



Keeping a Tight Rein on Unemployment Claims



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- The Janitorial Coach -

52 Years of Experience in the Janitorial Business

Chapter 1: Employment benefit programs for reining on unemployment:

The benefits of unemployment programs are that you can replace some lost revenue and unemployment benefits keep unemployed workers safe by maintaining their assets and their consumption. The income of very low-income households can be augmented, and unemployment advantages help keep them in affluence. Unemployment benefit programs embolden workers so that they accept jobs that are beneficial for the economy, regardless of layoff possibilities. Unemployment benefits also help workers to preserve consumption while they can spend more time on a job that is best suited to their skills. Unemployment benefits also help in providing additional sustenance to employees during downturns, avoiding large and adverse side effects.

Structure of unemployment benefit programs:

Unemployment benefit programs in industrialized economies are the same when it comes to structuring, but a number of details like eligibility necessities, profit levels, and benefit period all vary. The effects of these details on consumption, deficiency levels, service, job-hunt, and time period of unemployment vary. The effects are also different from the stage of the business cycle.

Requirements for eligibility:

Keeping a Tight Rein on Unemployment Claims

Virtually all developed countries have tied eligibility for unemployment benefits to be reluctant to terminate a job which means that people who resign from their jobs are not qualified. All countries necessitate that anybody who meets this standard must enroll himself at a government unemployment workplace, then make a list of their job experience and credentials, and receive data on job preambles for employees with their experiences. After that, all countries ask their unemployed workers to seek benefits actively in search of a job, although the enforcement of this requirement varies considerably.

Benefit levels

Most countries have based benefit levels on past salaries or on a nationwide earnings index, but the levels differ radically across countries. The most common tool for measurement of benefit level is the rate of replacement, which is obtained by dividing the benefits received to the earnings of an individual when the job is terminated on which the claim of unemployment benefits is being laid.

Duration of benefit:

The maximum time period of benefits also differs widely. Some countries like Australia and Belgium have placed no limit, and some have limited it to one year or more (like Denmark, France, and the Netherlands).

Keeping a Tight Rein on Unemployment Claims

There are also countries that have placed a limit of six months or less (like the UK and the US). The duration of benefits can also be differentiated by taking into account different types of workers, such as housing, history of earning, and age. Countries like Canada, Poland, and the US are distinctive in altering the all-out duration of benefits over the business cycle.

Chapter 2: Effects of Employment benefit programs

Effects on consumption

The goal of all benefit schemes for unemployment is to compensate for some fraction of the reduced income for unemployed workers and thereby make them maintain their consumption at a rational level regardless of the loss in wages. Although it may seem visible that the benefits of unemployment would result in a rise in consumption, the amount through which it is doing so is dependent on multiple factors. One is the amount of savings a person has gathered before getting unemployed.



Keeping a Tight Rein on Unemployment Claims

Most families in developed economies are thought to have saved something and have built up wealth for difficult times. However, the amount of savings is not much, and families in lower strata often have no savings at all. But for people who have saved some amount, consumption levels might be higher than even when they do not have unemployment benefits.

Some people who are not employed might be using a portion of their joblessness benefits for the reduction of their debt rather than spending it all. And some people who are not employed are capable of earning from other sources of income. In a number of countries, means-tested transmission programs are providing income support to economically impoverished households, for example, to the degree that these income support programs are allowing unemployed workers to keep their earlier consumption levels, the extra outcome of unemployment benefits could not be large. And in a number of households, when a member becomes jobless, other working members help in the maintenance of household consumption levels even when they are not provided with unemployment benefit payments.

However, even with the availability of all these means for the maintenance of some consumption after losing a job, the evidence is showing that unemployment profit programs are responsible for the increase in consumption considerably.

Keeping a Tight Rein on Unemployment Claims

There is a sign, for instance, that a relative increase in the job loss benefit replacement rate results in a reduction of the drop in consumption among jobless workers by two percent and that people who are not receiving unemployment benefits have to decrease their consumption by more than twenty percent.

According to research, the positive effects of consumption are more in recipients of unemployment benefits who have no mean of income and no working spouse. This is close with the supposition that whether people have the ability to maintain consumption even when they are not getting unemployment benefit payments. It depends on the accumulated savings of a household and whether he has any other source of household income. Due to unemployment, if a worker's income falls, that reduction in spending results in aggregate demand of goods, allowing businesses to minimize production, output, and work, which results in a further decrease in spending and then production again.



Effects on poverty

An important question for benefits schemes related to unemployment is whether they result in lowering the poverty rate of a country. Studies show that they decrease the aggregate poverty rate by almost one percent. They are proved much beneficial for people who are receiving unemployment benefit programs.

