Unemployment Insurance in a Post-2008 America: Lessons from Chile

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UNEMPLOYMENT INSURANCE IN A POST-2008 AMERICA:
LESSONS FROM CHILE

by
Eliott Channing Lansdell

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford
May 2015

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ABSTRACT

Unemployment Insurance in a Post-2008 America: Lessons from Chile
(Under the direction of Melissa Bass)

Unemployment Insurance (UI), in its many forms, has historically been a cornerstone of developed countries’ social policy. However, since the financial crisis and following recession in 2008, the American schema of UI has experienced great strain and scrutiny. This undergraduate thesis explores the detailed intricacies of the United States’s approach to UI in a post-2008 America, and looks to the Chilean Unemployment Insurance system as a source of potential reform ideas. The paper details the current operations and conceptual underpinnings of the two programs through in-depth case studies, and offers trans-national suggestions for reform. In the case studies, I explain the political history, logistics, evaluations, and recommended changes for each national program. I analyze the two systems through application of the *golden triangle* model. The golden triangle, while originally only applied to the Danish system of UI, provides key insight into the three basic variables in an UI system. Therefore, this paper seeks to apply a Danish conceptual framework to the U.S. and Chilean systems. As a result, this paper identifies strong potentials for reform of the U.S. system, including an increase in the taxable wage bases, the incorporation of personalized savings accounts, and full integration of technical training for the long-term unemployed.
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Chapter 1: Introduction

Unemployment insurance (UI) programs serve as cornerstones to most contemporary governments’ social safety nets, and the United States of America’s UI system is no exception. The American UI system consistently provides fundamental support to the country’s labor market and workers’ security. The U.S. national system originated in the Social Security Act of 1935, and the policy continues to counterbalance market trends by protecting workers from periods of joblessness and lost wages. Despite various amendments to reflect business cycle fluctuations and changes in political perspectives, the overall American approach to UI has remained consistent. Increases in cyclical unemployment (unemployment due to the decreased demand for goods and services as a whole) and structural unemployment (unemployment rates due to a mismatch in skills demanded by employers and those offered by available workers), as well as the aftermath of the financial crisis of 2008, necessitate fundamental changes to the American UI approach and its structure (Martin and Weaver 5) (“Databases, Tables and Calculators by Subject”).

Economically, an evaluation of the American UI system is unfavorable, at best. The unemployment rate in the United States has fluctuated between 6-8% over the last two years (2012-2014) since a slight recovery from the economic downturn of 2008. This 6-8% of Americans only includes former workers who are actively seeking re-employment, excluding those who are discouraged and have given up looking for employment (“Databases, Tables and Calculators by Subject”). This 6-8% is also an average across the general U.S. population. Some major worker groups, particularly
teenagers and African Americans, have much higher rates of unemployment, up to 22% and 13%, respectively (“News Release 3 Oct.”). There is also considerable variation at the state level, with levels as low as 2.8% in North Dakota and as high as 8.7% in Mississippi (“Unemployment Rates for States”). In recent years, of the actively searching unemployed, only 34.8% apply for UI benefits, and of those who apply, only about 3 out of 10 receive UI benefits (Vroman 12). The majority of denied workers cite failure to meet the UI eligibility criteria as the principal reason for their denial. Further, the number of unemployed workers who actually receive UI benefits amount to less than 1% of the U.S. population (Vroman 12). For those who receive UI, the program’s benefits replace less than half the worker’s lost wages, 46.6% on a national average (Stone and Chen 6).

Established funding provisions have proven relatively unstable since the financial crisis. The American UI program is a joint federal-state schema that features extensive state flexibility. While the U.S. Department of Labor provides oversight for the implementation of state policies, the federal government is involved very little outside of high-level guidance. Therefore, states are free to “choose and adjust employer tax rates, benefit levels and duration, and eligibility criteria” (Stone and Chen 6). The responsibility for funding accompanies this freedom.

Traditionally, states designed their UI systems to be forward funded, meaning that states steadily levied taxes on employers during healthy economic times to prepare for an increased demand for benefits during times of recession. However, many states switched to a “pay-as-you-go” approach, which allowed them to lower UI tax rates during good times. States that instituted statutory “pay-as-you-go” arrangements as early as the mid 1980s include Illinois, Pennsylvania, Minnesota, and Texas. Other states like Michigan
and Massachusetts effectively abandoned forward funding by cutting UI payroll taxes since the 1990s (McHugh and Stettner 2). As a result, by 1994, the Advisory Council on Unemployment Compensation recommended that states return to a forward funding structure to protect against times of unexpected economic downturn (US Advisory Council “Collected Findings and Recommendations: 1994-1996); few states heeded the warning. As a result, many states’ UI funds were not prepared for the Great Recession. Accordingly, many states had to borrow funds from the federal government to pay their unemployed workers’ benefits (Stone and Chen 6). The states are required to fully repay the loans, including interest, within two years.

Interestingly, the federal government charges more interest on the loans to states than it pays to investors for treasury notes, 2.94% and 2.188% respectively (Whitaker 14). If the states are unable to repay the loans with accumulated interest in the allotted time, employers could see an immediate increase in their current federal unemployment tax (FUTA) amounting to more than double the normal rate of 1.5%. The likelihood of failed repayment is very high, considering nearly $14 billion was owed to the federal government as of October 2014 (“FAQ”). Some states like Mississippi and North Dakota, which continued with forwarding funding throughout the past decade, owe relatively little, but other states like New York and California owe $1.5 billion and $8.3 billion respectively, raising questions about the sustainability of state-run UI programs (“2014 State Unemployment Insurance Trust Fund Solvency Report”).

The above concerns highlight the need for fundamental changes to the American approach to UI. Rather than look for reform answers within the U.S. system, this thesis looks abroad. Therefore, the purpose of this research is to investigate possible policy
reform ideas from across national borders. The vast majority of developed countries around the globe have systems of unemployment insurance. Chile adopted a unique approach to UI in the earlier part of the millennium. Its structure, which offers a fresh perspective on how UI schemes can be formulated, has been met with great attention from the global labor community and social activists (Superintendence 4). Using the U.S. approach as the baseline, I will discuss the strengths and weaknesses of the contemporary Chilean UI scheme, along with recommendations for the U.S. approach rooted in the Chilean position.

**Methodology**

In my thesis, I will utilize a compilation of relevant literature and primary sources to examine the differing UI systems in the United States and Chile. In examining the quantitative and qualitative work of other scholars, my research will build upon previous studies, while attempting to view the systems as part of a global continuum. I will present each country’s policy a stand-alone case study, explaining the political history, logistics, evaluations, and recommended changes.

I will then apply the data emerging from the case studies to criteria adapted from Anna Iløse in her paper, “The Danish Flexicurity Model - a Lesson for the US.” Iløse evaluates the Danish and U.S. schemes in terms of three criteria: flexibility, security, and active labor market conditions. Together these three points create what she calls “The Golden Triangle” (4). She defines these criteria thus, “Flexibility allows employers to trust themselves to hire employees, because they know that they can fire again if necessary. On the other hand, high levels of security mean that employees will get
substantial income compensation if fired. Furthermore, *active labour market policies* ensure that employees have the skills required in the labour market and keep them motivated to work” (4). To illustrate, a UI approach characterized by unlimited generous benefits, strict requirements to prove an unemployed worker is actively seeking re-employment, and burdensome tax consequences for employers’ terminating employees would be strong in terms of security and active labor market policies, yet very low in terms of employer flexibility.

Flexibility relates both to employers’ freedom to hire and fire and workers’ freedom to access job training programs or other means of labor mobility (Iløse 5). In most circumstances, active labor market policies are linked to the initial supply or retention of unemployment benefits; these policies are most usually implemented through eligibility requirements. All three components are directly influenced by the structure and implementation strategies of each country’s UI approach.

The contribution of this thesis to the policy discussion is to take a conceptual framework, primarily created for analysis of Danish labor policies, and apply it to a very different mode of UI governance in Chile. As explained in more detail later, like Denmark, Chile’s UI policies place a strong emphasis on active labor policies but in a different way than Denmark, through mandatory, personal unemployment savings accounts. Because Chileans self-fund their savings accounts, the Chilean system has few eligibility requirements. Why would an unemployed worker need to meet tight requirements to withdraw his or her own money? Because personal savings accounts promote individual accountability and employment motivation, the Chilean system has strong active labor policies. Because unemployed workers’ money can run out, it is weak
on security. However, because the Danish system is funded through tax dollars and offers high benefits, it has strict eligibility requirements. Thus, the Danish system has strong worker security and strong active labor policies (Iløse 5). The key distinction between the countries’ active labor policies is how they are achieved. The U.S. national UI policy is somewhere in the middle, with a slightly stronger leaning to that of the Chilean approach. The U.S., as described in more detail later, provides incentives for personal investment in unemployment insurance policies, yet the American government offers some unemployment benefits as long as the worker meets a relatively loose set of eligibility conditions.

My methodology looks to compare the U.S. and Chilean systems using the “Golden Triangle” and to find ways that the U.S. UI approach could better serve its purposes by drawing lessons from the Chilean experience. In offering suggestions for reform, I do not seek to arbitrarily turn the U.S. into Chile, ignoring feasibility concerns and transnational implementation challenges. I keep in mind the uniqueness of both the Chilean and U.S. contexts. Specifically, I recommend an increase to U.S. taxable wage bases, the incorporation of personalized savings accounts, and full integration of technical training for the long-term unemployed.
Chapter 2: Literature Review

In 1911, Great Britain “introduced the first publicly financed and administered unemployment insurance system” (Topel and Welch 351). This legislative event began a trend, which resulted in the adoption of similar policies in “virtually all” industrial countries by 1940 (Topel and Welch 351). From their inception, UI programs have been intended to “protect workers from income losses associated with unanticipated and involuntary interruption of employment” (Topel and Welch 351). As all workers and firms generally share responsibility for UI financing, most UI programs fall under the broader category of social insurance. Social insurance is a redistributive policy, or a policy with aims to spread economic prosperity in varying degrees across a population. Therefore, current literature concerning redistributive policies as whole must be considered.

Across many Organization for Economic Cooperation and Development (OECD) member countries, income inequality has drifted upward over the past decades. For some countries, top income brackets have “captured a large share of the overall income gains, while poverty remains a pressing policy issue, not least because of the increase in unemployment over the last few years” (Journard, Pisu and Bloch 2). Therefore, in “Tackling Income Inequality: The Role of Taxes and Transfers,” the authors attempt to identify and comparatively measure the redistributive impact of taxes and transfers across OECD countries.

Based on their relative tax structure, size, and mix, the authors sort OECD countries into four groups. First, large cash transfers, high levels of spending on “in-kind” services, and a tax-mix promoting redistribution, characterize the “Nordic model.” The
“Continental European model,” characterized by large cash transfers primarily via old-age pensions and a limited tax-mix not favoring redistribution, includes France and Germany. Finally, the “Anglo-Saxon model,” characterized by small or no cash transfers yet tax-mixes that promote redistribution, includes the United States. The last group also includes Chile and Turkey, whose welfare systems are not well developed, resulting in transfer and taxation levels considerably below the OECD average. The authors analyze the progressivity of unemployment benefits through OCED Tax-Benefit Model data, which represents before-tax inequality and after tax/transfers inequality, to respectively rank the countries by level of redistribution.

The study revealed that the redistributive effect of unemployment benefits greatly depends on the system’s logistical structure, including eligibility criteria, replacement rates, and duration. Unemployment benefits, overall, have become slightly more progressive over the past decade, as a result of ceilings and universal flat, low benefit programs such as in the United Kingdom. The primary global trends are somewhat converging, with the least progressive countries becoming more progressive and the most progressive becoming less progressive. Key aspects of the most progressive unemployment benefit systems are minimum-income programs that serve as a last resort safety net, as seen in the Continental Europe model nations (Journard, Pisu and Bloch 12).

Overall, the authors conclude that taxes and transfers have a “significant” redistributive impact. As measured by the Gini index, income inequality was approximately 25 percent lower after taxes and transfers. Taxes and transfers come in many shapes and forms, and one form is not inherently more distributive than the other.
Forms are not the principal factors in determining effectiveness; redistributive progressiveness is the essential indicator. Therefore, while there are some individual exceptions, the Nordic Model group leads in progressivity and redistribution with continental Europe as second, and Anglo-Saxon as third.

With all redistributive policies, the problem of “moral hazard” is given much weight. To explain, I pull from Hansen’s and Imrohoroglu’s “The Role of Unemployment Insurance in an Economy with Liquidity Constraints and Moral Hazard.” Moral hazard, practically, represents a situation where an unemployed worker refuses new employment because he could still receive unemployment benefits (119). Why work if you do not have to? When UI benefits are accessible and generous enough that workers could rationally turn down new jobs, the overall effectiveness of UI on the economy decreases dramatically (Hansen and Imrohoroglu 119). Particularly, one key aim of UI insurance is to smooth consumption and stabilize the business cycle, as it money to unemployed workers to buy goods. Moral hazard can greatly inhibit this function. In a quantitative analysis of UI’s role in a utility-maximizing function, results often depend on the presence and levels of moral hazard. If there is sufficient moral hazard, the economy can be “significantly better off without unemployment insurance” (Hansen and Imrohoroglu 140). In an environment with sufficient moral hazard, these authors stress that strict, “close monitoring of search activity may be largely necessary” (Hansen and Imrohoroglu 141).

Under the traditional analytical approach to economic behavior, the original analysts assume that the unemployed are both risk-neutral and want to maximize their expected income. In their article, “Labor Market Effects of Unemployment Insurance
Design,” Tatsiramos and van Ours alter this approach by exploring the effects of social utility and economic consumption smoothing under varying degrees of risk aversion. Like the traditional literature, the authors define the purpose of UI design as “to provide the best balance between smoothing consumption and limiting adverse effects of incentives to work” (Tatsiramos and van Ours 4). Thus, the tension between insurance and incentives is “at the heart of UI design.” Private unemployment insurance is often viewed as a way to alleviate this tension. However, the authors argue that private unemployment insurance is problematic because of asymmetric information. Workers have more information about their unemployment risk than the insurer, and if the coverage were based on the average unemployment risk, the insurance would not be attractive for workers with lower unemployment risks. As a result, private unemployment insurance “deviates from actuarial principles by charging premiums that do not reflect individual risks” (Tatsiramos and van Ours 5). This informational flaw leads to high-premium plans for high-risk workers only.

In microeconomic theory, moral hazard can best be understood as a behavioral analysis based on how UI beneficiaries decide when to take a new job or to continue searching. The point where the costs and benefits of taking a job outweigh the costs and benefits of continuing searching is referred to as the “reservation wage.” Of course, an increase in unemployment benefits leads to an increase in the reservation wage. By manipulating benefit levels and controlling reservation wages, the authors observe changes in the unemployment inflows (entry of unemployed workers into UI) and outflows (UI beneficiaries leaving the program for reemployment). In essence, the authors mathematically balance security and moral hazard. The authors state, “If the
search of unemployed workers could be observed and verified then there would be no moral hazard problem and the optimal design would entail full insurance with a constant profile of benefits over the unemployment spell” (22). However, in practice, the close monitoring and supervision required to make this work are not feasible. Thus, UI programs must attempt to estimate optimality in UI designs in other ways.

Ultimately, the authors conclude, “benefit structure [length and timing] and eligibility conditions are the most important elements for the design of UI.” The eligibility conditions specify the requirements to be eligible for UI, limiting the unemployment inflow. The benefit structures shape the incentives to search for a job, and therefore, determines the unemployment outflow. Furthermore, the optimal UI design is one that smoothens consumption in cases of economic recession yet provides enough pressure on the inflow and outflow of the program to deter a moral hazard (Tatsiramos and van Ours 23).

