

CHAPTER III
UNEMPLOYMENT INSURANCE:
A NECESSARY TOOL FOR A CONTEMPORARY STATE

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III.1 Introduction

This chapter presents a general description of the state of unemployment policies in the region, discusses the main issues that must be addressed, provides a description of the main developments at the national level, and presents recommendations. Unemployment insurance (UI) programs have undergone major reforms since the nineties. It is useful to understand the motivation for the changes, and whether or not the evaluation is favorable for workers and their families.

As will be seen from the country reviews, UI programs have been moving towards some common features (from the more to less common):

- i) give workers some responsibility and motivate job-search activity through replacement rate rules that decrease as the unemployment spell lengthens, and in some cases also adopting individual accounts for unemployment;
- ii) extend benefits during recessions, in some cases in an automatic fashion;
- iii) link unemployment benefits with programs to support self-employment and training;

- iv) develop new supplementary programs or strengthen existing ones to support those not eligible for UI benefits while protecting the integrity of UI program rules; and,
- v) find ways to include workers under part-time and piece-rate contracts in the system.

The ghastly images of unemployed workers forming long lines to receive a plate of soup and of their families squatting under considerable stress are part of the imagery on the Great Depression of 1930 around the hemisphere. As pundits began wondering whether the financial crisis of 2008 would develop into a Great Depression, they reflected the concerns of folks around the world on the likelihood of losing their jobs and soon not being able to generate cash for basic necessities.

However, a counterpoint became obvious immediately. In contrast with the conditions in the thirties, today's social security guarantees access to basic benefits that stabilize families' needs over time. Thus, an unemployed worker can receive health services, including preventive care; she or he keeps active her or his participation in the pension plan and if the retirement age is close, she or he may move from unemployment to retirement; she or he receives

monetary health and social support in case of disability; and, she or he receives a monetary benefit from unemployment insurance. We cannot lose also the significance of the "she or he" expression. In this context, it denotes more than a "politically correct" phrase. Instead it conveys the message of a large participation of females in the labor market and in the social protection system: widows, orphans, and single mothers receive today direct protection from social security.

A significant difference with the episode of the Great Depression seems to be also that unemployment is not going to reach the appalling levels seen then. It is too early to say how far the recession that began in 2008 will reach. By Summer 2009, unemployment rates were still creeping up around the world, and will probably reach the highest levels in the last 50 years in several countries by late 2009 or early 2010. Nevertheless, wages have not fallen significantly, which means that household incomes have not fallen for those that have kept a job.

III.2 Definition of Unemployment

The "unemployment rate" (UR) is the more common statistical figure used to measure the phenomenon of workers willing to take a job under existing market conditions but unable to find it. The measurement of the UR by national governments usually follows International Labor Office (ILO) guidelines, and is the ratio of two numbers: those who say they want to work and do not have a job, and the number of persons in the labor force. Thus, the labor force is comprised of the unemployed and the employed.

The UR faces a number of problems that must be recognized so as to be a fully adequate measure of the problems faced by citizens. The more important issues (from the least to the most problematic) are:

- i) Some unemployment is "frictional." This means that as it is costly for workers and firms to find each other, there is some unemployment that is not socially damaging, because it reflects short-term productive search activities. It is useful to allow employers and job-seekers some time to find more productive matches, so labor policies should not aim to near-zero UR.
- ii) Some individuals decide not to participate in the labor force at all when their prospects of finding a job are excessively bad, and this reduces the rate of unemployment. This issue will be masked by a low UR.
- iii) The measurement of UR includes a period of reference (e.g. unemployed during the last week), and countries with higher short-term turnover rates may end up with low measured levels of unemployment. In some countries (for example, those of Western Europe), workers tend to stay longer with the same employer, but the unemployed also take a long time to find a job. In others (most of Latin America and the Caribbean), workers change jobs often and in a given month or even within a week may move across employment and unemployment states. Even if the average fraction of time spent in unemployment were to be the same across the two types of countries, for the first group the measured UR would be higher than for a country where workers change jobs more often and stay unemployed during shorter periods of time.

iv) Workers find ways to compensate their inability to find a full-time job, either working in the informal economy or in low-productivity jobs. Thus, the UR can be low even when many workers are in conditions of low productivity. This seems to be a very important event in many countries in the Americas.

To deal with the problems of the UR, governments have developed new ways of measuring the problem. One is simply to provide alternative definitions of unemployment, for example including workers in low-productivity informal jobs as part of the unemployed. A second tactic has been to measure the problem of unemployment according to its severity among workers. This has meant mainly studying the duration of unemployment spells for different types of workers. Finally, governments have begun to develop databases on job creation and job destruction. If we could measure all the new hires and all the job separations in the economy, ideally we would get the unemployment rate as a result.

Each of these strategies is valuable and provides a useful new perspective on the problem. However, at the end the main issue is not how to measure an event, but the pain suffered by families after the loss of their main source of sustenance.

III.3 Recent Evolution of Unemployment

The world economy was in recession by early 2009. However, problems had begun as early as the last months of 2007 when the economy of the NAFTA countries was slowing down. South America was growing strongly well into 2008. However, by early fall of 2008, a financial crisis took hold of the world economy, and the generalized recession ensued. In Chapter II we made a rough sketch of the way the regional economy has evolved. In Figure III.1, we can see the general evolution of the unemployment rate for the large countries. Figure III.2 shows the general evolution of the unemployment rate by region. In Figure III.3, we see the projections obtained by ILO researchers on unemployment in Central America. By the Summer of 2009, results had not improved much, and even if an economic recovery period were to take hold by the end of the year, it would be unlikely that employment would recover by 2010.

Unemployment rates had been improving across the Americas during the decade. By late 2008, Brazil recorded its lowest level since the keeping of statistics began. Argentina and Chile had also significant improvements in employment. The economies of North America and Mexico were also operating under low unemployment rates. Things began to change and first the statistics for Canada, the United States, and Mexico reported lags in employment growth during 2007; by 2008 unemployment rates were increasing. By 2009, most of the region was living under pressure of employment levels.

Unemployment is often a bigger problem for workers with more human capital. The low-skilled can more easily move across sectors in the economy, while those with more skills face a bigger challenge to find a job that matches their potential and

expectations. The unemployed in rural areas spend less time searching for jobs than the urban unemployed. Figure III.4 shows that with exception of Brazil, these differences are not small. Similarly, Figure III.5 shows that the more educated take longer to search for jobs than the less educated. For the Central American economies, females and youths also have higher unemployment rates (Figures III.6 and III.7).

If unemployment is more acute for the more educated and urban workers, does it mean the more educated and urban countries always have higher unemployment rates? Not so. Labor market institutions also play a significant role. Thus, we see in Figure III.8 that continental European countries have predominantly long-term unemployment (one year or longer in duration), whereas the NAFTA and Commonwealth area nations have lower shares of long-term unemployment (in this field, short-term usually means one month to one year). In this regard, results by gender are mostly the same. We can mention that Japan is an intermediate case.

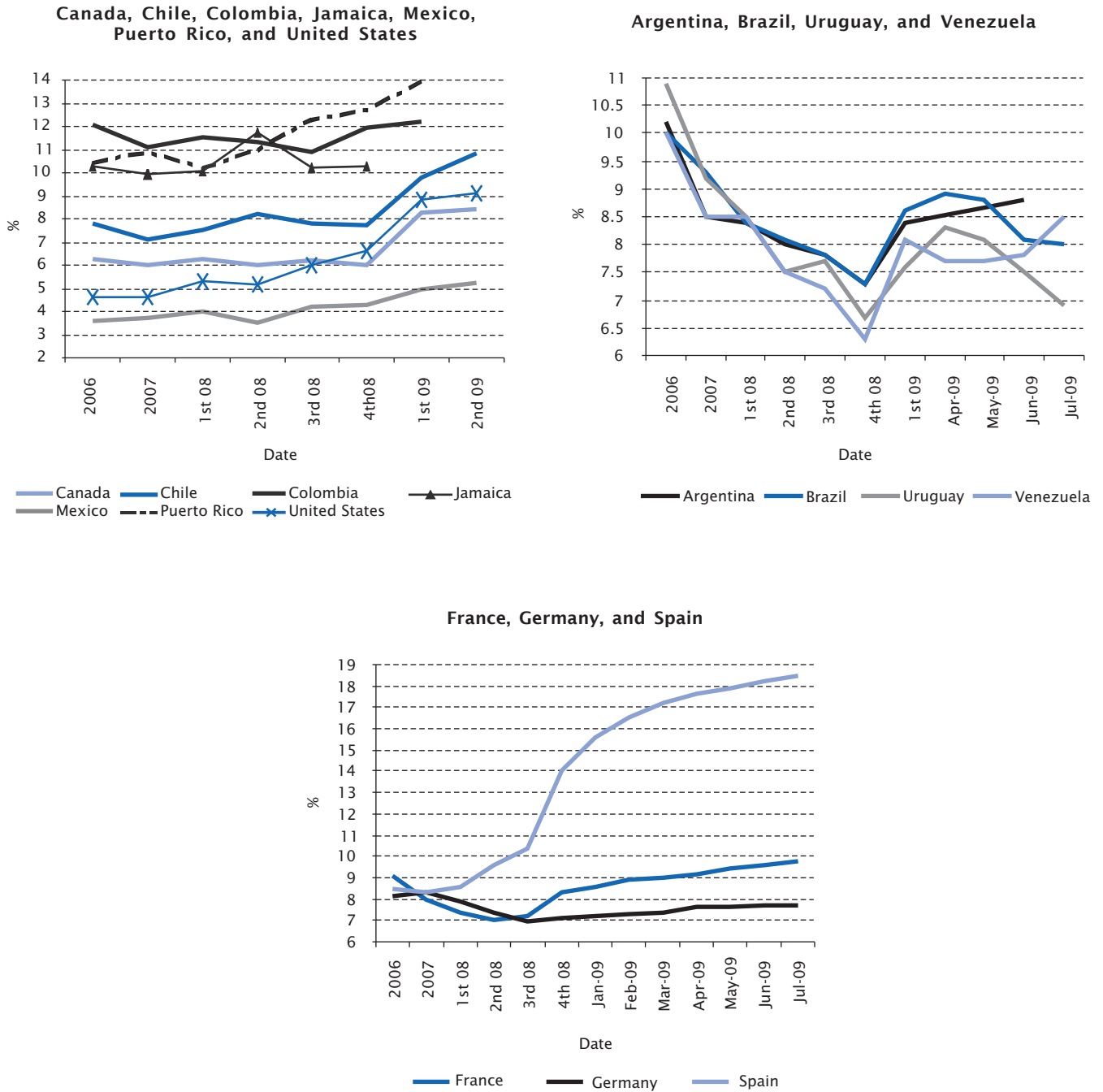
However, it would not be correct to think that national stories follow a detailed "regional script". As we can see in Figure III.9, over the last 15 years, Japan and some of the large European nations (France and Germany) actually suffered increases in long-term unemployment (Spain being the notable exception having experienced a decrease), while North America had lowered long-term unemployment even more.

