In this study, we use the basic monopoly union approach of wage and employment determination under stochastic revenue shocks to study unemployment insurance (UI) contributions as policy instruments. Unemployment benefits are financed from UI contributions that the government imposes on firms. The government has three policy alternatives: passive, fixed and active. In the case of the passive policy the contributions are adjusted according to the state of the economy. In the case of the fixed policy the objective of the government is to stabilize labour cost fluctuations and thereby employment, and in the case of the active policy, to directly stabilize employment fluctuations. The effects of the different policies are shown to depend on the size of the elasticity of substitution between the factors of production in the economy. When the elasticity is small the UI contribution varies counter-cyclically (procyclically) when the passive (active) policy is adopted. The fixed and the active policies then stabilize the economy by smoothing out employment fluctuations. When the elasticity is large the passive policy itself works as an automatic stabilizer leading to a low UI contribution and high employment when economic state is bad.
Muita tietoja

JEL-codes: E61, J51, J58