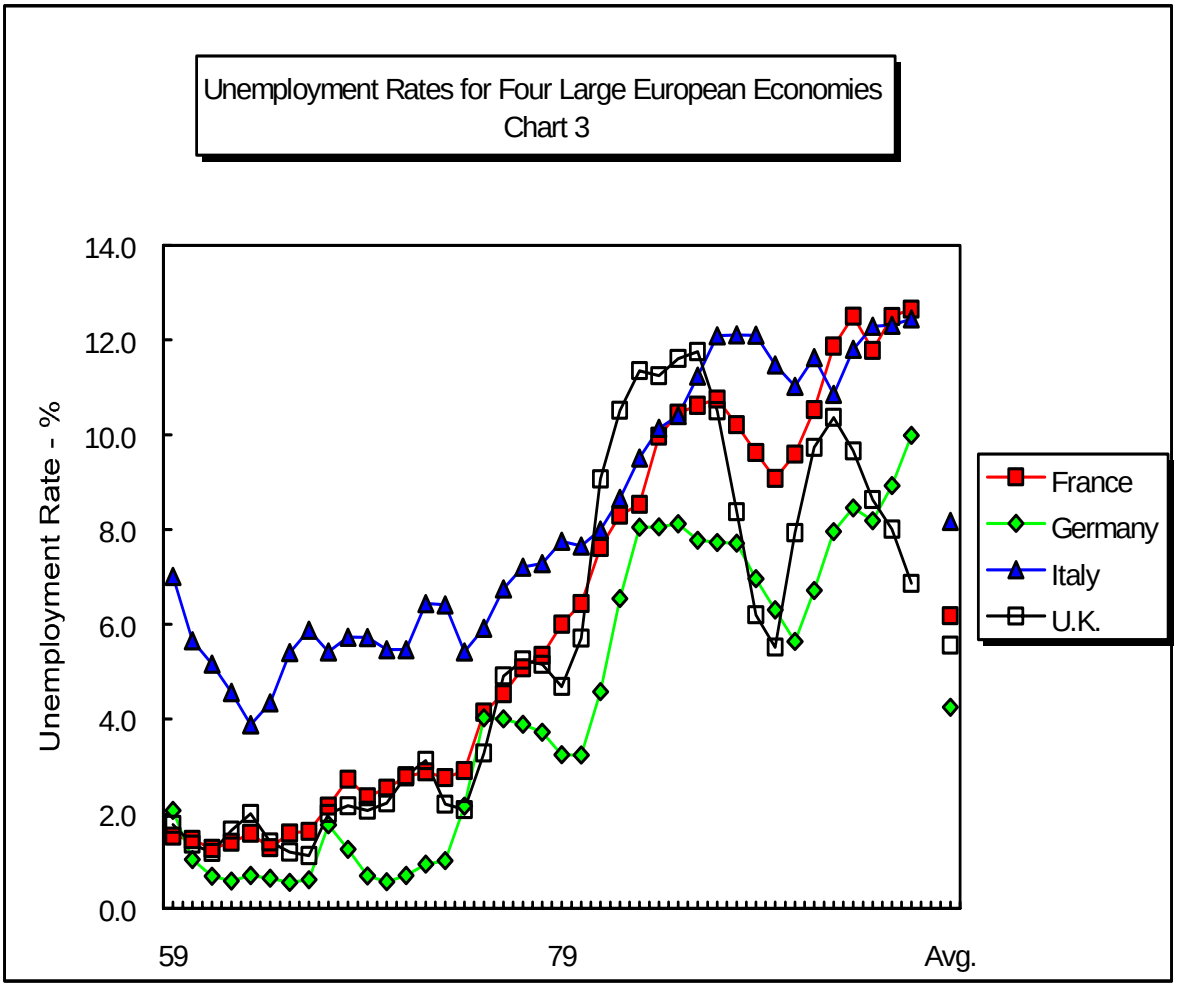
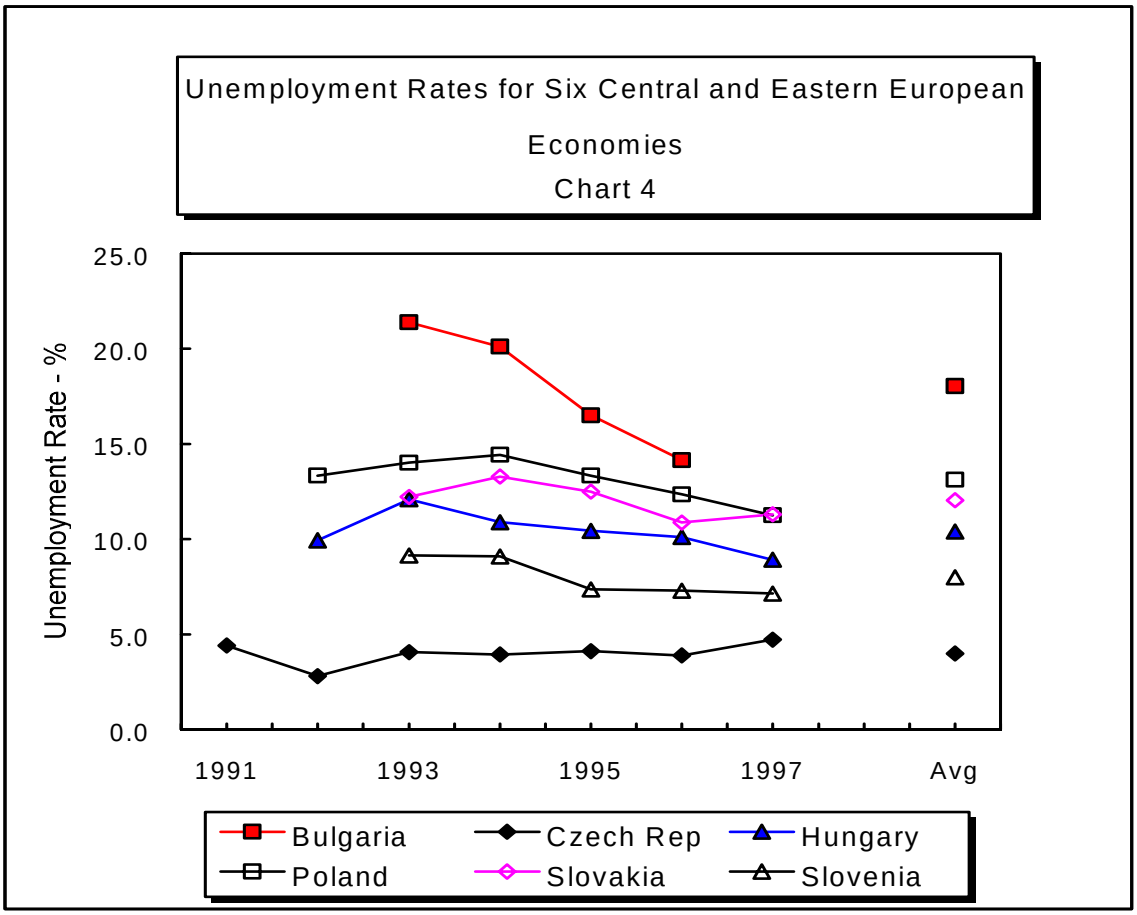


Chart 4 displays TURs for six Central and Eastern European countries. Four of the six multiyear averages exceed 10.0 percent. The lowest two series are for the Czech Republic and Slovinia which are recognized as making generally successful transitions. However, the increase in the Czech Republic in 1997 as well as developments in 1998 may lead to a more cautious pronouncement as to the success of their transition.