Consistently, the young experience higher unemployment rates (Figures III.6 and III.7). From the perspective of a young worker, this has to do with the alternative uses of time (studying and "exploring the world"), with the possibility of being financed by

his family while unemployed, and with his low development of specialized human capital (which means he is more willing to search for new opportunities and employers are more willing to experiment with hiring young workers). However, high youth unemployment is also due to personnel policies in the public and private sectors to fire or not hire young persons during economic slumps.

The issue of measuring the attachment to the labor force remains a complex issue in all sorts of national economies. In Figures III.10 to III.12, the share of people with "invisible" under-employment or "low attachment" to the labor force represents a significant share in Central America and the United States.

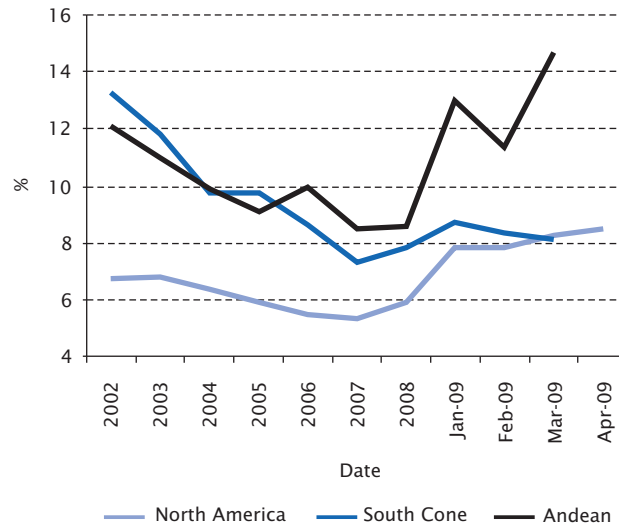
Figure III.1
Unemployment Rate Calculated from Labor Force Surveys,
Average for Period^{1/}



Note: 1/Period: 06, 07 = years. 08-09 = quarters. Argentina, Brazil, Uruguay, and Venezuela as from Apr 09 = months. France, Germany, and Spain as from Jan 09 = months.

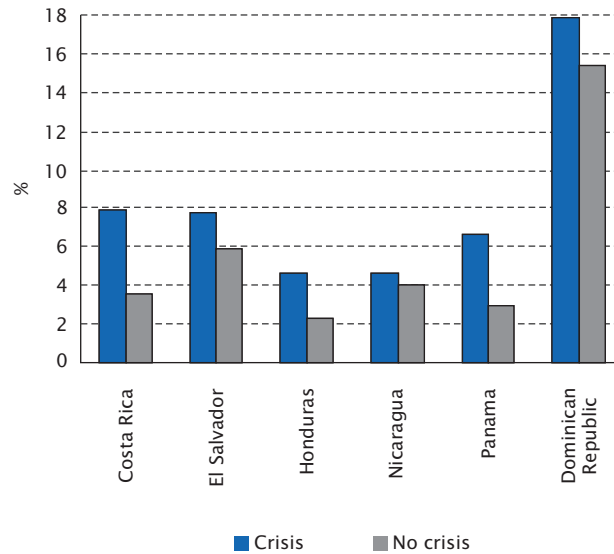
Source: ILO (LABORSTA), OECD.Stat, Eurostat, and Internet sites of the national institutes of statistics and census of the countries.

Figure III.2
Unemployment Rate by Region, Total, 2002–April 2009



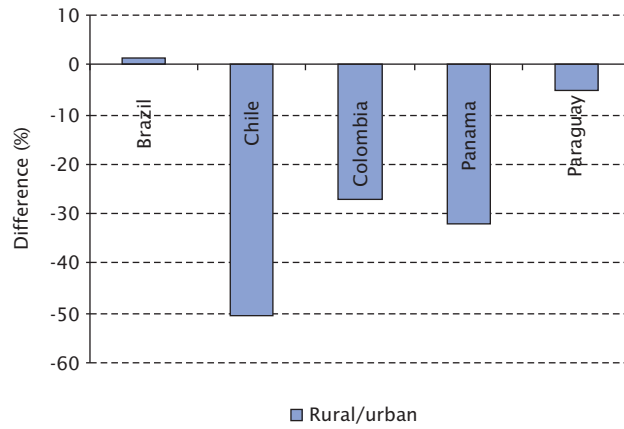
Source: ILO, LABORSTA, several years.

Figure III.3
Projections of Unemployment Rates in two Scenarios, Central America and Dominican Republic, 2009



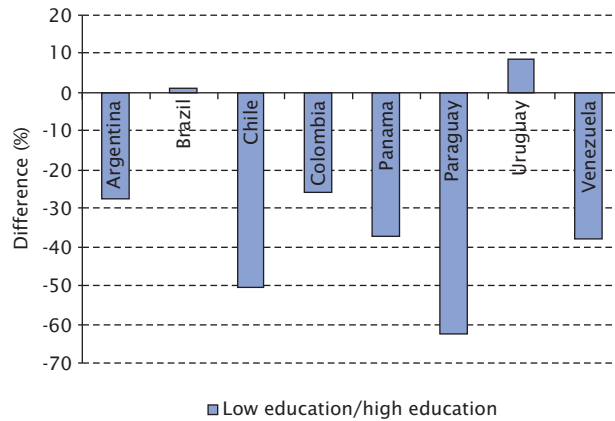
Source: OIT 2009.

Figure III.4
Differences between the Average Period of Unemployment Duration in Rural and Urban Areas, 2003



Source: Own elaboration based on BID 2004.

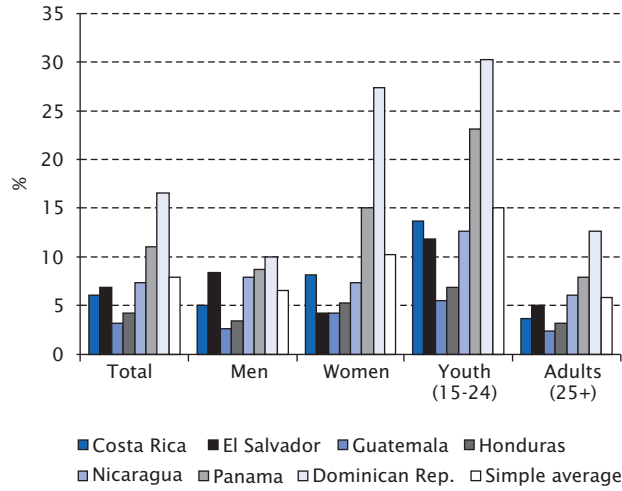
Figure III.5
Differences between the Average Period of Unemployment Duration among Education Levels, 2003



Note: Argentina = 2002.

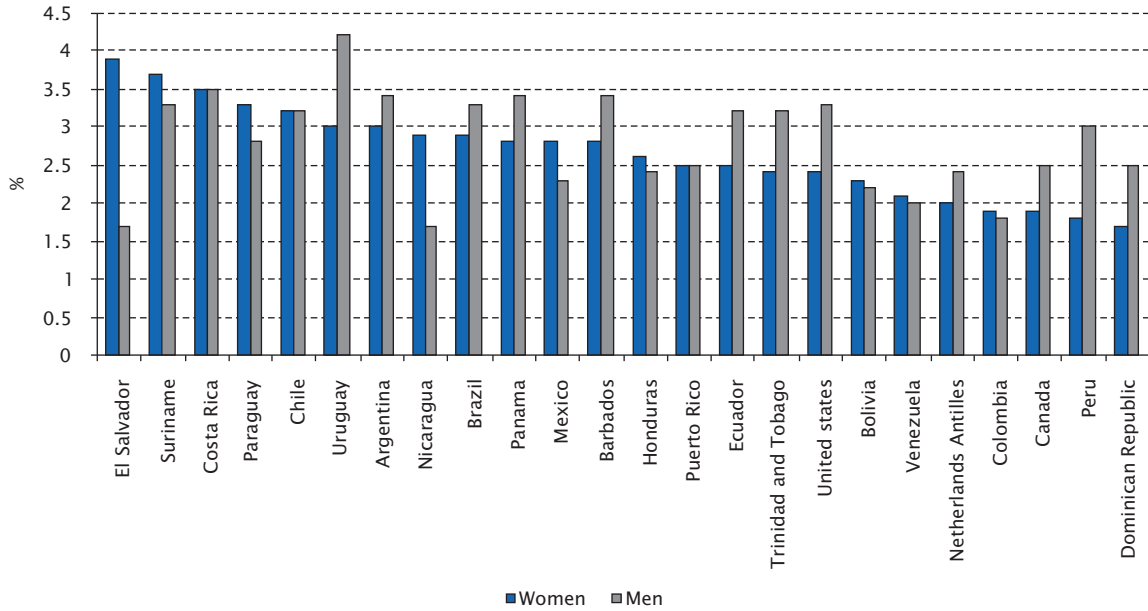
Source: Own elaboration based on BID 2004.

Figure III.6
Unemployment Rates in Central America and Dominican Republic, 2007



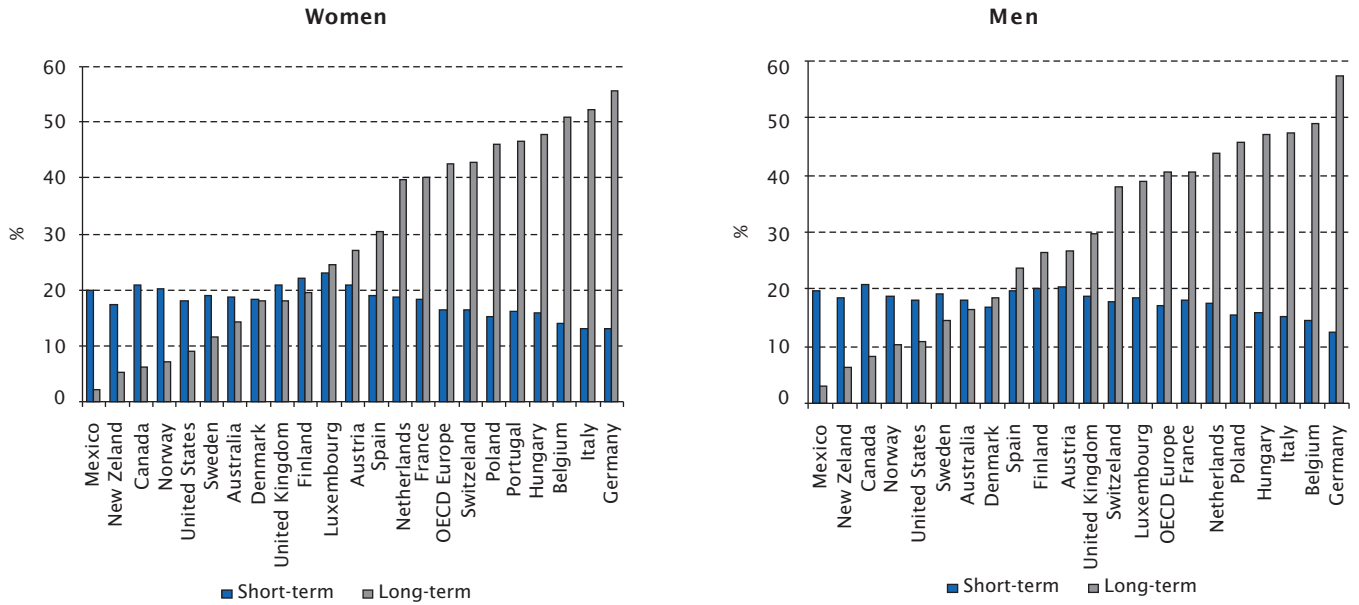
Source: OIT 2009.

