Externalities of Public Insurance Cutbacks on Productivity, Health, and Social Welfare

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Public insurance schemes can reduce market failure, decrease inequality, protect vulnerable groups, and promote social welfare. However, rising old-age dependency ratios and governance quality influence their outcomes. This paper examines the potential social and economic externalities associated with reductions in public insurance programs, including health coverage, social security, and unemployment benefits. Using a qualitative methodology, supported by secondary quantitative data from cross-country analyses of Norway, Nigeria, the United Kingdom, China, India, France, and the United States, this study investigates how government-provided insurance influences social welfare and outcomes. The findings suggest that effective governance plays an important role in ensuring that public insurance generates positive externalities such as higher social trust, improved health, and greater economic stability. In areas with relatively poor governance quality, cutbacks in public insurance may amplify inequality and slow economic growth. However, excessive benefits may undermine work incentives, so moderate and well-governed insurance systems are essential for equity and efficiency. In conclusion, the welfare impact of public insurance depends not only on its design and generosity but also on the broader institutional characteristics of the state, which is the paper's policy implication.

Introduction

In 2012, the UK Parliament passed the Welfare Reform Act, announcing plans to cut social benefits by £18 billion[1]. Meanwhile, food bank use in the United Kingdom has reportedly grown by 170%[2]. Both figures are true- to the Treasury, it is a successful reduction in welfare; to the thousands and millions of families losing the benefits, it is the start of a living crisis. This paradox revealed a long-overlooked issue in policy analysis: the true social cost of public insurance cutbacks often did not appear on the government's record, but as 'externalities' that were transformed onto employers, societies, charity, and households.

This phenomenon is not only restricted to the United Kingdom. In 2023, approximately 4.5 billion people globally (more than half of the world's population) lacked full access to essential health services[3]. At the same time, in the past decades, governments worldwide have been forced to reduce or restructure these programs in response to fiscal pressures, aging populations, and ideological shifts toward market-oriented solutions[4]. However, existing research focuses on the direct impact of reductions in public insurance on beneficiaries, neglecting spillover effects on third parties. More importantly, although the quality of governance appears to be an important factor in determining the different outcomes achieved by countries when the same reduction policy is implemented, this dimension lacks sufficient systematic cross-examination.

This paper asks: **under what institutional conditions do public insurance cutbacks generate negative externalities, and what governance mechanisms can mitigate these spillover effects?** To answer this question, this paper utilizes a structured comparative case study approach, picking Norway, the United Kingdom, France, China, India, Nigeria, and the United States as the seven countries. Using the Most Different System Design, this method aims to maximize differentiation in the quality of governance, income level, and demographic structure. The findings reveal that the social benefits of public insurance are closely related to the quality of governance: in a well-governed country, a moderate reduction may be mitigated through activation policies; on the other hand, in a weakly governed region, similar reforms may create a greater likelihood of severe negative externalities.

The paper develops this argument in three stages. First, it reviews the theoretical foundations and social externalities of reducing public insurance. The methodology outlines the analytical framework of this paper. Next, the results and discussion section presents the comparative case study of seven countries across three types of public insurance. The last section concludes the paper and provides policy ramifications.

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Literature Review

Public economics centers around the role of the government in allocating economic resources and distributing income, usually via public spending and taxation. The presence of public insurance ensures individuals are shielded from risks such as illness, unemployment, and old age. When governments reduce the generosity of public insurance, its impacts go beyond individual interest and welfare- it can bring broader social and economic consequences. These widespread impacts were referred to as social externalities by economists, which can be both negative and positive. This literature review examines the theoretical foundations of public insurance and summarizes key ideas from existing reviews and different impacts.

Theoretical Foundations: Market Failure and Externalities

Foundational theories in public economics highlight that public insurance exists to correct market failures and improve social welfare. However, critics on the market-oriented side claim that an increase in public insurance can distort incentives, lead to the crowding-out effect (the reduction in private spending or investment that may result from increased government spending), and may fail to provide socially optimal levels of insurance.

The concept of externalities provides a useful framework for understanding these effects. Externalities are defined as the positive or negative spillover effects on third parties[5]. Negative externalities impose social costs on third parties, while positive externalities generate social benefits. In the context of public insurance, positive externalities might include increased efficiency, stronger social cohesion, or reduced poverty. Negative externalities might include increased caregiving burdens, lower workforce participation, and greater pressure on charitable and community organizations.

Historical welfare economists argued that government intervention can be necessary to correct market failures and promote social welfare. Musgrave argues that certain public goods may be inefficiently provided through a voluntary exchange system or private markets, as individuals have little incentive to voluntarily pay their shares[6]. Building on this foundation, Atkinson, Diamond, and Mirrlees all argued that public insurance coverage can function as redistributive policies[7,8]. They can contribute to increasing equality and stabilizing the market. All the papers above suggest that reductions in public insurance may reintroduce market failures and inequality, harming individuals' interests. Public Insurance should not be viewed solely as a transfer mechanism, but also as a social investment that can generate broader economic and social benefits.