Therefore, a UI policy structure of pure social insurance that hopes to minimalize moral hazard and encourage reemployment will generally include declining compensation levels over the period of unemployment, which decreases the reservation wage.

In “Unemployment Insurance: Survey and Extensions,” Topel’s and Welch make a major contribution to the field by reframing the analysis from a central focus on the unemployed to a central focus on the funding strategies for firms. The earliest scholarly work in this area, of identifying links between UI financing structures and unemployment rates, was predominantly concerned with the effect of UI benefits on the beneficiaries’ probability of leaving unemployment (Topel and Welch 354). However, Topel and
Welch examine the effects of UI financing structure on the “probability of entering unemployment,” focusing on the behavior of firms in influencing the probability of an individual’s entrance in unemployment.

A firm’s potential influence is measured through *experience ratings*, or the net additional UI funding requirements via FUTA taxes. The stronger a firm’s history of layoffs, the higher their experience rating and the higher their FUTA tax. Pulling from empirical data across different U.S. states, the authors create an unemployment model to project payback ratios (or the excess of UI public subsidies over FUTA tax contributions) based on firms’ experience ratings. They hope to uncover the firms’ cost/benefits analysis in its decision to lay off workers. The authors determine that the majority of lay-offs actually occur from non-rated firms and that UI FUTA taxes are so low that employers’ cost/benefits analysis is only nominally affected. As a result, the firms that actually lay off the employees are not additionally taxed in the current period, and the firms with historical lay off trends, who are current paying the extra tax, do not lay off in proportion to the penalties of their experience ratings.

The recent economic crises have strained the traditional safety nets of both retirement pensions and UI funding sources. As employees’ income levels drop due to extended periods of unemployment, many unemployed workers must use their savings accounts to get by. The problem is that these savings are also needed for retirement. This has naturally led to more attention on the relationship between unemployment and retirement income, which these authors call “integrated unemployment insurance system[s]” (Stiglitz and Yun 1).
Under an integrated UI system, unemployed workers would have their unemployment benefits taken out of individual savings accounts, which would serve as a mandatory savings plan to offset unemployment shock and as a supplemental retirement fund. “The compulsory and universal nature of the contributions provides, in effect, perfects collateral …there is no attenuation of job search incentives” (Stiglitz and Yun 2). However, if the losses from unemployment were large enough, it would be optimal to have some form of true (tax-based, redistributive) UI as a supplement.

Based on a linear regression model, the authors find that there are significant economic benefits for employees under a pension-funded system supplemented by social insurance. At the point of economic shock from unemployment, integration better facilitates consumption smoothing in the short-term and allows the protection of retirement funds in the long-term (Stiglitz and Yun 36). Under an integrated system, the unemployed workers would not have to directly pull from their retirement savings to the full extent as expected under a purely personal savings system, yet the basic idea of cost internalization still exits (Stiglitz and Yun, 30). Perhaps the strongest conclusion of the authors is that regardless of risk aversion, an integrated UI system compared to a conventional UI system results in greater common utility, but the first-best optimizing balance is dependent on a number of modular factors. Additionally, the efficiency costs of personalized savings accounts are not taken into consideration along with other arising governmental needs from management of private/public funding.

Highlighting the main features of UI schemes across geographic locations and among various stages of economic development, authors Carter, Bedard, and Celine explore the main features and practices applied to multi-nation UI schemes across 14
countries in a post-2008 financial crisis marketplace. Unlike the previous literature, the authors only acknowledge the smoothing affects of unemployment and define the key goal of UI as the guarantee of partial income replacement, “enabling the beneficiary to maintain a certain standard of living until returning to work” (Carter, Bedard, and Celine 5). The authors define the three main functions of UI programs as “collection of contributions, processing of applications, and benefits payments” (Carter, Bedard, and Celine 11). The analysis is based on data from the OECD, the Association of Southeast Asian Nations (ASEAN), and the International Labor Organization (ILO).

Approximately 72 countries worldwide have unemployment programs of varied approaches. Carter, Bedard, and Celine study 14 countries, including the United States, Chile, and Denmark. Virtually all these countries have a nationally mandated insurance scheme, which provides financial support related to previous earnings. Their findings show that the most effective mechanism to protect the unemployed, while enabling reemployment, is a combination of cash benefits and policies to encourage reentrance to the work force, such as job fairs, vocational training, and counseling.

One key difference among countries is who is excluded from coverage. Government employees are excluded in Chile, Denmark, and Thailand. These 14 countries generally required 6 to 12 months of work to qualify. In order to continue receiving unemployment benefits, one universal requirement is mandatory job search, but the monitoring mechanisms range from highly active (Denmark) to simple targeting measures to identify those likely to stay unemployed (U.S.) (Carter, Bedard, and Celine 8).
Another key difference among the countries is maximum benefit duration and replacement levels. “There does not seem to be an optimal formula from an actuarial perspective, except to state that considerations for adequacy and cost will inevitably have to be balanced” (Carter, Bedard, and Celine 10). Most countries do not pay benefits for more than 12 months, with Mongolia only paying up to two and a half months and Denmark paying up to two years. However, six of the countries, including the U.S., Canada, and Chile, have set provisions for extending benefits in times of prolonged unemployment rooted in economic crisis. While most countries’ benefits range from 50-60 percent of previous earnings, Denmark’s UI approach is by far the most generous with an approximately 90 percent benefit rate. (Carter, Bedard, and Celine 16).

Across the international spectrum for UI approaches, Chile and the U.S. serve as the primary focus for this thesis. However, this paper seeks to uniquely re-apply a conceptual framework almost exclusively applied to Danish analysis. Thus, the most important piece of literature is Anna Iløse’s article “The Danish Flexicurity Model – A Lesson for the US?” Anna Iløse explores the potential strategies for successful cross-national UI policy transfer from Denmark to the United States. The U.S. has lessons to learn given that the Danish system of flexicurity has “succeeded in not only reducing the level of unemployment dramatically but also increasing already exceptionally high employment rates” since the mid 1990s (Iløse 4).

Iløse defines the Danish system of flexicurity as providing flexibility for employers and security for employees, which is advantageous for both groups. Further, the degrees of flexibility and the security must balance in terms of depth, scope and length. Depth refers to the extent of flexibility and security. Scope relates to the groups
typically covered under, and length refers to time, particularly “whether the flexibility and security occurs simultaneously” (6).

She analyzes the U.S. and Danish UI systems against her criteria of The Golden Triangle. The Golden Triangle consists of two aforementioned attributes (flexibility and security) plus active labor market policies, which are the motivations and supports for unemployed workers to actively search for and gain re-employment opportunities.

Her research includes interviews with labor market experts, government representatives, and union officials in the U.S. as “well as intensive literature studies and analyses of secondary data from Denmark, the US and the OECD” (10). Based on her research, Iløse discovers some notable differences in the two systems, particularly in the area of security. Specifically, the length and depth of coverage are very different. The US system offers basic benefit coverage for 26 weeks compared to the Danish maximum of 4 years, and the U.S. average wage replacement percentage is 33% versus the Danish replacement percentage of 61%. Thus, while the two systems rank relatively the same in depth of flexibility, the depth of security in the U.S does not match its depth of flexibility.

Concerning active labor market policies, while some training and relocation programs do exist in the U.S., the vast majority of workers are ineligible and the effects of these programs are questionable. One such program, the Trade Adjustment Assistance Program (TAAP), offers a combination of training and supplementary weeks of UI benefits, yet enrollment levels are trivial. Additionally, Iløse states, “There have been many signs that the challenging profile of the participants are not matched by a sensitive administration of the program” (20). Plus, the scope of coverage for U.S. workers is approximately only about 1 out of 8, while all displaced workers in Denmark are eligible
for benefits and retraining. Obvious enough, Iløse believes that the U.S. could learn a lesson from Danish flexicurity.

Iløse acknowledges that resistance towards cross-national policy transfer can arise from a number of dimensions, such as overall structure, political ideologies, and culture. For example, she credits collective bargaining in Denmark with an essential role in creating both high levels of security and employer flexibility. However, she concludes that regionalizing implementation can create an atmosphere of motivational pragmatism and open mindedness to the application of global “best practices.” Local officials are more likely to favor results than ideological disputes that might cloud the transfer of policies (27). She describes the most logical implementation of Danish policies in the U.S. as hybridization of old U.S. and newly Danish *inspired* policies.

While Iløse provides exemplary criteria for analyzing the different aspects of UI systems, this article stops short in providing real, logistical sources for reform. Her article addresses issues for trans-national policy transfer and recommends that policy transfer occur at subnational levels, yet she offers no real policy transfer ideas. By keeping Iløse’s research and her system of understanding the functions of unemployment insurance in mind, my research will seek to expand her analysis of the American and Danish approaches to the Chilean approach, while also drawing tangible conclusions for reform implementation.
Chapter 3: United States Case Study

Policy History

Unemployment Insurance (UI) in the United States began, in terms of federal policy, via the Social Security Act of 1935. However, many states had enacted UI laws somewhat earlier. The first, Wisconsin, enacted a legislative UI law in the midst of the Great Depression in 1932 followed California, Massachusetts, New Hampshire, Utah, and Washington (“DOL 75th Anniversary”).

Catalyzed by the unprecedented economic downswings and widespread poverty of the Great Depression, many of the Social Security Act’s provisions were intended to offer immediate relief to families, particularly in the form of means-tested benefits and UI. The policy’s provision for old-age insurance programs, for which today the act is most well known, was not “designed specifically to deal with the economic crisis of that era” (Martin and Weaver 1). Indeed, these benefit payments were not scheduled to begin until seven years later (Martin and Weaver 1).

The Social Security Act was the first major step towards establishing coherent UI legislation in the U.S., and the act encouraged states to adopt their own UI laws for further efficiency. However, the states’ implementation of the program took time. Wisconsin did not issue its first unemployment check until August 1936 (“DOL 75th Anniversary”). Controversy added to the delays. States were reluctant to agree to the federal government’s UI funding structure, this meant imposing taxes on industry, which in turn “discouraged industry from remaining or locating in States that imposed such taxes” (Lopez 8). Many argued that this tax requirement violated constitutional
federalism: “Federal Action… that sought to make States create programs according to Federal specifications appeared to be the ultimate federalism violation” (Lopez, 8, 1987).

In the First Circuit Court of Appeals, in two separate, cases struck down “both the unemployment compensation and old-age insurance provisions of the Social Security Act as unconstitutional” (Lopez 10). However, the ultimate decision came down from the Supreme Court on May 24, 1937. In a 5-4 on Steward Machine Co. v. Davis, the Court upheld the UI tax and credit of title IX citing that the plan’s nature represented a “cooperative venture between States and the Nation to provide for the general welfare” (Lopez 10). By 1937, all 48 states had enacted their own UI laws (“DOL 75th Anniversary”).

Logistics

The House Ways and Means Committee defines the Federal-State UI program has having two main objectives. First, the program aims “to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed” (“Almanac”). Second, the program seeks to help smooth consumption curves, stabilizing the economy during downturns, or recessions. The federalist nature of UI in the U.S. creates a system with broad guiding policy similarities, yet considerable variation in practical application at the state level. This results in what the Congressional Research Service describes as “essentially 53 different programs” (Whittaker and Isaacs 2). The U.S. Department of Labor (DOL) administers the federal side of the UI system (Whittaker and Isaacs 3). The Federal Unemployment Tax Act (FUTA), discussed below, finances both the federal and state administrative costs, insolvency lending to state UI
accounts, and state employment agency costs. The State Unemployment Tax Act (SUTA) covers the remaining outlays of the program, including the actual UI benefits to eligible unemployed workers.

The FUTA levies a 6.2% gross tax on the employer on the first $7,000 annually paid to each employee. However, each employer operating in states with federally approved programs and with no delinquent federal loans may credit 5.4% against the 6.2%, as the employers are allowed to net state taxes paid against their federal income filings. Thus, the net tax percentage allocated specifically to the Federal UI program is 0.8%.

Tax estimates for fiscal year 2014 are monumental, relative to other revenue streams with nearly $5.3 billion in federal unemployment tax revenues and $50.5 billion in state tax revenues (Whittaker and Isaacs 2). Of the total collected contributions of $55.8 million, states will spend a projected $40.5 billion on regular UI benefits, not including any extended benefit outputs (Whittaker and Isaacs 2).

The FUTA funding guidelines, specifically the allowance for state tax credits on the 5.4%, offers strong incentives for states to keep their UI programs as closely in sync with the federal guidelines. Thus, all states tax the federally required employers, specifically all employers, “who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of the 20 weeks in the current or prior year” (“Almanac”). Also, FUTA covers for agricultural employers, “who paid base wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year,” and the FUTA tax includes any domestic service employers who paid wages of over $1,000 for domestic service during a calendar quarter in the current or
prior year ("Almanac"). Consequently, the tax extends to most all wage-based transfers of labor and service. Primary exclusions include workers, who are self-employed, employers of certain student interns, nonprofit organizations, and those agricultural labor and domestic service employers who do not meet the above criteria.

The 5.4% tax mandated under the State Unemployment Tax Act in each respective state, therefore, is often referred to as the SUTA portion of the tax. While the 5.4% credit to offset the national total tax rate of 6.2% is unchanging, the 5.4% is subject to change, dependent on each employer’s experience ratings. “Generally, the more UC benefits paid to its former employees, the higher the tax rate of the employer, up to a maximum established by state law” (Whittaker and Isaacs 9). In July 2013, minimum SUTA tax rates ranged from 0.00% to 2.8%, while maximum rates ranged from 5.4% to 12.27%. Mississippi’s tax rates fall roughly between the extremes, with a minimum of 0.45% and maximum of 5.40%. For Mississippi, the taxes assessed are capped on wages of $14,000, compared to the federal statutory ceiling of $7,000 for states like Arizona and $39,800 in Washington (Whittaker and Isaacs 11). In times of economic expansion, contributions into UI will exceed the outlays of benefits, which led to the “pay-as-you-go” approach discussed earlier. During times of economic recession, such as the years following the financial crisis of 2008, outlays can greatly surpass totaled collections, creating deficits for the SUTA funds, which results in the allocation of FUTA funds through loans to states (McHugh and Stettner 11). Considering that currently states owe nearly $14 billion to the federal government to repay these FUTA loans, the financial sustainability of many states’ programs are questionable (“FAQ”).
The greatest variation in the program stemming from Federal-State cooperation lies in the eligibility criteria and their application. Generally, the states use three major factors in creating their own eligibility criteria. First, the states consider the amount of recent employment in terms of length of time and wages earned. Second, states focus on determining the ability and willingness of claimants to seek alternative forms of suitable employment. Third, states consider the reason for the most recent job separation, such as termination, layoff, or quitting. The base year, in determining eligibility, is defined as the “first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits” (“Almanac”). The average qualifying wages for minimum weekly benefits is $1,734, varying from $130 in Hawaii to $3,400 in Florida, to qualify for the maximum benefit. The amounts range from $5,450 in Nebraska to $29,432 in Colorado (“Almanac”).