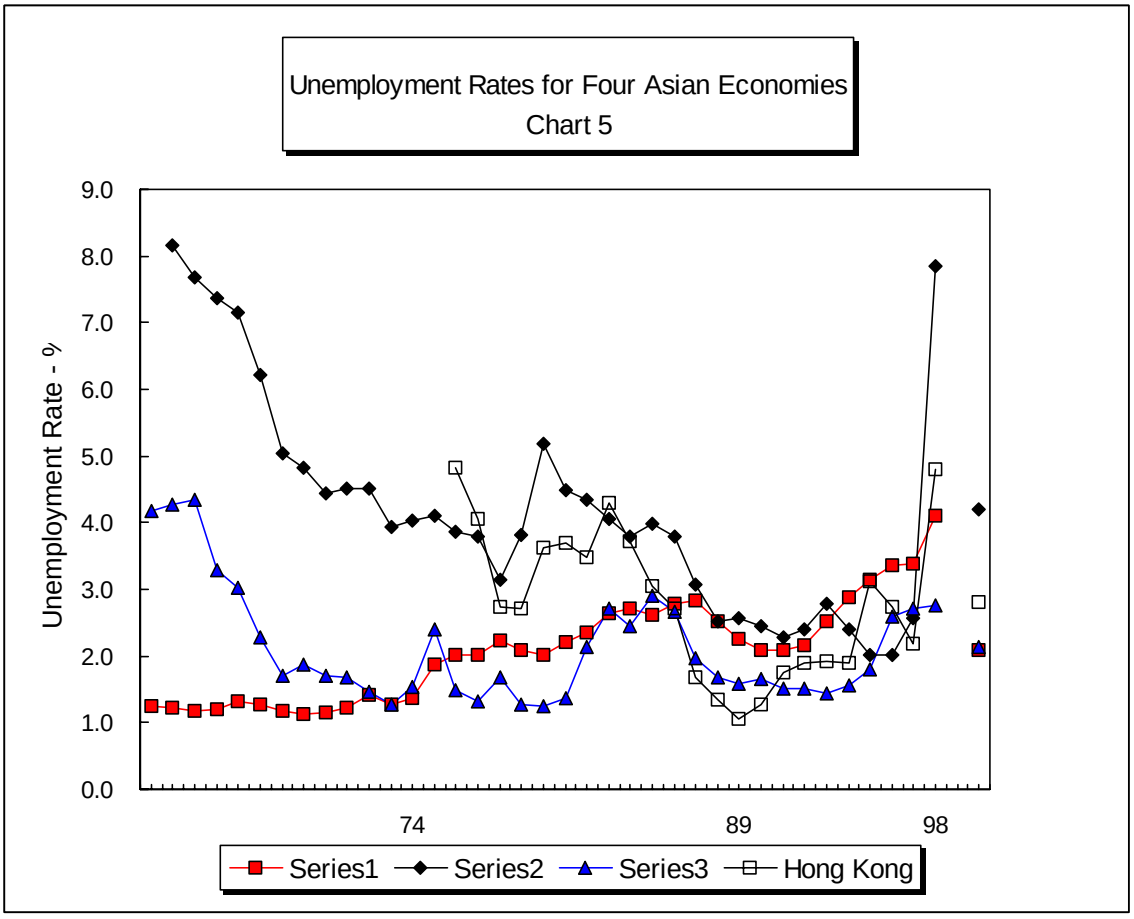
What is clear in Chart 4 is that the direction of change in unemployment has been generally downward for these economies. The Hungarian and Polish TURs for 1997 were respectively 1.5 and 2.1 percentage points lower than in 1995. Real economic expansion has been rapid enough to cause a measurable reduction in their TURs.



Current interest centers heavily on developments in Asian economies. Real output dropped sharply for several Asian economies during 1998, especially in Indonesia, Thailand, Korea, Malaysia and Hong Kong.[1] Charts 5 and 6 present time series for nine Asian Economies. For each one, efforts were made to find data for 1998 since the financial crisis and associated

[1] See Table 1.1, in Lee (1998). Projections of real GDP growth for 1998 made by the IMF show reductions of 13.5 percent for Indonesia, 6.5 percent for Thailand, 5.0 percent for Korea, 4.0 percent for Malaysia and 3.0 percent for Hong Kong.

labor market problems are so recent. The four countries in Chart 5 show estimates for 1998,[2] but the TURs in Chart 6 end in 1997. As more recent data become available, it will be important to add the 1998 data points to develop a more comprehensive picture that incorporates developments in real output, employment and unemployment.



Several features of Chart 5 are noteworthy. 1) For both Taiwan and Korea, note the high TURs of the earliest years. The Korean TURs of the 1988-1997 period are much lower than the long run average extending back to 1963. 2) The low TURs in Hong Kong during 1987-1997 are also much lower than for the earlier 1975-1985 period. 3) The long run averages are low for all

[2] The 1998 TURs are for the middle two quarters for Hong Kong and the middle four months (May-August) in the other three countries.

