

Unemployment Benefit, Active Labor Market Policies and Economic Outcomes: Evidence from New Global Data

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Abstract:

The objective of this paper is to use World Bank's novel global data set on unemployment benefits (UB) and active labor market policies (ALMP) in 191 economies in 2019 and 2020 to analyze the patterns of UB and ALMP and to examine the interlinkages between UB, ALMP and economic outcomes. The paper also evaluates the changes in UB and ALMP as part of governments' response to the Covid-19 pandemic. The paper contributes to the existing body of work on social protection literature drawing on a novel global database; providing a cross country econometric analysis, to complement the literature focusing mainly on country level analyses; and analyzing the association of both UB and ALMP with several economic outcome indicators. The preliminary findings of the paper are reported below. Among 191 economies included in the data, 47.6 percent have UB scheme and 38.7 percent offer UB after one year of contribution. All economies with UB scheme mandate a minimum period of contribution to become eligible for UB with an average of 11.6 months. Among other conditions, periodical reporting on active job search is the most common requirement for UB (79.1 percent of economies) followed by a participation in training sessions assigned by a public employment office (74.7%). While not as widespread as the above three conditions, many countries also require proof of no other income source (37.4 percent), proof of loss of job with no fault of the employee (47.3 percent) and accepting a suitable job offered by unemployment agency (50.5 percent). Unlike UB scheme, which is available only in 91 out of 191 economies (47.6 percent), ALMP are implemented in 157 economies (82.2 percent of economies). The most prevalent ALMP is training and skill enhancement programs (84.7 percent), vacancy database/labor market information (84.1 percent) and job placement (82.8 percent), followed by counseling/vocational guidance (75.2 percent), internship/apprenticeship programs (68.8 percent) and support for geographic mobility in connection with job search (36.3 percent). National skills/training fund and government incentives for training are available in 52.9 and 53.9 percent, respectively. Among incentives, governments mostly use tax deduction to incentivize firms to provide training to their employees (at 67 percent of economies), followed by subsidy (53.4 percent) and cost reimbursement (46.6 percent). The econometric analysis shows that out of 25 indicators of UB and ALMP in our data, 7 are significantly associated with unemployment rate and productivity, and 12 are significantly associated with employment and poverty/inequality. Among these, duration of UB, for all types of employment tenures, and internship services are positively related with unemployment rate and productivity, and

negatively related with employment rate. Furthermore, availability of mobility assistance and government incentives for training are negatively associated with employment but positively associated with productivity. Among the 12 indicators significantly associated with poverty and inequality, all but one is negatively associated with poverty and inequality, including the availability and duration of UB, availability of counselling services, support for mobility, national skills fund, and government incentives for training. Only the eligibility condition is positively associated with poverty and inequality. These findings provide support to the view that UB and ALMP are positively associated with both unemployment rate and productivity and negatively associated with employment, poverty, and inequality. The paper also provides a critical discussion of the related literature and further insights on the patterns of UB and ALMP across different groups of countries.

Keywords: Unemployment benefits, Active labor market policies, Covid-19, Labor market outcomes

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