An underlying feature of all states’ programs is that the claimant must be continuously both able to work and available for work to receive benefits. Accordingly, a recipient may not refuse an offer of suitable work without just cause. Suitable work involves weighing job offer characteristics relative to the unemployed worker’s health, morals, prior training, and potential length of the employment. Generally, “as the length of unemployment increases, the claimant is required to accept a wider range of jobs” (Almanac, 2000). The suitable work test becomes more stringent under the Extended Benefit Program (EB), detailed below. Under federal law, states must deny extended benefits to “any individual who fails to accept work that is offered in writing or is listed with the State Employment Office, or who fails to apply for any work to which he is referred by the State agency” (Almanac, 2000). The referred work must be within the
worker’s capabilities, pay wages greater than the current unemployment benefits received and the current state minimum wage, and must be suitable under the previous established criteria. If the available position is offered as a result of a labor dispute, is substantially less favorable than other available positions, or would require joining or refraining from joining a “bone fide” labor organization, extended benefits must still be offered. Moreover, states are prohibited from canceling benefits to an otherwise eligible recipient except in cases of “misconduct, fraud, or receipt of disqualifying income” (“Almanac”). However, benefits are prohibited to workers who are seasonally unemployed and whose reemployment is reasonably assured, such as teachers during summer and athletes during an off-season.

In 1999, 38% of unemployed workers were receiving UI, compared to the recent UI beneficiary levels of approximately 28% in 2013. UI recipients reached peaking levels of 81% in 1975 and historical low points of 26% in 1968 and 1987. Disqualification is commonly the resultant of a claimant’s failure to meet state eligibility criteria, as discussed above, including unavailability to work, termination of prior employment due to misconduct, and earnings (“Almanac”). Based on the figures from 1999, the total disqualification rates ranged from a high of 94.9% in Nebraska to a low of 11.0% in Kentucky. If a claimant is ineligible in his or her respective state, federal law dictates that any extended benefits must also be denied (“Almanac”). The UI program covers approximately 130.3 million workers. In the most recent estimates from January 2014, 3.6 million unemployed workers received UI, with a 12-month average weekly benefit of $309 (Whittaker and Isaacs 3). The 3.6 million recipients represent approximately 28% of
10.6 million unemployed workers actively searching for reemployment from January 2013 to January 2014 (Whittaker and Isaacs 3).

Similar to the eligibility requirements mandated by individual states, the determination and duration of regular UI benefits varies. Generally, wages over the base period (typically 4 out of the 5 previous calendar quarters) determine the amount of benefits. The most popular state benefit formulas aim to replace half of a claimant’s average weekly wage up to a specified maximum amount (Whittaker and Isaacs 6). To provide an incentive for capitalizing on temporary or part-time employment opportunities, all states disregard some earnings during unemployment (Whittaker and Isaacs 7). Twenty-six weeks is the normal duration; however, many states determine the length of benefits based on the state’s current unemployment rate. For example, North Carolina provides 12 to 20 weeks of benefits, depending on the state unemployment rate, which is much lower than the national average of (Whittaker and Isaacs 6). The average regular UI benefit duration in July 2013 was 16.8 weeks, excluding any extended benefits. During the same period, average weekly benefits were $307. Minimum benefits in the continental U.S. ranged from $10 in Louisiana to $148 in Washington, and maximum benefits ranged from $235 in Mississippi to $674 in Massachusetts (Whittaker and Isaacs 8). Interestingly, the trend in maximum weekly benefits closely mirrors the trend in insolvency funds owed to the DOL by states. Logically, as the amount of entitled maximum benefits increases, the higher total outlays for the respective state’s UI fund, as unemployment levels and beneficiary amounts increase in times of economic slowdown.

Benefit duration is also determined by the Extended Unemployment Compensation Act of 1970 (EUCA). The EB program was enacted to provide wage
protection to workers who had exhausted their regular benefits, during periods of particularly high unemployment (“Almanac”). The extended benefit (EB) packages, when activated, offer claimants an additional 13 weeks of benefits, for a combined maximum of 39 weeks (Whittaker and Isaacs 18). The administered EBs are identical to regular UC benefits, on an individual-by-individual basis, but with federal funds paying half of the cost. All states must pay up to “13 weeks of EB if the IUR [insurance unemployment rate] for the previous 13 weeks is at least 5% and is 120% of the average of rates for the same 13-week period in each of the two previous years” (Whittaker and Isaacs 19).

In addition to the two automatic triggers listed above, states do have the option of selecting an alternative trigger outlined in the Unemployment Compensation Amendments of 1992 (“Almanac”). Authors Whittaker and Isaacs outline the two alternative options in their Congressional Research Report in February of 2014. The first trigger option activates the 13 additional weeks of benefits “if the state’s IUR [insurance unemployment rate] is at least 6% regardless of previous years’ averages” (Whittaker and Isaacs 18). The second trigger, while more complicated, activates the 13 additional weeks if “the states TUR [total unemployment rate] is at least 6.5% and is at least 110% of the state’s average TUR” for the same time period in either of the previous two years (Whittaker and Isaacs 18). Additionally, the second trigger allows “an additional 20 weeks of benefits if the TUR is at least 8% and is at least 110% of the state’s average TUR” for the same time period in either of the previous two years (Whittaker and Isaacs 18).
Alternative option 1 disregards historical trends and activates the EB program if the IUR ever exceeds 6.0%, and alternative option 2 disregards IUR in order to utilize total unemployment rate (TUR) calculations, while including historical trends, to determine activation benchmarks and the possible further extension of EBs to 20 weeks if state conditions reach higher levels of TUR. It is important to note that when a state turns “off” an EB program, for instance when the IUR or TUR levels in the state no longer meet the trigger, all EB benefits cease, regardless of an individual's timing for his or her claim or receipt of benefits (Whittaker and Isaacs 18).

The timing of activation and deactivation for EB programs depends on the calculation methods used by each state—IUR or TUR. For calculations based on IUR, activation and deactivation are the most immediate, as the EB program begins as soon as the trigger criteria is met and ends as soon as a state fails to meet the criteria. For the EB programs dependent upon TUR calculations, activation and deactivation is delayed. Once a state’s TUR calculation reaches activation or deactivation levels, EB benefits will begin or end on the third week after the first week for which there is a ‘on’ or ‘off’ indicator (Whittaker and Isaacs 19). In addition to the states’ eligibility criteria, EB programs impose additional federal restrictions on claimants, in that beneficiaries must have a “systematic and sustained” search for work. Thus, if a claimant refuses an offer of suitable work, benefits end. In addition, required qualifying earnings are increased during the base year to equal at least twenty weeks of “full-time insurance employment or equivalent in insured wages” (Whittaker and Isaacs 20). Along with the base year, beneficiaries are subject to a benefit year, or a claimant is only eligible for UI for the next twelve calendar months directly following unemployment. Typically, if a claimant’s
benefit year has expired even if he or she has failed to located reemployment, he or she is ineligible for EBs.

The American Recovery and Reinvestment Act of 2009 (stimulus package) allowed states to ignore the benefit year rule under economic conditions permitting EB activation (Whittaker and Isaacs 21). If a claimant’s benefit year had ended on May 10, 2010 and the state triggered EB activation on April 18, 2010, the claimant might still be eligible for further UI under the EB program. This allowance for extended benefit years expired on December 31, 2013. Likewise, the 2009 stimulus package, as amended, temporarily altered the federal-state funding arrangement for EB programs. Under these provisions, the federal funding would finance 100% of the EB through the end of 2013, which prompted many states to adopt the optional triggers to provide 20 weeks of EB because the states would not be required to contribute to the cost (Whittaker and Isaacs 21). At the end of 2013, the federal government would continue to pay EBs to current recipients, but no new recipients would be eligible for EB benefits as financed entirely by the federal government (Whittaker and Isaacs 22).

President George W. Bush signed the Supplemental Appropriations Act (SAA) of 2008, which came into law on June 30, 2008. Title IV of the SAA created an emergency unemployment compensation program (EUC08), which marked the eighth time Congress had created a federal temporary program to extended UI during strong economic slowdowns—in 1958, 1961, 1971, 1974, 1982, 1991, and 2002. After the passage of the stimulus package in February of 2009, EUC08 operated quite similarly to the EB program detailed above, with respect to federal financing provisions. However, the programs are not identical and should not be confused. Congress effectively controls
when an emergency UI program is authorized, along with its duration, funding procedures, and additional eligibility requirements. Congress amended the EUC08 eleven times after 2008 under such acts as the stimulus package (P.L. 111-5); the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312); and most notably, the American Taxpayer Relief Act of 2012 (P.L. 112-240). Unlike the consistent EB policies, emergency UI programs are statutorily limited. For brevity’s sake, I will only discuss the final amendments to EUC08, lasting from 2012 until the program’s expiration in the first week of 2014.

From 2012 to the program’s end in 2014, EUC08 had four tiers available to claimants.\(^1\) Tier I was available in all U.S. states, and it allowed up to 14 additional weeks of UI benefits for eligible individuals. Tier II, which granted an additional maximum of 14 weeks, was available to claimants in states where the total unemployment rate (TUR) was at least 6%. Tier III allowed an additional 9 weeks of benefits, if a claimant’s respective state had a TUR equal to or greater than 7%. Lastly, tier IV, granted an additional 10 weeks to eligible individuals in states, with a TUR equal to at least 9% (or IUR of 5%) (Whittaker and Isaacs 15). The tiers are compounding: so, if an eligible individual lived in a state with upwards of 9% TUR, he or she might have been entitled to a maximum of 47 weeks of additional UI benefits, exclusive of regular UC or EB benefits. Such claimants for EUC08 must have first exhausted regular UC benefits in their respective states. EUC08 beneficiaries had to submit weekly reemployment and eligibility assessments (REAs) and were required to participant in reemployment services, if referred, and meet any state-determined eligibility

\(^1\) North Carolina enacted a state law that violated these tiers, so claimants from the state were ineligible for EUC08 benefits.
requirements (Whittaker and Isaacs 16). The EUC08 program also “required claimants to have at least 20 weeks of full-time insurance employment or the equivalent in insured wages in their base period” (Whittaker and Isaacs 16). Simply, the EUC08 dictated that the claimant’s previous wages for twenty weeks of the past four or five calendar quarters must meet the respective state’s minimum wage requirements, limiting temporary bouts of accumulated earned wages. As a further distinction to the EB programs, EUC08 was financed from “general funds of the U.S. treasury…[, and] states did not need to repay these funds” (Whittaker and Isaacs 16).

The combination of multiple UI programs makes determining of benefit year very complex. However, with those complexities aside, the maximum duration of benefits during periods of deep, prolonged economic decline can be lengthy. For example, an UI claimant in 2012-2013 could have received benefits up to 93 weeks (regular UC 26 weeks, plus EUC08 maximum of 47 weeks, plus 20 weeks EB). However, such lengthy benefits were unlikely and were unprecedented before the economic crisis of 2008 (Whittaker and Isaacs 24). To contrast, in 1999, approximately 32% (or 2.3 million claimants) exhausted their benefits during the year (“Almanac”). The 2014 expiration of all EUC08 programs and the deactivation of many states’ EB programs will likely yield similar results to those Americans. Of course, improved unemployment statistics, which must be present for deactivation of EB programs, appears to be a sign for a recovering economy. The key assumption here is that the unemployment rate is declining due to reentrance of previously unemployed claimants into a growing workforce; however, this may not be the case. Many unemployed workers are simply dropping out of the workforce altogether. In 2014, approximately 6.9 million fewer “Americans are working
or searching for work. The drop in unemployment since 2009 is almost entirely due to the fact that those not looking for work do not count as unemployed” (Sherk 1).

The funding structure for the American UI program will experience changes in the upcoming years. For fiscal year 2014, “The Office of Management and Budget’s sequester order requires a 7.2% reduction in all nonexempt nondefense mandatory expenditures,” including the majority of UI payments (Whittaker and Isaacs 23). The federal sequester will primarily focus on the federal share of EBs, reducing the federal outlays by 7.2%. In doing so, the states are responsible for the difference. Therefore, the states have two options: either reduce benefits or increase tax revenues to make up the 7.2% difference (Whittaker and Isaacs 23). Questions arising from funding techniques, safety net adequacy, and taxation requirements fuel the political debates over the policy’s efficiency, effectiveness, and implementation, and the viewpoints and critiques, while commonly examining similar areas of the program, offer diverse evaluations. The next section for the U.S. case study will closely examine the commonly discussed strengthen and weaknesses in the American UI approach.

Evaluations

The policy discussion of UI is inseparable from strong interests, ideologies, and party alignments. The evaluations outlined below are presented as to neither disregard nor pay particular attention to political ideologies. The evaluations offered in the following paragraphs, however, do project a post-financial crisis perspective on the US system of UI. While references may occur to historical statistics and situations, the
primary scope of the evaluations revolve around years in or after the financial crisis and the Great Recession.

In the contemporary US, the two most common critiques of the UI system revolve around the adequacy of coverage and amount of spending. The arguments here, simply, are the systems are not doing enough, are doing too much, or are not functioning in the correct manner. As discussed in the introduction of this thesis, the statistical outline of the system, in terms of actual UI recipients, is often enough to spark conversations towards reform. In a brief summary, of the actively searching unemployed members of the US population, only 34.8% apply for UI benefits, and of those who do apply, only about 3 out of 10 receive compensation (Vroman 12). The number of workers who actually received UI benefits is roughly less than 1% of the US population, compared to the fluctuating 6-8% national unemployment rates. (Vroman 12).

Beyond the program’s accessibility, many research centers, such as the Government Accountability Office (GAO), have released studies that grimly detail the inadequacies in the extension of benefits. In their report titled Unemployment Insurance: Economic Circumstances of Individuals Who Exhausted Benefits, the GAO outlines the economic hardships that many families faced upon the exhaustion of UI benefits. The GAO writes, “Among the 15 million workers who lost jobs from 2007 to 2009…about one-fourth of the recipients exhausted UI benefits by January 2010. This represents 2 million displaced workers who exhausted UI as of early 2010” (3). These workers, they argue, have faced difficult economic circumstances. For example, the poverty rate of “displaced workers who exhausted UI was higher than the rate among working-age adults—18 percent compared to 13 percent, and more than 40 percent had relatively low incomes” (GAO 4).
Ideally, unemployed workers would need benefits for a relatively short period of time, as they should quickly be reemployed. However, as indicative in times of recession, fewer workers found new jobs quickly, leaving many unemployed beneficiaries in a bind: their benefits were ending before they found new work (GAO 9). Consequently, not only are benefits difficult to qualify for, but they also often expire during times of continued financial need.

The controversy over the system’s inadequacies does not end here. In another report by the GAO, the researchers claim that UI does not help those who need it the most, the most underprivileged. The GAO found “part-time, low-wage unemployed workers were the least likely to receive UI” (GAO 29). The discrepancies between high-wage and low-wage unemployed workers are strongly pronounced. Between 1992 and 2007, “low-wage workers were almost two and a halftimes as likely to be out of work as higher-wage workers, but about half as likely to receive UI benefits” (GAO 15).

Such low levels of UI receipt among low-wage workers are a result of state eligibility rules. The state eligibility rules, “particularly the base period for meeting the minimum earnings requirement and reasons for separating from work may help explain the low levels of UI receipt” (GAO 20). Concerning the reasons for separating from work, many states’ do not recognize family obligations as “good cause for leaving employment,” which can complicate eligibility qualifications for low-wage workers who do not have paid sick leave (GAO 22). However, differences still exist between low-wage and high-wage unemployed workers with similar work histories: “Fifty-five percent of unemployed higher-wage workers who had worked at least 35 weeks during the year
collected UI. In comparison, 30 percent of unemployed low-wage workers with similar work tenures collected UI” (GAO 18).

These observations by the GAO and the statistical analysis by the Bureau of Labor Statistics (BLS) are worrisome to say the least. Many workers are not able to take advantage of benefits at all, and often, those who are able to receive benefits cannot find reemployment opportunities before their benefits expire. Most importantly, the unemployed workers who I would argue need the UI benefits the most do not share in the system proportionally or even equally.