Effects on employment

The presence of an unemployment benefits program results in lowering the risk of having a job that could later result in your dismissal. This is named as the prerogative effect of unemployment benefit programs. Because almost all countries have certain time periods of work for Unemployment benefit eligibility, and most have some form of earnings or contribution levels, anyone who fails to meet those qualifications comes under the category of incentivizing to work more or earn more for the purpose of meeting them.

Evidence has demonstrated the existence of the effect of entitlement, and it works in the expected direction. People living in areas that have high unemployment benefits have a greater propensity to take jobs that have earned more than the slightest level required for eligibility. This greater effect of unemployment benefit schemes results in offsetting at least some of the negative effects that could arise from other sources.

Impacts on job-seeking and time period of unemployment

An important effect of unemployment benefit programs is that, in the absence of it, jobless workers who have few assets would result in a reduction of their consumption even though it is possible that they will ultimately get a job and will be able to earn wealth. Because there is no way for borrowing money against those future salaries for maintenance of consumption during the spell of unemployment, individuals want to take a low-earning job or one which is incompatible with their expertise instead of waiting to find a more suitable job. This is called a problem of liquidity constraint. An unemployment benefits program allows the users to get rid of this pressure and develops the capacity of unemployed workers to uphold consumption without having to find an unfitting job.



The outcome of benefit level and benefit duration

The evidence that relates with the total effect of unemployment benefit schemes to find a job and the time period it takes is extensive and determines clearly to an undesirable effect on finding employment and an encouraging effect on the time period through which people remain unemployed. The studies clearly examine either the impact of the joblessness benefit level, often in the form of a replacement of wage rate, or the impact of the overall duration of benefits received.

If we talk about the after-effects of benefit levels, one study has found that a four to five percent increase in the replacement rate results in leading to a four-day increase in time of unemployment. Another research has established that unemployment benefits result in a reduction of job-finding rates in Austria by about five to ten percent. Research conducted for other countries and groups also finds effects of a similar scale.

These effects are related to those who are not employed and are covered by unemployment insurance. Individuals who are jobless or who have newly entered the labor market, who do not have much to save and have not saved enough in the past or are not eligible for unemployment benefit payments, or they might have quit their jobs willingly, do not say that they have experienced these effects.

Keeping a Tight Rein on Unemployment Claims

The cumulative effect of joblessness benefit programs on unemployment is, therefore, relatively smaller than the impact on those who have received benefits. In the United States, for instance, only about one-third of unemployed workers are receiving benefits, although the fraction is way greater during economic recessions.

Impact of Spillover effects

Spillover effects can be considered as another reason for the reduction in impact on the national unemployment rate than on those who are without a job and receiving unemployment benefit payments. Spillover effects happen when an opportunity of a job that is given to an unemployed worker turns it down for the purpose of receiving unemployment benefit payments which are then covered by an unemployed worker who has not received payments. To the level that this takes place, some of those who are not in the unemployment pool get salaries they will not be able to have when there was no program. This alleviates any increase in the national unemployment rate.

Another vital question is whether there are greater benefits of unemployment benefit payments or smaller during economic recessions.

Keeping a Tight Rein on Unemployment Claims

On the one hand, during slumps, individuals who do not have a job are essentially unemployed for extended periods because job offers are rare, and they might feel eager to accept the first great job offer they have received rather than extension in their time trying just because they are getting payments. Another side of this aspect is that the decreased number of job offers received may result in the induction of individuals for making use of the unemployment benefit payments in case they have to wait even longer to get a good job proposal than they might have done in normal financial times.



As noted, it is important to understand the relative involvement of liquidity constraints to the impacts of unemployment benefit programs on time spent not getting employment. Studies have found that almost two-thirds of the extra time spent in the unemployment phase by people who are getting unemployment benefits was an outcome of liquidity constraints and lack of ability to borrow.

Effects of job search requirements

Individuals who have received unemployment benefits are the result of searching actively for work. Requirements vary from simple registration with the governmental unemployment support agency to occasionally paying a visit to the agency for discussing search activities so that evidence can be provided to employers upon contact. Programs might call for sanctions for people who have failed to search vigorously, although there is not enough evidence on the level to which this takes place.



Studies have demonstrated the impacts of relaxation or strengthening of job search requirements for seeing whether that affects the likelihood of finding a job or the time period of unemployment. Few studies related to this have found that job search requirements have substantial effects. In one research, it has been found that people who have been relieved of all job search requirements were out of work three weeks more than people with the typical set of needs and also were in a condition to exhaust their benefit entitlement.