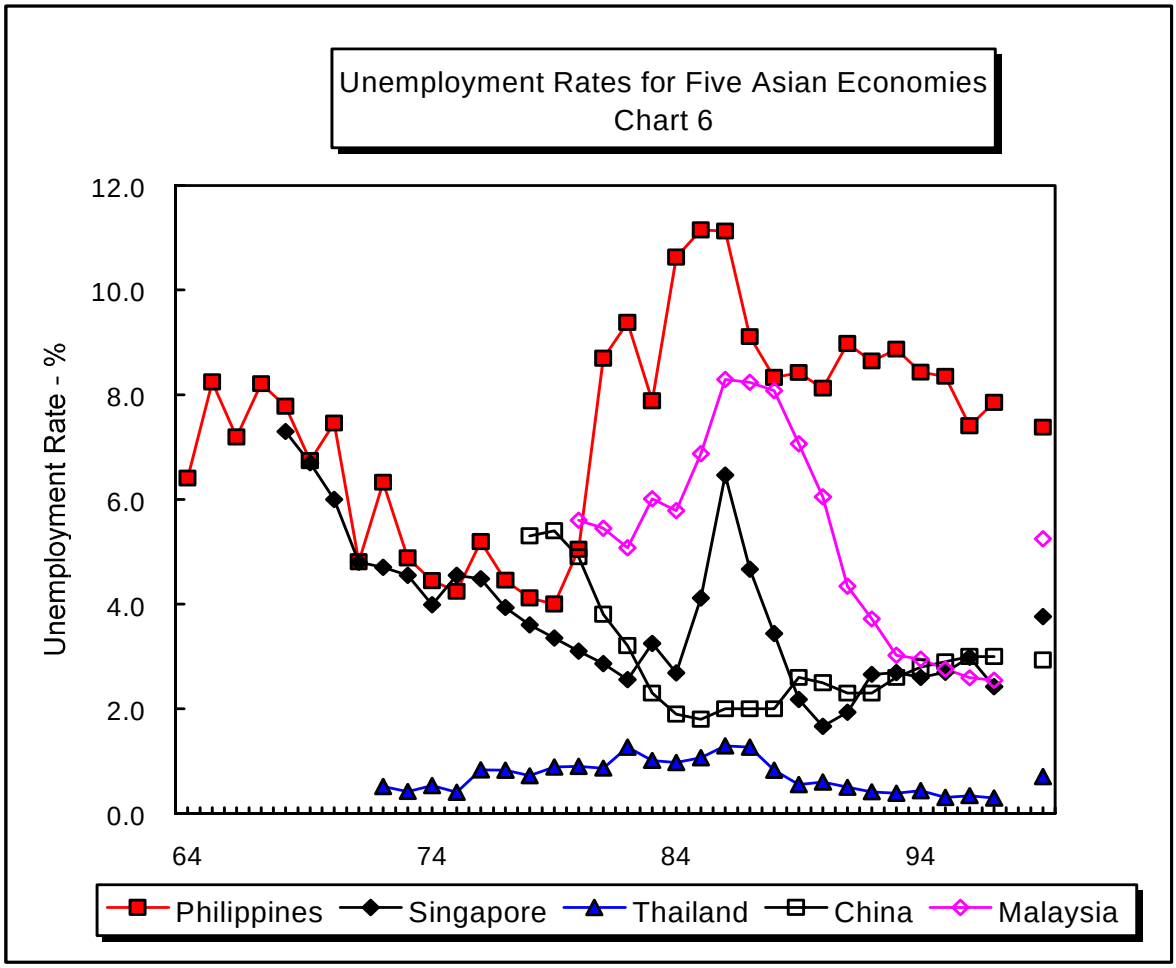
four countries: Korea's average was 4.1 percent and the other three fell below 3.0 percent. 4) Two unemployment rates increased sharply in 1998, Korea's from 2.6 percent to 7.5 percent and Hong Kong's from 2.2 percent to 4.8 percent. 5) For Japan and Taiwan the year-over-year increases were modest, but note that Japan's TUR has increased in every year since 1992. The 1992-1997 increase in Japan has been 1.9 percentage points, from 2.2 percent to 4.1 percent. Taiwan also exhibited a sizeable increase of 1.4 percentage points between 1993 and 1998 (increasing from 1.4 percent to 2.8 percent). Thus for all four countries, the 1998 TUR was considerably higher than the long run average.

The sharp increases in unemployment experienced by Korea and Hong Kong in 1998 merit additional comments. A doubling of annual unemployment rates in one or two years, as in Hong Kong in 1998, has precedents in other economies with low TURs. Examples are provided by Australia between 1974 and 1975, Finland between 1990 and 1991, Germany between 1973 and 1974 and again between 1974 and 1975, the Netherlands between 1974 and 1975, Norway between 1987 and 1989 and Switzerland between 1990 and 1991. The tripling of unemployment in Korea between 1997 and 1998 is more unusual.[3]

Providing social insurance against the effects of unemployment must contemplate the possibility of large year-to-year swings in UI-UA caseloads. Having an existing trust fund balance from which to draw makes the problem of financing benefit payments much easier for a country. At present, for example, the U.S. has assets of more than $45 billion in trust funds whose sole purpose is to pay UI benefits.

Chart 6 also illustrates some points already noted in Chart 5. 1) Unemployment rates during the 1990s have been lower than long run averages in China, Malaysia and Singapore. 2) Unemployment rates in the Philippines were consistently the highest in Chart 6. As noted in Table 2, the other four countries exhibited low unemployment in the 1990s. 3) None of these five

[3] We understand that Indonesia also experienced a tripling of its TUR between 1997 and 1998 but have not confirmed this.



countries showed a large increase in unemployment between 1996 and 1997.4) Thai unemployment rates have been consistently low since 1972. Not shown in Chart 6 are any Thai estimates for 1998, but February 1998 survey data show a continuation of the very low unemployment. Later data from the May and August 1998 surveys can be expected to show large increases in the Thai TUR.

Public Unemployment Protection

The right hand columns of Table 2 provide summary detail on the presence of UI, UA and severance pay schemes in the 71 countries. Because the economies of Scandinavia and the Low Countries rely on unions or industry associations to administer important aspects of their

programs, the participation of these private entities in program administration is also shown in Table 2.[4] The payment of dependents' allowances to families of the unemployed is also identified.

Unemployment insurance (UI) and/or Unemployment Assistance (UA) is present in practically all countries of the OECD and CEE-FSU groupings. The counts of countries with UI-UA programs is 20 of 22 OECD countries and 28 of 28 CEE-FSU countries. As noted earlier UI-UA programs exist in only five of the 21 Asian countries covered by Table 2.

Unemployment insurance conditions eligibility on previous work experience that meets or exceeds a statutory threshold (usually measured in hours or countable years of experience), a job separation for a reason deemed compensable (layoffs and permanent terminations being most likely to confer eligibility) and the person being able to work, available for work and willing to accept an offer of "suitable" work.[5] There may also be a requirement that active work search be undertaken as a condition of continuing eligibility.

Unemployment assistance also requires evidence of sufficient past work, an acceptable reason for job separation and being able and available for work. Additional requirements in countries with UI as well as UA are that the person has exhausted their entitlement to UI benefits. Eligibility for UA is restricted to situations where family income falls below a statutory threshold. Note that some countries have UA programs but not UI (Australia, Finland, New Zealand, Sweden, Estonia, Slovinia and Hong Kong). The remainder with both UI and UA reserve UA for UI exhaustees. Note that several OECD countries have both UI and UA programs.

Funding UI and UA programs frequently poses major problems, especially for countries with high levels of unemployment. Consequently, an additional consideration affecting the receipt of benefits is the availability of monies to pay recipients. This very practical

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[4] There is also oversight responsibility from a governmental ministry in these countries. The system in Denmark is described as subsidized voluntary insurance, and but classified here as unemployment insurance. Its benefit formula for covered workers is like a UI benefit formula, i.e., replacing 90 percent of wages up to a maximum limit.

[5] In the U.S., decisions in these three areas that affect eligibility are termed respectively monetary determinations, separation nonmonetary determinations and nonseparation nonmonetary determinations.

consideration is not reflected in Table 2 which shows countries with UI-UA statutes, but some may have very small programs due to financing constraints.

