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Daily FT
11.09.2020.

FT View

Unemployment insurance

THE strength of an economy can be measured in a very tangible way through job creation. If jobs are being created in the private sector, then that is a good indication of how the economy is faring and having a real world impact. But in Sri Lanka the continued focus on public sector jobs indicates that private sector job creation is limited or in some cases not attractive enough to be the preferred employer. Can there is a policy level solution to this issue, which has stumped successive governments?

Last month statistics released by the Census and Statistics Department indicated that unemployed had risen to a 10-year high in the first quarter, before the COVID-19 curfew, which shows that slowing growth over several years had started having a serious impact on employment. The Institute of Policy Studies (IPS) has proposed unemployment insurance as an option that could encourage protection of incomes rather than protecting jobs.

The research organisation has pointed out that flexible labour policies would be beneficial as this would encourage more companies to recruit employees to the permanent carder rather than the existing practice of having large numbers of contract or freelance workers. By reducing restrictions such as high levels of severance pay employment could be broadened and the benefits given to employees. IPS argues such efforts could be better for workers, especially in vulnerable times created by COVID-19.

Job creation is a typical election topic and the usual fall-back of successive governments has been increasing public sector employment. However, the State sector is already overburdened and recruitments are often made to areas of little use to the people. Without increasing productivity, adding more people to the public sector is simply increasing taxpayer burdens.

In the US, where Unemployment Insurance (UI) has been in existence since 1935, the program temporarily replaces a portion of wages for workers who have been laid off, as long as they are looking and available for work. Although benefits vary by state, in most states the program provides up to 26 weeks of benefits to unemployed workers and, on average, replaces half of a workers' previous wages. Because more workers lose their jobs during economic downturns, this program also provides needed economic stimulus that helps mitigate the severity of recessions.

UI does not cover people who leave their jobs voluntarily, people looking for their first jobs, and people re-entering the labour force after leaving voluntarily. Self-employed workers, gig workers, undocumented workers, and students traditionally aren't eligible to apply for UI benefits. In countries like Sri Lanka where the informal sector makes up a significant part of the labour force and tends to include a lot of women UI may have limited impact.

Another consequence of earnings and work history requirements is that low wage workers—who are most likely to become unemployed—are among the least likely to get UI benefits. The idea of using the Employee Trust Fund (ETF) to finance UI may seem plausible but it would require employer approval and may have limited reach, possibly leaving out the most vulnerably.

However, the concept deserves further discussion and assessment as part of larger reforms that should be considered by the Government.