Figure III.7
Quotient among Youth Unemployment Rates (15-24) and Older than 24 Years, Both Sexes, 2005



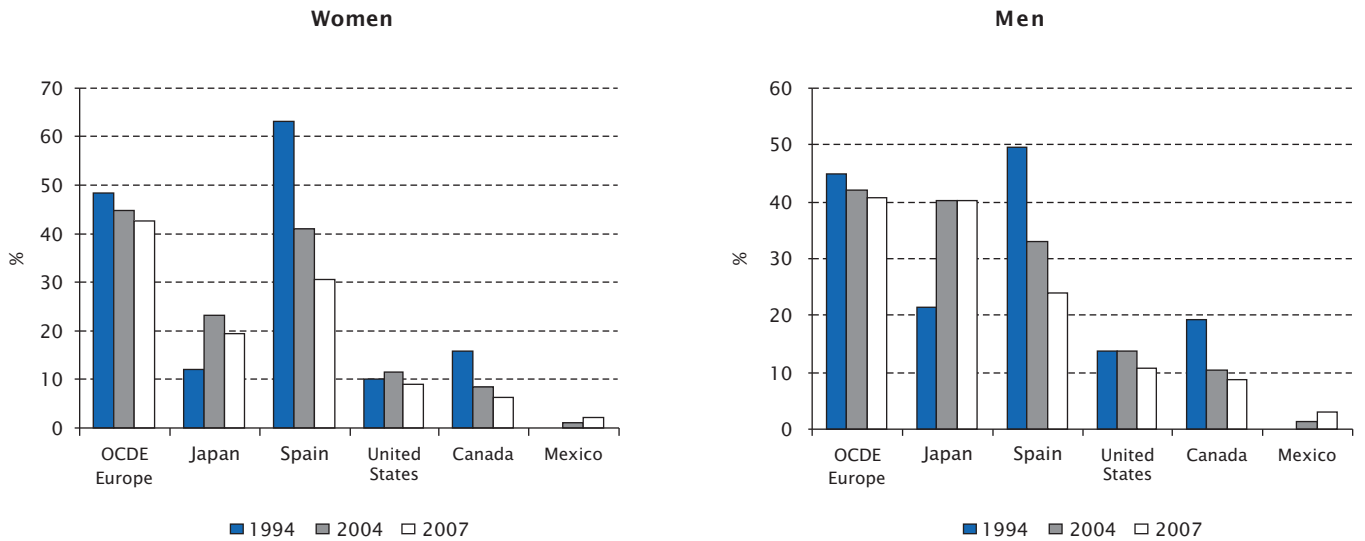
Source: UN (MDGs), 2005.

Figure III.8
Short- and Long-Term Fractions of Unemployment in OECD Countries, 2007



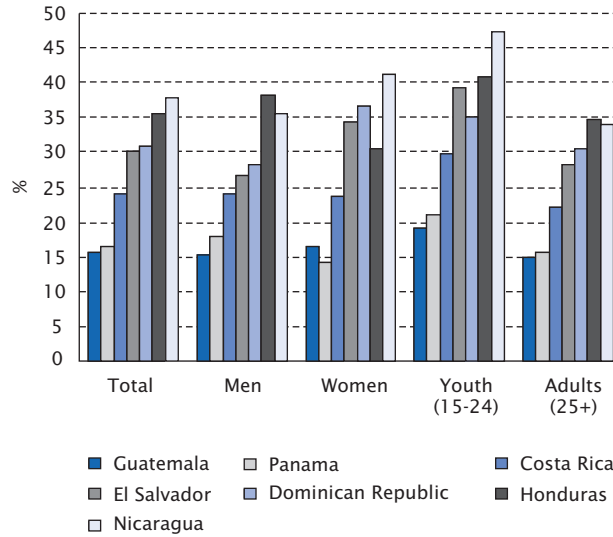
Source: OECD. Stat, 2007.

Figure III.9
Incidence of Long-Term Unemployment
(12 Months or More) as a Percentage of Total Unemployment



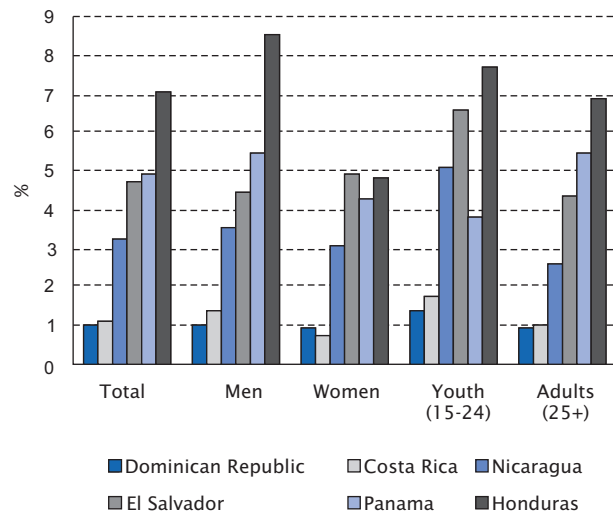
Source: OECD.Stat, several years.

Figure III.10
Under-Employment in Central America and the Dominican Republic, 2007



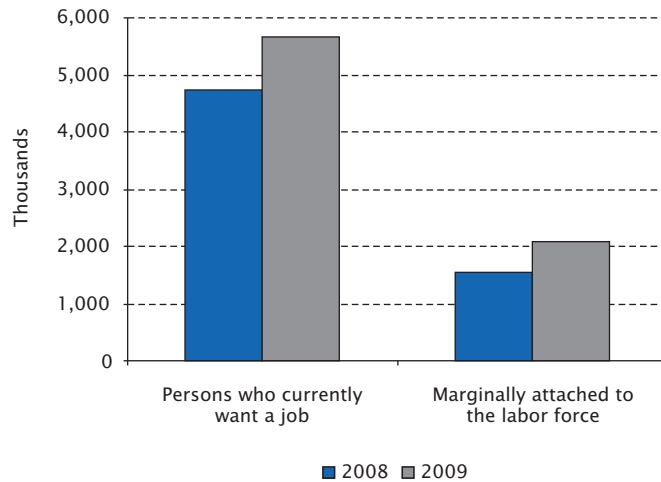
Source: OIT 2009.

Figure III.11
Ratio of Invisible Under-Employment^{1/} to over Visible Under-Employment^{2/} in Central America and the Dominican Republic, 2007



Notes: 1/Those who in spite of working full time earn a lower wage than the minimum established by law. 2/Those who work less hours than desired.
Source: OIT 2009.

Figure III.12
Persons Not in the Labor Force Who Want Jobs or
Are Marginally Attached to the Labor Market, United States, First Quarter



Source: U.S. Department of Labor 2009.

III.4 Main Unemployment Insurance Programs in the Americas

We can distinguish seven countries in the Americas with comprehensive UI programs: United States and Canada with programs originating after the Great Depression; Brazil's program that arose with the constitutional change in the eighties; and Argentina, Barbados, Chile, and Uruguay with newer programs adopted between the nineties and the current decade. Colombia also has a UI program, but it is relatively small. Before describing the features of each of these cases, we can point out general trends. The main general developments since the nineties are the following:

- i) Governments view the UI program more as an insurance tool and have introduced incentive-rules that limit the moral hazard by users. This means that payments have become more restrictive, and may not be given to persons that do not search for jobs, do not participate in

training activities or face limitations for work that make it unlikely that they will return to the labor force successfully. On the other hand, new cash-transfer programs have been adopted to support the "permanently-poor", recognizing that poverty and unemployment are two different phenomena. The use of individual accounts that force savings while employed and can be used when unemployed are also seen as a mechanism to achieve social protection while giving individuals more responsibility.

- ii) Replacement rates have moved toward schedules that reduce benefits with the duration of the unemployment spell. The theory behind this move is that right after losing his job, the worker needs more liquidity and social support, but over time he must make an effort to find a job.
- iii) Governments recognize the growth of non-salaried job options, and use the UI program to

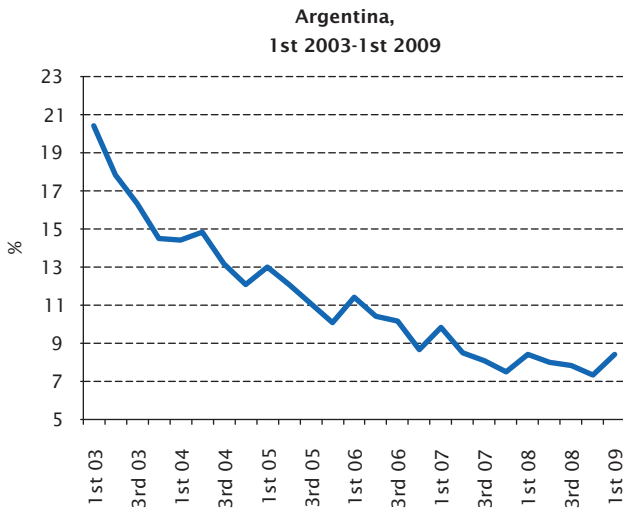
support micro-credit and facilitate the development of self-employment.

- iv) Governments allow the UI program to pay benefits to mothers and to persons that have to care for a disabled household member.
- v) Governments include in the UI program workers under piece-rate or part-time contracts, as well

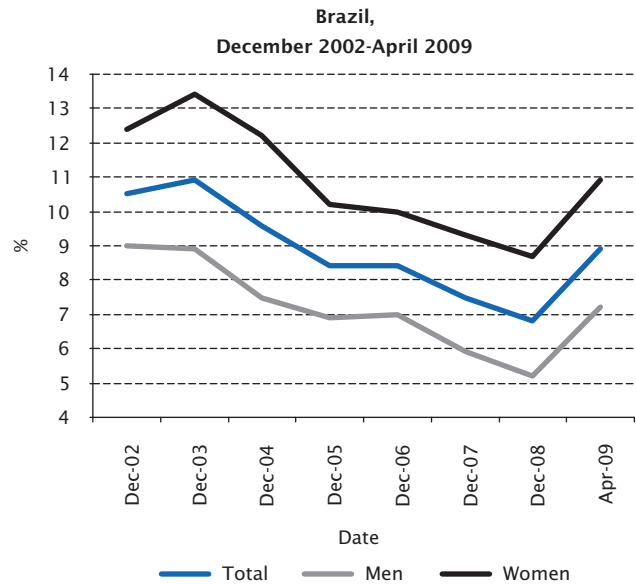
as the self-employed, who have been traditionally excluded from UI benefits.

While not all the listed countries have adopted all of these changes, these point out to the general trends. Figure III.13 shows a summary of the unemployment rate during recent years in selected countries.