Statutory requirements for eligibility, benefit formulas, potential duration and disqualifying separations are summarized in Social Security Administration (1997) for nearly all of the 71 countries in Table 2 and also in Tzannatos and Roddis(1998). Details for OECD economies are also found in Gornick (1998) and for countries of the European Union plus the U.S. and Japan in Schmid and Reissert (1996).[6] Lee (1998) provides summaries of important UI provisions for 13 middle and low income countries with UI programs.

No attempt will be made in this paper to summarize these provisions. They often defy simple characterization because of factors such as age-related maximum durations, different entitlements according to reason for unemployment, variable replacement rates (benefits as a proportion of previous earnings) and benefit formulas dependent on the reason for unemployment. Anyone who has tried to summarize these provisions appreciates their wide variability from one country to the next.

Table 2 also identifies the countries where there is neither UI nor UA. For both Mexico and Turkey there is a severance pay program. While the entitlement formulas for severance pay are known (months or days paid at the person's customary rate as determined by years of previous service), no information on annual numbers of recipients and total payments has been found. Severance pay is also present in Russia and Ukraine and in Bangladesh, India and Pakistan. Programs may exist in other countries covered by Table 2, but information was not shown in Social Security Administration (1997).

While countries may mandate that a subset of employers provide severance pay, the requirement is difficult to enforce in instances when operations cease completely. Several other features of severance pay make it inappropriate for addressing unemployment situations. In both UI and UA, the continued receipt of payments up to the point of exhaustion is conditioned upon the individual being unemployed. For severance pay, on the other hand, there is either a lump sum payment of the full entitlement shortly after the job termination or (occasionally) payments

[6] Schmid and Reissert identify five countries as having both UI and a guaranteed annual income (social assistance): Belgium, Denmark, Luxembourg (not included in the present analysis), the Netherlands and the United Kingdom. Thus the right hand side of Table 2 does not cover all possible forms of payments from public programs to the unemployed.

administered in installments. Should the person find another job or leave the labor force altogether, rather than remaining unemployed, this change does not affect the payment. Severance pay looks backward to experience prior to the separation and not to the present when unemployment may or may not be ongoing.

Barbados has offered severance pay for several years. It has a generous duration formula and a liberal definition of a compensable separation. Internal transfers within companies can result in severance payments. The administration of severance pay involves the Social Insurance agency because of the need to finance payments in instances when a company has totally ceased operations or is granted relief of charges due to hardship. Total payments to severed workers averaged almost as much as UI benefits between 1990 and 1993. However, the amounts per person were much larger than UI benefits, and the economic hardship experienced by recipients was not well understood.[7]

While severance pay can have a useful role as a reward for past service or provide an inducement to leave employment, e.g., reducing public sector employment, it is not too useful for situations of widespread temporary unemployment. Severance pay will receive limited attention in the remainder of the paper.

III. THE COST OF UNEMPLOYMENT INSURANCE

The cost of providing UI benefits has three components: average unemployment, the proportion of unemployment that is compensated and the replacement rate or average UI benefits as a proportion of the average wages of covered workers. In addition to paying benefits, a UI program will have administrative costs (including the costs of matching unemployed workers to job vacancies listed with the government employment offices) and the costs of proactive labor market measures such as training, public service employment and assisting unemployed workers to become self employed.[8]

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[7] The issue of earnings loss for severed workers could be explored in Barbados. They maintain micro records of workers covered by the pension program. Thus a sample of severed workers could be tracked to note the patterns of earnings before and after the separation that led to payment of severance pay.

[8] This discussion will emphasize UI benefits but it pertains equally to combined UI and UA benefits in countries which have both programs. This framework for viewing the costs of UI is presented and discussed more extensively in Vroman (1997).

Usually a UI program is financed by a flat rate payroll tax which covers the costs of administration as well as UI benefits. The costs of UA benefits are more often financed by general revenues while proactive labor market measures may be financed either by a UI payroll tax or by general revenues. The present discussion will focus on determinants of UI benefit costs. To the extent that the costs of administration and costs of proactive measures are also financed from the same payroll tax revenues, the tax will finance a smaller amount of UI benefits.

Equation (1) describes long run or annual UI benefit costs.

(1) B = TUR*PMC*RRATE

where B = total UI benefits expressed as a percent of covered payroll,

TUR = the total unemployment rate as above, i.e., covering all unemployment included in the labor force survey,

PMC = months compensated as a proportion of months of unemployment,

RRATE = the replacement rate, average monthly benefits as a proportion of average monthly wages in covered employment.

For the U.S., the three right-hand components of (1) over the period 1970 to 1997 were as follows: TUR - 6.56 percent, PMC - 0.311 and RRATE - 0.360. Combining the three components yields a national average benefit cost of 0.734 percent for these years.

Note in (1) that one determinant of UI benefit costs falls largely beyond the control of the UI program, i.e., the unemployment rate or TUR. This is a macroeconomic indicator that varies with the business cycle but whose long run average differs considerably from one country to the next. For both PMC and RRATE, on the other hand, relatively liberality of the UI program is subject to control through public policy affecting UI eligibility and payment levels.[9]

Through its UI statutes and administrative procedures, a country has wide discretion in setting the average levels of PMC and RRATE. Note that the product of PMC and RRATE is important for determining the level of UI benefit costs that a country may decide to support. There may be reasons to have one, e.g., PMC, relatively high and the other relatively low based on considerations such as the structure of the other programs of social support, perceived

[9] There is a possible effect of benefit generosity on the long run TUR which operates through both occurrences of unemployment and the average duration of unemployment spells. These disincentive effects which increase the TUR and the long run costs of UI will be discussed below.

disincentive effects and the average rate of job turnover in the labor market.

There could also be budget considerations that would influence a country to structure its program so that the product of PMC and RRATE would be low. For a given level of unemployment, a country can make UI costs lower through restricting access to benefits and through a low replacement rate. Specific examples of restrictions that accomplish low benefit costs are noted below.[10]

If the TUR is treated as an exogenous macro variable, relation (1) can be viewed as a homogeneous (proportional) relation between the TUR and B, UI benefit costs as a percent of payroll. The product of PMC and RRATE becomes the coefficient of proportionality that links B to TUR. For the U.S., this "generosity" coefficient averaged 0.112 (PMC = 0.311 and RRATE = 0.360) for the period 1970 to 1997.

Schmid and Reissert (1996) examined the determinants of unemployment benefit costs (UI-UA combined) within a framework consistent with equation (1). The analysis utilized data from the countries of the European Union (EU) plus the United States and Japan. Their sample of 17 countries had 1992 unemployment rates that ranged from less than 2 percent (Luxembourg and Japan) to rates above 16 percent (Ireland and Spain). For a subset of twelve, they computed PMC for the three years: a year from the mid 1980s, 1990 and 1993. Denmark and Belgium had three year average recipiency rates that exceeded 0.80 while Germany, Ireland and the U.K. had averages in the 0.65-0.66 range. At the low end, the average recipiency rate was 0.28 in Spain and 0.20 or lower in Portugal, Luxembourg, Italy and Greece. For most countries, recipiency rates were higher for men than for women.

