



“Unemployment Insurance Policies in OECD Countries” Session

American Response

- Jacob Alex Klerman, Principal Associate and Abt Senior Fellow
- OECD/University of Maryland Conference
“Labor Activation in Times of High Unemployment”
- Paris, France, November 14, 2011



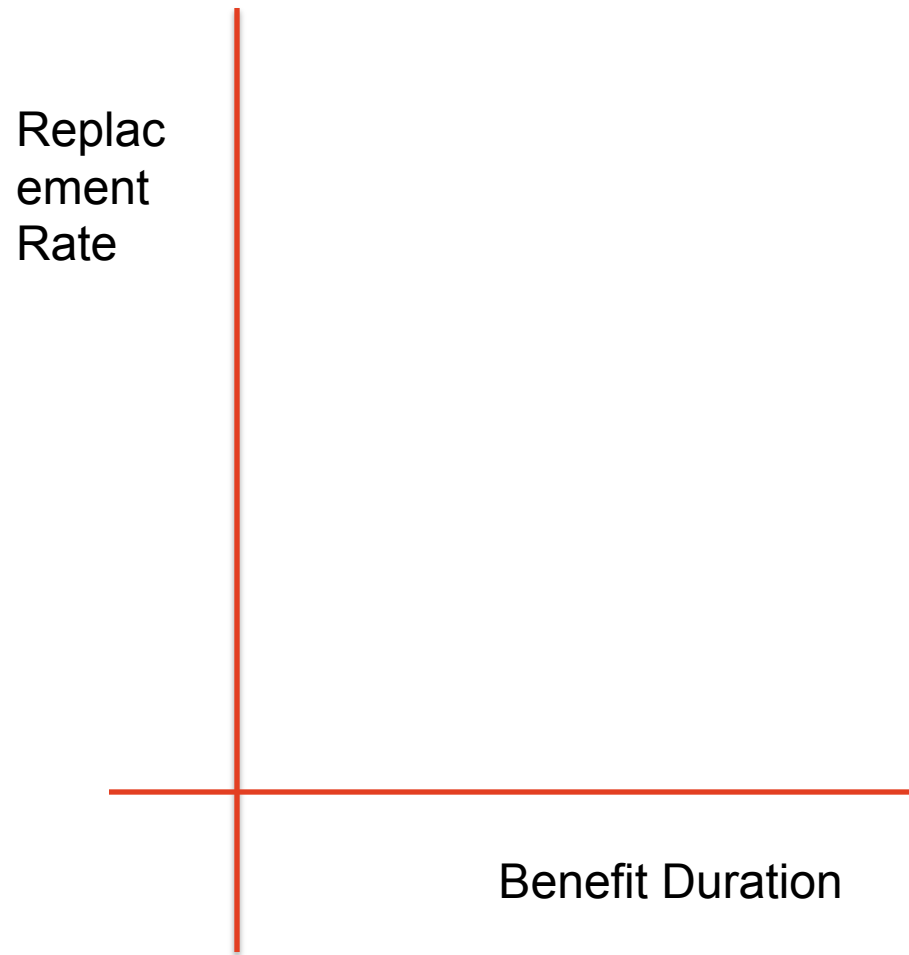
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Outline



