Congress. For those who want a slightly different perspective, spending time with this collection of essays will be most worthwhile.

Labour Market Policy and Unemployment Insurance, by Anders Björklund, Robert Haveman, Robinson Hollister, and Bertil Holmlund (Clarendon Press, 1991).

Reviewer: Elizabeth C. Goldin, Adjunct Professor of Risk Management and Insurance, Morehouse College

This book actually comprises two works—Direct Job Creation: Economic Evaluation and Lessons for the United States and Western Europe and The Economics of Unemployment Insurance: The Case of Sweden—published under the auspices of the Swedish Trade Union Institute for Economic Research, which holds the copyright.

In Part I, Direct Job Creation, Robert Haveman and Robinson Hollister provide a brief overview of government employment and training efforts in the United States and Sweden. The macroeconomic policy discussion in this section is seriously hampered by the authors' failure to realize that virtually all economists now recognize that the famous "Phillips curve" tradeoff between unemployment and inflation has no long-term validity. Their explanation of exchange rate implications is a muddle, leading only to the conclusion that "determining...appropriate strategy...is not a simple matter." Indeed. Also included in this part are discussions of cost-benefit analysis of job creation programs. Section 5 reports on the empirical analysis of a number of specific U.S. programs (chosen because European programs have not been subjected to the same level of impact analysis). Section 6 presents the authors' conclusions and includes an informative appendix.

The seventh section of Direct Job Creation is an attempt by Per-Olav Johansson to construct a cost-benefit model for evaluating job training programs. While admirable in intent, this paper is very hard to follow, and the model fails to take into account the cost of the program evaluations which are so favored by the authors of the major paper.

The final section of Direct Job Creation, by Anders Björklund, discusses three Swedish training program evaluations, none of which are very successful. The implication drawn, however, is not that government training programs are not particularly useful, but that more and better studies must be implemented.

The authors' conclusions in some sections require comment. Americans are generally able to recognize that the "best" labor market policy might be to let the private sector largely alone, rather than displacing resources in futile attempts to counteract existing government policies that negatively affect employment. Also, the evaluation of U.S. labor policy that the authors so admire is a very costly transfer from taxpayers to consulting firms.

I must also dispute the authors' conclusion that the reason for the lack of evidence of effective employment policy for seriously disadvantaged males is the "lack of quality evaluation." Their own report of evaluation efforts leads

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to the more solid conclusion that government intervention cannot cure this problem. It shows a sad ignorance of the fact that governments are creating the macroeconomic circumstances that lead to labor market problems.

Part II, The Economics of Unemployment Insurance: The Case of Sweden, may be more interesting to students of "social" insurance than Part I, but the two parts complement each other because of the uniqueness of the Swedish approach to unemployment, which strongly emphasizes active labor market policy.

Björklund and Holmlund explain why insurance is generally preferable to savings from the standpoint of the worker for dealing with unemployment risk. Clearly stated, the point is that saving involves more uncertainty when the timing and duration of unemployment for a given worker are not predictable.

The first section tries to explain why unemployment insurance is better provided by the government; but it ultimately fails, since the single cogent reason why government can avoid adverse selection is by making the system universally compulsory, which is not the case in Sweden. The authors' two stated purposes in this section are to examine the literature on unemployment insurance and to examine the Swedish system in light of this literature.

The Swedish system of unemployment compensation differs vastly from the U.S. system, and the section which describes it is quite thorough. About 78 percent of the workforce participates in this program. The national government's share of funding for the benefits is 100 percent, with member contributions paying for administrative costs. It interests the government, then, to discover whether unemployment insurance provides disincentives to work.

The section of the paper that deals with incentive effects covers both theory and empirical evidence. Theory suggests that the higher the benefits, the higher the worker's "reservation wage" (that for which he or she will hold out). Theory also predicts that experience rating will reduce a firm's layoffs. Evidence from the United States that higher benefits increase the reservation wage is strong and indicates that high benefits increase the duration of unemployment. Evidence from Sweden is less compelling, perhaps because Sweden offers a great deal of help in finding work and polices job refusals more stringently.

Discussing the income distribution effects of the Swedish UI system, the authors admit that government intervention is not Pareto-efficient, because people who elect not to belong to the UI system still have to pay for it through lower wages. They present an analysis of the real effects of UI on income distribution: negligible transfers to the best-paid workers (whose probability of unemployment is least) and even less to the lowest-paid workers (whose attachment to the workforce is the weakest).

The section called Aspects of Optimal Unemployment Insurance examines the probable effects of schemes such as lump-sum severance payments, increasing payments over the duration of unemployment, decreasing payments over the duration, and of funding options such as industry-specific experience rating, etc. The section becomes odd when it suggests that there could be a case for the government introducing UI schemes that are intended to increase unemployment when the 'natural rate' of unemployment is too low"!

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In their Summary and Conclusions, the authors discuss the possibility of making the Swedish system compulsory for all workers to avoid adverse selection. They suggest that the impressive Swedish unemployment record is probably the result of Sweden's aggressive labor market policies. That conclusion is somewhat strange in light of the first part of the book, which shows at best marginal success with those programs.

Gary Burtless's "Comment" on Björklund and Holmlund's paper assesses the reasons for the vast interest among economists in unemployment. Eskil Wadensjö's "Comment" is particularly interesting as it points out that many trade unions had unemployment insurance schemes before UI was implemented in 1935, and many of these elected to stay out of UI throughout the 1930s to avoid having to comply with the government's stringent rules. Wadensjö also notes that local communities offered unemployment compensation before the scheme was effectively nationalized.

Apart from the detailed explanation of the Swedish UI system that will interest researchers with an international focus, the weakness of The Economics of Unemployment Insurance for U.S. readers is that its analysis is not readily transferrable to the United States.

In the book's defense, both parts provide excellent and extensive bibliographies, which will be valuable resources for those with a particular interest in labor markets and unemployment. The authors' critiques of empirical methods could also save researchers from repeating mistakes and allow their work to arrive at more supportable conclusions than many of the studies that the book examines.

Book Review

Principles of Workers' Compensation Claims, edited by James J. Markham (Insurance Institute of America, 1992).

Reviewer: Carol A. B. Jordan, Ph.D., Associate Professor of Insurance, Eastern Kentucky University

The editor has compiled the writings of nine authors into a textbook designed to be used in the Institute's "Associate in Claims" series. This book is certainly one of the best I've seen from the Institute.

Principles of Workers' Compensation Claims is concise, just six chapters and 213 pages. It is well organized, beginning with a chapter on the role of the workers' compensation system that includes the obligatory history of workers' compensation in the United States. Although there is a reference to Lord Campbell's Act of 1846, I did miss seeing the usual reference to establishment of the German Compensation System during the early 1880s. At any rate, the chapter continues with descriptive material on workers' compensation laws (state and federal) followed by an overview of the workers' compensation system. The overview includes material on rating of workers' compensation insurance and the role of the National Council on Compensation Insurance in ratemaking; the effect of loss control on the workers' compensation exposure; and the increasing choice of retention of the workers' compensation exposure.

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