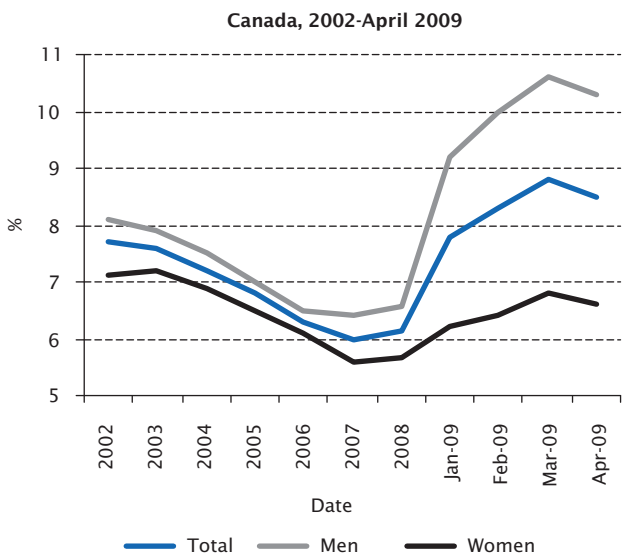
Figure III.13
Unemployment Rate in Selected Countries during Recent Years, Both Sexes



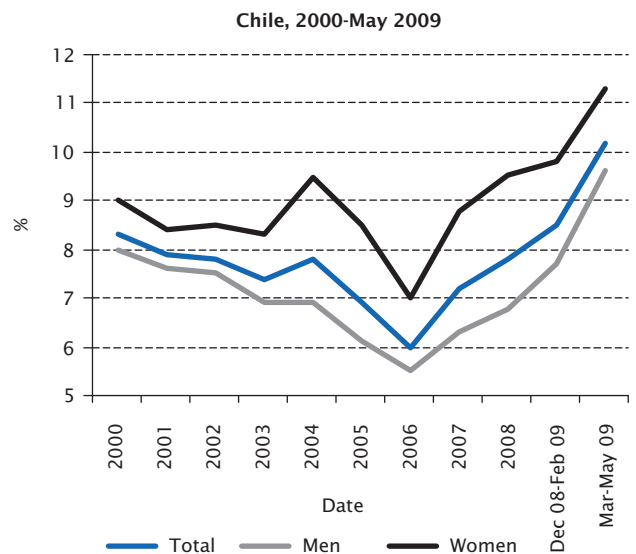
Source: INDEC, several years.



Source: Ministério do Trabalho e Emprego (MTE), Sistema IBGE de Recuperacao Automatica (SIDRA), several years.

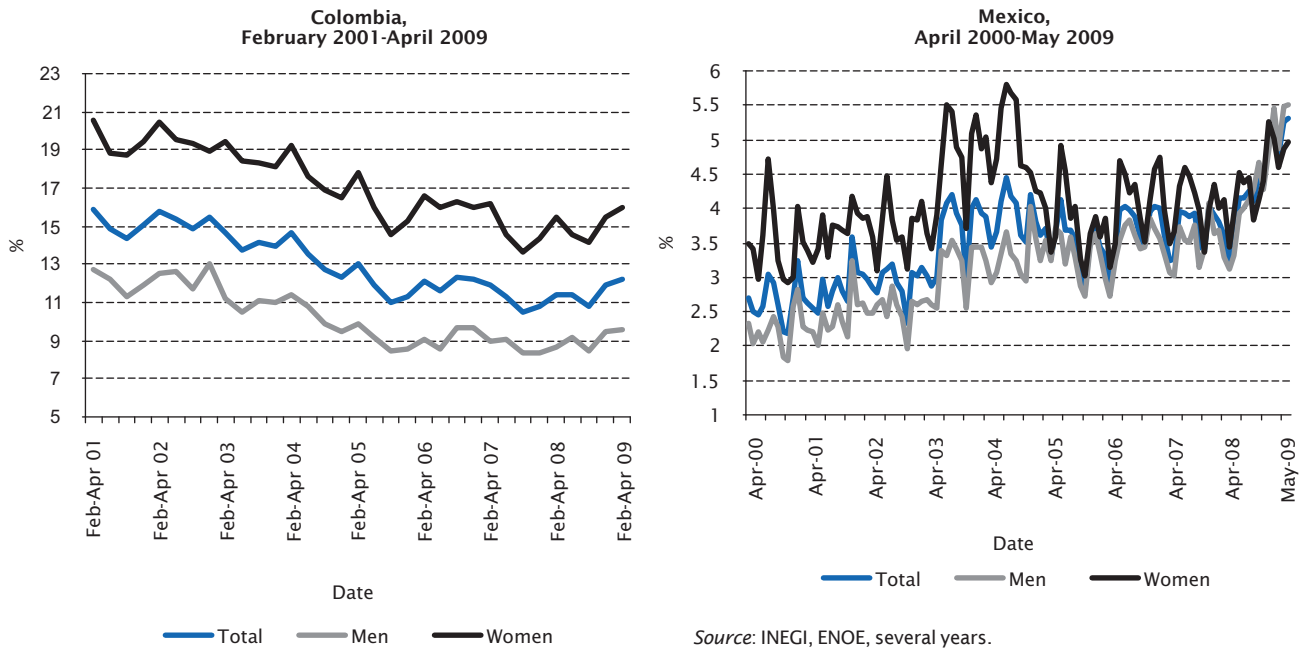


Source: ILO, LABORSTA, several years.

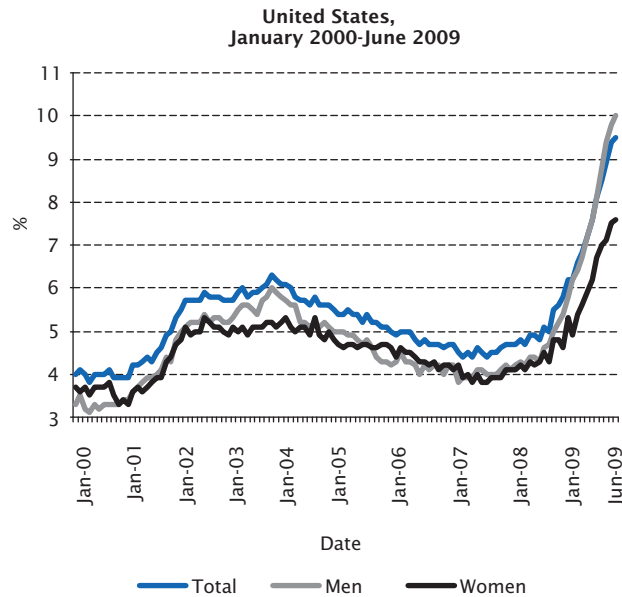


Source: ILO, LABORSTA, 2000-2008; INE 2009 a and b.

Figure III.13 (continued)



Source: Departamento Administrativo Nacional de Estadística (DANE), several years.



Let us now look at specific national developments.

III.4.1 Argentina

Argentina had a major economic fall early in the millennium, but after 2002, the country experienced a remarkable economic recovery. By 2007, the unemployment rate neared the lowest levels in 15 years (8% for males and 12% for females). Then, towards September 2008, it became clear that the global crises had reached Argentina and the favorable employment trends reversed (Figure III.13). We can see in Table III.1 that the average number of beneficiaries of UI had fallen to a minimum around 2004-2005, but by late 2008, it had roughly doubled above that minimum.

In addition to the continuing operation of the UI program, the Ministry of Labor, Employment and Social Security (*MTESS*) took the following measures to mitigate the impact of the crisis:

- i) preventive procedures destined to preserve contractual employment (suspensions, advance of vacations, reduction of working day);
- ii) programs of productive reconversion;
- iii) public works program to generate jobs and to compensate for the fall of private investment;
- iv) credits and decrease of tax burden to SME and some sectors (agricultural, machinery), meant to preserve employment and regularizing personnel hiring;

Table III.1
Number of Beneficiaries of the UI Program in Argentina, 2001-2008

| | Number of beneficiaries |
|-----------|-------------------------|
| 2001 | 144,545 |
| 2002 | 200,200 |
| 2003 | 105,349 |
| 2004 | 62,478 |
| 2005 | 63,460 |
| 2006 | 80,689 |
| 2007 | 96,619 |
| 2008 | 107,769 |
| January | 111,789 |
| February | 103,048 |
| March | 108,470 |
| April | 104,490 |
| May | 107,663 |
| June | 107,790 |
| July | 107,295 |
| August | 111,257 |
| September | 113,429 |
| October | 120,994 |
| November | 121,906 |
| December | 126,483 |

Source: MTESS, BEL, several years.

- v) programs of credit at low rates for household appliances and automobiles (unlike most of countries, Argentina has faced this issue through the consumer and not via the producer);
- vi) increase of the subsidies to low-income persons (*Plan Familias, Plan Jefas y Jefes de Hogar*).

The unemployment insurance program in Argentina was created in 1991 through the Law of Employment. It is regulated by the *MTESS*, and managed by the National Administration of Social Security (*ANSES*). It covers the wage-earning workers of the private sector and does not include the workers of the public sector, domestic workers, and the self-employed. Among the requirements of entitlement:

- i) permanent workers must have paid contributions for a minimum period of twelve months during the three years prior to the lay-off;
- ii) temporary workers are eligible only after they have a minimum period of contribution of ninety days during the twelve months previous to the end of the employment relation. The Ministry is supported by the Council of Employment, Productivity and Minimum, Vital and Changing Wage. This council was inactive between 1991 and 2004, following which a decree to re-launch it was issued.

Payment of benefits begins sixty days after the job loss, but the Council can reduce this term in an emergency. If the worker has received compensation for the separation, the term of delay can be extended to 120 days. The period of reception of benefits depends on the period of contribution within the three previous years:

- i) 12 to 23 months; 4 months of benefits;
- ii) 24 to 35 months; 8 months of benefits;
- iii) 36 months; 12 months of benefits.

For temporary workers, the duration of the benefits is one day for each three worked, considering exclusively hires longer than thirty days.

The value of the benefit is calculated as a percentage of the net amount of the best monthly, normal, and habitual remuneration of the worker in the six months prior to dismissal. The applicable percentage during the first four months of the benefit is fixed by the Council and the minimum benefit was \$300 in 2008 (approximately US\$100). From the fifth to the eighth month the benefit is equivalent to 85% of the amount applied during the first four months; from the ninth to the twelfth it is 70%. The amount of the minimum and maximum monthly benefit is fixed by the Council. In addition to the monetary benefit, the worker receives health benefits and family allowances. The modality of single payment allows the worker to draw at once all the monetary benefit to become self-employed; he must present a project or become affiliated with an employee-owned firm or cooperative.

Two complementary programs that have seen a large increase are the Families Program (*Plan Familias*) and the Household Heads Program (*Jefas y Jefes de Hogar*). The *Programa Jefes de Hogar* began operations in 2002 under the umbrella of the *MTESS*. It provides a minimum guaranteed monthly income to unemployed household heads, with children or disabled family members, as well as to households with a pregnant woman. There is a significant overlap with the addition to the definition of the beneficiaries in Canada after their 1996 reform to employment insurance. The program is managed in a decentralized way by states and municipalities. By 2004, 16% of Argentinean households were receiving support, with a high concentration in rural areas, where the general UI program has lower coverage (<http://www.trabajo.gob.ar/jefes/infostats/index.asp>). The *Plan Familias* operates under the umbrella of a different office, the Ministry for Social Development. It

supports families with small children with cash transfers that go from \$100 per month per child up to \$200 per family (roughly US\$30 to \$60). By 2009, coverage benefited more than 210,000 families. A 2004 decree legislated that any household not covered by the *Programa Jefes* is supported by the *Plan Familias*. Thus, it is an additional safety net for those not eligible for regular unemployment benefits (MTESS 2004).