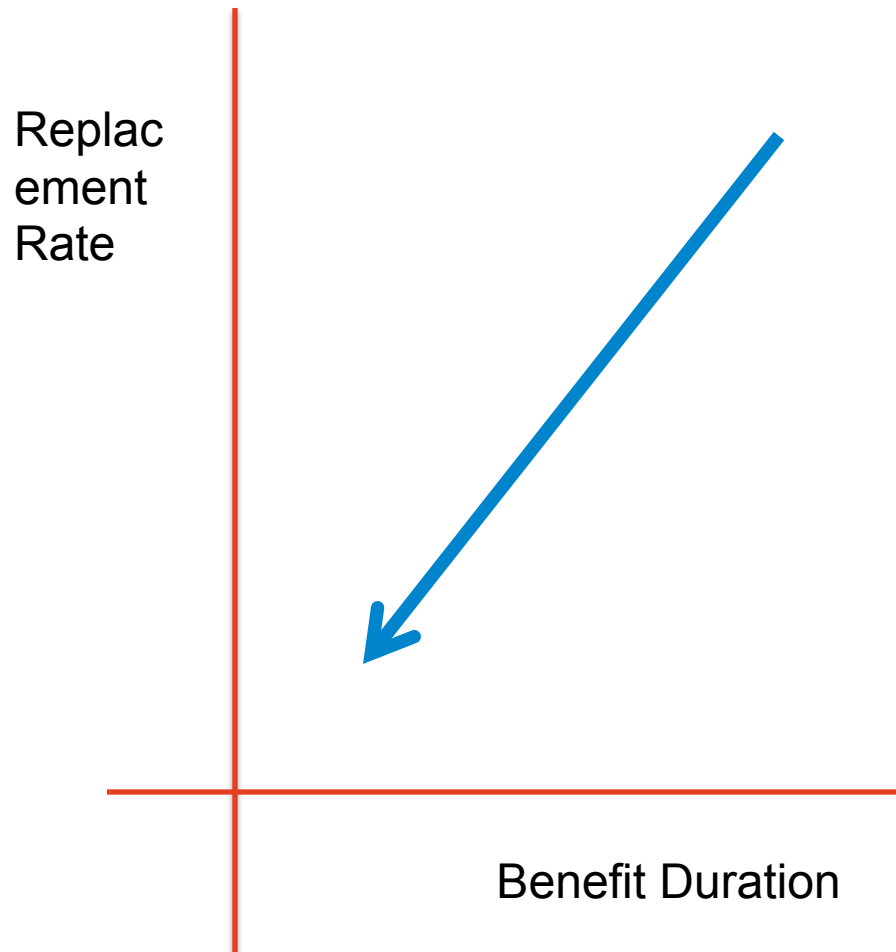
- Unemployment Insurance (UI) policy
- US macroeconomic context
- Insights from Europe for the US

The UI Policy Space



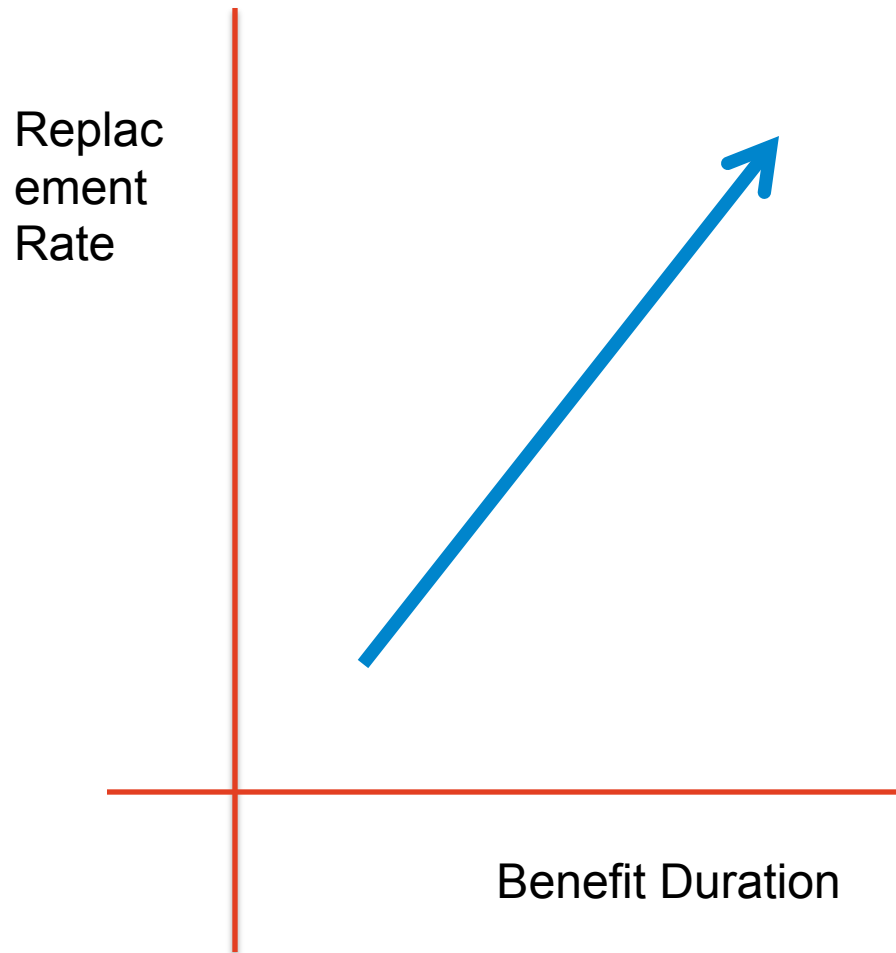
- Replacement Rate
- (Maximum) Benefit Duration
- Activation
 - Monitoring w/sanctions (“ordeal”)
 - Training
 - Reemployment bonuses

