Is it wise to have unemployment accounts in high unemployment and long unemployment duration economies?

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January 21, 2011

Abstract

In previous work, Pallage and Zimmermann (2010) document how an Unemployment Account system dominates an Unemployment Insurance system in many circumstances for a labor market like in the US if it is optimized. This paper reevaluates this in the context of a labor market with higher average unemployment rates and durations, using a heterogeneous DSGE model with borrowing constraints. Using the example of Austria, we establish the optimal characteristics of the Unemployment Account system and compare it to unemployment insurance and to the newly established system of accounts for severance pay.