Other scholars, such as the researchers at the CATO Institute, argue that UI is grossly overused or used incorrectly. Chris Edwards and George Leef identify how the UI system has failed, with government intervention weakening the economy. Edwards and Leef raise a similar argument to common moral hazard objections; however, they enunciate their claims in unique terms.

Their article begins, “UI is designed to reduce the hardship of being unemployed. To the extent that it does, however, it also reduces the incentive for the unemployed to seek work” (Edwards and Leef 4). They draw a strong casual link between higher unemployment benefits and the length of unemployment. Citing specific examples from economists Martin Feldstein and Daniel Altman, the article states, “the most obvious and most thoroughly researched effect of the existing UI systems on unemployment is the increase in the duration of the unemployment spells. By reducing the cost of remaining unemployed, UI benefits induce individuals to have longer spells in order to search for a better job or simply to enjoy some leisure” (Edwards and Leef 5).
Next, the authors identify UI benefits as a key suppressor of the modern U.S. economy. In a capitalist system, investments and savings provide means for an economy to burgeon. One of the primary factors associated with saving is how individuals perceive contingencies and risk. The authors sensibly outline how risk and savings are related. If one expects greater risk and financial uncertainty, the individual is much more likely to store financial reserves for rainy days. UI benefits, on the other hand, discourage savings, providing a socially mandated safety net. “Why save if the government has you covered?” (Edwards and Leef 6).

Lastly, Edwards and Leef describe the UI system as “complex and costly for governments and businesses to administer.” Employers face substantial costs “to deal with all the paperwork and tax planning needed to comply with the UI system” (Edwards and Leef 7). UI, in essence, is a leaky bucket: Instead of a full bucket of benefits being fairly distributed, administrative holes leak utility away, weakening the program’s results. A report from the National Federation of Independent Business (NFIB) agrees and criticizes applicants for abusing the systems. Bill Ryes, the chief Tax Counsel for the NFIB, states, “Many departing employees automatically file for unemployment compensation. They have nothing to lose; filing a claim costs nothing and puts the ball in the employer’s court” (14). As a result, businesses are forced to spend time and money fighting unjustified claims (Edward and Leefs 8).

The CATO Institute labels these improper claims as fraud (Edward and Leefs 8). Many claimants improperly file for benefits, such as “people who are ineligible, people who are not actively looking for work, and people who have taken jobs and neglect to report their findings” (Edward and Leefs 9). Additional issues, include misreporting of
earnings, providing false ID credentials, and misrepresenting the reasons for termination (Edward and Leef 9). However, the most logical solutions for these problems would involve additional administrative spending or at least expenditure aimed at improving efficiency. Therefore, the most obvious solutions exacerbate the previously identified problems of administrative waste.

Nearly all economists agree that systems of UI have trade-offs embedded in their core. Pedro Amaral and Jessica Ice frame the trade-off thus: “By making leisure less costly relative to consumption, more generous UI benefits reduce the incentive to search for a job” (Amaral and Ice 1). However, Amaral and Ice uncover a much weaker correlation between extended UI benefits and unemployment rates. The analysts increase sample sizes and elongate time windows to more accurately observe changes in national unemployment rates, as impacted by the greater length and availability of unemployment compensation. Using estimates from a leading 2013 study as a base line, the authors project estimated unemployment levels based on the current statutory extended benefits. Amaral and Ice found that actual increases in unemployment, resulting from extended benefits, were “significantly smaller than prior estimates”, and the benefit extension “accounts for only a fraction in actual unemployment rate throughout the recession and recovery” (6).

Current evaluations of the UI system in the United States reach different conclusions on the correlation and possible causation of extended benefits with respect to prolonged periods of unemployment. Whether one emphasizes the system’s inadequacies, wastefulness, or some of both, analysts might agree that the U.S. must consider reforms.
Recommended Changes

In my review of the most important UI evaluations and their recommended changes, the terms modern, outdated, and twenty-first century appear repeatedly. As detailed earlier, the overall structure of America’s UI system has remained relatively unchanged since its conception some 80 years ago. Many scholars respect the foresight of the original Social Security Act of 1935; however, a common consensus exists that the system requires updating. Lori Kletzer and Howard Rosen with the Brookings Institute say it best, “The current system is desperately in need for reform in order to adequately meet the needs of the twenty-first century workforce.” (5). In effect, the US economy with complex financing instruments, fluid manufacturing demands, and a diverse service class is out of synch with the traditional approach to unemployment insurance.

The following recommendations come from other scholars and do not necessarily represent my personal ideas for reform. Most of these changes focus on the post-financial crisis US economy. However, the pre-2008 bonus experiments idea is still worth considering.

Paul T. Decker evaluates bonus experiments conducted in New Jersey and Illinois in the 1990s. The two experiments’ aims were identical: reduce costs for the state’s unemployment fund while speeding up the exit rate (or the re-entry rate for employment) for beneficiaries; however, the actual structure of the experiments varied (Decker 720). The experiments tested whether UI recipients would take jobs more quickly if they were paid a lump sum bonus for leaving the UI program before the expiration of weekly benefits. In New Jersey, the bonus declined overtime. For those workers, who located another job within the second week, the bonus averaged “$1,644, or about nine times the
average UI benefit amount” (Decker 721). The bonus then declined by ten percent until reaching zero in the eleventh week (Decker 721). For Illinois, the bonus was constantly $500, approximately five times the average weekly benefit, until it expired at the end of the eleventh week (Decker 722).

The base line consisted of randomly selected individuals, who received the identical career counseling services without any mentioned of potential bonuses (Decker 725). Both experimental groups exited the program sooner than their non-bonus counterparts. Also, on average, the experimental group received approximately 125 dollars less per claimant; however, due to additional administrative costs and the exponentially higher bonus for quick reentry, the New Jersey bonus program incurred greater costs per claimant (Decker 723). Nevertheless, they both got workers back into the work force more quickly and paid less per claimant out of the program’s funds. However, exiting bonuses become obsolete in an economy with legitimate job shortages, as seen the U.S. after 2008.

Of the more contemporary schools of thought, enhanced job-training programs tend to be one of the most popular recommended changes. Carl H. Tong, in voicing his support for the latest pronouncement by the President’s Council on Jobs and Competitiveness, states, “The U.S. should strive to improve its education and training systems accordingly and build a capable, competitive and dynamic workforce” (Tong 76). More efficient, direct, and updated job training programs are the cornerstone for both Carl Tong’s and the President’s Council’s list of reforms. To restore America’s manufacturing excellence, workers’ skills must keep pace with rapidly changing industries. Programs that provide education and training to the unemployed through
vocational colleges and university programs “aim to open jobs today and to unlock jobs demand” tomorrow (Tong 78).

Some authors take a more technical approach to reform of the current U.S. system. For example, Michael Reich questions how well experience ratings actually achieve their intended goals. He examines the state experience ratings and finds that “The incentives in the UI system have increasingly reinforced a pattern of sporadic or intermittent employment. Employers have an incentive to hire workers and to retain them for only a few quarters” (Reich 21). He argues that standardizing states experiences ratings is the solution. Additionally, he advocates increasing the taxable base wage amount and indexing it for inflation (Reich 23). His reform proposals may look like they raise employers’ taxes across the board; however, they would simply better reflect employers’ conduct (Reich 34).

As previously discussed, many scholars’ evaluations focus on the UI program’s inadequacies, and many reform ideas seek to address these problems. Janice Peterson takes a “social provisioning” approach to reform, focused on increasing the share of unemployed workers who participate in the program while paying particular attention to the long-term employed (Peterson 454). Two of her reforms are especially intriguing.

First, she argues that states must recognize “compelling family reasons,” such as domestic violence, close family illness, or a dependent’s disability, as legitimate reasons for ending employment (Peterson 458). Not having a compelling family clause has long disadvantaged those workers with extra-employment responsibilities. Second, Peterson proposes state requirements to offer all workers, even those who were part-time and are now seeking comparable part-time employment, a uniform 26-week benefit period with
benefits equal to at least half of the base period’s earned wages (Peterson 459). The
difference between benefits received compared to past wages have historically been
immense. Part-time workers, whose base period wages clearly would be less than full-
time workers, are typically excluded from UI entirely (Peterson 459). Certain limitations
must be in place to prevent employee “job hopping” or the possibility of workers
alternating short spells of employment with longer spells of benefits, and funding
mechanisms would need to be addressed. Still, Peterson’s ideas are valuable from a
policy perspective.

Lori Kletzer and Howard Rosen explore further reform solutions. Like Peterson,
Kletzer and Rosen propose both the inclusion of part-time workers in UI programs and
increasing required compensation levels to at least 50% of lost wages (Kletzer and Rosen
18). However, Kletzer and Rosen go beyond increasing state requirements to further
increased federal control of the program as a whole. Because federal control could
effectively eliminate states’ ability to manipulate UI tax rates and experience ratings for
the sake of interstate competition, any state-to-state discrepancies in funding and benefits
could be better balanced (Kletzer and Rosen 17).

Kletzer and Rosen also discuss how to finance a more expansive program. They
argue for a relatively large increase in the FUTA taxable wage base, from the current
$7,000 to $45,000, given that the $7,000 level was set more than two decades ago
(Kletzer and Rosen 19). “Raising the taxable base to $45,000 would have the benefits of
making the tax more progressive while generating new revenue to finance needed
reforms [expansion]” (20). Even if the UI program were to keep the same tax rates, the
increase in the taxable wage base would generate approximately $8.7 billion in more revenue (Kletzer and Rosen 19).

For workers with untraditional employment relationships, such as the self-employed, Kletzer and Rosen advocate voluntary personalized savings accounts. Their proposal would create tax-advantaged, voluntarily contributed savings accounts to serve as employment cushions in time of full or partial unemployment (Kletzer and Rosen 19). These workers could contribute 0.25 percent of their pre-tax wages into a savings account every year. If they experience “severe income loss”, they would be able to access the savings accounts with the withdrawals subject to income taxes. (Klezer and Rosen 20). Upon retirement, the entire savings account balance would be transferrable to a retirement investment plan (Kletzer and Rosen 20).

Personalized savings accounts based on employee contributions, while still an emerging idea, are beginning to gain momentum. Eileen Norcross and Emily Washington find that unemployment insurance savings accounts (UISA) meet the chief goal of UI programs, while also discouraging moral hazard, or what they call “chronic idleness.” (Norcross and Washington 2). The accounts would be funded by a set percentage of wages contributed by the employer and employee “in lieu of the compulsory contributions currently made by employers to public trust funds” (Norcross and Washington 3).

As workers finance their own spells of unemployment, personalized savings accounts provide an incentive to “avoid job loss and increase the job search effort” (Norcross and Washington 3). Integrating employee contributions into the system would also decrease the total payroll tax for employers, increasing wages and the resulting
contributions (Norcross and Washington 4). The authors write, “Essentially, UISA is a form of forced savings: A worker’s contribution to the unemployment account is paid directly to her” (3). The authors propose employee and employer contributions equal to .06 percent and 2.4 percent of monthly earnings, respectively (Norcross and Washington 3). Then, in times of unemployment, the worker would have greater freedom to determine the timing and amounts of their benefits, as she would be theoretically withdrawing her own savings (Norcross and Washington 4).

A final reform idea, which has been implemented in several states, is worthy of a brief explanation. In 2013, Texas began drug testing those beneficiaries, who previous occupations required it. Since 2013, “officials have screened almost 1,900 applicants, tested 537 and denied benefits to 83 based on test results. The cost of testing was $80,000” (“Alcoholism” 6). Even though the testing is based on “reasonable suspicion”, a cost-benefit analysis for all states have been less than profitable, creating skepticism of the program’s efficiency and effectiveness (“Alcoholism” 5).

The American UI system has long provided fundamental support to the country’s social policies. However, the system has failed to keep up with the ever-changing economic environment. Current evaluations of the U.S. system and common recommendations for reform reveal a consensus among scholars that the U.S. UI approach must be revisited. To see what the U.S. might learn from abroad, I next examine the Chilean UI system.
Chapter 4: Chile Case Study

Policy History

The Chilean approach to unemployment insurance (UI), or unemployment compensation (UC), is a narrative of political transitioning, both abrupt and incremental. While fluidity is a distinguishing characteristic of Chilean politics and policies, the scholars typically demarcate Chilean policy history in two: the quasi-socialism preceding the 1980s and the neoliberalism that followed (Acevedo, Eskenazi, and Pagés 8). The Chilean UI program’s history can also be divided into relatively distinct phases (Edwards and Edwards 5). Each phases roughly corresponds to particular governmental policy trends, as they relate to labor legislation and policy platforms. However, the phases are not absolute. Even within the groupings, there is some variability. Nonetheless, Chile’s UI program’s general structure falls into four general phases: 1937 to 1974, 1974 to 1985, 1985 to 2000, and 2001 to the present (Vroman 9) (Edwards and Edwards 5).

Sebastian Edwards and Alejandra Cox Edwards, in their paper Economic Reforms and Labor Markets: Policy Issues and Lessons from Chile, rank the phases from most restrictive to least restrictive: 1) pre-1973, 2) 1974 to 1985, 3) 1985-2000 (6). Therefore, the general trend has been for the program to become more restrictive over time. Each phase will be discussed in order, and I will offer an introductory political background synopsis before moving to a discussion of the current Chilean UI system.

The Chilean case study structure, therefore, will not perfectly mirror that of the US case study. I will offer a brief historical policy overview for the program and its changes leading up to the reforms in 2001 and 2002. The UI program that emerged thereafter will be referred to as Chile’s contemporary UI program (Fajnzylber, Huneeus, and Repetto 4).
The Chilean contemporary approach to UI, which is be the central focus of the case study, is explored in greater detail under the “Logistics” section.

Phase 1: 1937 to 1973

Modern Chilean UI, with benefits and federal administration, began in 1937 for salaried workers and in 1953 for wage earners (Vroman 9). The original system looked much like other programs being introduced at the time in the Western hemisphere. The first phase “corresponds to an era of increasing government intervention and regulations… [principally] during the administration of socialist President Salvador Allenda (1970-1973)” (Edwards and Edwards 5). The phase was characterized by “massive nationalization of private sector companies, an expanding macroeconomic disequilibrium and growing political unrest” (Edwards and Edwards 5).

The UI program as a whole was administered by the Social Security Insurance Service and financed through employer payroll-based contributions on set taxable wage bases, 2% for employers of wageworkers and 1% for employers of salaried employees (Vroman 10). Unlike the typical Western social program, the Chilean UI system treated wage earners and salaried workers quite differently, particularly with respect to eligibility criteria (Vroman 9).

For wage earners, eligibility requirements included 156 weeks of covered employment prior to job separation, and the length of benefits was typically short. For instance, the average benefit duration in 1970 was approximately 65 days. However, the payments replaced nearly 75 percent of lost wages (Vroman 10). For salaried employees, the program required at least 12 months of qualified contributions into salaried employment funds (Vroman 10). The unemployment benefits were distributed at a flat
rate, roughly equal to three-fourths of the minimum salary guidelines in Santiago. Typically, potential duration was 90 days, or 180 in times of especially high unemployment (Vroman 10).

An accurate understanding of Chile’s UI system prior to 1974 requires attention to rules regarding severance pay; contributory severance accounts were principally reserved for support in old age or permanent disability (Vroman 10). However, during bouts of unemployment, wage earners could voluntarily withdraw from these accounts, with the severance accounts generally holding “one month’s wage per year of tenure,” creating a safety net for times of abnormally long unemployment (Sehnbruch 4).

