Optimal Unemployment Insurance and Experience Rating, by Murray Brown (State University of New York, Buffalo) and Elmar Wolfstetter (Free University of Berlin).

In the presence of asymmetric information, adding a public unemployment insurance to labor contracts is potentially Pareto improving. Unfortunately, most successful mechanisms are manipulable by coalitions. This leads us to design coalition incentive compatible unemployment insurance systems. Their welfare effect depends on which coalitions are feasible. Whenever firm unemployment insurance coalitions may form, one ends up with an impossibility result: as contracts are made coalition proof, they no longer Pareto dominate firm-worker coalitions are feasible, the public unemployment insurance is strictly Pareto improving, even though it cannot implement the welfare levels that would be reached if no coalitions were feasible at all. *Scandinavian Journal of Economics*, Vol. 90, No. 4 (1988), pp. 529–47. (Reprinted with permission of the *Journal of Economic Literature*).

Optimal Firm Size, Taxes, and Unemployment, by Kenneth Burdett (Cornell University) and Randall Wright (University of Pennsylvania).

We analyze a model similar to the standard implicit contracting framework, but assume that the size of the firm (the number of workers under contract) is endogenous. Some well-known predictions from contract theory with firm size fixed exogenously are reversed. In particular, a result obtained by Feldstein concerning unemployment insurance does not hold when firm size is chosen optimally: he concludes an increase in experience rating (the extent to which firms pay for unemployment benefits through their taxes) reduces unemployment, while we show that it increases unemployment under reasonable conditions. *Journal of Public Economics*, Vol. 39, No. 3 (August 1989), pp. 275–87. (Reprinted with permission of North-Holland Publishing Company).

Unemployment Insurance and Short-Time Compensation: The Effects on Layoffs, Hours per Worker, and Wages, by Kenneth Burdett (Cornell University) and Randall Wright (University of Pennsylvania).

We analyze two unemployment insurance systems. In one, unemployed workers receive benefits while those on reduced hours do not, as in North America (at least until recently). In the other, short-time compensation is paid to workers on reduced hours, as in Europe. The first system causes inefficient temporary layoffs for some parameters; the latter does not, but implies inefficient hours per worker. Some evidence is presented regarding these effects. Despite policymakers' recent enthusiasm for short-time compensation, the clear implication of this project is that changes should come on the tax, not benefit, side of the system. *Journal of Political Economy*, Vol. 97, No. 6 (December 1989), pp. 1479–96. (Reprinted with permission of The University of Chicago Press).