To the “South and West”



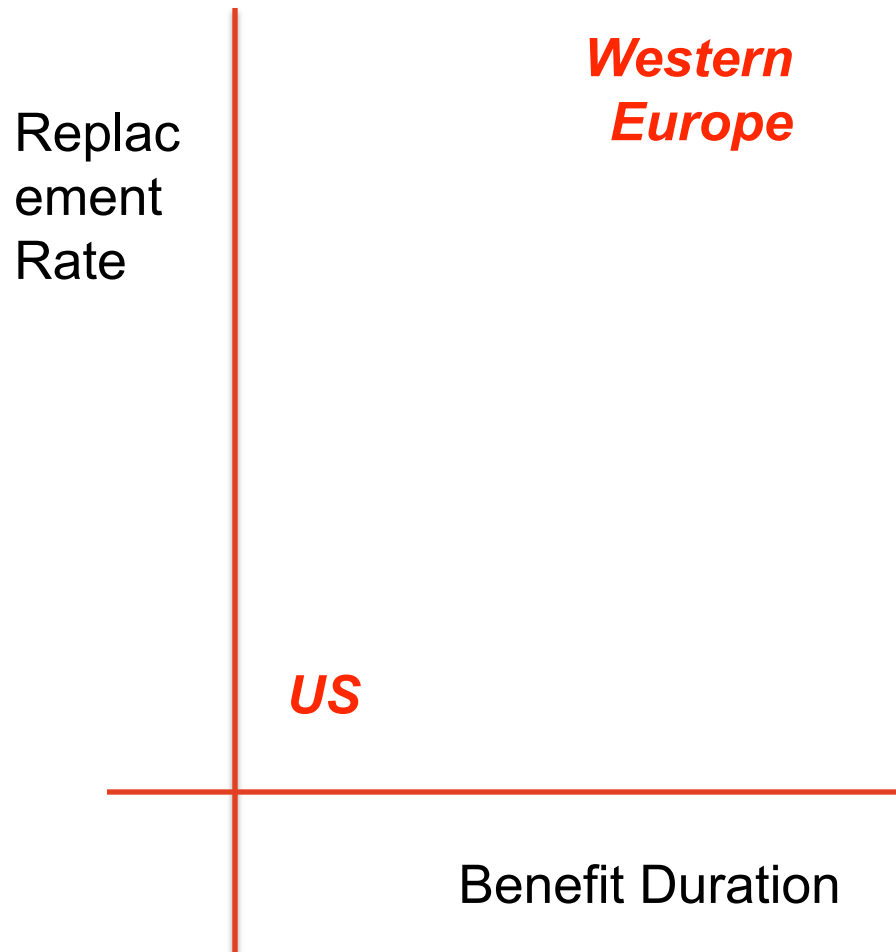
- Stronger incentive to work, so
 - Less entry to UI
 - Shorter UI spells
- More employment, so
 - More output and tax receipts
- Smaller UI program, so
 - Lower taxes
 - More competitiveness
- But, weaker safety net, so
 - For those who can not find a job, real deprivation

To the “North and East”