Replacement rates during 1991 were examined for 11 countries. These exceeded 0.60 in five: Sweden, the Netherlands, Spain, Portugal and Denmark. At the bottom of the distribution was the U.S. replacement rate of 0.34.

For the seventeen countries, Schmid and Reissert linked total benefits as a percent of GDP to the unemployment rate in 1992. Their relationship has been (arbitrarily) converted to a relationship between the benefit cost rate (B in (1)) and the TUR by assuming the wage share of GDP to be 0.70 for these economies. The derived relationship is shown as (2) below.

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[10] See Part C and Attachment A in Abrahart (1998a) for a closely related analysis of sustainability.

(2) $B = 0.254 * TUR$[11]

This relation implies that, on average, the product of PMC and RRATE from (1) is 0.254. The product of the two was highest in Sweden (roughly 0.70) and lowest for the U.S. (about 0.11) and Italy (about 0.07). From their analysis, it is clear that countries have selected a wide range of values for both PMC and RRATE. Overall, the average product of the two was about 0.25 for their sample of 17 countries.[12]

Gornick (1998) also examined the relative generosity of UI benefits for a sample of 19 OECD countries. The rankings derived in her analysis matched closely the rankings in the Schmid and Reissert analysis. Denmark and the Netherlands ranked very high while the U.S. and Italy ranked very low. Thus the two studies reported quite consistent rankings of benefit generosity across these generally high income economies.

The preceding discussion associated with equations (1) and (2) provides a useful rule of thumb for estimating the long run costs of a UI program in a country that pays benefits roughly in line with the EU-U.S.-Japan average. For each 4.0 percentage points in the unemployment rate (TUR), the payroll tax rate needed to support "average" benefit payments is 1.0 percent. If a country could establish an initial UI trust fund of some size and ensure the monies were dedicated to paying benefits, it could perpetuate its fund with an annual 1.0 percent payroll tax as long as the long run TUR averaged 4.0 percent.

The preceding statement about the coefficient of 0.25 pertains to long run costs based on average values of both PMC and RRATE. Both PMC and RRATE vary from year to year, depending on UI statutory provisions and macro conditions such as the inflation rate. In the U.S., for example, PMC increases sharply in the early stages of a recession (as the high recipiency

[11] Because this relationship has been "eyeballed" from a table showing benefits as a percent of GDP and the unemployment rate, there is no standard error or goodness of fit measure to report. The relationship, however, is very noisy.

[12] See Figure 8.1, Table 8.2 and Figure 8.5 and the related text in Schmid and Reissert (1996).

group, job losers, constitute a larger share of the unemployment pool) but then declines (as benefit exhaustions take place).[13]

Three implications of the rule-of-thumb embodied in relation (2) seem particularly interesting. First, many countries in the CEE-FSU block levy a 2.0 percent payroll tax to support their UI program. The collection rate typically is far below 100 percent and program administration plus proactive policies are typically financed by the same tax. Even if a CEE-FSU country's TUR averaged 8.0 percent, it would have to have much less generous benefits than those implied by equation (2) if it needed to balance annual revenues with annual benefit costs. Perhaps the generosity coefficient (the product of PMC and RRATE) would have to be between 0.10 and 0.15 to have a sustainable UI program. Estimates from Ukraine in 1997 were as follows: PMC = 0.134 and RRATE = 0.241, hence this coefficient was 0.032.[14]

Second, most of the Asian economies whose TURs were displayed in Table 2 and Figures 5 and 6 should be able to operate a UI program with average OECD generosity utilizing an effective payroll tax rate of 1.0 percent. Nearly all of the average TURs for these economies have fallen at or below 4.0 percent during the 1980s and 1990s.[15]

Third, even with the Korean TUR of 1998 (7.9 percent) or the 1964-1997 average Philippine TUR (7.4 percent), benefit costs should not exceed 2.0 percent of payroll per year. In the Korean case, a 1.0 percent payroll tax (coupled with a program of average generosity) would have covered long run costs for the 1963-1998 period when the TUR averaged 4.1 percent.

In considering the issue of UI benefit generosity, policy makers must be aware of disincentive effects. High benefits levels and easy entry requirements can affect entry into unemployment (so called entitlement effects) and unemployment duration (the more traditional disincentive concern). Recent analyses of disincentive problems have often started with a

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[13] In the U.S. which has state-administered UI programs and state-determined benefit provisions, there is considerable state to state variation in program generosity. Calculations for 1997 showed the average generosity coefficient, i.e., (PMC*RRATE), was 0.10, but its interstate range was from 0.05 to 0.20.

[14] These estimates came from a model which used historic data for 1997. The underlying variables (averaged across all types of covered employees and all types of beneficiaries) were as follows: monthly wage = 156 Hrivna, monthly benefit = 37.6 Hrivna (hence RRATE = 0.241), average monthly unemployment (thousands) = 2224, months of unemployment 2224*12 = 26,688, months of UI benefits = 3593 (hence PMC = 0.134).

[15] Calculations reported in Lee (1998), Table 4.4, suggested annual payroll tax contribution rates of 0.31, 0.44 and 0.25 percent for Thailand, Indonesia and Korea respectively for the ten years 1991 to 2000.

framework provided by labor market transitions between three states: employed, unemployed and inactive or not in labor force. Atkinson and Micklewright (1991) and Schmid and Reissert (1996) use this framework in examining cross country evidence. Steve Woodbury reviews the evidence from U.S. analyses within this framework in a paper we completed about two years ago, Vroman and Woodbury (1996). Ham, Svejnar and Terrell (1998) have recently examined disincentive effects in the Czech and Slovak republics.

Assessing disincentive effects is important, but different investigators have reached widely differing conclusions as to the size of these effects. Effects can be caused both by high replacement rates and by long potential periods of entitlement. Hence program designers must be aware of these potential effects of generous UI-UA provisions. A review of the various estimates of disincentive effects lies beyond the scope of this paper, but the preceding cites provide the reader with a good starting point for further exploration of this issue.

Unemployment programs often face an expenditure constraint problem when they are initiated. Frequently, the authorizing legislation establishes a UI trust fund which is the immediate source of monies for benefit payments. Taxes are deposited into the fund, and withdrawals take place as needed to pay benefits. To establish the trust fund, taxes have to be collected before they can be disbursed. In the U.S., taxes started to be collected in 1936 and benefits were first paid in 1938. Mongolia started to make collections in 1995 and benefit payments began in 1997.

This matter of sequencing is a major issue in the context of the current Asian financial crisis. In most of the Asian economies there is no UI program, but the need for disbursing monies to the unemployed is immediate. One likely consequence of the crisis is the establishment of UI programs in some of these countries, particularly those with higher income levels.

If the long run Asian TURs noted earlier continue to prevail, the costs of UI programs in many economies would not be especially high, e.g, up to 1.0 percent of payrolls. Since the need for benefit payments is immediate, it would seem that a borrowing mechanism could be devised with provision for eventual repayment from future revenues of the UI program.

