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Employment Insurance – Costs and Benefits

good society –
social democracy
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AT A GLANCE

The world of work is changing continuously. Unemployment insurance thus needs to be developed further in the direction of a preventive and investment-oriented employment insurance. The results of the study presented here show that the implementation of employment insurance would make sense both individually and macroeconomically. In the best case scenario, state budgets could realise a surplus of up to 3 billion euros a year.

The constant transformation of the world of work is experienced by the individual among other things in the increasing discontinuity of the life course and career paths. Even though the causes of the changes in the world of work today are to be found primarily in corporate efforts to achieve flexibilisation, government deregulation measures and rising female labour market participation – increasing the need for reconciliation of care activities and employment – we can assume that, in the future, digitalisation and advancing demographic change are likely to lead to far-reaching labour market changes. With the transformation of the world of work, workers’ needs with regard to qualifications and further education and training have risen relentlessly and this trend will continue.

The transformation of unemployment insurance into employment insurance would represent a way of responding to the changing world of work with a preventive and investment-oriented labour market policy (on this, see also Hans et al. 2017a; Hans et al. 2017b).

The findings of our study »Implementation, Costs and Effects of an Employment Insurance Scheme«, which examines the proposal for employment insurance in terms of its general affordability and the effects of reform on individuals is presented briefly below.

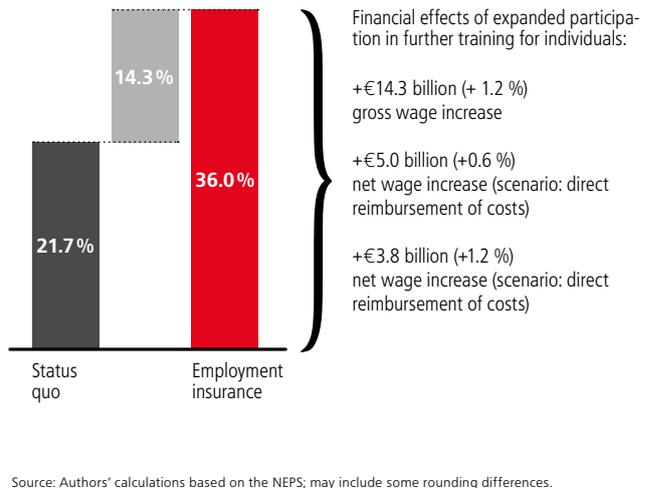
REFORM APPROACH: EMPLOYMENT INSURANCE

The discussion around employment insurance is based on Schmid’s reform proposal (2008: 32–34, 46), which envisages a three-pillar model. The basic notion is the introduction of a personal account, from which financial resources for previously established goals can be drawn down.¹

In order to facilitate the required modelling, Schmidt’s (2008) proposed employment insurance was modified and clarified in a number of places. The following key points were established for the reform proposal:

- group of persons to be insured: mandatory insured persons already enrolled in unemployment insurance, solo self-employed, part-time employees, benefit recipients under SGB [Social Security Code] II or SGB III, unemployed persons expected to enter the labour force (Rahner 2014: 6–7; Rengers 2012: 300–302);
- entitlement: identical further training budget of 26,500 euros for each beneficiary through the full course of their working life.

Figure 1



- financing: equal distribution of spending between levying a contribution and a tax subsidy;
- exercise of entitlement with regard to type of option: further training with a recognised qualification relevant to finding a job (formal and sometimes informal further training);²
- exercise of entitlement with regard to the costs that have to be covered: scenarios with direct (among other things, participation fee), as well as direct and indirect cost reimbursement (among other things, earnings replacement benefits).

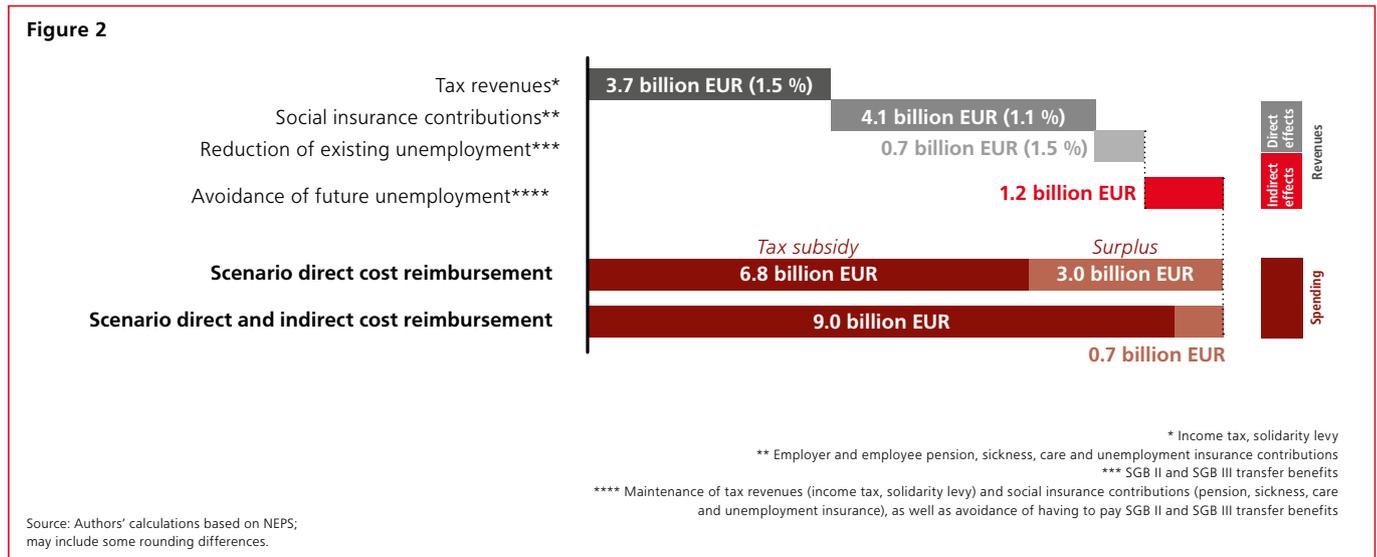
These key points represent the basis for the calculations and are basically organised into three sections:³