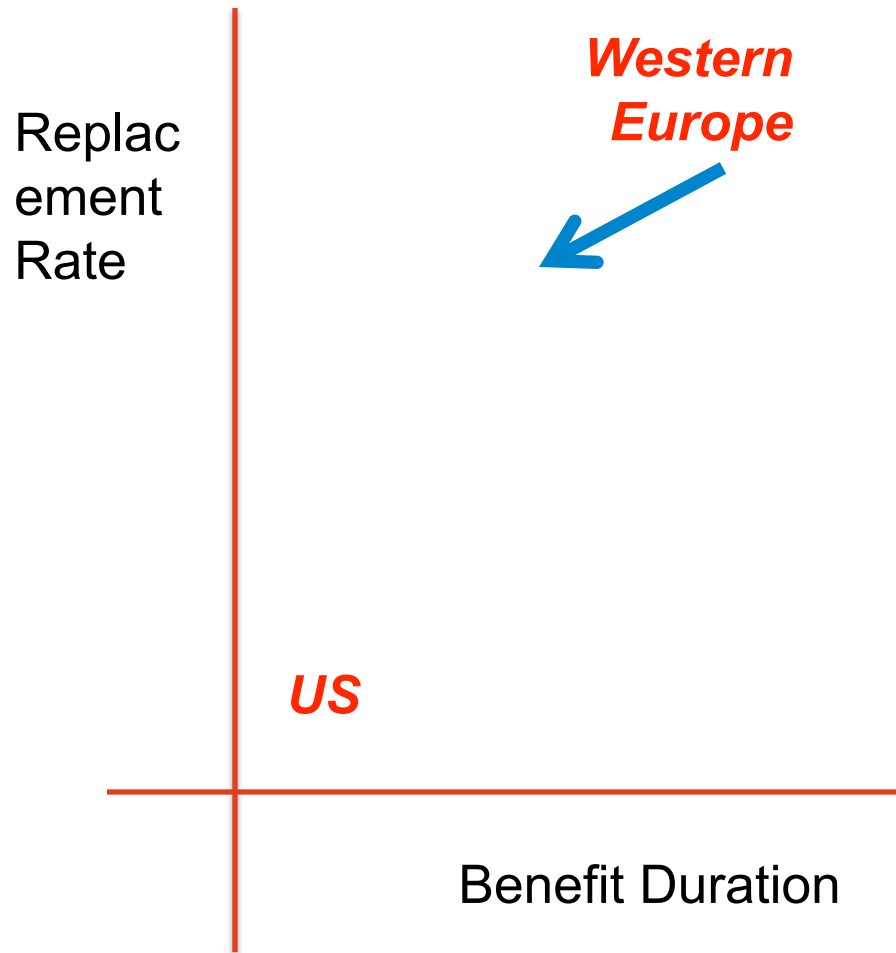
- Better social safety net
 - Less deprivation
- But, more who could work receive UI
 - Lower output
 - Higher taxes
 - Worse competitiveness
- Partial Response: ALMP/
Active Labor Market Policies to induce work

UI Policy Choices through early-2000s



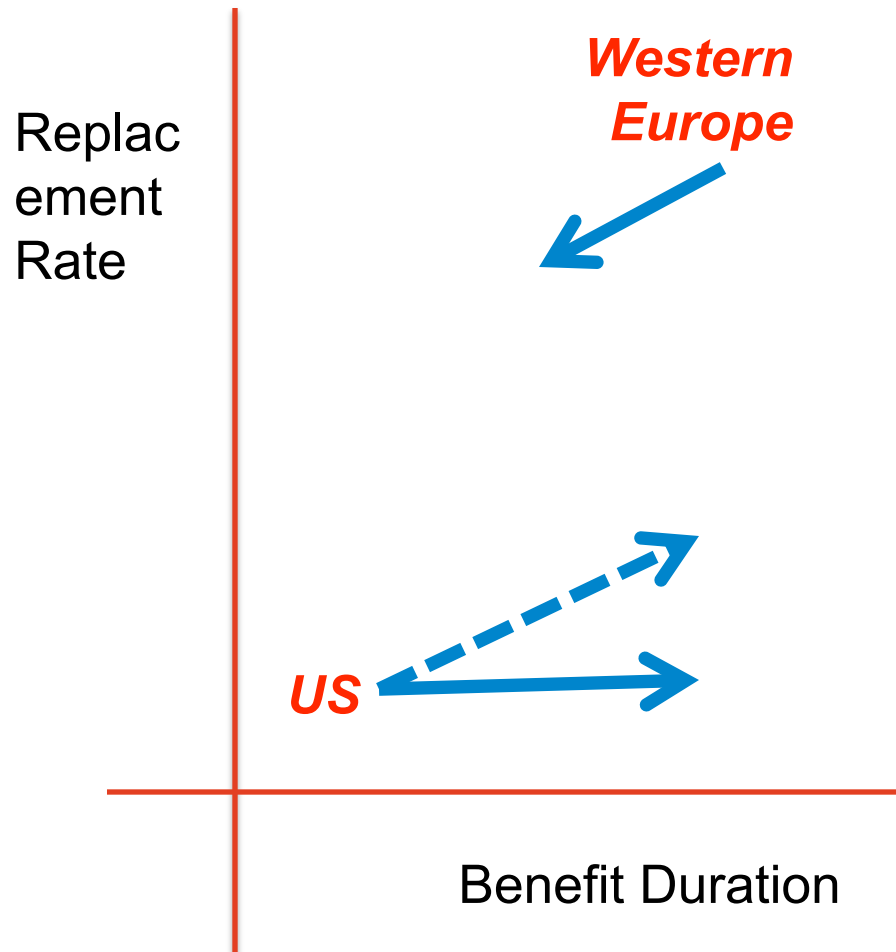
- Western Europe
 - High Replacement Rates
 - Long potential durations
 - Often w/ALMP
- United States
 - Low Replacement Rates
 - Short potential durations
 - w/minimal ALMP