A second large obstacle to establishing UI programs in Asian economies is the absence of a local administrative structure upon which to graft UI. In the CEE-FSU countries, a widespread network of local labor exchange offices already existed before UI programs were established. Job

turnover in the former Soviet Union was high, particularly for blue collar workers (workers as opposed to employees to use an earlier terminology) who constituted roughly 60 percent of employment. Employers participated both by providing job vacancy listings to these offices and by accepting referrals from these same offices.

One reason for denials in UI programs is refusals of "suitable" work, i.e., comparable work. Knowing a worker's occupational credentials, as indicated by their labor book, provides a UI program a basis for disqualifying an applicant if an offer of suitable work (or, more often, two offers) is not accepted. Thus the existing institutional structure facilitated the establishment of UI programs in CEE-FSU countries.

Local labor offices exist in several Asian countries, but their scope is generally much more limited compared to CEE-FSU countries. Particularly for higher skill workers, the institutions that support job matching are mainly in the private sector, hence not suitable for UI program purposes. This type of administrative consideration may be the most important single impediment, more important than lack of financing, to the establishment of UI in the short run.

Since financing is still a key problem in establishing UI programs, some additional comments on containing the costs of UI may be helpful. Equations (1) and (2) provide the background for these comments. Several eligibility provisions can help to keep the PMC ratio low. 1) Total exclusion from eligibility of new labor force entrants and labor force reentrants should be considered. 2) Instituting a rather long waiting period, say one month, would help to reduce months compensated and would also encourage early job search while unemployed workers are serving their waiting period.[16] If a country decided that compensating job leavers was desirable, having an even longer disqualification period, say two or three months, should be considered. 3) Having a short maximum potential duration, e.g., six months, would also help to lower total months compensated.

The experience of the U.S. at the outset of its UI program is instructive. Enacted during the mid 1930s as part of a large social security program, UI was expected to be very expensive, with costs perhaps as high as 4.0 percent of covered payroll. The waiting period in many states was initially four weeks and potential duration was typically only 16 weeks. These provisions

[16] Additionally the income and asset position of affected families will higher in the earliest periods of an unemployment spell than later in the spell.

then gradually evolved to a one week waiting period and 26 weeks of potential eligibility. However because of the uncertainty about costs at the onset of the program, conservative duration provisions were logical.

The limitation of RRATE is directly accomplished by three provisions. 1) The statutory replacement rate can be kept low, 0.50 or lower. 2) The maximum monthly benefit can be made very modest. 3) The benefit formula can be kinked to make wage loss replacement higher for low wage workers while much lower replacement is provided for high wage workers. All three would have the effect of reducing the average RRATE and making the UI program less expensive.

IV. ALTERNATIVES TO UNEMPLOYMENT INSURANCE

This section tries to address several questions that a country would face if it wanted to establish a program to provide relief from the effects of unemployment. Because the range of relevant concerns is so broad, the treatment must necessarily be sketchy. The approach to be followed is admittedly preliminary and subject to change. Taxonomy plays a prominent role in the ensuing discussion, but the taxonomy to be presented may be seriously incomplete in omitting other productive approaches.

Some Preliminaries

Before starting to explore alternatives to UI-UA systems, it may be helpful to pose some questions and provide partial answers that will help to focus the later discussion. Also, since the Asian crisis is so immediate and pressing, much of the discussion will be centered on this broad geographic area.

1. How long will the current crisis last, and what is the long run prospect for unemployment rates in Asia?

My perspective is that the crisis may extend for several years and is most keenly felt in the emerging, modern sectors of the Asian economies. One thing learned from the experiences of the CEE-FSU countries during the past decade is that adjustments to new circumstances and constraints may extend over a long period of time, more than a decade. This may not apply to the current Asian crisis, but errors should probably be made on the side of viewing the current crisis as having long term elements.

Based on Table 2 and Charts 5 and 6 it would seem the long run prospects regarding unemployment rates (TURs) in Asia is for lower rates than experienced by OECD countries over the past two decades. If these generally low Asian TURs reemerge, the costs of social protection (for a given structure of program as reflected in the generosity coefficient in (2)) will be lower than in Asian than in OECD countries. For a UI-UA program of average OECD generosity, the long run benefit payout rate would be expected to be 1.0 percent of payrolls or less.

2. Is the primary concern poverty alleviation or reducing the impact of unemployment on individuals and families?

These are obviously not fully separable concerns, but poverty alleviation is the much broader of the two. My own background is more suited to the narrower area of unemployment and unemployment protection provided through social insurance, i.e., UI-UA. Unemployment implies an interruption to the earnings stream, a decline in income due to reduced earnings and partial replacement of lost earnings through UI-UA benefits. In the discussion that follows, attention will be devoted to replacing lost earnings due to unemployment and to the problem of low income for those with active attachment to the labor market.

3. How well do (or would) approaches and programs developed in other areas of the world operate when applied in Asia?

Examples would include the obvious UI and UI-UA combinations present in many OECD countries. There is also the UA-only approach followed by Australia and New Zealand. The latter approach would reduce a country's potential financial liability for unemployment-related benefit payments by restricting eligibility to individuals and families with low income. Another possibility is to establish Social Investment Funds (SIFs) in selected geographic areas of the country to both improve provision of public services and provide temporary jobs to the unemployed (and/or members of poor families). This approach is already being tested in selected CEE-FSU countries.

The preceding programs themselves are quite diverse, but all address problems caused by unemployment and/or poverty. Perhaps an approach derived from existing institutions would be superior. Later paragraphs discusses cooperative or community approaches which are already followed in Asia.

4. Does there exist (or could there be created) a disinterested public administration capable of projecting an effective presence into local geographic areas?

This question touches on at least three elements. In meeting and dealing with the client (beneficiary), could program administrators be trusted to execute laws and administrative directives impartially for everyone regardless of ethnic identity or social status? Are program administrators willing to provide services without demanding some form of payment from clients? Do potential clients view the program administrators as willing to provide program services in a disinterested manner?

Comprehensive answers to the preceding questions have not been offered here. However, these questions must be recognized in framing a program to deliver services to the unemployed and/or poor families attached to the labor force.

Five Alternative Approaches

The comparative analysis to be undertaken explores five distinct approaches. The reader has already been introduced to two: UI-UA programs and severance pay. The third approach is to provide temporary public service/public works employment to unemployed workers. All three are well enough understood that additional descriptions will not be attempted here.

The remaining two approaches, establishment of Social Investment Funds (SIFs) and establishment of private group arrangements for benefit provision, merit individual descriptions because they have not been widely applied as the former trio. Also, from the descriptions, the reader can better appreciate my understanding (or lack of understanding) about how these approaches actually work.