III.4.2 Barbados

The UI program began operations in 1981 to complement the severance scheme that has existed since 1973. From its inception, the UI was seen as social insurance and not as a welfare program.

The early experience of the program was painful, but instructive. Initially, contributions were set at 1.5% of insurable wages, added to the 0.5% severance payment. Replacement rates were set at 40%, and benefits could be paid for a maximum of 13 weeks. Even when unemployment was high, the program showed a surplus. Such a seemingly favorable state led to increases in the replacement rate to 60%, and in the maximum weeks to 26, while at the same time reducing contributions to 1%. By 1986, even when the unemployment rate started falling, claims jumped 90% and a deficit was experienced for the first time.

The toughest test on the system, though, happened when the number of unemployed increased rapidly in 1991, passing the 24% mark by 1993. During 1991, the rate of contributions increased twice and it stayed at 5.5% until 1995. Later, policy evaluation by the NIS showed that a 3% rate would have been sufficient. By 1988 the rate returned to 1.5%. The 1.5% is divided evenly between employers and employees, and it is paid by private sector employees, temporary government employees, foreign embassies, and apprentices. It is not paid by voluntary contributors,

the self-employed, government permanent workers, and workers 65 years of age and older.

Today, the Barbados program requires at least 32 weeks of insurance, with at least 20 contributions paid or credited in the three consecutive quarters ending with the quarter but one before the unemployment event, and at least seven contributions paid or credited in the quarter but one before the quarter of the event.

The replacement rate is 60% of the insurable wage. Benefits are paid almost immediately, except for a three-day waiting period, which is much shorter than in the rest of the countries included in this chapter.

Benefits are paid for a maximum of 26 weeks in a continuous period of unemployment; or for an aggregate of 26 weeks in the 52 weeks immediately before the current week of unemployment. Two or more periods of unemployment, which are not separated by more than eight weeks, are seen as one continuous period of unemployment.

Barbados had a decreasing UI benefit rule between 1991 and 1996, when it restored the constant-benefit rule. On this point, it seems to have gone against the trend in the rest of the countries.

The severance benefit is paid to those with 104 weeks of continuous employment working full-time (at least 21 hours per week), and dismissed for redundancy. The benefit equals 2.5 weeks of taxable earnings per year, for up to 10 years of employment; 3 weeks for each year between 10 and 20; and 3.5 weeks for each year after 20 up to a maximum of 33 years. There are special provisions to accommodate seasonal workers, who often do not work the full year.

The Barbadian labor market shares the general trends in the Caribbean and in particular in the West Indies. During the eighties, unemployment rates were high, usually above 15%. This reflected an adjustment to the old economy, when agriculture was a significant share of the economic activity, and fertility rates were high. Then, after the peak of unemployment rates during the first half of the nineties, labor markets began to tighten, unemployment rates fell below 10%, and a employment analysts predicted a shortage of labor. In comparison with the continental Americas, the Caribbean in general has had lower fertility rates; it is aging more quickly, and also has a significant out-migration flow. Barbados has reformed its pension system to facilitate labor adjustment. Among other changes, it increased the retirement age, but even then it is expected that by the next century there will be further tightening of the labor market because of the effects of the current recession. Yet, the unemployment rate increased significantly but not dramatically, to 8.4% by the end of 2008.

Thus, the UI program in Barbados seems to have reached a stage of maturity and stability. The episode of uncertainty during the nineties has been overcome, and the program has operated for more than 10 years with stable rules. As in most UI programs, there is a need for a continuous balance between the challenges of claimants and the decisions of the staff. It will be interesting to look at the results of 2009, when the effects of the global recession are felt more completely.

III.4.3 Brazil

The Brazilian unemployment insurance program is the largest in Latin America, serving an average of 300,000 to 400,000 beneficiaries each month. It is restricted to formal sector workers, and includes solidarity and

individual saving components. While Brazil did not follow a "Chilean-type" reform to the pension system, it adopted a forced saving mechanism to support workers after separation from a job long before other countries in the region. Thus, in this large nation there is a collective UI program, and a facility based upon individual savings.

The current UI program was created in 1986, within the context of a macro-economic stabilization plan denominated the *Cruzado*. Its reach was initially limited by strict eligibility criteria and severe fiscal limitations. However, the new Federal Constitution of 1988 (article 239) changed the source of funding from general treasury revenues to the Worker's Protection Fund (*Fundo de Amparo ao Trabalhador*, *FAT*). The *FAT* is an agency of the Ministry of Work and Employment and, since 1988, it has financed several programs including Unemployment Insurance and Wage Subsidy and Economic Development programs. The *FAT* was funded by money from the Social Integration Program (*Programa de Integração Social*, *PIS*), and from the Program for the Formation of Public Servants (*Programa de Formação do Patrimônio do Servidor Público*, *PASEP*), both created in 1970.

Regulation of the UI provisions in article 239 of the Constitution was issued in 1990 and a consultative body was created—the Deliberative Council of the Worker's Protection Fund (*Conselho Deliberativo do Fundo de Amparo ao Trabalhador*, *CODEFAT*). Also in 1990, eligibility criteria were relaxed to expand the base of workers with access to UI benefits and benefit levels were increased. As a consequence, the number of payments distributed to the unemployed doubled. By that year, unemployment insurance covered 43% of all dismissals from formal employment. Currently, for workers to become eligible for benefits they have to meet the following criteria:

- i) Dismissal without just cause by the employer or indirect dismissal. Indirect dismissal refers to the case when the employee requests dismissal from his job by court decision, claiming that his employer did not comply with the work contract;
- ii) Employment under a formal labor contract for at least six months during the last three years or formal self-employment for at least 15 months;
- iii) A period of unemployment for at least seven and at most 120 days;
- iv) Lack of other sources of income to guarantee subsistence.

For a worker to claim UI benefits, he requires a written form from his former employer specifying the time of service as well as earnings received in the three months prior to the dismissal. This form is

reviewed by a national clearinghouse, which certifies the eligibility. Once accepted, the worker receives a proof of eligibility stating the value of benefits and the maximum benefit duration. To collect the monthly payment, the worker must present this together with his signed work-card at a federal bank or employment office. After a successful claim, a worker will not be eligible again for 16 months.

The monthly benefit level (*parcela*) depends in general on the average wage during the three months prior to unemployment. It ranges from minimum wage to approximately twice the minimum wage. Benefits do not decrease with unemployment duration. Neither the benefit level nor its duration is contingent on job search. If the worker has not used all the payments when finding new employment, the remainder can be accumulated for a future incidence of unemployment. Table III.2 shows the eligibility rules and benefits of the Brazilian UI.

Table III.2
Eligibility Rules and Benefits of the Brazilian UI, 2009

| Eligibility Rules | |
|--|---|
| If in the last three years the employee had an employment record of: | He or she receives: |
| 6-11 months | 3 payments |
| 12 - 23 months | 4 payments |
| More than 24 months | 5 payments |
| Benefits | |
| Average wage | Value of payment ^{1/} |
| Up to R\$ 767.60 (USD 396) | 80% |
| R\$ 767.61 to R\$ 1,279.46 (USD 396 to 661) | R\$614.04 (USD 317) plus 50% of earnings above R\$767.60 (USD 396) |
| More than R\$ 1,279.46 (USD 661) | R\$ 870.01 (unique value, USD 449) |

Note: 1/Minimum wage: R\$465.00. The minimum value of the payment is the minimum wage and the maximum value cannot exceed R\$870.01. Benefits are defined in terms of the minimum wage. The MTE issues a table with the values that apply. This table applies since February 1, 2009. *Source:* www.mte.gov.br.

Besides the UI, dismissed workers receive the Guarantee Fund for Time of Employment (*Fundo de Garantia do Tempo de Serviços, FGTS*). This is an individualized interest-bearing fund. Each month the employer contributes the equivalent of 8% of his employee's current wage to the fund. This implies that the amount accumulated per year in a worker's fund corresponds approximately to one monthly wage. The worker has access to *FGTS* if dismissed without just cause, upon retirement or death, or as a means of co-financing a home purchase or health expenses. The *FGTS* is transferable between jobs and bears interest if not accessed during a spell of unemployment. In the case of dismissal without just cause, the worker has not only the right to access his entire fund, but also receives a severance payment in proportion to the accumulated *FGTS* in the last job: this additional compensation amounted to 10% of the worker's *FGTS* balance at the time of dismissal and has been increased to 40% of the *FGTS* balance in 1988 and to 50% in 2001.

Informal sector workers are most likely to become unemployed, followed by formal sector workers. Cunningham (2006) and Paes de Barros, et al. (2006) believe that the Brazilian unemployment insurance system contributes to increasing informality. The explanation they give is that employers may enter in agreement with formal employees to fire and then to rehire them under an informal contract. Yet while this mechanism increases labor turnover, it is not so obvious that it increases unemployment rates.

The probability of becoming unemployed decreases with the wage level. However, Paes de Barros, Corseuil and Foguel (2001) find that 32% of the poor and only 7% of the extremely poor receive UI benefits.

III.4.4 Canada

The Canadian unemployment insurance is regulated by the Employment Insurance Act. The current system was established in 1996 when the term "employment" replaced "unemployment." In effect, while UI remains as a main element, the Employment Insurance (EI) program also supports persons who cannot work for reasons of sickness, childbirth, or parenting, and those providing care or support to a family member who is gravely ill with a significant risk of death. The information in this section can be found at www.hrsdc.gc.ca, unless indicated otherwise.

The Canada Employment Insurance Commission (CEIC) is a tripartite body that supports the Ministry of Human Resources and Development Canada (HRSDC) in managing the EI program.

With respect to the premium rates, these are defined each year by November 14, date when Canada Employment Insurance defines the premium considering a pay-as-you go rule of financing, the report of the employment insurance chief actuary, and any public input. There is a limit for the yearly change of 0.15% of insurable earnings. The 2008 premium rate was 1.73%, so for 2009 it had to be between 1.58% and 1.88%. The annual maximum insurable earnings for 2009 were CAD 42,300.

As happened throughout the continent, the claims for unemployment benefits decreased in Canada between 2002 and 2008. By 2007-2008, the average weekly benefit was between CAD 12 and CAD 347, and the maximum weekly benefit reached CAD 435 in January 2008. The average number of weeks of regular benefits was 17.