UI Policy Choices since early-2000s



- Western Europe
 - Shorter potential durations
 - Lower replacement rates
 - More ALMP

UI Policy Choices since early-2000s



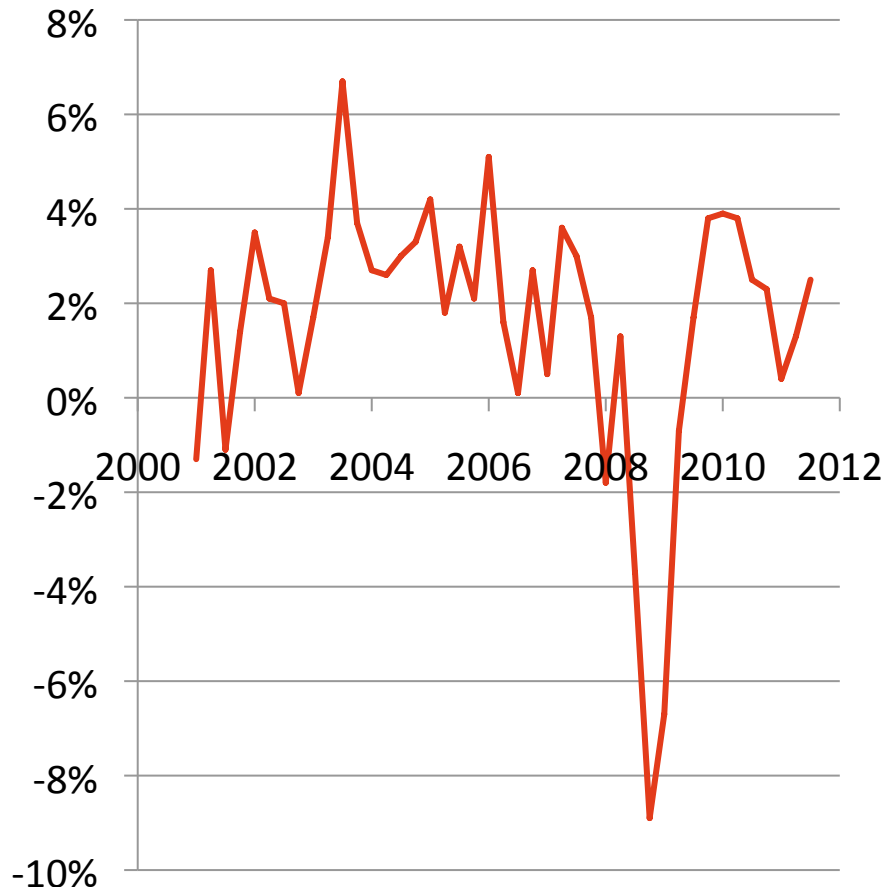
- Western Europe
 - Shorter potential durations
 - Lower replacement rates
 - More ALMP
- United States
 - Much longer potential durations (26 weeks->99 weeks)
 - Arguably, higher (prospective) replacement rates
 - w/little move to ALMP

