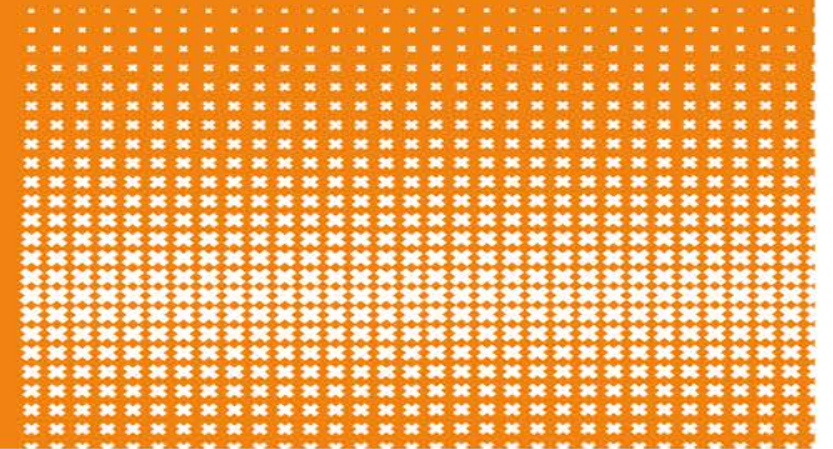




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Institutional Moral Hazard in Multi-Tiered Regulation of Unemployment

**Conference on the Feasibility and Added Value of a European Unemployment Benefits Scheme
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Introduction

- Concept of ‘institutional moral hazard’ (IMH)
 - Caveats
 - Factors that contribute to its salience
- (Concern for) IMH in the 8 cases
 - General & country specific
- Conclusions
 - Minimum requirements

IMH: definition

- *A situation in which an insured person can affect the insured company's liability without its knowledge (Barr, 2004)*
- Two levels of government (A & B)
- 'A' covers a risk that 'B' could cover as well
- Policies by 'B' influence incidence of the risk
- Asymmetric information
- Examples
 - Dumping, parking, creaming

IMH: caveats & nuances

- Our focus: activation & interaction UI - SA
 - But, other factors influence the risk of unemployment
 - But, there is a broader fiscal context

- IMH is inevitable in insurance
 - Danger of over-stressing and over-simplifying
 - Perceptions matter

IMH: factors that contribute to its salience

- Design of schemes
 - Generosity for individuals, design of re-insurance, other fiscal mechanisms
- Interaction with other components of the regulation of unemployment
 - Activation policies, Social Assistance
- Local or regional differences
 - Heterogeneity in employment rates, differences w.r.t. policy goals

IMH in 8 cases: general findings

- Concern for IMH plays/played a role in every country case
 - However, the extent of (concern for) IMH differs
- Dominant issues differ
 - Poor activation
 - Perverse interactions with other benefits (Social Assistance)
 - Heterogeneity between constituent parts of countries
 - Different views on policy goals
- Reforms differ: centralisation vs decentralisation
 - Federal/central take-over, more federal/central control or less re-insurance

IMH in 8 cases: country specific findings (1)

■ US

- UI: federal-state cooperation, FUTA, extended benefits
- SA: move away from open-ended funding (AFDC) to block-grant (TANF)

■ GER, CHE, AUT

- Common issue: problematic dichotomy SA and UI (also: dumping)
- Different solutions: federal take-over, federal requirements, closing off UI

■ DNK

- Reimbursement model

IMH in 8 cases: country specific findings (2)

■ CAN, BEL

- 'Classic' IMH: federal benefits, regional activation
- Difference in salience of IMH in UI, different solutions

■ AUS

- ALMPs privatised (no intergovernmental dimension)
- Increasingly strict governmental control

Conclusions

- IMH is inevitable
 - But it can be mitigated to a certain extent
 - Cost-benefit analysis is required

- Complexity of national systems will be a challenge to EUBS

Conclusions: minimum requirements

- Most likely candidate to mitigate IMH in EUBS: minimum requirements
 - EUBS presupposes minimum requirements
 - Two purposes: optimising stabilisation & mitigating IMH
 - Minimum requirements best suited for heterogeneous constituent units
 - Less intensive than performance measurement
 - Stronger centralisation of regulation of unemployment is not an option
 - Allows diversity
 - Can build on a precedent in the EU: OMC

Sources

- Barr, N. (2004), *Economics of the Welfare State*, New York: Oxford University Press.