To be eligible to receive EI benefits one must be unemployed for at least seven consecutive days without pay, and have worked a minimum number of hours during the last 52 weeks. The job separation must be involuntary. The minimum-hours criterion varies across regions as a function of the local unemployment rate. For example, between May 10, 2009 and June 6, 2009, the region of Montreal had an unemployment rate of 9%, determining a minimum of 595 insured hours and a minimum of 23 and a maximum of 47 weeks payable required to qualify for regular benefits. Vancouver had a lower unemployment rate of only 6.7%, and thus required more hours and allowed less weeks to qualify for benefits: 665 hours and minimum and maximum weeks were set at 20 and 43. By contrast, Newfoundland with an unemployment rate of 20.7% had minimum hours of 420, and minimum and maximum weeks were at 37 and 50.

The Canadian program also includes a work sharing facility. This is similar to existing programs in Mexico and some large South American countries. The mechanism is to finance income support to workers eligible for unemployment benefits to stay on the job under reduced hours. These arrangements have to be approved by the CEIC, and the duration is from 6 to 26 weeks, with extensions up to 38 weeks. The use of work sharing agreements began to grow in 2008. As elsewhere, this sort of solutions works better for large manufacturing firms that operate under collective agreements or can coordinate a large number of workers and management.

III.4.5 Chile

The Chilean policies of employment focus on unemployed household heads through direct hiring, subsidies to hiring, and support to the entrepreneurship. These programs initiated in 1999 and give benefits to between 1 to 2% of the work force. The unemployment insurance program (*Seguro de Cesantía, SC*) became operational in October 2002. Toward the first months of 2009, it surpassed six million affiliates and three million payers to reach a coverage rate of 78% of the work force. Since 2006 the participation of the workers with non-permanent contracts has grown from 50 to 57%.

The *SC* of Chile mixes a collective pay-as-you go fund with individual workers' savings to finance benefits. The collective or solidarity fund (*FCS*) is fed with fiscal funds and a payroll tax. The funds are administered by a specialized private corporation dedicated only to this task, property of the Administrators of Pension Funds (*AFC*). The *SC* was to follow the basic recommendation of leaving some of the risk in the hands of the individual to limit the incentives to avoid work. Thus, liquidity can be provided to the person in case of an adverse labor event, but having some of his money in the individual account provides an incentive to look for employment with more intensity and also provides him with good collateral to finance a small business project.

To access the benefits, there are rules on the part of individual account and the part of the shared fund. The worker can retire from the individual account if he has been paying for 12 months (consecutive or not) for the case of indefinite contracts, and can receive 50% of the monthly pay, for a maximum of five months (see Table III.3). To

access the solidarity fund, the labor relation must end by dismissal, that the individual account lacks enough resources, and that the individual does not reject an existing employment offer.

The fund administrator receives a commission that is a function of the yield of the pension funds. If yields of the *SC* fund are very high, the administrator takes part of the profits, and if they are too low she must take part of the loss. During the first years, the yield of the *AFC* has been below the reference funds, thus the commission has been low. The value of the funds reached \$1.3 trillion (US\$2.35 million) in April of 2009; nearly three-fourths of that money is in individual accounts of unemployment, and the rest in the *FCS* (Figure III.14). The commission received in the first months of 2009 is equivalent to approximately 0.6% annually.

In the first years of the system, there was a low access rate to the collective fund. This is associated largely with the problem of high labor rotation where many did not reach the minimum period of contribution to access that fund. Nevertheless, the social balance is favorable. Bernstein and Sánchez (2005) have modeled the increase in the expected pensions associated with unemployment insurance. This effect arises because with the *SC*, workers do not lose all the time of contribution to the pension system while they are unemployed. For example, for those who were born in 1981 and expecting to retire between 2020 and 2025, the impact goes from 0.7 to 3.7%, depending on the educational level of the person. Similar, they calculate the variations in premiums that could take place if the insurance were adjusted for experience and the expected cost of the benefits. This variation can be substantial; 1% for workers of 56 years of age or older and with a permanent labor contract, and up to 5% for young people of 19 to 35 years of age with part-time contracts.

In Chilean law, the total premium in the case of a contract per indefinite time is 3% of the wage, of which 0.6 points are paid by the worker and the rest by the employer. Of that amount, 2.2 points go to the individual account of the worker, and the rest to the *FCS*. Additionally, the government contributes an amount to the *FCS*. The *SC* pays benefits in case of labor separation "to all event" and "by necessity of the company." In cases of all-event dismissals, the resources come totally from the individual account of the worker, whereas in case of dismissals by cause non-attributable to the worker, resources of the solidarity fund can be used. In permanent contracts, if a worker had 12 continuous quotations, but has an individual fund of low value, he can receive up to five payments and access the *FCS*. If he has not made the required number of continuous payments or has a low-value individual fund, he can receive 5 payments, but without entitlement to the resources of the *FCS* (Tables III.3 and III.4).

With part-time or piece-rate contracts, the payment of 3% of earnings is made only by the employer and there is no contribution to the *FCS*. In these cases, a unique payment of the balance of the account is obtained once six contributions are accumulated.

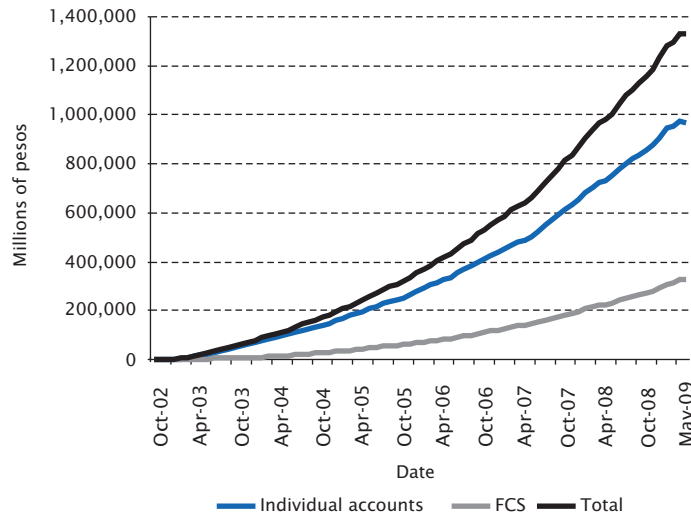
The Chilean society has also been affected by the global crisis. In March 2009, the monthly growth of beneficiaries increased 47% with respect to the same month of the previous year (Figure III.15). For that date, the average benefit was 134 thousand and 137 thousand pesos for workers with permanent part-time or piece-rate contracts, respectively (around US\$240).

In May 2009, President Bachelet published Law No 20.328 that reformed unemployment insurance. This change gives access to the *FCS* to workers with piece-rate or part-time contracts. The reform incorporates automatic devices to respond to

recessive events: when unemployment is higher than the average of the last four years by at least a percentage point, two additional payments with a replacement rate of 25% will be granted, independently of the type of contract. The initiative also looked to improve institutional mechanisms: the National

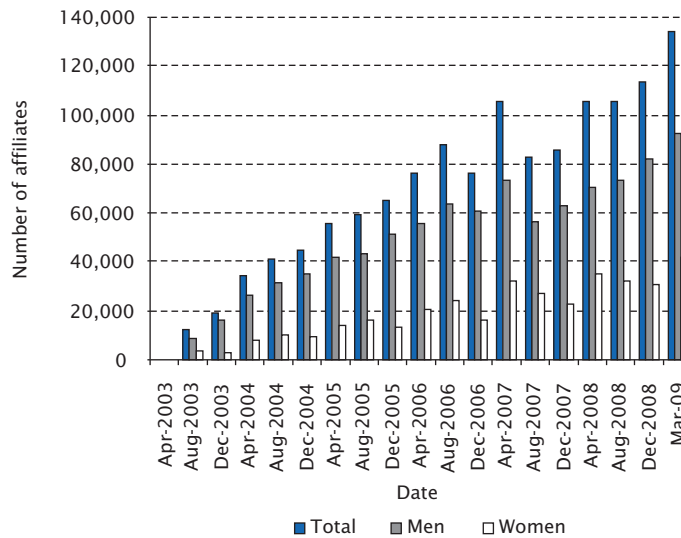
Employment Exchange and the information systems of the labor market, as well as the responsible use of the rights by the beneficiaries of the SC, by forcing them to accept and to participate in the received offers of training and employment (<http://www.safp.cl/573/channel.html>).

Figure III.14
Value of the Chilean Unemployment Funds, October 2002–May 2009



Source: SP, Centro de Estadísticas de la Superintendencia de Pensiones, several years.

Figure III.15
Beneficiaries Who Received UI in the Month, April 2003–March 2009



Source: SP, Centro de Estadísticas de la Superintendencia de Pensiones, several years.

Table III.3
Chile: Benefits with Right to the Solidarity Fund

| Month | Highest value | | Lowest value | | % of taxable wage |
|-------|---------------|-------------------|--------------|-------------------|-------------------|
| | Pesos | USD ^{1/} | Pesos | USD ^{1/} | |
| 1st | 158,882 | 280.90 | 82,617 | 146.06 | 50 |
| 2nd | 142,993 | 252.81 | 68,636 | 121.35 | 45 |
| 3rd | 127,105 | 224.72 | 58,469 | 103.37 | 40 |
| 4th | 111,216 | 196.63 | 48,936 | 86.52 | 35 |
| 5th | 95,328 | 168.54 | 38,132 | 67.42 | 30 |
| Total | 635,524 | 1123.59 | 296,790 | 524.72 | |

Note: 1/Exchange rate: June 11, 2009.

Source: <http://www.safp.cl/573/channel.html>.

Table III.4
Chile: Benefits without Right to the Solidarity Fund

| Contributed months | Number of allowed withdrawals | % balance of the 1st withdrawal | Further withdrawals ^{1/} | | | |
|--------------------|-------------------------------|---------------------------------|-----------------------------------|---------------|---------------|---------------|
| | | | 2nd | 3rd | 4th | 5th |
| Up to 18 | 1 | Total balance | 0 | 0 | 0 | 0 |
| 19-30 | 2 | 53 | Total balance | 0 | 0 | 0 |
| 31-42 | 3 | 37 | 90 | Total balance | 0 | 0 |
| 43-54 | 4 | 29 | 90 | 80 | Total balance | 0 |
| From 55 onwards | 5 | 25 | 90 | 80 | 70 | Total balance |

Note: 1/Percentages regarding the 1st withdrawal.

Source: <http://www.safp.cl/573/channel.html>.

III.4.6 Colombia

Colombia operates two mechanisms to protect workers against unemployment uncertainty. These are a collective Fund to Promote Employment and Protect against Unemployment (*Fondo para el Fomento del Empleo y Protección al Desempleo, FONEDE*), and the Unemployment Fund (*Fondo de Cesantías*), which is formed through deposits in individual retirement accounts.

The *FONEDE* is managed through the system of Family Compensation Funds (*Cajas de Compensación Familiar, CCF*). It is regulated by the Ministry of Social

Protection, and financed out of payroll taxes and direct government transfers. It provides support, training, and micro-credit to the unemployed (ASOCAJAS 2009). The unemployment benefit is an in-kind transfer equivalent to 1.5 times the minimum wage, which can be used for food, education, or health services. The micro-credit segment supports the continuation of employment for up to four months, during which the employer is compensated for the tax dues for health, pensions and work risks. Between 1997 and 2001, the system stagnated in number of firms, but there was considerable growth

between 2002 and 2008 (Figure III.16). Similarly, Figure III.17 shows that the number of workers covered grew substantially in those years (ASOCAJAS 2009).