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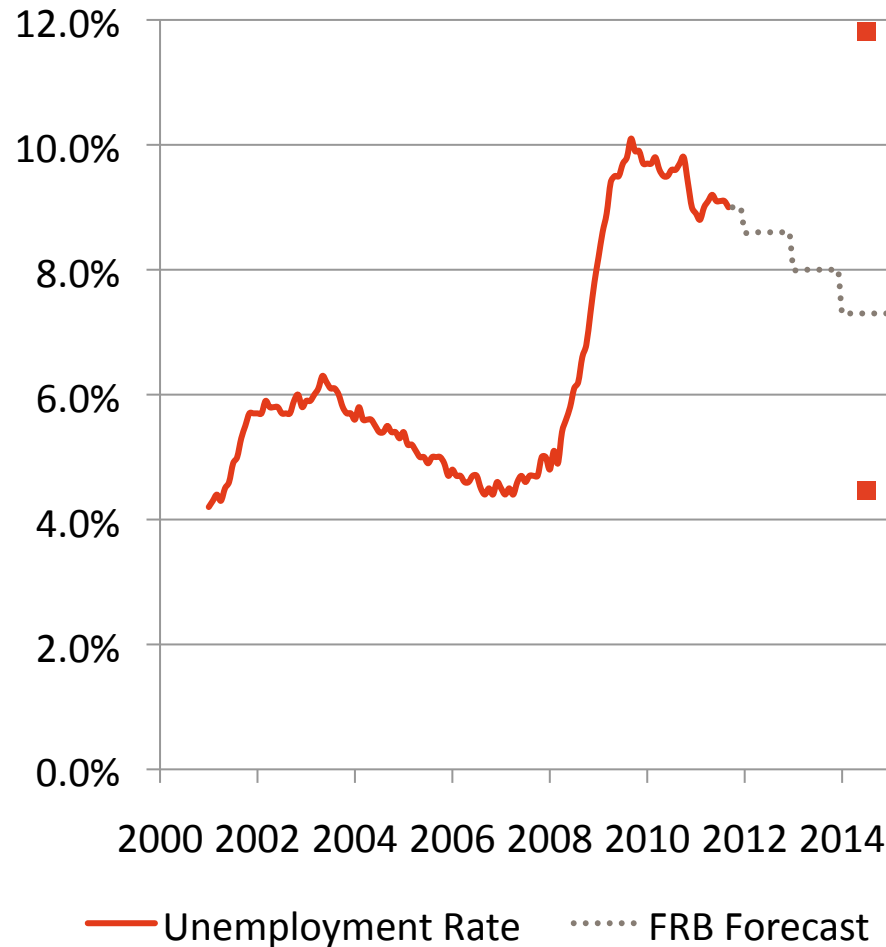
The “Great Recession” in the US



Real Change in US GDP

- In 2008-2009, the US experienced a severe economic contraction
 - Most severe in at least a generation
 - Perhaps since the Great Depression
- Subsequent recovery has been weak
 - Unlike other post-WWII recoveries from major contractions

The “Great Recession” in the US



■ Inducing a sharp rise in unemployment

- Most severe in at least a generation
- Perhaps since the Great Depression

■ Large increases in

- Long-term unemployment
- Discouraged workers

Three Possible Explanations



Explanation	Diagnosis	Response
Keynesian	Short-term/cyclical lack of aggregate demand	Short-term stimulus and expanded UI
Policy Induced	More generous UI policy	Undo UI changes
Neo-Classical	Long-term decline in US competitiveness (hidden by pre-recession bubble)	Wages need to fall (what does this mean in the decentralized US context?)

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Insights from Europe I



- Reconsider long potential durations
 - Workers respond sharply to UI policies
 - Explaining some—but probably not all—of the persistent high unemployment rates
- Think carefully about (prospective) Replacement Rate
 - In as much as “Neoclassical” explanation (i.e., long-term decline in competitiveness) is correct ...
 - For many of the unemployed, future earnings are likely to be well below recent earnings
 - And “scarring” from long periods unemployed will exacerbate that earnings decline
 - Lower earnings and higher labor force participation are probably a key step to improve competitiveness and address budget concerns (especially w/export led growth strategy)

Insights from Europe II



- For some (many?) workers, jobs are simply unavailable; but we can't identify those workers
 - So cutting potential duration or Replacement Rate will cause real hardship for some
- Consider low intensity ALMP
 - e.g., requiring checking in with a caseworker and showing evidence of substantial active search
 - Recent estimates of job search intensity: ~1 hour per day
- European and US evidence suggests that low intensity ALMP is a good screening device
 - Leading to moderate drops in the caseload



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