Social Investment Funds - SIFs

SIFs have been widely used in South and Central America to address poverty problems. Local communities propose specific projects to improve infrastructure whose construction and renovation provide temporary employment. SIF projects have taken a wide variety of forms with output falling into six broad areas: 1) social infrastructure (schools, health clinics), 2) economic infrastructure (irrigation systems, access roads), 3) social assistance (nutrition programs), 4) support of production (markets, reforestation, community banks), 5) technical assistance and

training, and 6) environmental improvement. Even this list does not cover the full scope of SIF activities. SIFs have even supported individuals in the establishing micro enterprises. A generic description of a SIF project is that it concentrates on building social infrastructure in a emergency short run situation. Three typical SIF activities would be: upgrading the physical plant and facilities of a primary or secondary school, constructing a rural health clinic and improving local water supply and/or sanitation.

Two kinds of output are produced by SIF projects: enhanced services that improve the quality of life in local communities and temporary job creation from improving the infrastructure.

The Interamerican Development Bank (IDB) has been the biggest single donor organization providing support to SIFs. In 1997 it published an evaluation report which will be briefly summarized in the following paragraphs.[17] The IDB report drew upon other reports and evaluations of more than 800 SIFs. The majority (726) were SIF projects in three countries: Chile, Ecuador and Peru. The report was also careful to point out the type of evaluation that it utilized. Assessments were based on process analysis, examination of various (project and national) budget documents and surveys of clients. Direct impact evaluation and cost-benefit analysis were not undertaken. The report does not speculate on likely findings the latter kinds of evaluations.

A SIF typically has the following five elements. 1. Geographic targeting is used to decide which areas within a country will be selected for potential SIF activities. This presumes a geographic map of poverty can be constructed and that the poor and very poor areas will be selected for projects. 2) Local groups and communities write proposals describing a project, including expected output measures and the targeting of persons to work on the project. 3) Project financing involves some local resources. This matching requirement helps to ensure that the community really desires the project. 4) There is open competition in submitting bids, and submissions are evaluated by a neutral committee that selects the winning bids. 5) Projects typically have been of finite duration, although there is now active consideration of longer term SIFs.

How have SIFs operated and what have been their effects? The following summary is very brief, and readers are encouraged to consult the report by Goodman, et. al.(1997).

[17] See Goodman, et. al. (1997).

1. The projects have been designed and completed within reasonably short time periods.
2. Having transparent bidding and selection processes have generally worked successfully.
3. External funding has accounted for up to 90 percent of total support of SIFs. The external monies have been conveyed on concessionary terms.
4. The SIFs have not effectively served the very poorest areas but have penetrated areas where average income is well below the national average. The very poorest communities have serious problems in assembling effective project proposals.
5. The projects have effectively created and improved social and economic infrastructure that has enhanced the quality of life in local communities.
6. While there has been some job creation, it has been small scale, temporary and the jobs provide low wage employment. The typical worker hired by a SIF has low education, low qualifications and is paid the minimum wage.
7. The scale of operation of SIFs in a given country has been small compared to the economic aggregates such as GDP and total employment. The IDB report identified only four situations where spending exceeded 0.7 percent of GDP and where it exceeded 10.0 percent of total government spending (Bolivia, Haiti, Honduras and Nicaragua, Table 3.2).
8. Per capita spending on the poor has been largest in comparatively rich countries like Chile and Uruguay.
9. The largest employment effect of a SIF probably was in Bolivia during an emergency period when it averaged about 1.0 percent of national employment. In a subsequent five year non-emergency period, it averaged closer to 0.1 percent of national employment.
10. The effects on employment have been comparatively modest despite low wage levels because much of SIF spending went either for materials or for the (comparatively high) wages of contract employees not from the local communities.
11. The effect on family income was mainly to reduce the poverty gap (the distance between the income of a poor family and the poverty line) rather than moving families out of poverty. The low wages coupled with short temporary periods of employment explain why the effects on family income were so modest.

12. Across both countries and types of projects, differences in success could be observed. In general, SIFs were less successful in Central America than in South America. School projects generally received the highest evaluations. Health clinic projects frequently encountered problems of sustainability because of the inability to maintain supplies: medicines, instruments and other materials. Water-sanitation projects seemed to have the largest problems some of which could be attributed to insufficient project preparation and some to inadequate total resources.[18]

13. The projects were not successful in serving women whose poverty rates are generally higher than for men. Women were under represented in key areas such as project identification, project design and sharing in the projects' temporary jobs.

Lest the preceding list seem too pessimistic, some final observations should be offered. The quality of life did improve. The SIFs were more effective than the line government agencies with responsibilities in areas covered by the projects. There were some temporary increases in employment and income. Areas with above average needs were served by SIFs even though SIFs were not successful in penetrating into the very poorest areas.

Community Loan Funds

This is an Asian phenomenon, but not uniquely Asian. Two specific examples are noted in the following brief discussion. The first is the Grameen bank in Bangladesh which provides loans in rural areas, mainly to women involved in small scale entrepreneurial activities. The second is analysis of the factors associated with high rates of self employment among Asian Americans in U.S. cities.[19] These two examples differ several respects, most importantly in the explicit continuing subsidies that partially support the microenterprise loan activities of the Grameen Bank.

The common element in the two examples is the presence of a support network provided by a community group with shared objectives and explicit procedures for providing financial

[18] Typical of the problems were inadequate resources to pay for connections to residences, inadequate capacity to serve the enlarges user community after the new connections were made and lack of training and local resources to maintain projects following the construction phase.

[19] See Bates and Dunham (1992) and comments by Waldinger on their analysis.

support (loans) to group members. In establishing a business, the member can secure loans and other support services from the group. Later, following a successful business start-up, there are reciprocal obligations that can include financial levies and sharing business expertise so that new members can enjoy an increased likelihood of success.

Readers interested specifically in Grameen Bank activities can consult a recent book by Khandker (1998). This provides a broad assessment of its activities including a comparative benefit/cost analysis of its effectiveness in rural poverty alleviation vis a vis other approaches (alternative microcredit schemes, food for work projects and economic infrastructure projects). While Grameen Bank appears most effective in this particular context, two cautionary comments should be made. First, microcredit schemes are not very successful in serving the very poorest members of society in rural Bangladesh. Second, microcredit schemes make only a small contribution to poverty reduction in a society with very high poverty rates.

Microcredit activities that support small business have been implemented in many countries. One survey and comparative examination is provided in World Bank (1996).

Grameen Bank and other microcredit schemes should be viewed as specific illustrations of collective or communal approaches for providing economic support targeted to the low income segment of a well defined community.

In Armenia, some of the assistance from the diaspora is channeled to low income citizens by churches. Local church organizations identify the poor and make decisions on the distribution of aid. They believe their methods of targeting are more accurate in rural areas than in cities.

While additional details would provide a richer description, the main point is simple. Members of the organization have access to resources from the organization, e.g., loans at low interest rates. Membership also has obligations, and these are extracted after the individual has established an economic base and is able to help support others.

The applicability of this approach to situations of short term and even long term unemployment can be questioned. High unemployment would reduce the success of individual ventures, and the suitability of the unemployed as potential entrepreneurs can certainly be questioned. However, exploration of innovative credit arrangements for private groups where there is a well defined community may have potential in certain economies. Additional discussion of this approach is found in Annex 5 of Abrahart (1998b).