- (I) simulation of participation in further training: modelling of changes in participation in further training within the framework of the financial incentives of employment insurance;
- (II) estimated costs and benefits: modelling of the monetary effects of altered participation in further training, including a gross wage increase and a reduction in unemployment risk as benefits;
- (III) microsimulation for a comparison of costs and benefits.

EFFECTS OF IMPLEMENTATION: PRIVATE HOUSEHOLDS

Our examination of the effects on private households of implementing an employment insurance scheme will specifically look in particular at the extent to which individuals’ participation in further training would change as a result and what income effects would accompany it. In the latter case, the monetary effects arising from ending existing unemployment and avoiding it in the future are included. These are the core elements of a preventive labour market policy. The findings are presented in Figure 1.

The column labelled “Status quo” indicates a 21.7 per cent participation rate in further training.⁴ There could be a substantial increase in such participation if employment insurance was introduced. Employment insurance could motivate almost



one in five people who, under the status quo, are not observed to be participating in further training to look for further training opportunities.

In order to be able to classify the findings and properly assess their implications, it makes sense to compare them with the available literature on obstacles and barriers to participation in further training. For example, Kuwan/Seidel (2010: 160) analysed data from the Adult Education Survey, in which individuals were surveyed who, within the past year, had in principle planned to take part in further training but, for whatever reason, had not been able to go through with it. For 22 per cent of those surveyed family obligations were the cause; for 16 per cent it was occupational pressures; and for just under 14 per cent costs prevented them from participating in further training.

Employment insurance could also help to lower financial barriers to participation. Disproportionate pressures resulting from lost wages could also be reduced by providing wage replacement benefits (depicted in the scenario in terms of direct and indirect cost reimbursement) in such a way that shorter working hours or even a full-time sabbatical from work while participating in further training would be feasible without a sustained loss of income.

The model projections also show that the expansion of participation in further training by implementing employment insurance might be accompanied by an increase in gross and net wages. Annual gross wages could, as a result, increase overall by 14.3 billion euros or 1.2 per cent, while net wages could rise by up to 5 billion euros or 0.6 per cent.

EFFECTS OF IMPLEMENTATION: STATE BUDGET

Besides the effects on private households, in this section we look at the monetary effects on the state budget. The primary question here concerns what financing burdens or gains would arise for state budgets from implementing reform – taking into account income tax, the solidarity levy and pension, sickness, care and unemployment insurance contributions. Figure 2 presents the relevant findings.

The increase in individual gross wages that would result from increased participation in further training would, for

the state, be reflected primarily in the potential generation of additional revenues. The rise in tax revenues would be 3.7 billion euros or 1.5 per cent of the tax take, while social insurance contributions would increase by 4.1 billion euros or 1.1 per cent of the contribution take.

Employment insurance could also reduce existing unemployment in SGB [Social Security Code] II and SGB III by means of additional further training options. As a result, transfer benefits would fall by 0.7 billion euros or 1.5 per cent of the total. This would be due to the fact that broader access to further training and greater freedom of choice with regard to the relevant options would significantly boost participation among the unemployed. Participation rates in further training are particularly low among the unemployed because they have no access to company training options (Bilger/von Rosenblatt 2011: 62–64).

Turning to the potential effects of employment insurance on avoiding future unemployment, such insurance is likely to have a significant preventive function. In the best case, early participation in further training could forestall unemployment. At the very least, however, employment insurance could help substantially reduce the duration of future unemployment. These effects are also reflected in the findings. 1.2 billion euros is the sum of transfer payments that would be avoided under SGB II and SGB III plus the tax revenues that would be maintained and the social insurance contributions. Besides the abovementioned revenues in the event of implementation of the reform proposal the state would bear half of the outlay on employment insurance. Under the direct cost reimbursement scenario spending would total 13.6 billion euros, of which the state would be responsible for 6.8 billion. If the indirect costs of participation in further training were also covered by employment insurance there would be additional expenditure of 4.4 billion euros. The tax subsidy, in this scenario, would amount to a total of 9.0 billion euros.