Last, in terms of relative size, the UI programs in Chile prior to 1974 were quite small. In his analysis titled *Unemployment Protection in Chile*, Wayne Vroman projects that the system covered less than five percent of the unemployed in any given month (11).

**Phase 2: 1974 to 1985**

The Chilean program’s discrepancies between wage earners and salaried employees disappeared with reforms implemented in 1974 (Hamel 80). “The various programs for wage workers and salaried employees were merged and common provisions pertaining to eligibility and benefits were implemented” (Vroman 11). The new, uniform eligibility criteria required 52 weeks of coverage over the previous two years of employment. Then, if eligible, beneficiaries received approximately 75 percent of lost wages (Vroman, 11). However, the benefits had minimum and maximum amounts, which were set to 160 and 360 percent of the legal minimum salary for Santiago, respectively.
Between 1974 and 1985, the Santiago minimum wage was increased, but the increases were exponentially lower than overall private wage increases (Vroman 11). Consequently, the maximum UI benefit fell sharply below average monthly wages, to nearly 17 percent in 1984, and most all beneficiaries received the maximum benefit (Vroman 12). Simply, the maximum cap did not reflect the updated needs of beneficiaries. These results also reflect the severe recession Chile experienced from 1975 to 1979. During these years, the Chilean GDP contracted by nearly 13 percent, and unemployment rose to near 20 percent (Hamel 81). Under the dictatorship of General Pinochet, orthodox neoliberalism was clearly evident in the low social protection.

The duration of benefits was also homogenized, with a general length of 90 days “with extensions up to one year sometimes possible” (Vroman 12). Vroman, in his analysis of the Chilean UI system during 1976-1986, projects that the recipiency rate, the ratio between total UI beneficiaries to the total unemployed, ranged from 0.0163 in 1986 to .238 in 1983. So, for example, in 1983, approximately 24 percent of all unemployed workers received unemployment compensation (Vroman appendix).

The reforms in 1974 created a federal-level agency, the Superintendencia of Social Security, to administer Chilean UI. Appropriations from the general budget covered the full costs of the program; noting, no direct taxes were levied on employers (Vroman, appendix).

Phase 3: 1985 to 2000

The third phase of Chilean UI lasted from 1985 to 2000, the years between the neoliberal reforms of 1974 and the 2002 reform legislation. Politically, the third phase
“corresponds to the last ten years of the military regime and... covers the democratically elected administrations of Presidents Patricio Aylin (1990-1994) and Eduardo Frei Ruiz-Tagle (1994-2000)” (Edwards and Edwards 6). The key distinction between phase 2 and phase 3 is the introduction of flat benefits and more homogenization. The new program’s structure, called the Labor Plan, commenced in May of 1985 with the establishment of a three-tier benefits system (Vroman 12).

As stated earlier, by 1984, most beneficiaries were receiving benefits close to or at the benefit maximum cap. The new “benefit structure paid one level of flat benefits for the first 90 days, a lower level for the next 90 days, and a third (even lower) level for days 181-360” (Vroman 11-12). The tier amounts ranged from 6,000 to 4,000 down to 3,000 pesos per month. From a policy longevity perspective, this structure was relatively successful, lasting from 1985 to 2002 (Vroman 12).

The statutory payment tiers were adjusted periodically; however, as in phase 2, the adjustments failed to keep pace with the actual growth in wages (Vroman 12). As a result, the average replacement rate decreased from 75% of previous wages in 1985 to 4.4% in 2001 (Vroman, 12). The recipiency rate also changed over time. Following 1986, when the recipiency rate was 16.3%, the recipiency rate dropped to a low of 4.8% in 1994 (Vroman, appendix) (Vroman, 12). In 1994, the rates began to rise until 1999, yet it never rose to above 10% in any of the years following 1990 (Vroman appendix).

Nevertheless, the program, in terms of financial expenditures and the total population served, grew. From 1999-2001, “monthly beneficiaries averaged close to 50,000” (Vroman, 12). The discrepancies between the ratios highlighted above and the absolute
numbers of beneficiaries result from the sheer number of unemployed workers in these years, reaching a peak level of 571,800 in 1999 (Vroman appendix)

While these facts raise inadequacy concerns, “beneficiaries have exhibited reasonably long average durations” (Vroman 12). For example, the average length of benefits from 1980 to 1989 was 10.2 months, and from 1990 to 1999 was 6.9 months (Vroman 12). Overall, for all twenty years, the average duration fluctuated between 6 and 13 months. Based on the duration averages and outlays of the three-tiered structure, “it is apparent that more months were compensated at the lowest level than at the highest level, meaning that large numbers collected benefits for more than 6 months” (Vroman 12-13).

Similar to phase 2, financing for the program’s third phase came from the general budget and was administered through an umbrella agency, the Superintendencia de Seguridad Social. The program or its funding did not provoke much controversy, as it was comparatively inexpensive (Vroman 13). Also, under the Aylwin administration’s reforms in 1990, workers could opt out of the basic job security protection, and could contribute into an individual unemployment fund. “Under this system the employers could make monthly contributions of 4.11% of taxable monthly wages into an individualized account, in the worker’s name” (Edwards and Edwards 10). Then, if the employee were to leave for any reason, she or he could withdraw the accumulated balance, leaving an alternative to the statutory tiered system (Edwards and Edwards 10).

*Phase 4: Setting the Scene for Contemporary UI*

Amid the political transition from a dictatorship to a democratically elected leadership, the governing party in Chile has “been a political coalition of center and left-wing parties, which have as priorities improving workers’ bargaining strength and social
protection schemes” (Acevedo, Eskenazi, and Pages 11). Emerging from 17 years of dictatorship, “the Chilean government therefore finds itself in a position where it constantly has to reconcile these conflicting, ideologically charged and historically sensitive positions” (Sehnbruch 13). Namely, the unionized labor forces and political activists who fought desperately for severance payments and higher protections were less than willing to abandon the reforms won under previous regimes (Sehnbruch 12).

Nonetheless, Chile’s contemporary system of UI started in October of 2002, as the government began implementing a new system primarily focused on “individual accounts as the basis for payments” (Vroman 19). However, the policy platform and legislative measures were in the works long before the actual UI reforms were implemented. Beginning in 1990, political party representatives formed an informal coalition to draft and submit proposals to Congress aimed at improving programs for unemployed workers (Acevedo, Eskenazi, and Pages 11). The initial proposal, which was discussed without approval for more than four years, was named Protection for Laid-Off Workers (PROTRAC).

PROTRAC aimed at eliminating employer contributions while still providing security for the unemployed (Acevedo, Eskenazi, and Pages 12). PROTRAC would have been funded by contributions by employers and employees, “3.6 percent of wages for employers, and 0.8 percent of wages for workers” (Acevedo, Eskenazi and Pages 12). General revenue sources would be used to help support employees at a minimum compensation level, if they had contributed for at least 12 months. These workers would receive the minimum monthly benefit, based on Santiago’s minimum salary regulations, minus any accumulated funds in their accounts (Acevedo, Eskenazi, and Pages 12).
For general revenue supported minimum benefits, eligibility requirements included 12 months of covered contributions and involuntary dismissal for through no fault of the employee. Also, temporary workers, unlikely to have steadily contributed over the preceding 12 months, were excluded (Acevedo, Eskenazi and Pages 12). While the program may look like true individual accounts, because of employer contributions and general revenue financing for minimum payments, the program still had eligibility requirements.

The program received varying levels of support and opposition from both sides of the labor divide—unions and employers. However, the proposal ultimately failed for several reasons. First, benefits under PROTRAC were only “marginally higher” than the benefits provided by the previous system. Second, the required employer contributions were still considered too expensive and burdensome. Third, the proposal failed to consider how it would cover high outlays during times of high unemployment. How would the state cover those workers with insufficient funds in their individual accounts? As the Chilean budget would already be constrained, the program offered no alternative revenue sources or financing methods to provide adequate security. Fourth, the administrative costs were unacceptably high (Acevedo, Eskenazi and Pages 13). Acevedo, Eskenazi, and Pages estimate that the “administrative costs would have been equivalent to more than 20 percent of each contribution” (13).

However, the failure of PROTRAC did not completely hinder progress for reform. The PROTRAC policy reforms were reevaluated, revised, and passed in 2001. The legislation was approved with a “remarkable political consensus and a higher quorum (over 90 percent in Congress and Senate)” (Acevedo, Eskenazi, and Pages 13).
Acevedo, Eskenazi, and Pages attribute the political success of the 2001 reforms to several favorable dimensions, including the business cycle, political timing, social consensus, universality, and Autonomy (13-15).

In terms of the business cycle, unemployment levels had remained moderate. During the later 1990s, however, slowing external demand led to increasing unemployment, which rekindled the debate on protecting workers from severe financial stress during unemployment. For political timing, the new administration of President Ricardo Lagos Escobar prioritized UI on its agenda (Sehnbruch 13). President Lagos promised, “My government will legislate on unemployment insurance, learning from the mistakes made in other countries” (Sehnbruch 13).

The contemporary UI policy also attempted to create a social consensus on financing efforts. The new proposal offered a gradual approach. At first, only new hires would be required to enroll, with current employees in stable industries and employees with large severance packages encouraged to enroll, reducing employers’ costs. It also eased the financial burdens for the state in the early years, as contributions would gradually increase with the number of enrollees (Sehnbruch 14). Still, the compromise was not ideal. To gain workers’ representatives’ support, the new UI law proposed only a “partial reduction of the costs of severance payments in exchange for new unemployment benefits—which, at least in the short run, implied higher labor costs for firms” (Sehnbruch 14).

The proposal, unlike all previous unemployment programs, extended coverage to temporary workers. This unprecedented universality helped garner support from rural representatives, whose economy is largely based on temporary agriculture laborers. To
boost efficiency and minimize administrative costs, the 2001 UI policy scheme adopted a privatized model for the collection, administration, and payments. “Instead of having multiple fund administrators competing in the market, the proposal contemplated competition for the market” (Sehnbruch 14). The entire program and its operations were sent through a bidding process to drive down costs, which then translated to lower employer costs. This won the firms’ support (Sehnbruch 14).

The 2001 proposal offered a fresh perspective, while cautiously navigating historical sensitivities and prior achievements by the parties involved. As will be explored in the next section, the contemporary Chilean approach introduced a structure unlike any of the preceding phases, yet common characteristics and undertones still exist. Even with minor changes occurring in 2009, the 2001 proposal ushered in a new era of UI, redefining the way the global community conceptualized UI programs.

**Logistics**

Based primarily on the publication “Unemployment Insurance in Chile” by the Superintendence of Pensions, the following section explores Chile’s post-2001 UI system.

This system is based on two key components—individual savings accounts and the Solidarity Unemployment Fund (Acevedo, Eskenazi and Pages 15). Individual savings accounts provide a form of self-insurance for unemployed workers who had previously contributed to their personal accounts. The Solidarity Fund serves as social insurance from which workers can draw under certain conditions and if their individual accounts have insufficient balances (Fajnzylber, Huneeus, and Repetto 4). “In effect, the main role
of the Solidarity Unemployment Fund is to act as an insurance policy, since access to the individual accounts is equivalent to a mandatory savings scheme activated in the event of unemployment” (Superintendence 6). This binary system includes different methods of financing, eligibility, and benefit amounts.

The UI system is mandatory for “all wage and salary workers older than 18 when they start a new appointment in the private sector (public sector workers, as well as apprentices, domestic servants, and self-employed do not participate in the system)” (Hartley, van Ours and Vodopivec 800). Mandatory enrollment began for any worker accepting new employment on October 2, 2002 (Superintendence 12). Established workers can also join voluntarily, but their enrollment has been minimal, representing less than 2% of total enrollment at the end of 2008 (Hartley, van Ours and Vodopivec 800). Even “temporary workers are included in the system: a notable improvement in coverage compared with typical UI schemes” (Acevedo, Eskenazi and Pages 15).

However, the inclusion of temporary workers was not an original part of the Chilean UI system in 2002. Before 2009, temporary workers, or “fixed-term”, did not have access to the individual savings accounts or the Solidarity Fund (Huneeus, Levia and Micco 7).

The financing requirements for employers and employees depend on the type of employees’ contract. For workers with open-ended contracts, mandatory contributions are levied on both the employer and employee at 1.6% and 0.6%, respectively (Strathclyde 2) (Superintendence 12). The combined 2.2% of earnings (1.6% and 0.6%) flow to the individual savings accounts, while employers contribute an additional 0.8% of covered earnings to the Solidarity Fund (Superintendence 14).
Meanwhile, for workers “with fixed-term or specific works/services contracts”, the financial burden for the UI system rests solely on the employers. Totaling 3.0%, the required employer contribution is divided 2.8% to the individual accounts and .2% to the Solidarity Fund (Superintendence 12). The taxable wage base had a limit of 97.1 UF (Chilean Pesos), or approximately $4,700 per month per employee, which is based on 2010 data (Central Bank of Chile). The Chilean government also makes an annual contribution to the Solidarity Fund of approximately $12 million (Hartley, van Ours and Vodopivec 800). Therefore, Chilean UI is funded, albeit unequally, by “three actors: workers, employers, and the government” (Acevedo. Eskenazi and Pages 15).

Just as funding provisions are dependent on the type of contract, so are the benefits (Superintendence 14). First, let us examine withdrawals from the individual savings accounts. When open-ended contract workers leave their jobs, they can access the available balance in their account so long as they can “accrue 12 continuous or intermittent monthly contributions” (Superintendence 14). For workers with fixed-term or specific task contracts, they gain access to their individual account balances upon unemployment so long as they can “accrue 6 continuous or intermittent monthly contributions” (Superintendence 15). Interestingly, the workers can access their accounts regardless of the conditions, which gave rise to their joblessness.

Regardless of the type of employment, the amounts that can be withdrawn from the individual accounts decrease over time. The amounts are directly related to previously earned wages, the number of years the worker contributed to the account, and regulations regarding replacement percentages (Superintendence 15). First, for each contributory year, the worker is entitled to the same number of months of UI benefits. For example, a
worker who contributed to his or her account for the past six years is entitled to six months of benefits. Next, the benefit levels have “decreasing monthly replacement rates of 50%, 45%, 40%, 35%, 30%, 25% and 20%, which may be no less than the minimum amounts established for the Solidarity fund” (Superintendence 15). To illustrate, say a worker has contributed to his savings account for five years and has average monthly of $100. The worker then becomes unemployed. He would be entitled to four months of benefits of $50, $40, $35, and $30, and for the fifth month, his benefit would equal the remaining balance of his account (Superintendence 15). The worker also has the right to receive payment in the month in which he is reemployed.

The Solidarity Fund “ensures a minimum level of benefits for workers whose accumulated funds cannot finance the full schedule of withdrawals described above” (Acevedo, Eskenazi and Pages 16). However, access to the Solidarity Fund is more difficult than to one’s individual savings account. Regardless of the type of employment contract, employees must meet the following requirements:

1) The worker must have made “12 continuous or intermittent monthly contributions to the Solidarity Unemployment Fund over the last 24 months, with the last 3 being continuous and under the same employer” (Superintendence, 16).

2) Termination of employment cannot arise from any fault of the worker’s, including resignation, misconduct, or a mutual agreement between the employer and the employee.

3) Resources in the individual’s unemployment account must be “insufficient to finance a benefit equivalent to the Solidarity Unemployment Fund, with its legally established amounts, replacement rates, and period” (Superintendence 16).
4) The worker must be unemployed at the time of the claim and must be actively searching for work without avail while he or she continues to receive benefits (Superintendence 16).