The experience of the U.S. during the 1930s provides a sobering recollection. Private charities, churches and local governments, the existing anti poverty institutions, were overwhelmed with requests for assistance. With one third of the nation in poverty (as asserted by the President), the national policy response was to establish a UI program, one part of a broader program of social security. However, the UI program was put in place in 1936, seven years after the onset of the great depression, and benefit payments did not commence until 1938.

A Limited Taxonomy

Table 3 identifies five distinct approaches for addressing unemployment and/or poverty problems. All five serve clients attached to the labor market and convey to clients either cash benefits or wages and possibly other services. The intent of the taxonomy is not to be exhaustive but rather to identify alternative approaches, note differences among them and offer some judgements regarding the individual approaches.

The first three benefit programs in Table 3 are widespread with both UI-UA and severance pay already discussed in Section II. Temporary public employment provides another avenue for serving unemployed clients, particularly long term unemployed. Two entries are shown in the table under the heading “Primary Locus of Administrative Responsibility” since the structure of these programs can vary widely. All involve local offices in actual program administration. Some programs allocate monies across geographic areas with an explicit formula that considers factors such as local unemployment and population. These situations are viewed as “Central Government” because it typically makes decisions regarding both the total national budget for the program and geographic distribution of spending authority. The second variant, identified as “Local Government,” involves initiatives where local financing is of major importance and wide geographic variation in program content is expected. Usually the “Local Government” variant would be of lesser importance given the typical situation where local governments lack the ability to fund their own activities.

The final two approaches/programs have more geographic specificity in their origin. Social Investment Funds (SIFs) originated in Bolivia and have widespread coverage in South America, Central America, the Caribbean and Africa. Recently, they are starting to find applications in CEE-FSU countries. Group Loan Funds already exist in Asian countries, e.g.,

Gramine bank in Bangladesh. They may represent a productive approach in the context of Asian economies.

The numbers 1 through 7 next to the cells with Xs in Table 3 merit some additional comments. Employer (industry) or union administration of UI-UA programs was already noted in Table 2 where four of the five OECD countries having this feature utilize unions in key aspects of program administration. Thus the X-2 cell in Table 3 is subsumed within X-1 as a possible special feature of a UI-UA program. It presumes a strong union organization which is lacking in many economies. Severance pay (cell X-3) is employer administered, but, if it is totally employer financed (with funding responsibility residing solely with employers making the severances), it has difficulty meeting its obligations. Some form of back-up, e.g., reinsurance from government, is required if payments to eligible severed workers are to be assured.

Social Investment Funds (SIFs) and Group Loan Funds have private program administration. Group Loan Funds are privately financed while SIFs in Latin American-Caribbean countries have derived the largest share of financial support from grants made by international donor organizations. These were discussed in earlier paragraphs.

The right-hand columns in Table 3 identify three important features of these programs. Cash benefits are delivered by UI-UA and severance pay. Temporary public employment remunerates participating workers either with wages or in-kind payments such as food. The main outputs of SIFs are the improved services provided by schools, health clinics, water and sanitation projects. However, some 30 to 50 percent of monies spent by SIFs are the wages of workers hired to complete the associated new construction and renovations. Group loan funds provide loans (cash) and services to support micro enterprise creation.

The point of contact with the client varies from program to program as indicated. The entries in the final column, “Performance in a Cyclical Context,” reflect my judgement about likely developments in service delivery during a recession. In particular, the issue being judged is the ability to finance benefit payments. The advantages of UI-UA programs reside in the possible existence of a trust fund with assets accumulated from prior years, ability to draw monies from other areas, e.g., proactive programs, ability to borrow and ability to modify benefit provisions in recessions. Typically, all four features will not be present in a given country, but if one or more is present, there is greater funding capacity for UI-UA programs.

The other four programs face the twin problems of increased need but reduced financial resources during a recession. The resources available to a SIF may be the most reliable since much of the support flows from abroad (grants from the Interamerican Development Bank or loans from the World Bank) and spans a multiyear period. However, because much of the motivation for the programs is to reduce poverty, cyclical variation is not built into the structure of anticipated expenditures.

Focusing on cyclical performance provides more reason to extol the virtues of trust fund arrangements in program financing. With a trust fund balance available from past accumulations, UI-UA programs have the potential to act as countercyclical forces with expenditures automatically rising as unemployment increases. Having a trust fund can be justified if the problem of concern is unemployment. Building a trust fund for a program principally concerned with reducing poverty would face a major problem, i.e., justifying why spending does not occur before the recession since the program is intended to raise the incomes of poor families and reduce their immediate poverty.

Summary

The preceding analysis has not identified a strong alternative to the UI-UA approach to insuring against the effects of unemployment. The taxonomy provided in Table 3 maybe deficient in its identification of types of approaches or programs (more rows may be needed) and/or in the structural features which have been singled out for comment (more columns may be needed).

Of the four alternatives to UI-UA, severance pay is deficient in the certainty of financing (a problem that grows in recessions) and targeting (being backward looking, benefits do not depend on current unemployment). Temporary public employment can be targeted on unemployed workers, possibly the long term unemployed. SIFs also provide temporary employment, typically at low wages.

Demand or need for public employment and SIF-related jobs, however, grows rapidly in a recession and there are timing problems, i.e., gearing up in a timely way so that participants receive jobs while the recession is still happening. (The preceding consideration is a widely recognized problem of “fine tuning” in countercyclical fiscal policy.) The framework within

which SIFs operate involves bids and awards for projects to provide infrastructure improvement, projects which have an important additional effect of temporary job creation as the project unfolds. Similar financing and timing concerns can be raised about group loan funds.

Three of the four alternatives (excepting severance pay) are suitable for addressing problems of poverty arising out of low wage employment, intermittent employment and underemployment. Many beneficiaries from these programs would be long term working poor who would achieve higher income from these approaches.

Unemployment can be very volatile and UI-UA programs can have large short run swings in caseloads. The timing features of UI-UA are appropriate, caseloads move both up and down with underlying changes in unemployment. This form of social protection can have a financing structure that accumulates reserves in good times to be available during recessions.

At least for the higher income Asian countries, it can be argued that now is the time to establish a UI-UA program. The program would not be very expensive if past TURs prevail in the future, and the program were structures to have average EU-U.S.-Japanese generosity, i.e., 1.0 percent of payroll or less (except in the Philippines). The sorts of workers currently experiencing unemployment are heavily drawn from the modern, emerging sector of the Asian economies. These same workers should have UI-UA protection so that they maintain a decent life style and avoid adjustments such as moving to the countryside, doubling up in living space with relatives and incurring large personal debts.

Numerous problems would have to be surmounted developing detailed plans for collecting taxes, establishing benefit payment procedures and administering work search provisions of a UI-UA program. However, the programs are needed now, and the present situation may provide the best political environment for establishing UI-UA programs, i.e., while unemployment is high.

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