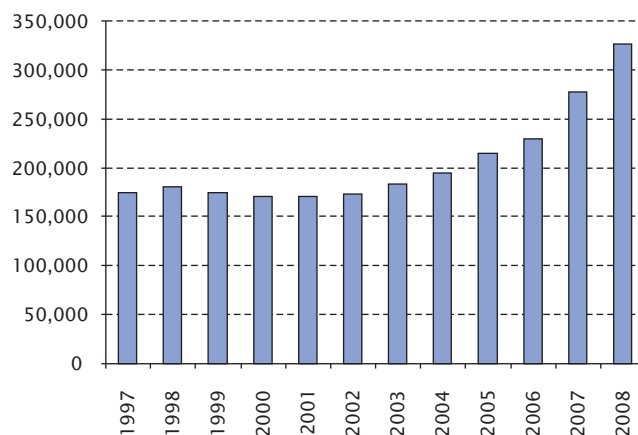
The CCF is financed with a 4% payroll tax, but only 7.3% of the total amount goes to the unemployment fund (thus, unemployment benefits are financed with less than 0.3% of taxable wages. During 2008, this flow was equivalent to \$85 million (188 billion Colombian pesos), and paid 437,363 benefits (ASOCAJAS 2009).

The unemployment funds managed through IRAs are roughly ten times larger than the FONEDE in annual cash flows. Every year, employers must deposit the

equivalent to one month's wages in a mandatory individual account kept by a pension fund manager. Workers can withdraw these funds in case of separation from the job, to pay college tuition fees and other school expenses, or to finance housing. Thus, while these funds support workers in case of job termination, they do not include any insurance mechanism.

Summarizing, the Colombian system for the protection of the unemployed combines collective and individual elements. The insurance elements are small (less than 10% of the funds), and funds can be used for a variety of expenses other than supporting the worker's income.

Figure III.16
Firms Affiliated to the CCF: 1997-2008



Source: ASOCAJAS 2009.

Figure III.17
Workers Affiliated to the CCF: 1997–2008



Source: Ministerio de la Protección Social 2009.

III.4.7 Mexico

Mexico does not have an unemployment insurance program. Unemployed workers can withdraw money from their individual retirement accounts, up to the equivalent of 30 days of the taxable wage. The amount increases with tenure in the system. This option is open only once every five years and using it makes the worker "lose" the equivalent of weeks paid into the pension system. The mechanism available in Mexico differs from the one applied in Chile, Colombia or Brazil, cases where the worker sets aside his own money, saving in case of unemployment, but does not lose periods of contribution in the pension system. Considering that the rate of wages that goes into individual retirement accounts is 6.5%, the withdrawal of 30 days of wages is equivalent to a loss of tenure of approximately 15 months. For an

important fraction of workers, the use of this option during the labor life can mean not reaching the contribution requirements to be entitled to a minimum pension.

Given the lack of a federal UI, local solutions are being found. The Federal District (*DF*) operates a program that provides a benefit of minimum wage for up to six months. Workers are eligible once every two years. During 2008, the program paid benefits to nearly 60,000 individuals. The operation of the *DF* unemployment program is disconnected from social security, which means that there is no way to verify periods of contribution and wages, or whether new employment has been found, and there is also no link to the federal employment programs.

III.4.8 United States

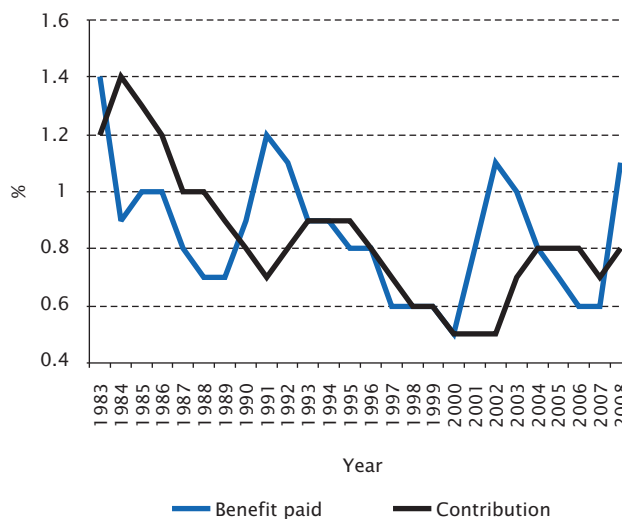
The United States has several UI programs:

- i) State Unemployment Insurance is the largest and more general program, providing benefits to workers involuntarily dismissed;
- ii) Disaster Unemployment Assistance (DUA), which supports those who lose their jobs after a disaster declared by the President;
- iii) Unemployment Compensation for Federal Employees specializes in this class of workers;
- iv) Unemployment Compensation for Ex-Service members provides benefits to ex-military personnel;
- v) Extended Benefits supports those that have exhausted regular benefits;
- vi) Trade Readjustment Allowances (TRA) are provided to workers affected by imports; and,
- vii) Self-Employment Assistance provides allowances to dislocated workers choosing to start a small business (by 2009, only seven states had this program).

The general program is managed by each state following federal guidelines. UI was originally a program for workers in manufacturing. Nowadays, the most difficult conditions of job dislocation take place among skilled and educated workers across all economic sectors. Perhaps the main change in the view of UI is that programs have to be more targeted to adapt to the characteristics of individual workers.

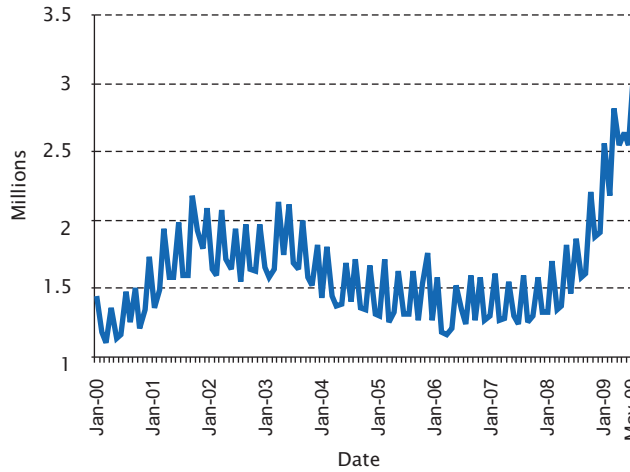
There have been significant recent developments. Between December 2007 and April 2008, the unemployment rate increased 4.5 points and the level of employment fell in more that six million persons. In Figure III.18, we see that the expenses of the UI programs peaked after the bottom of recessions, and exceeded collections. In Figure III.19, we can see that the number of claims increased during 2007, and grew exponentially between 2008 and 2009. Additionally, the number of individuals that exhaust benefits has nearly doubled (Figure III.20); these are cases that collect their full entitlement.

Figure III.18
Contributions Collected and Benefits Paid: United States, 1983–2008
 (% of total wages)



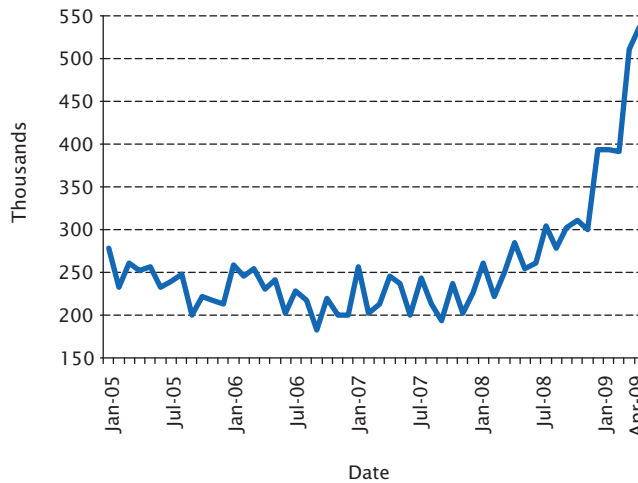
Source: U.S. Department of Labor, Bureau of Labor Statistics, several years.

Figure III.19
Regular State UI Program Initial Claims: United States, January 2001–May 2009
 (seasonally adjusted)



Source: U.S. Department of Labor, Bureau of Labor Statistics, several years.

Figure III.20
Exhaustions^{1/}: United States, January 2005–April 2009



Note: ^{1/}Exhaustions are the number of claimants who collect their full entitlement of unemployment insurance benefits. The data shown are for the regular state program.
 Source: U.S. Department of Labor, Bureau of Labor Statistics, several years.

The average weekly benefit during the 12 months ending in January 2009 was \$298 and the average duration was 14 weeks. In 2004, the average duration was 16 weeks, but in 2009 there were many "new" unemployed, so the figure will likely increase by 2010. Payments in those 12 months reached \$45.4 billion. Among those that began receiving a benefit, 42% "exhausted the benefits," which means they collected all the benefits to which they were entitled. To protect this group, by September 2009, Congress enacted a 13 week extension of unemployment benefits, but only for workers in states with unemployment rates of 8.5% or higher.

Among the unemployed in previous years, roughly a little more than one-third collected benefits. The more common reasons for not collecting are that workers are recent entrants to the labor market, they have not contributed enough money or time to be eligible, or they simply do not apply for benefits (Nicholson and Needles 2006).

During 2008, the average tax rate for the UI program was 2.26% of taxable wages. The average was equivalent to \$274, with a minimum contribution of \$58 and a maximum of \$963.

While eligibility requirements vary across states, they have the common structure found around the world: a requirement of minimum payment to the insurance fund, a minimum amount of time of contribution within a set time frame, and a valid reason for job separation. The most typical rule of contribution to receive entitlement to benefits is to require workers to have quarterly earnings of at least \$2,500-\$3,500. This has been criticized for leaving out low income workers, so a "minimum hours" standard has been proposed. These earning requirements have also been criticized because workers who lose a job they only recently obtained are at a disadvantage due to an administrative reality: accounting systems for determining earnings operate with three- to six- month

lags. This means that low wage, temporary workers, including those that have been recipients of welfare payments under Temporary Assistance to Needy Families (TANF) are still left out. This kind of rule aims to reduce the likelihood of voluntary quits with the purpose of collecting UI benefits. In effect, US-UI programs share with most countries the goal of providing benefits only to workers unemployed involuntarily, a condition that is hard to observe in many cases. Not only can behavior not be observed perfectly, but some "voluntary" quits may justify payments from an UI fund on social insurance principles: for example, when a spouse has to change jobs because the other spouse migrates.

The US-UI programs have also moved towards promoting employment, under the banner of "continuing eligibility standards." These mean that the worker must be available for work and an active searcher, or participate in an approved training program.

Coverage is considered fairly large in the US, but seasonal employment and self-employment are two main exceptions. Thus, workers in agriculture, transportation, and retail may not be covered in many cases. However, administration of these cases is considered difficult and there are conceptual issues. As we have seen, Chile has dealt with the problem through the use of an UI program that includes individual accounts, which force the self-employed to save, but that option has not been tried in the US. Some academic evaluations (Gruber 1997 and Hamermesh and Slesnick 1995) conclude that UI benefits do an adequate job to protect workers against major drops in consumption. Yet, these studies refer to average cases, and only to those actually receiving benefits.