If a worker fails to meet these criteria, his or her benefits would be “financed exclusively through his/her individual unemployment account” (Superintendence 16). Even if a worker does qualify, “Access to the Solidarity Unemployment Fund is limited to 2 uses over a 5-year period” (Superintendence 16). Logically, if the worker finds new work quickly, he or she can choose not to file for benefits and reserve use of the Solidarity Fund for the future.

The maximum and minimum Solidarity Fund amounts are subject to annual inflation adjustments (Superintendence 17). The minimum payments are particularly important, as they dictate the “sufficient” level of benefits. If workers’ benefits are less than sufficient, they would, eligibility requirements allowing, be able to access the Solidarity Fund. As such, the Solidarity Fund serves as basic social insurance for unemployed workers because it establishes a compensation floor.

Benefits from the Solidarity Unemployment Fund follow the same declining structure as withdrawals from the individual savings accounts: from 50% to 30%, declining five percent each month. The 2011-2012 minimum and maximum replacement levels ranged from approximately $96 to $380 per month. The first month’s benefits, aimed at a replacement rate of 50% of the average wage over the last 12 months, has a minimum payment of $176 and a maximum of $380. The second month has a minimum of $146 and maximum of $342, or 45% of the average monthly wage over the past 12 months.
The third and fourth months have minimums of $128 and $112, respectively, and maximums of $304 and $266. The fifth month has the lowest caps, with a minimum of $96 and a maximum of $228\(^2\) (Superintendence 17).

For illustration and to investigate the adequacies of the Solidarity Fund’s minimum payments, assume a worker receives the minimum second month payment which is roughly the purchasing power equivalent of $142 real USD. (“Purchasing Power Parity” 1) To continue receiving benefits, the beneficiary must participate in the job search process through the closest Municipal Office of Labor Mediation (OMIL), and the worker can only decline job offers if the wages would be less than half of her prior job’s last monthly wages (Superintendence 17). The general benefit duration would last for five months. However, per the amendments made in May 2009, two additional months of benefits are provided “whenever the observed unemployment rate is more than 1 percentage point higher than the average rate over the last four years” (Superintendence 18). So the additional months are effectively “triggered” by periods of comparatively higher unemployment. These additional months provide benefits at rates of 25% of the average monthly wages over the past 12 months, with maximum and minimum levels of $190 and $80, respectively (Superintendence 18).

The UI system under both the Solidarity Fund and the individual savings accounts integrates a support system for work re-entry through a computerized system, the

\(^2\) To strengthen transparency and comparability, all dollar equivalents have been calculated using the exchange rate for the first month of the benefit period. For example, for the 2011-2012 benefits, which began on February 1\(^{st}\), 2011, the dollar calculations included the exchange rate from Chilean Pesos to the U.S. dollar on that date from the Central Bank of Chile, which was 523.10 CLP per USD. Additionally, the OECD statistical library from 2011 compares purchasing power parity and exchange rates across the OECD countries including the U.S. and Chile. The OECD study calculated that approximately 353.27 Chilean Pesos can buy the same value of goods as the US Dollar in the US. Therefore, you will notice that even though the exchange rate is 523.10 Chilean Pesos per USD, it only takes 353.27 real Chilean Pesos to purchase the same value of goods in Chile that the USD does in the US.
“National Employment Registry” (Superintendence 20). The system brings greater efficiency to the National Training and Employment Service (SENCE) as administered through the Municipal Offices of Labor Mediation (OMIL) by digitally synchronizing job supply and demand (Superintendence 20). The National Employment Registry also provides the regional OMILs with lists of claimants and beneficiaries.

Outside of the National Employment Registry, the UI system includes actual job training. The training programs have been statutorily budgeted for up to 2 percent of the Solidarity Fund’s accumulated balance (Berstein 271). For those beneficiaries withdrawing from their individual savings accounts, the National Training Fund (FONCAP) provides financing for training programs, “while the Solidarity Unemployment Fund finances work re-entry courses for its beneficiaries” (Superintendence 20). The re-entry courses include technical training seminars, and after the 2009 reforms, the Labor Information System provides workers with information “regarding the evolution of the labor market, thus allowing them to make more informed decisions on where to look for work, what types of jobs are being created and corresponding salary ranges” (Superintendence 20). These programs help beneficiaries identify labor trends and offer the technical training to facilitate skill alignment with these trends.

So far, this chapter has explored the logistics of the personalized accounts and the Solidarity Fund; however, it is yet to detail the unique financial administration and management of the program. Unlike most other national UI systems, the Chilean system relies on a private management firm to manage, invest, and administer the UI system as a whole.
“A single [private] administrator that is selected through a public tender for a 10-year period” manages the UI system, and the Unemployment Fund Investment Regime possesses fiduciary oversight for the private administration (Superintendence 21). The Chilean government opens a large bidding session for the management of the fund; in return, the chosen private firm receives a commission on the fund’s assets of approximately “0.6% per year” (Superintendence 21). The User Committee oversees the practical implementation of the private manager’s obligations, criteria, and payments. The User Committee is compromised of three worker representatives appointed via the country’s labor organizations, three employer representatives appointed via business organizations, and a chairperson from a university appointed via the Ministry of Finance (Superintendence 22). Therefore, the User Committee is a balanced group monitoring the UI system as it relates to their constituents.

The public tender process creates an “ex-ante competition, in which potential administrators complete to offer the lowest fund management commission” (Superintendence 35). The tender process is also highly controlled by the Chilean government to ensure the highest quality services, including “exhaustive specifications in terms of the service, obligations, and duties expected of the Administrator” alongside a legal contract between the administrator and the Chilean Ministry of Finance (Superintendence 36). Legally, the Unemployment Fund Administrator “is a private entity, with a single business purpose, and which has the exclusive goal of managing Unemployment Funds and granting and managing the services and benefits” (Superintendence 37). The administrator is legally obligated to ensure timely service and
to pursue “all actions necessary” in collecting the mandatory contributions (Superintendence 39).

The Administrator’s main activities include collecting contributions, investing the funds, granting benefits, and providing service and relevant information to the oversight boards (Superintendence 40). The largest task is active management of the funds’ total assets of approximately 3.8 million USD (Superintendence 50) (Holzmann 223).

Although the Chilean government and the oversight committees are removed from decisions over investing the fund, the contractual agreement between the government and the private administrator includes a list of twenty-four business-related benchmarks. The benchmarks cover operational and human resources topics, including the timely submission of financial and accounting statements to the Unemployment Fund Investment Regime, the establishment of an internal risk-management system to safeguard assets, and retaining a group of external auditors “capable of presenting annual audit reports” to the oversight committees (Superintendence 46). The benchmarks also require adequate transactional data transmissions, such as any hedging activities, entity-level expenses, and returns on investments (Superintendence 43).

For the investment activities, the Chilean government determines binding expected returns. Generally, all investment decisions must “seek to generate additional returns, while keeping risks under control” (Superintendence 26). To establish an expected level of return, the Investment Regime creates a reference portfolio. The expected level of return is then used to judge the Administrator’s investment performance. Based on the
return for these mock portfolios, the administrator’s fees may be increased or decreased\(^3\) (Superintendence 25).

While not required, the administrator’s funds closely mirror the composition of the reference portfolios. After all, the reference portfolios and their returns serve as the threshold for determining if the administrators are investing responsibly. However, the current administrator’s investment activities do reveal considerable more diversity than the investment types outlined by the Investment Regime (Superintendence 50). The Investment Regime does provide limits, as they relate to the total balances of the fund. The limits help ensure that high-risk investments do not constitute a large portions of the actual portfolio (Superintendence 33).

Moreover, the Chilean government requires certain staffing levels. Chiefly, the administrator must establish and operate Member Service Centers in “each regional capital, in each provincial capital with a population greater than or equal to 30,000 inhabitants, in each municipality with a population equal to or greater than 100,000 inhabitants, on Easter Island, and four in the Province of Santiago” (Superintendence 48). The administrator is also obligated to install a nationwide call center and a functional website (Superintendence 49).

**Evaluations**

Similarly to the sources and evaluations referenced in the US case study, this chapter will

\(^3\) The Unemployment Fund Investment Regime establishes two reference portfolios: one for comparison to the individual savings accounts fund and one for the Solidarity Fund. The composition of the reference portfolios includes 45% domestic financial intermediation instruments, 45% domestic fixed-income instruments, and 10% foreign debt instruments (Superintendence 26). The reference portfolio for the Solidarity Unemployment Fund includes 75% domestic fixed-income instruments, 10% domestic financial intermediation instruments, 5% domestic variable-income instruments, and 5% foreign variable-income instruments (Superintendence 27).
focus on post-2008 evaluations. As the goals of UI—to support workers and counterbalance contractions in consumer activity—are under the most pressure during times of economic recession and high unemployment, 2008 and following years provide the best analytical viewpoint. However, the contemporary Chilean UI scheme was reformed in 2009. Therefore, I will briefly outline the common concerns prior to these reforms, the substance of the reforms, and explore remaining post-2008.

Germán Acevedo, Patricio Eskenazi and Carmen Pagés undertake a broad analysis of the 2001 Chilean UI system in their study “Unemployment Insurance Chile: A New Model of Income Support for Unemployed Workers.” Using existing sources of household survey data in 2006, the authors identify the 2001 policy’s likely shortcomings.

Topping the list and the most frequently expressed concern among other pre-2008 researchers is the low coverage through the Solidarity Fund. Because employee turnover was “extremely” high in Chile, “it may be very difficult for workers to achieve 12 consecutive months of contributions,” which is the principal requirement for access to the Solidarity Fund (Acevedo, Eskenazi, and Pagés 23). Second, employment data between 2001 and 2006 show “9 percent of the unemployed were without jobs for more than 6 months,” which highlights possible insufficiencies for long-term unemployed workers (Acevedo, Eskenazi, and Pagés 24). Third, the authors examine the combination of severance payments and UI benefits as they relate to employers’ costs. The strong influence of worker representatives in the policy’s development led to less than ideal changes in employers’ financing burdens. As severance payments did not decrease to anticipated levels, the authors cite “higher labors costs” as a major concern moving
forward (Acevedo, Eskenazi, and Pagés 25). Lastly, the authors question the limited duration of benefits during long periods of high unemployment, resulting from economic recession (Acevedo, Eskenazi, and Pagés 27). Even if the Chilean system performs as expected by incentivizing reemployment, workers may be left unprotected if there are no new jobs.

To address these concerns, the Chilean government passed several reforms effective in 2009. The main changes were: “i) increased [Solidarity Fund] coverage, ii) increased [general] benefits, and iii) the addition of a framework for active labor market policies such as job placement service” (Leiva 8). Access to the Solidarity Fund was granted to workers with fixed-term contracts and the required monthly contribution was modified from “12 months of continuous contributions to 12 months of continuous or discontinuous contributions” over the last 24 months (Levia 8). In addressing insufficiency and inadequacy concerns, the 2009 reforms included increasing the minimum and maximum benefit limits, adding two additional months of benefits in cases of high unemployment, and including job preparation and labor market informational classes for long-term unemployed workers (Levia 8).

Since its implementation in 2001 and the modifications in 2009, the Chilean UI system has drawn the attention of the global economic and labor community. “Traditional unemployment systems are often criticized for the perverse reemployment effects they generate when benefits are generous” (Fajnzylber 1). However, the organization of the Chilean system, particularly the individual savings accounts, seemingly reduces moral hazard. One would not expect unemployed workers to abuse their own savings. Thus,
most evaluations of Chile’s UI program assess the results of the individual account structure.

Because the Chilean approach shifts the cost obligations of unemployment to the unemployed workers, logically, the unemployed workers would seek reemployment more quickly. Is this the case? Authors van Ours, Vodopivec, and Hartley test this assumption based on “administrative records of the contribution histories of and benefits paid to workers. (Hartley, van Ours, and Vodopivec 802). The authors access the impact of the program on “reemployment incentives, more precisely, on the job finding rate, and the driving forces influencing the decision to actually use the Solidarity Fund” (Hartley, van Ours, and Vodopivec 804). Utilizing a mixed proportional hazard rate models, the authors found “beneficiaries who use solidarity funding are less likely to exit unemployment in fewer months than groups relying on unemployment individual savings accounts” (Hartley, van Ours, and Vodopivec 808). Therefore, the empirical findings “are largely consistent with the internalization of the unemployment cost argument” (Hartley, Van Ours, and Vodopivec 804). The authors, however, do not argue that their findings determine causation; the workers’ decisions on whether or not to use the Solidarity Fund may be influenced by their expected time until reemployment (Hartley, van Ours, and Vodopivec 805).

Paula Nager, finds similar results in her longitudinal survey analysis. With data on questions related to employment history, education, benefit recipiency, and training, from approximately 16,000 Chilean individuals, ages 15 in 2002, 2004, 2006, and 2009 (Nager 6). Nager’s article provides unique insight to workers’ self-reported perceptions of Chilean UI.
Like the aforementioned authors’ results, her findings are typical of the cost internalization arguments: when employees bear the costs of unemployment, unemployment is shortened. However, she also found that employees, who are backed by individual savings accounts, stay in their jobs for a shorter time compared to employees who either have not enrolled or depend solely on the Solidarity Fund (Nager 20). While this finding may indicate a shortcoming in labor stability, Nager argues, “reduced employment duration is an indicator for higher labor market flexibility…these results suggest that the policy led to its desired outcome of tackling previously more rigid labor markets in Chile” (21).

The number of workers enrolled in personal accounts has increased more quickly than expected, to “more than 6 million by July 2009” (Berstein 267). Such rapid growth was the result of unexpectedly high turnover by a large portion of the Chilean labor force, as new contract workers after 2002 were subject to mandatory enrollment. This resulted in system coverage for approximately “78.6 percent of the target population,” or workers over the age of 18 (Berstein 267). Initially, due to the nature of their contracts, fixed-term workers dominated the system; however, in the years following, open-ended workers have enrolled in the program. As of July 2009, open-ended contract workers represent a majority of contributors: “67.9 percent, compared with 57.6 percent in June 2008 and 29.9 percent in June 2003” (Berstein 268). Most contributors are relatively young, primarily between 25 to 34 years old. The composition of contributors is also somewhat unbalanced with respect to gender; however, the representation of women has increased from 25.4 percent in 2003 to 33.6 percent in 2009, which is approaching the gender
composition of the Chilean labor force (Berstein 268). High-turnover sectors, such as retail, rental activities, and construction, are the most highly represented (Berstein 269).

As for adequacy, “The total number of benefits granted by the unemployment insurance program was over 4.4 million, with only 148,000 partially funded by the Solidarity Fund” (Berstein 269). For 2009, average beneficiaries per month were around 146,000, compared to the average number of total unemployed of 600,000 (Berstein 270). Therefore, approximately 24.3% of all unemployed workers received some measure of benefits during the period. Fixed-term contract workers typically received lower UI benefits than those with open-ended contracts, arising from their duration of employment and the lower accumulated balance in their personal accounts (Berstein 270). “Observed replacement rates have also shown that IA [Individual Accounts] have consistently provided a lower level of income substitution than SF-financed benefits” (Berstein 270). For those withdrawing out of their individual UI accounts, the average replacement rates over the unemployed term rates fall to “24.0 percent and 25.2 percent” for open-ended and fixed-term workers, respectively. However, replacement rates from the Solidarity Fund more closely mirrors the regulatory rates of 50% for the first month (Berstein, 271). Overall, “Chile has the lowest average replacement rate over 60 months in all OECD countries” even after the recent reforms that extended benefits for many workers (OECD 67).