For classification purposes the results should be compared with other public spending on training. For example, in 2014 public spending on training totalled 120.6 billion euros (Destatis 2016: 80; Destatis 2017). Expenditure on employment insurance (under the direct cost reimbursement scenario) would thus amount to just under 11.3 per cent of existing public

spending on training. If, in addition, indirect costs were reimbursed, the proportion would rise to 14.9 per cent.

The public expenditure on education and training of the OECD countries can also be used for the purpose of comparison. In Germany, education and training expenditure as a proportion of GDP – most recent available figures for the tertiary level come from 2009 – is only 5.1 per cent. In the OECD countries and the member states of the European Union the average is 5.8 per cent (OECD 20012: 324). In other words, Germany's public investment in education and training is below the OECD/EU average. If one also takes into account the effect of possible spending on employment insurance – 13.6 billion euros in the case of direct cost reimbursement and 18.0 billion euros in the case of direct and indirect cost reimbursement – on overall public education and training expenditure, then spending would more or less match the OECD and EU member state average (coming to 5.7 per cent in the case of direct and 5.9 per cent in the case of indirect cost reimbursement).

In conclusion, our calculations show that implementation of employment insurance would be possible without the introduction of additional taxes, cuts in existing expenditure or an increase in debt. In fact, the "state funding balance" we calculated would amount to 3.0 billion euros or 0.7 billion euros, depending on the scenario.

DISCUSSION OF THE FINDINGS

The focus of our research project was to examine the financial feasibility – in principle – of employment insurance and its effects on private households and the state. With regard to the implementation of employment insurance further investigations would be necessary, focussing on socio-political, institutional and societal considerations. In interpreting the results it is important to note that, due to data and modelling limitations, not all dimensions can be presented. As a consequence, it may be that the calculated funding effects of an employment insurance scheme could be under- or overestimated. A couple of examples will serve to illustrate this.

Due to a lack of quantifiability, for example, other benefit dimensions (so-called wider benefits) that might arise from participation in further training, besides the effects on unemployment and the gross wage, could not be depicted (DIE/FiBS 2013: 4). Accordingly, the proven benefits of employment insurance may have been underestimated in the present study.

However, it should also be noted that capturing so-called correlated effects on private households and companies is possible only to a limited extent, due to data set constraints. In the event that the correlated effects were higher than accounted for in the calculations, the monetary effects on the state budget would be higher.⁵

Despite these limitations and the objections that might arise from them, the model framework presented here is, in our view, the best possible approximation of the monetary effects of an employment insurance scheme.

Endnotes

- 1 – A detailed presentation of the motivation for an employment insurance scheme and the design of the various reform elements can be found in Schmid (2011).
- 2 – Similar ideas on personal further training accounts include the personal employment account (BMAS 2016) and the personal development account (Schmid 2008: 33). These two proposals, however, envisage not only financing participation in further training through the resources of the personal account, but also to compensate for reduced working time, bridging periods on lower income or even sabbaticals for family or care purposes.
- 3 – A detailed presentation of the elements of reform and methodology can be found in Section 4 of the long version of the study.
- 4 – Participation in further training is estimated on the basis of an evaluation of the NEPS and here refers to participation in formal and informal further training opportunities, as long as their completion is linked to a recognised certificate that would be of value in the labour market. Participation in further training as depicted in the present study may thus diverge from other sources (among others, BMBF 2015: 13; 51 per cent participation in further training for all kinds of further training in 2014).
- 5 – A detailed presentation and further examples can be found in Sections 4.3 and 5.3 of the study.

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A PROJECT BY THE
FRIEDRICH-EBERT-STIFTUNG
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What makes a society good? We believe a good society consists of social justice, environmental sustainability, an innovative and successful economy and a democracy in which citizens participate actively. Such a society is sustained by the fundamental values of freedom, justice and solidarity.

New ideas and concepts are constantly needed in order to ensure that the good society does not remain a mere illusion. To that end, the Friedrich-Ebert-Stiftung is developing specific policy recommendations for the coming years. The following topics are of particular importance:

- debate on fundamental values: freedom, justice and solidarity;
- democracy and democratic participation;
- new growth and proactive economic and financial policy;
- decent work and social progress.

A solid society does not emerge of its own accord, but has to be nurtured continually by everyone in it. For this project the Friedrich-Ebert-Stiftung is making use of its worldwide network in order to integrate German, European and international perspectives. The Foundation will address the issue in a number of publications and events between 2015 and 2017, with the aim of making the good society viable.

For further information on the project, see:
www.fes-2017plus.de

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