

Should unemployment insurance cover partial unemployment?

Time-limited benefits may yield significant welfare gains and help underemployed part-time workers move to full-time employment

Keywords: active labor market policies, part-time work, part-time unemployment, partial unemployment insurance

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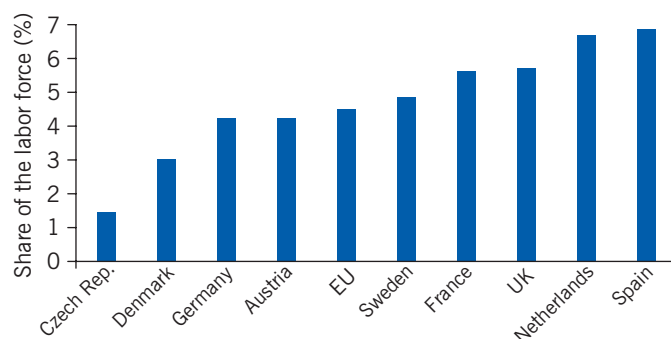
A considerable share of the labor force consists of underemployed part-time workers: employed workers who, for various reasons, are unable to work as much as they would like to. Offering unemployment benefits to part-time unemployed workers is controversial. On the one hand, such benefits can strengthen incentives to take a part-time job rather than remain fully unemployed, thus raising the probability of obtaining at least some employment. On the other hand, these benefits weaken incentives for part-time workers to look for full-time employment. It is also difficult to distinguish people who work part-time by choice from those who do so involuntarily.

KEY FINDINGS

Pros

- ⊕ Benefits to part-time unemployed workers strengthen incentives to take on part-time jobs.
- ⊕ Subsidized part-time employment can be a stepping stone toward unsubsidized employment.
- ⊕ Compared with many other systems, unemployment insurance for part-time workers seems to work well as an active labor market policy.
- ⊕ Unemployed workers who move into part-time jobs receive higher earnings, pay higher taxes, take less from the unemployment insurance system, and may receive fewer means-tested benefit transfers.

The underemployment rate (involuntary part-time work) varies across European countries, 2014



Source: Eurostat. Online at: http://ec.europa.eu/eurostat/en/web/products-datasets/-/LFSI_SUP_AGE_A. Data extracted August 24, 2015.

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Cons

- ⊖ If part-time unemployment benefits are too generous, they create a risk for prolonged part-time unemployment spells.
- ⊖ Benefits to part-time unemployed workers weaken incentives to move into full-time employment.
- ⊖ Benefits to part-time unemployed workers could function as an unintended indirect subsidy to sectors with many involuntary part-time workers.
- ⊖ It is difficult for the government to distinguish people who are looking for full-time work from people who work part-time by choice.

AUTHOR'S MAIN MESSAGE

For workers who would prefer full-time work, part-time jobs are a stepping stone to regular employment. Thus, partial unemployment benefits for part-time unemployed workers could yield significant welfare gains; they could also lower government spending on unemployment insurance and other transfers to these workers. To counteract the tendency for high benefits to discourage moving from part- to full-time jobs, the benefits should be of short duration and decline over time. Time-limited benefits not only increase incentives for full-time unemployed to move into part-time work, but also to move quickly on to full-time employment.