

Supporting jobseekers: How unemployment benefits can help unemployed workers and strengthen job creation

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The rapid rise in unemployment since 2008 caused by the global financial crisis has created renewed interest in the effects of well-designed unemployment benefit systems on the speed at which labour markets recover and job creation resumes. On the basis of a newly-created database on labour market flows, this article makes use of a micro-founded macroeconomic model to estimate different effects of active and passive labour market spending on employment growth and the state of public finances. It demonstrates, in particular, that for the average G20 country, spending on unemployment benefits yields employment gains both in the short term and long term that are superior to those observed for active labour market policies. Moreover, rather than tightening their budgets prematurely, G20 countries would have fared much better in accepting further deterioration in public finances stemming from higher spending on social transfers in order to stimulate faster employment growth, which would have led to a more rapid recovery in the state of public finances as well.

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