Through the perspective of the Chilean employers, severance pay is the chief concern. Severance pay, by compensating formal workers for dismissals, often “distorts employer hiring and firing decisions” (Holzmann 2). As previously discussed, severance payments have been the foundation for worker protection in Chile. The contemporary UI
legislation aimed to reduce severance payments to the level of increased UI obligations for employers; however, the financial costs of severance payments have not decreased as quickly as expected (Holzman 9). “Voluntary transitions from severance pay towards corporate pension programs [or UI enrollment] have attracted only about 25 percent of eligible workers” (Holzman 10).

Holzman and Vodopivec argue for the reduction or altogether elimination of mandatory severance payments. “Countries that have a developed (and mandated) unemployment benefit scheme and old-age pension scheme have little need for a mandated severance pay program from a social policy perspective” (Holzmann and Vodopivec 11). To increase labor market flexibility and to relieve employers from burdensome costs atop mandatory UI contributions, severance pay should continually decline and, ideally, disappear. Severance pay “should be left to contractual agreements with social partners at the national or sector level, or to individual contracts at the firm level” (Holzman and Vodopivec 12). Severance pay should be based on agreements between businesses and their employees, not statutorily mandated.

The key concerns, as manifested in a survey of current evaluations, are frequently aimed at investigating if the Chilean system actually functions in the ways one might assume. The current scholarship purports that individuals’ personal savings accounts do shorten unemployment duration, while also shortening employment and increasing laborers’ labor flexibility. However, Solidary Fund beneficiaries demonstrate these characteristics to a much lesser extent. The Chilean system has also grown rapidly, with system coverage equal to 78.6% percent of the targeted labor force (Berstein 269). On the other hand, the replacement rates for personal savings accounts are approximately 25%
lower compared to the benefits from the Solidarity Fund (Berstein 270). Additionally, for further economic efficiency, many scholars argue for greater reduction in severance payments (Holzman and Vodopivec 13).

Recommended Changes

The recent adoption and even more recent modifications of the Chilean UI system create considerable difficulty in competently reviewing the system’s functionality. Therefore, locating scholarly recommended changes and citations for reform is challenging. However, lingering concerns, originally from pre-2009 literature, still exist.

In the aforementioned article by Acevedo, Eskenazi, and Pagés, the authors question the Chilean rationale for extending the duration of UI benefits for all workers. They write, “It may be more desirable to provide special training programs or other programs targeted to the long-term unemployed” (24). In fact, with the 2009 modifications, the Chilean UI system established more intensive job training programs.

During the global financial crisis and rising unemployment after 2008, Chile, among other Latin American countries, introduced new training programs. Also, “Chile’s ambitious fiscal stimulus plan included provisions of tax credits to firms that carried out training activities with their workers” (Newhouse 107). But there continues to be no substantial evidence that the Chilean government attempted to “expand some of the successful programs targeted to youth” (Newhouse 107).

Likewise, an OECD survey article states, “There is room for Chile to make further progress,” to help low-skilled workers, women, and youths improve their labor market position (OECD 64). Capacity in Chile’s labor offices (OMILs) is lacking,
particularly in rural locations (OECD 64). Based on household survey results, “Only a bit above 1% of employees feel that an OMIL has helped them find a job” (OECD 64). The OECD also found that the skills of the job placement personnel are not sufficient to perform their tasks effectively. Personnel competency is incredibly important to help these rural, low-skilled workers, as their regional economies transition from informal, fixed-term employment styles to encompass more formal, open-ended positions (OECD 64).

The Chilean government is working to improve the functionality of job intermediary programs, including incentive pay systems for “successful job placement as well as training for the personnel of the local labor offices” (OECD 65). However, the OECD article does not think that incentive pay systems would best benefit the offices. “Maybe the focus in the first stage of reinforcement should to be to level the basic capacity of OMILs that are particularly weak,” such as the rural offices, which lack basic equipment (OECD 65). In general, outside of simple fiscal equalization, these offices are in higher need for quality employment service and are more in need for job training resources (OECD 65). The Chilean government has also started to “engage private providers into job intermediation” techniques; however, the OECD warns against speedy integration (OECD 65). “Concentrating efforts to train staff at OMILs that is specifically qualified to guide low-skilled workers towards training and employment may be more efficient than pursuing a patchwork of different structures” (OECD 66).

Chile’s other active labor market programs can be useful, but the OECD article questions their effectiveness: “[These programs] are insufficiently targeted at those who need training most to overcome barriers towards employment” (OECD 66). One such
program, *Bono de Franquicia Tributaria para la Capacitación*, offers tax breaks for business enterprises that send their employees to certified institutions for training. Of the total budget, less than “5 percent of the program’s resources go to workers with basic education or less” (OECD 66). Current programs aimed at lower-skilled workers and women are small-scale, and they are variably “dispersed through many different institutions” (OECD 66). Chile should consider a full integration of training programs and re-employment services to help facilitate “rigorous evaluations and strategic planning,” especially for those regions with higher levels of low-skilled labor and women workers (OECD 66).

The preceding evaluation section referenced Holzman and Vodopivec, who wrote, “Countries that have a developed (and mandated) unemployment benefit scheme and old-age pension scheme have little need for a mandated severance pay program from a social policy perspective” (11). Severance pay creates rigidity for employer’s decisions to hire and fire workers, while also adding additional cost burdens to the labor market atop the required UI contributions (Holzman and Vodopivec13). Many scholars agree that Chile should revisit its employment protection legislation (OECD 71). “Given that severance pay provides protection for a small fraction of workers, while contributing to labor market rigidity, Chile should reconsider its employment protection [policies]” (OECD 72).

The Chilean government should take steps to decrease severance payments and should integrate the protection schemes of severance payments by “increasing employer contributions to individual savings accounts or the insurance fund” (OECD 72). Another OECD article, “Country Notes: Chile,” also addresses the concerns of burdensome
severance payments and their effects on the labor market. The article states, “Low unemployment benefits in conjunction with elevated severance pay provide weak income support for workers in case of unemployment while resulting in high hiring costs for employers, decreasing productivity” (“Country Notes: Chile” 1). Based on this conclusion, the OECD urges Chile to lower the relatively high severance payments for regular workers. Simultaneously, Chile should increase unemployment benefits to counterbalance employees’ loss of income (“Country Notes: Chile” 1).

To address the coverage and adequacy concerns, Robalino, Newhouse, and Rother explore alternatives for the Chilean UI. During the years following 2007, “while the unemployment rate increased, the coverage of the system fell…Less than 20 percent of the unemployed and less than 15 percent of those who lost their jobs between 2008 and 2009 had access to unemployment benefits” (Newhouse, Robalino, and Rother 112). To better prepare for crises in the future, Chile should consider more flexible and secure program structures, such as “allowing individuals to borrow from their pension wealth” (Newhouse, Robalino, and Rother 113). Additionally, individual savings accounts should be complemented by “explicit redistributive arrangements” to include and protect the most vulnerable workers during times of rapid job loss and unemployment (Newhouse, Robalino, and Rother 112).

Based in the fact that of all OECD member countries Chile has the lowest average replacement rates over 60 months, the OECD suggests that Chile should “increase the size and also the duration of its unemployment benefits.” However, Chile should evaluate the effects carefully, given moral hazard and efficiency concerns (“Reducing Poverty” 70). A gradual approach is the most appropriate for increasing benefit amounts and
duration, particularly for gauging the impact of these increases on active job searches and the length of average unemployment (“Reducing Poverty” 71).

With any changes in social policies, all authors, in some form or fashion, urge patience and constant evaluation. Currently, the most pressing recommended changes for UI policies include more intensive job-training programs specifically aimed at women and lower-skilled workers, decreasing severance payments, and expanding coverage.
Chapter 5: Analysis

Returning to “The Danish Flexicurity Model- a Lesson for the US”, Anna Iløse creates a conceptual framework for scholars to utilize when evaluating the goals and practices of an UI scheme. This framework, which she calls the golden triangle, contains the three primary criteria for evaluation—flexibility, security, and active labor policies. The framework is, therefore, a triangle with each headings corresponding to a leg, which an ideal policy would seek to balance (Iløse 6). However, a triangle might be misleading. Alternatively, I strongly recommend visualizing a ball of yarn interwoven with three colored strings, corresponding to each part of the criteria.

Flexibility

Flexibility can be theoretically understood through an employee and employer perspective. For Employers, they have greater control over their human resources agenda, such as hiring and firing. Accordingly, for employees the labor market has less rigidity, and it is easier to find similar forms of employer or reemployment. The U.S. and Chilean systems both excel in terms of flexibility.

The Chilean labor market is considerably flexible, however, the greatest obstacle for the Chilean UI scheme is the lingering presence of mandatory severance payments. Severance payments have long since served as the greatest protection for workers before the UI legislation in 2001 (Holzmann and Vodopivec 9). Severance payments “distort the hiring and firing” decision for enterprise firms (Holzmann and Vodopivec 2). Originally, severance payments were to decreasing according to enrollment into the mandatory savings accounts system created in 2001. However, the mandatory severance payments
have not decreased at corresponding levels of enrollment, creating additional costs on employers above the mandatory UI program’s contribution levels (Holzmann and Vodopivec 9). While the antiquated severance payments do not extend to all employees, such as those on fixed-term contracts, the burdens of the combined severance payments and mandatory UI fund contributions have incredibly reduced market flexibility for Chilean employers.

For employees, the introduction of personal savings accounts has strengthened flexibility. According to a study by Nager, workers with relatively large accumulated balances in their UI accounts have shorter employment duration compared to employees who either have not enrolled or depend solely on the Solidarity Fund (Nager 20). Her research highlights the shrinking rigidity of the labor market through the experiences of enrollees. Once these enrollees perceive adequate levels of security in their accounts, they take opportunities to leave their jobs, learn new skills, and get better jobs as a result.

In the U.S., UI flexibility is stronger for employers. The primary mechanism for restricting employers’ hiring and firing decisions is the experience ratings. The experience ratings, which range from 0.00% to 12.27%, are levied on employers via the SUTA tax (Isaacs 11). However, with average SUTA rates of 2.8%, these experience ratings are nominal in their effects on employer’s decision making. Because of the absence of mandatory severance payments under U.S. UI, business firms have greater flexibility than in Chile.

For American employees, the UI system involves two separate systems of flexibility. For full-time, actively searching, and otherwise eligible unemployed workers, their flexibility looks quite strong, especially compared to their part-time counterparts.
Derivative of the firms’ freedom, full-time workers can move relatively freely in the labor market, as new vacancies represent new opportunities. Of course, this is assuming there are jobs available for reemployment and that these employees have the skills required of them for other employment options. These are two major assumptions, which will be discussed under the heading active labor market policies.

Part-time workers’ flexibility looks much different and may be so obscure or weak that it is not readily perceived. The eligibility requirements for the UI programs in the United States dictate a minimum taxable wage base for beneficiaries. Part-time workers, whose wages are typically far less than full-time workers are effectively excluded from benefits (Peterson 459). Therefore, part-time workers are economically coerced into taking the first job they are offered. While I have not explored the impacts of shortened unemployment durations for part-time workers, the argument for increased rigidity and less labor mobility still stands.

Security

Security encompasses the two greatest concerns highlighted in the evaluations of both systems—adequacy and coverage. Adequacy relates to the amounts of benefits in relation to previously earned wages. Coverage refers to the scope and depth of the benefits, particularly their duration and who is eligible to receive them (Iløse 8). The systems of both countries show need for improvement.

The Chilean system improved security greatly after the modifications in 2009 that expanded benefits to fixed-term employees and extended benefits in times of high unemployment (Leiva 8). In times of prolonged unemployment, identified as the
unemployment rate remaining a full percentage point above the previous four years’
average, the Chilean UI system provides for two extra months of protection with
replacement rates of 25% (Superintendence 18).

Overall, however, the duration of benefits is quite short. Under the Solidarity
Fund, the standard benefit duration is four months, with replacement rates decreasing by
five percent per month from 50% (Superintendence 18). Also, if Chile were to experience
long periods of high unemployment, the four-year trigger would fail to extend benefits
past the fifth month. Importantly, the four-year trigger and the mandated five months are
only applicable for those employees who are eligible for the Solidarity Fund benefits.
Workers unable to meet these requirements, chiefly the 12 monthly contributions to the
Solidarity Fund, must rely solely on the balances in their personal savings accounts
(Superintendence 16). The duration of benefits from individual accounts lasts until the
balance has dwindled, based on the statutory replacement rates.

To assure some minimum threshold of security for those workers accessing the
Solidarity Fund, the Chilean system provides benefit floors for each month, beginning at
$216 and steadily declining to $142 (Superintendence 17) (“Purchasing Power”).
Compared to other OECD member countries, the minimum benefit levels in Chile are not
ideal. Chile has the lowest average replacement rates over 60 months of all OECD
member countries. Additionally, for those simply accessing their personal savings
account, there is no assurance of minimum levels (“Reducing Poverty” 2). Of course,
moral hazard is always an important concern when expanding social insurance; however,
the Chilean replacement rates are excruciatingly low for those on individual accounts,
averaging 24.0% over the unemployed term (Berstein 270).
The number of workers enrolled in the program has increased more quickly than expected, accounting to “more than 6 million by July 2009” (Berstein 267). Of the targeted groups of workers, the Chilean UI system covers 78.6%, a very wide base of coverage (Berstein 267). In 2009, 24.3% of all unemployed workers received benefits, but over the life of the program, only 3.3% of benefits have been granted through the Solidarity Fund (Berstein 270). Not surprisingly, many workers have gained access to their personal savings accounts during unemployment, but a vast majority of unemployed workers either fail to qualify or choose not to receive benefits from the Solidarity Fund.

The largest constraint for security in the U.S. system arises from its strict eligibility requirements. To be able to receive unemployment benefits, the claimant must have reached a minimum taxable wage base for the most recent four calendar quarters. The average qualifying monthly wages to earn the minimum weekly benefits is $1,734 with considerable variation between states, from $130 in Hawaii to $3,400 in Florida (“Almanac”). Many workers, especially part-time and seasonal workers, fail to meet this requirement. Therefore, the security for these employees is effectively zero. As the UI system in the U.S. is the sole foundation for unemployment benefits, ineligibility results in no benefits. The eligibility requirements no longer correctly reflect the modern labor market in the U.S., as nearly 6.7 million workers are considered part-time (“BLS News Release”).

Outside of issues with part-time workers, only 34.8% of unemployed workers apply for benefits, and of those who do apply, on about 3 out of ten receive compensation (Vroman 40). So, approximately 1 percent of the entire U.S. population receives benefits, compared to the fluctuating 8% of national unemployment (Vroman 40). The duration of
these benefits do last slightly longer than those in Chile. The duration of regular state UI benefits is 26 weeks with an additional 13 weeks for benefits in times of escalated unemployment. Unlike the Chilean trigger, the states’ triggers for extended benefits are complex and function more appropriately (Issacs 19). Adverse historical trends, while they do not facilitate triggering, do not limit the triggers’ functionality. With extended benefit procedures in place, unemployed workers, who qualify, are entitled to 39 weeks, or nearly 10 months of benefits.

The amounts of benefits are dependent on both previously earned wages and statutorily managed minimum and maximum caps. The range of minimum benefits in the Continental U.S. was from $10 in Louisiana to $148 in Washington, and the range of maximum benefits ranged from $235 in Mississippi to $674 in Massachusetts (Whittaker and Isaacs 8). The benefit levels are arranged in a bracket-type structure in each state and are adjusted to represent the costs of living and poverty thresholds for each state. The national average of replacement rates for UI benefits in the U.S. represent approximately 54% of lost wages, much higher than the 24% in Chile (“Net Replacement Rates and Unemployment”).