Most states have a limit between 50 and 70% on benefits, in relation to the average weekly wage. States usually do not allow "partial" earnings while receiving UI benefits, which means that the marginal tax rate is often 100%, and part-time workers are excluded from receiving coverage. On the other hand, some states provide benefits for reductions in hours worked, but this is more the exception than the rule.

Federal and state laws determine the duration of benefits. Usually, state laws define the basic benefits and federal laws the "extended" benefits during recessions. The normal maximum duration is 26 weeks, but low skilled workers may sometimes face maximum durations of 10 to 12 weeks. In the US, it is normal to have extended benefit during recessions, and during each recession the rules have been different. In this regard, the Emergency Unemployment Compensation (EUC) program was created in June 2008 to provide up to 13 additional weeks of benefits. The Unemployment Compensation Extension Act expanded EUC to 20 weeks in November 2008 nationwide, and opened the possibility of 13 more weeks for workers in states with high

unemployment rates. More recently, in February 2009, the American Recovery and Reinvestment Act of 2009 extended the period of time during which claims for EUC could be filed and benefits paid (<http://www.workforcesecurity.doleta.gov/unemploy/>).

The US has a high rate of compliance with tax laws, so the informality phenomenon observed in Latin America is not as important. However, there is a significant number of "discouraged workers" who do not appear in the unemployment statistics because they are not searching for a job (Table III.5).

III.4.9 Uruguay

The Uruguayan UI program was created in 1981. In 2008, it underwent important reforms. At the present time, the requirement of contribution is of 6 of the last 12 months, or 12 of the last 24 months, according to the activity sector. The 2008 reform doubled the period of benefits for workers more than 50 years of age and adopted a rate of replacement that falls as the unemployment spell lingers for the purpose of stimulating job search.

Table III.5
Persons Not in the Labor Force, First Quarter of 2008 and 2009,
Not Seasonally Adjusted, United States

| | 2008 | 2009 |
|--|-------|-------|
| Persons who currently want a job | 4,719 | 5,663 |
| Marginally attached to the labor force | 1,555 | 2,096 |

Source: U.S. Department of Labor 2009.

Before 2008, a replacement rate of 50% of the wages was paid and up to 70% if there were dependent relatives. The new rates of replacement are between 66 and 79% at the beginning of the period of unemployment, and decrease to 40% by the sixth month. Uruguay allows workers with more than one job to receive benefits from the UI if they lose the one with the higher wage as well as a benefit by temporary suspension or reduced work. The benefit is calculated with respect to Base for Benefit and Contribution (*Base de Prestaciones y Contribuciones, BPC*), that in 2009 was \$1,944 pesos (approximately US\$85). The minimum amount increased with the reform from one half of a *BPC* to one *BPC*; the maximum is eight multiples of the *BPC* in case of stoppages. In the case of dismissal there is a decreasing scale: 11 *BPC* for the first month, nine and a half the second, and so on, until reaching six in the sixth month.

III.5 Administrative and Policy Design of Unemployment Insurance

III.5.1 Theories that Improve upon the Design of an Unemployment Insurance Program

The 2007 Americas Social Security Report explained the contemporary theories of unemployment based on better understanding of the way in which workers search for employment and are matched with potential employers. These theories explained why a society does not necessarily want to drive the unemployment rate to zero—there are productivity and wage gains that benefit all when the process allows improved matches of firms and workers. These theories also explained why workers sometimes fall into situations of excessively long unemployment spells—few would argue that having workers searching for a job for more than 12 months is a good social result in any sense.

The report also explained the distinction between active and passive labor market policies. The archetypal passive policy is a traditional unemployment insurance program that pays a monetary benefit in the event of unemployment, while active policies usually pay benefits only if the individual participates in a training program or in a publicly recognized job search program.

Active labor market policies are generally viewed as successful in reducing unemployment rates. This result comes from the improved control on the "moral hazard" problem, namely, of the option an individual has of not making a personal effort to find a job given that he is receiving cash from the unemployment insurance program.

On the other hand, it has also been increasingly recognized that there is a need for unemployment insurance, free of attachments to participation in training or search activities. This is so because individuals sometimes face conditions that make it very unlikely that a job will be found by or for them, which can last a long time. For example, industries affected by large changes in prices, technological change, or global competition may layoff a large share of the labor force, often with concentration in a region, and these generalized shocks cannot be absorbed through gradual movements in labor demand.

Thus, it is also necessary to design a UI program "without apology," to deal specifically with the problem of income loss. This does not mean that active policies have a reduced importance in any way. Rather, it means that a good social protection and labor policy must have a "passive" UI program as part of its organization. There are three important aspects that have to be defined correctly for a UI program:

- i) duration and mode of payment of benefits;
- ii) monitoring and sanctions;
- iii) requirement of participation in work or training programs.

III.5.2 Administrative Design

Within the countries of the OECD, unemployment insurance is one of the pillars of social protection. In Latin America, Brazil initiated the operation of an insurance of unemployment in 1990; Chile followed in 2004. Nevertheless, and due to the existence of an "informal economy," even in the countries of the region that have an unemployment insurance program, questions arise about the reach these programs can have. Unfortunately, there had been arguments against establishing an UI program in many countries, and progress has been slow, but a clear and specific evaluation of the arguments for and against does not exist. In this chapter we outline how to obtain that measurement of the costs and gains in well-being of a UI program.

Unemployment insurance programs have historically:

- i) protected workers against unexpected fall in income caused by factors outside their control;
- ii) protected workers against a fall in income due to "structural change" in the economy, possibly expected, but outside the control of workers;
- iii) facilitated "structural adjustment" by industries or regions facing technological change of new competition (specially foreign);
- iv) protected the income of workers facing predictable events deemed socially insurable risks, mainly maternity and disability of a relative requiring care by the worker.

As we have seen in the country reviews, the UI program defines three conditions that must exist for workers to be eligible to receive benefits:

- i) a minimum amount of time worked within some temporary frame;
- ii) unemployed due to "an acceptable" cause, and,
- iii) to remain unemployed of "just" form (standard of continuous eligibility).

These general aspects define the specific agenda to design a program. The specific aspects that define a program's agenda include:

- i) Definition of the objective population. The UI does not give benefits all the unemployed. Unemployment is a voluntary phenomenon in different degrees. For some, the cost of well-being of being on unemployment can be extremely elevated, whereas for others the wait for better opportunities does not damage the consumption opportunities or the possibilities of investment of the family. For that reason a detailed discussion of the general criteria that define the objective population is necessary following the features of each national labor market.
- ii) Definition of the general rules of contribution and benefit. To start off a program that will have to be based on a payroll tax, it is necessary to research how the option of occupation in the informal economy affects the optimal UI. The problem is not only to study the situation of the "normally-affiliated" to social security, but also those who spend most of the time without insurance. Also, it seems advisable to evaluate here the role of the rules of separation in the labor legislation, which are partial substitutes of an UI.
- iii) Evaluation of different options from contribution and benefit. The theoretical discussions on UI indicate general parameters for study: rules of required working time, rules of recognizing acceptable separations and the permanence justified in unemployment. Naturally, the problem lends itself to measure the impact that would result from applying the rules used in other countries. The evaluation has to be done from a welfare perspective: to what degree is consumption stabilized, to what degree does UI facilitate labor mobility, and to what degree is

there fiscal risk by abuse of the system. Out of that evaluation of well-being, naturally arises the fiscal evaluation about the possible costs. Nevertheless, one of the advances in the analysis and application of the UI program is the understanding that it operates better when it is applied properly as an insurance tool, leaving the subject of redistribution of income to be dealt with other tools of policy. Consequently, the fiscal cost in a suitably designed UI program should be low.

III.5.3 Policy Design

To understand how to design an unemployment insurance program, a useful academic reference is the paper by Professor Raj Chetty from Stanford University. He references Martin Baily's model (1978), one of the earliest expressions of the contemporary view of the problem. In this approach, unemployment benefits depend on three critical variables: how much do families value a stable flow of consumption (what economists call risk aversion), how valuable it is to smooth out the consumption through unemployment insurance, and how much does unemployment increase when unemployment benefits increase (the moral hazard issue).

According to Chetty (2005), Baily's results are very general. He asserts that they are not affected by the issues of families who have financial restrictions, families who accumulate human capital, private insurance markets that reduce the need of a public intervention, families who save money for bad times, or individuals who can have valuable activities different from working while unemployed. The importance of this opinion lies in that an unemployment insurance program has to follow simple rules to be managed effectively. A program based on many conditions will end up with very high

administrative costs. Alternatively, a program may become too complex if it wants to reduce the benefits to those who have savings, to those who are more educated, to those who have something else to do, and so on. This approach works because any restriction on consumption while unemployed can be relaxed through an increase in benefits, and any restriction on consumption while employed can be relaxed through a decrease in the tax.

The Chetty-Baily "rule" points out that a government wishing to evaluate or design an UI program must work on developing a program that addresses how much is workers' consumption affected by unemployment spells, how strongly do worker's job search efforts diminish because of the cash benefit, and how effective is the cash benefit in smoothing consumption. These data must be obtained at an individual level, because population averages are of little use to study this problem.

III.6 Conclusions

Unemployment insurance programs have evolved in a predictable, favorable way. The main view is that these programs must work as insurance mechanisms. Thus, governments have focused on protecting those affected by job separations outside of the workers' control, and have included rules to provide incentives for job searching and retraining activities. On the other hand, governments with strong UI programs have also widened the social network to support those not eligible for UI benefits. This is a useful development to counter the argument that UI is only for "rich" countries with "small" informal economies.

UI merits the attention, and should be part, of labor and social policy for the vast majority of countries. For countries that already have a functioning program, there is no shortage of challenges: coverage is low for some; for others the rules to control abuse may result in leaving some

deserving population out (such as seasonal, temporary, and self-employed workers), and in general, the changing dynamics of the labor market and the needs of the population demand periodic evaluation and evolution. For example, among the more interesting developments of recent years is the addition of benefits for mothers or those using time to care for disabled relatives, a way to deal with persons with multiple jobs, and combining UI with social insurance. The trends in UI presented here can be seen as "best practices" in the sense of conforming to the prescription coming from academic quarters and of taking appropriate care of the fiscal constraints.

Social policy debates are sometimes set in "black and white" while different national governments often reach similar ways of doing things. UI programs are a case in point. Several governments have found ways to stabilize the earning of families while improving incentives for individuals to search for a new job. On that line of reasoning, one issue that should be framed properly relates to the individual retirement accounts (IRA) as part of an UI program in the United States. Chile has done it explicitly, while Brazil had it before, as did Colombia. The large incidence of an informal economy in Latin America has provided the impulse for such institutional development. More generally, seasonal and part-time workers are not well covered in many "traditional" UI programs, and IRAs can facilitate the application of a mandatory scheme to benefit workers under these types of contracts.

We notice a significant degree of convergence in UI programs from Canada to Chile, including United States, Argentina, Barbados, Brazil, and Uruguay. The main question is whether other countries in the region will be successful in the future in advancing in this direction.