

High Unemployment Insurance Benefits Employment and the Economy

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Companies are willing to pay higher wages in order to ensure that workers remain committed and contribute their best efforts to maximize productivity levels, according to a study in the International Journal of Economic Theory published by Wiley-Blackwell. An increase in unemployment insurance, while implying higher wages, is nevertheless beneficial to long term economic activity.

The study titled “Negishi-Solow Efficiency Wages, Unemployment Insurance and Dynamic Deterministic Indeterminacy” analyses the dynamic evolution of the economy to understand sources of persistent employment and find ways to tackle the problem.

Author Dr. Jean-Michel Grandmont – senior researcher at the International Center of Economics and Finance (ICEF) of the University Ca’ Foscari, Venice, Italy and at the Centre de Recherches en Economie et Statistique (CREST), Paris, France - says, “Firms are reluctant to cut down on wages even in the times of rising unemployment because productivity, or willingness to provide appropriate effort, of employed workers, depends to a large extent on wages.”

Conventional wisdom suggests that an increase in unemployment insurance will be detrimental to employment as firms have to pay higher wages to maintain their workers’ productivity and proper effort levels, and therefore are less willing to hire. However, higher wages and unemployment compensation mean higher consumption of employed and unemployed workers which in turn implies larger production and

more employment.

Dr. Grandmont adds. “Despite the benefits, the increased unemployment insurance will also imply greater economic volatility by increasing the likelihood of booms and bursts due to volatile expectations of economic agents about the dynamics of the economy.”

Source: Wiley

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