The greatest security concern for the U.S. system is sustainability. After may states abandoned forward funding structures for their unemployment solvency funds during times of economic expansion, states witnessed their solvency balances ultimately disappear during the financial crisis and 2008 recession. Currently, states owe over $14 billion dollars to the federal government to make up for the discrepancies in their respective solvency funds (“DOL Facts”). I would argue that states should simply return to forward funding; however, to even return to a position where forward funding could be
an option, all debts would have to be settled and a positive balance reinstated. A financial reevaluation and reorganization of this magnitude is highly unlikely.

In regards to security, the U.S. has greater replacement rates, typically longer duration, and effective triggers, but much of the population is excluded from participation. Chile, while average levels are much lower, most all workers, at least those enrolled in the personal individual accounts, have some form of protection. Even in the case of ineligibility for the Solidarity Fund, each worker has access to his or her individual accounts. Regardless of how nominal the accumulated balances may be, the unemployed worker has some security, as compared to the zero benefits offered to those in the U.S. who do not meet their respective states’ eligibility requirements.

**Active Labor Market Policies**

Traditionally, active labor market policies are indirectly associated with UI analysis. Perhaps Iløse’s greatest contribution to UI scholarship is her integration of these policies into the basic foundations of UI policy. Not only are active labor market policies a primary part of UI policy formulation; however, these policies are ingrained into the other areas of UI analysis. Active labor policies are those aimed at incentivizing unemployed workers to re-enter the workforce speedily and those aimed at supplying workers with the needed training and education to seize employment opportunities in an evolving labor market (Iløse 10). In essence, active labor market policies (ALPMs) seek to conquer moral hazard issues, while less bluntly creating a labor environment to facilitate labor mobility. While the structures of the two systems vary, the concerns over
security and flexibility have closely mirrored each other in the U.S. and Chile. The greatest discrepancy of the programs lies within active labor market policies (ALPMs).

The Chilean system provides unprecedented ALPMs, and therefore, the Chilean approach has met global attention and scrutiny. The very foundation of its reforms in 2001—the personal savings accounts—counteracts moral hazard concerns. Personalized savings accounts internalize the costs of being unemployed (Nager 20). Individual savings accounts clarify the link between unemployed workers’ benefits and their ownership for their unemployed. Nager and other scholars found: when employees take on the burden of unemployment, unemployment duration is shortened.

The Solidarity Fund, the more social insurance aspect of the Chilean system, also involved ALMPs embedded in its structure. First, the Solidarity Fund and funds accessed through individual accounts gradually decrease over time from 50% to 20% over the course of five months. This gradual decrease reduces employees’ financial aid and encourages reemployment so that they may return to the previous levels of wages, which would be 80% greater than the last month’s of benefits (Hartley, van Ours, and Vodopivec 802). Second, use of the Solidarity Fund is statutorily limited to twice over the course of five years. Many unemployed workers, who reasonably expect shorter spells of unemployment, may defer utilization of the Solidarity Fund to secure these resources for longer unemployment duration in the future (Superintendence 16). The limits on the Solidarity Fund create incentives to not take advantage of the system, especially for those risk-adverse workers.

Generally, the Chilean system provides for shorter benefit duration as well. The shorter duration of benefits, as mentioned above, is a concern for security, but for
ALMPs, shorter duration provides for greater incentives to locate opportunities for re-employment. For those who do not qualify for the Solidarity Fund, which is the case for the vast majority of workers in Chile, and do not have adequate balances in their personalized savings account, they have less than five months of benefits to finance their unemployment (Superintendence 17).

The American UI, on the contrary, provides little incentives for those workers who qualify for benefits. The primary mechanism to encourage re-entry is the “actively searching” criteria. An underlying feature of all states’ programs is that the claimant must be both able to work and available for work, and these two benchmarks must be continually met for further receipt of benefits (“Almanac”). Essentially, a beneficiary must complete confirmation, usually via telephone, of their job search efforts and take any other forms of suitable work, or an employment opportunity similar in wage and work to the previously lost job (“Almanac”).

Other than fulfilling the criteria listed above, the experiments in New Jersey and Illinois, which offered staggered re-employment bonuses for workers, who returned to employment quickly, revealed that such programs do decrease the time it takes for beneficiaries to exit UI. Yet, the programs were not cost neutral, resulting in greater costs per claimant (Decker 723). The limitation on the duration of benefits is quite similar to Chile’s. Base unemployment benefits expire after 26 weeks. After these weeks, wage assistance disappears, encouraging workers to find other employment opportunities (Peterson 459). The greatest incentive to relocate in the labor market is a by-product of what is not in the American UI scheme—the absence of coverage for many part-time
Americans. For these Americans, who fail to meet the wage qualifications, they must find work as quickly as possible to protect their financial well-being.

For both the Chilean and American UI schemes, the largest shortcoming is the lack of adequate job-training programs and educational courses to prepare workers for career opportunities and labor market flexibility. Carl Tong wrote, “The U.S. should strive to improve its education and training systems accordingly and build a capable, competitive and dynamic workforce” (76). Likewise, the OECD article states, “Concentrating efforts to train staff at OMILs that is specifically qualified to guide low-skilled workers towards training and employment may be more efficient than pursuing a patchwork of different structures” (“Reducing Poverty” 66). Job training and career educational programs are lacking for both countries. Technical skills and greater market awareness are the cornerstones to true ALMPs. A UI scheme can incentive and even coerce reemployment, but the programs are achieving false goals without the workers’ ability to benefit from such a push.
Chapter 6: Recommendations

Any transnational policy implementation is filled with complex intricacies, yet the UI system in the U.S. is likely to benefit greatly from lessons derived from the Chilean system. The following outlines my recommendations derived from the Chilean system, in addressing lingering concerns in the U.S.

The American UI system urgently needs deeper and stronger active labor market policies to counteract moral hazard concerns and elongated durations of unemployment. The Chilean personal accounts, as they empirically shorten unemployment by linking employee ownership and benefits, could greatly incentivize unemployed workers to return to the work force. A typical insurance scheme in the U.S. facilitates social dependence for those who qualify, while personal individual accounts counteract moral hazard and taking advantage of the system. Personal accounts make the “leisure” time between job loss and reentry more costly, through the perspective of the unemployed worker, and prompt quick re-employment. Additionally, unemployed workers, who reenter the workforce prior to exhausting benefits, would still be eligible for the last month’s of benefits under their personal accounts or from the Solidarity Fund. Ultimately, the proposed UI system would utilize every faucet of the structure to prompt rapid reemployment. If employees were to leave remaining balances in the personalized savings accounts, the remaining balances would be transferred to a pension plan, such as an IRA or traditional 401k.

Additionally, the U.S. system must re-focus its efforts to fully integrate technical training courses and other market informational courses with basic UI functionality. ALMPs, without intensive training opportunities, create a system of coercive incentives
without appropriate alternatives to re-employment. In effect, the system pushes unemployed workers into a fragile, fluid marketplace without the proper skills to flourish in such an environment. These programs should be aimed at those who need in most. For instance, with the manufacturing revolution in the Southeast, which led to many manufacturing enterprises flocking to foreign human capital, training programs should be immediately implemented to unlock opportunities is different upcoming industries, such as more sophisticated automobile manufacturing and information technology positions.

The U.S. system also lacks a true mechanism for employer accountability. Experience ratings no longer accurately reflect the conduct of businesses. For large-scale firms, the experience ratings are nominal, and experience ratings do not quickly adjust to discourage conduct harmful to those employees. The U.S. should adopted similar policies for those employers’ who routinely engage with fixed-term or part-time employees. Employers, who operate within these industries, should pay for the additional burden their practices cause on the system as a whole. For each part-time employee, the employers would pay .5% more each month on their taxable wage base. While the .5% increase would more accurately reflect the utilization of the UI program, the tax increase would not be burdensome on the employer, as part-time or seasonal employees generally accrue less taxable wages during the month as compared to full-time or salaried employees (See Figure 1.1). However, the higher tax burden would hold firms more accountable.

Because the current U.S. system generally denies benefits to those part-time workers, with the introduction of personal savings accounts, these employees would have access to the accumulated balances of their accounts. The individual savings accounts
would be financed through 1.0% and .5% employee contributions for part-time and full-time employees respectively. Plus, for those employers of part-time workers, the employers would contribute an additional 3.5% of taxable wages their individual accounts, with a maximum of $3,500 per month. Enrollment would be mandatory for new workers upon the policy reform’s passage like the Chilean introduction. Employers would make contributions of .5% and 3.5% for part-time and full-time employees, respectively. The contributions would be made to their state’s solidarity fund based on the location of the worker, on whose behalf they are making the contributions. Each state would then apply a constant sum of their budget towards financing their solidarity fund, which would be regulated by the federal government based on cost of living indexes and state unemployment rates.

Therefore, the solidarity funds’ balances and the payments derived from the fund can be sourced to the state level to adequately reflect the needs of the unemployed under their geographic jurisdiction, with minimum and maximum thresholds set with federal guidance, much like the current system. The largest shortcoming of the Chilean system is the adequacy of benefits. The benefits from the Solidarity Fund will be set to replacement ratios 15% higher than Chile’s at every stage. Therefore, the replacement rates under the fund would be 65%, 60%, 55%, 50%, and 45%. In the last month, then, benefits would be less than half of previously earned wages. For those economic times with higher unemployment, the original U.S. state triggers would reflect an additional 13 weeks of benefits equal to the replacement ratio of the fifth month, 45%.

For those unemployed workers not covered under the Solidarity fund, there is no ideal outcome, yet under the personalized savings accounts, they would be eligible to
withdraw from their corresponding balances. Under the current U.S. system, the part-time workers with insufficient contributory levels are completely ineligible for benefits; however, under the proposed reforms, they would at least gain access to their personal contributions. Additionally, the Solidarity Fund’s minimum payments, as they reflect the cost of living and poverty threshold of the state, should be above the levels in Chile. The minimum payments would not be completely based on previous wages, but rather more strongly dependent on the poverty threshold for the area.

To cover the costs of increased payments and the inclusion of part-time or temporary workers, the monthly taxable earnings for employees would increase to caps of $3,500. Importantly, the actual tax rates would decrease from an effective FUTA rate of 6.2% to 4.0% and 3.5% for part-time and full-time employees. Yet, the taxable wage would increase from $7,000 to maximum amounts of $42,000. If the taxable wage were to increase to $45,000 while the FUTA remained the same, the tax would generate approximately $8.7 billion (Kletzer, 19). While my proposed taxation scheme is modest compared to some proposals, the increased taxable wage with reduced tax percentages would create greater financial security for the UI system. The resulting tax proceeds would be then used to reinstate forward funding techniques for the state-based solidarity funds.

The Solidarity Fund would essentially function like the current states’ unemployment insurance with the limited usages like Chile. The fund would continue to use the states’ current eligibility criteria to gain access and would function like an overarching social insurance, as it does today. The funds, both the Solidarity Fund and the collective individual accounts fund, would then be outsourced to private firms to
minimize governmental administrative costs and maximize efficiency. The federal
government, outside of setting base payments and investment guidelines, would provide
strict fiduciary oversight for all state funds. The idea, here, is that the federal government
has the resources to create an oversight body with the expertise required to oversee
complex financial matters and ensure the best operation of the system.

Unlike the Chilean *ex facto* monopoly, private management firms would engage
in a dual level of competition. First, these private management firms, interested in
earning commissions and surplus returns on the funds, would meet the investment
qualifications. The investment qualifications would ideally mirror the reference portfolio
risk and yield balances in Chile. Once qualified, private management firms would further
compete for individual account balances, much like the health care exchange center, as
created under the Patient Protection and Affordable Health Care Act of 2010. By creating
two separate stages of competition, the U.S. private outsourcing would ensure the lowest
commission fees and safest investment diversification. The exchange option would also
provide employees with greater opportunities and ownership over their individual
contributions, further strengthening the perceived link between workers’ and their
unemployment funds.
Chapter 7: Conclusion

Upon setting the scene of the UI landscape in contemporary America, following the financial crisis and recession in 2008, this paper examined relevant literature, provided detailed case studies of the U.S and Chilean UI systems, analyzed the findings from the case studies via the golden triangle, and provided high-level recommendations for reforming the U.S. system of UI. My main recommendations included adopting the personal savings accounts and solidarity fund scheme from Chile, increasing taxable wage bases, and private management of the funds with particularly stringent federal and state oversight. The American UI system is in great need of reform, as it not longer reflects the needs and structure of the modern labor market.

In moving forward, this paper fails to examine key issues involved with the unemployment systems of the two countries primarily as a result of time limitations and scope. First, research and empirical analysis of the Chilean system is currently limited as the fully functioning Chilean system is relatively new and data, particularly from authors with recommended changes, is lacking. The future can only approve or disapprove the lessons derived from the Chilean system outlined in this paper.

Second, the U.S. system provides varying forms of social security outside of unemployment insurance. As a result of this paper’s focus on UI, I did not delve into the realm of other forms of security, such as Temporary Assistance for Needy Families (TANF) and food stamps. Future analysis of the U.S. system would greatly benefit if one were able to incorporate supplemental sources of protection into a detailed analysis of the whole systems security for unemployed workers.
Third, further study of the informal and formal natures of each country’s labor market. In an economy based on informal employment, UI schemes often fall short in their coverage and adequacies for the workers engaged in such activities. While I briefly researched the part-time and full-time functions of employees in the U.S. and Chile, the informal sector was left relatively unexplored, and I wonder what consequences these reforms would hold in a more informal or formal economy.

Fourth, greater study is needed into the logistics and possibilities of full UI and pension integration. In my recommendations, I mentioned briefly that unused balances left in personal savings account would be transferred to established pension plans, but I purposefully omitted the logistics of the transferal. Additionally, would loans between authorized pension plans to individual accounts be beneficial for those in prolonged financial need stemming from unemployment? How would a system with highly integrated UI accounts and pension accounts look?

Lastly, the creation of an ideal UI scheme rests in the adequate balancing and curbing of incentives for the State, the unemployed workers, and the business firms. The conceptual analysis of these balances in terms of security, flexibility, and ALMPs is the most relevant and helpful. The U.S. system has been a cornerstone to social protection over the past 80 years, and I give the original authors full credit. I only hope to improve on the foundation, which they so generously provided.
Figure 1.1

Outline of Proposed Reform: Financing Characteristics

<table>
<thead>
<tr>
<th>Actors</th>
<th>Fund-level</th>
<th>Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Workers:</strong></td>
<td><strong>States’ Solidarity Fund</strong></td>
<td><strong>Effectively no exclusions to access personalized accounts</strong></td>
</tr>
<tr>
<td>Part-time 1.0%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time 0.5%*</td>
<td>Individual Savings Accounts</td>
<td></td>
</tr>
<tr>
<td><strong>Employers:</strong></td>
<td><strong>States’ Solidarity Fund</strong></td>
<td><strong>Same state-regulated eligibility requirements pre-reform</strong></td>
</tr>
<tr>
<td>Part-time 3.5%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employers:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time 0.5%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time 3.5%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>States, as mandated by the Federal Gov't:</td>
<td>Constant contribution per year subject to reevaluation and adjustment every three years</td>
<td></td>
</tr>
</tbody>
</table>

*Based on taxable wages per month, maximum monthly taxable wages set to $3,500
Works Cited


Sehnbruch, Kristen. Privatized Unemployment Insurance: Can Chile's New Unemployment Insurance Scheme Serve as a Model for Other Developing Countries? Berkeley: University of California: Center for Latin American Studies, 1 Dec. 2004. PDF.