Keeping a Tight Rein on Unemployment Claims

In another research, people who were found to have interaction with more employers were unemployed almost six percent less time than people who have contacted the standard number of managers, and people who were informed that the unemployment benefits agency would help in verification of their reported acquaintances experienced almost seven percent decreased unemployment time. A study in the UK has concluded that a one-third percentage increase in the likelihood of finding a job for the long-standing unemployed who were informed that they would have to go through an interview for discussion of their job exploration activity or they will lose their benefits.

Effects of the method of financing

Another policy impediment for unemployment benefit programs is the method of their financing. Here the greatest difference is between the United States and most developed countries. In western countries, unemployment benefit programs get financing by a tax on companies that are based on the number of workers the firm has unemployed in the past, a process called experience rating.

While firms that result in laying off more workers normally have to pay higher joblessness benefit taxes than firms that have laid off fewer workers, firms are not given a full rating related to experience, under which a firm that is laying off workers who have received one thousand dollars in unemployment benefits, for instance, would have to pay a tax of one thousand dollars, indirectly, for those employees' full benefits. In Europe, on the other hand, unemployment benefit programs are usually sponsored through general workforce taxes.

Keeping a Tight Rein on Unemployment Claims

The difference which method of financing makes is that different businesses typically have different rates of dismissing workers. The building industry, for instance, is highly reliant on the weather and on the economic environment and often has to momentarily lay off a large number of workers who need to be rehired. Most industries related to services, on the other hand, have much more steady employment. If all industries have paid the same workforce tax, then the manufacturing industry is being indirectly subsidized by the services sector because the construction industry has to pay less in taxes than its workers who have been laid-off and they are receiving in benefits, and the service industry is in the reverse situation. This can cause firms in the manufacturing industry to allow more workers to be laid off than they would if they had an experience-rated system.

Chapter # 3: Limitations and gaps related to employment programs:

The evidence remains not fact-based on several significant issues related to unemployment benefit programs. One is whether individuals get higher-paying jobs or jobs that are compatible and better suited to their skills than they would in the absence of the programs. Studies of this issue have given very different results, with some saying that there will be no effect and there will be a positive effect. Additional studies are required to solve this uncertain situation. A second issue is whether the presence of unemployment benefit programs makes it more possible for employers to lay off the workforce.

Policy advice

Unemployment benefit programs play a major economic role through the increase of consumption among unwaged workers and letting them avoid exhausting their assets during eras of unemployment. Such programs also result in major positive effects on the families of unwaged workers with less or no income and no means to borrow to avoid serious provisional reductions in consumption.

Unemployment benefit programs help in providing much-needed support to jobless workers during economic recessions, without major negative effects in an increase in periods of unemployment or increasing the rate of unemployment. If you are helping households with very low incomes, unemployment benefit programs result in a reduction in the poverty rates. And unemployment benefit programs allow people to take socially useful jobs, in spite of some risk of future dismissals, which results in growth in the economy. On the other side, unemployment benefit programs have the capacity to encourage unwaged workers to reduce their intensity of job search and to increase the time of unemployment. Surges in benefit levels and intensifications in the maximum length of time for which assistance can be received amplify these disincentives.

Conclusion

This e-book is helpful in guiding the readers about Employment benefit programs to rein on unemployment as these programs work against the downward spiral in the economic domain through stabilization of the incomes of the jobless and reduction of any drops in spending. The net effect, therefore, is the reduction of the fall in gross domestic product and the mitigation of the effects of a recession. Unemployment benefit programs are known as involuntary stabilizers in an economy: when the economy is moving in the right direction, they do not get many profits and so do not result in increased spending, but when the economy is not doing well, they automatically upturn spending, which is exactly what the economy desires at that point in the business cycle.

This e-book has informed readers about the policies that need to be designed in a balanced way keeping in mind the positive goals and impacts of unemployment benefit programs and their adverse side effects. This can be realized by setting benefit levels and time periods at satisfactory but not disproportionate levels. Another important policy tool is the setting of clear and firm requirements for job search and ways of enforcing them. If you have such a set of requirements, it reduces the adverse side effects of unemployment benefit programs without having to reduce eligibility, profit levels, or time period.

About the Author



Wayne Baxtrom, The Janitorial Coach, has over 52 years experience in the cleaning business. He has started 3 multi-million dollar Janitorial Businesses — the last being sold for over \$6,000,000. Recently retired, Wayne still feels the fire in his belly to stay active. He is motivated by his desire to help any and all folks making their living in the cleaning industry. Wayne offers Janitorial Business Programs for startups and seasoned pros. To learn more about how Wayne can help your business grow, [visit www.TheJanitorialCoach.com](http://www.TheJanitorialCoach.com) and schedule your free Discovery Call.