However, these interventionist views have been challenged by New Liberalist Economists. They argue that increased social welfare will undermine freedom and economic dynamism. Friedman argues that resources are allocated more effectively when the market operates freely. Extensive welfare may reduce economic efficiency due to the crowding-out effect[9]. Hayek similarly warns that excessive state control of welfare and the expansion of public insurance can create dependence on government bureaucracy[10]. Buchanan and Tullock further argue that government intervention itself is prone to inefficiencies, increasing the likelihood of political rent-seeking, market distortions, and long-term financial problems, as welfare programs may be exploited for political aims to enrich rent-seekers[11].

This contrasting view suggests that the influence of public insurance on society cannot be assessed solely by the generosity of its benefits. Instead, the outcome is influenced by each state's governance. Esping-Andersen provides a foundational typology of welfare states, distinguishing between liberal (e.g., UK, US), conservative-corporatist (e.g., France, Germany), and social-democratic regimes (e.g., Norway, Sweden)[12]. This typology is crucial for understanding why the same cutback may produce different externalities in different institutional contexts. His framework suggests that similar insurance reforms yield very different outcomes across countries due to differing political ideologies. Consequently, to understand the externalities of public insurance cutbacks requires consideration of multiple factors, including governance.

Health Insurance: Information Asymmetry and Coverage Gaps

Health insurance is one type of public insurance that may generate externalities depending on a country's governance, as this market is subject to information asymmetry (A situation in which one party to a transaction possesses more or better information than the other). Patients are often unaware of their current health conditions and future risks and lack the knowledge to evaluate treatments, while healthcare providers possess a comprehensive understanding of such information[13]. This could leave people, especially the vulnerable ones, uncovered.

Public health insurance programs, under these circumstances, can contribute to efficiency and equity in reducing health risk across the population. By spreading the risk across the wider population, public healthcare insurance can reduce uncertainty and shield individuals from catastrophic medical and insurance disasters. This generates positive externalities: a healthier population can lead to higher productivity, increased national output, and reduced long-term care dependency.

The quality of governance plays an important role in shaping the extent of these positive externalities. Scholars claim that reducing public health insurance coverage can increase financial instability by exposing households to huge medical debt and creating negative externalities for employers, insurance providers, and wider society, as seen in the U.S. Medicaid cutback [14,15]. This will lead to market inefficiency. Given that this is the case in one of the most developed countries, developing countries may face even greater challenges. In these regions, political instability, corruption, and administrative inefficiencies will generate additional negative externalities for the wider society.

Social Security: Pensions, Aging, and Fiscal Sustainability

The social externalities of insurance reduction also extend to the aging population. Social Security aims to provide coverage for the elderly against specific threats to themselves and their family. Feldstein argues that Social Security lowers the national saving rate and encourages early retirement by shielding individuals from social shocks [16]. These combined factors reduce current consumption of goods and influence long-term economic performance. Rust and Phelan further argue that public provision helps to address limitations in private provision of social security, particularly where individuals face uncertainty regarding life expectancy, future healthcare costs, and post-retirement income needs [17].

On the other hand, the private social security market struggles to provide optimal insurance due to adverse selection (The tendency for those with higher risk to be more likely to purchase insurance, which can cause private insurance markets to unravel). Finkelstein and McGarry's research on the limited provision of long-term care insurance suggests that individuals possess private knowledge and understanding that private insurance firms lack. The information gap between buyers and sellers makes the voluntary retirement market vulnerable to adverse selection and inefficiencies [18]. Public pension systems can help to mitigate this by implementing mandatory participation and intergenerational transfers to spread risks.

Beyond providing additional income, the social security system also creates broader positive externalities for society. Additional pensions received can help relieve financial stress on younger generations, thereby generating greater labor force participation in the economy. Moreover, this income may also increase social satisfaction and social trust by providing citizens a sense of security in their future. In this case, the social security system not only acts as a redistribution mechanism but also as a means of achieving social stability.

However, an aging population has the potential to offset the benefits of social security. The increase in the dependency ratio puts increasing strain on public finances and the economy by demanding more beneficiaries, while the available working population falls. Scholars argue that welfare retrenchment is politically difficult because it generates concentrated losses for visible constituencies, which helps explain why cutbacks often occur gradually or through 'stealth' mechanisms such as benefit erosion rather than through explicit cuts [19].

Unemployment Insurance: Moral Hazard and Consumption Smoothing

Unemployment insurance (UI) aims to protect workers against income shocks and help stabilize consumption during periods when individuals lose their jobs and meet specific eligibility requirements. Gruber found that unemployment insurance reduces declines in consumption during unemployment, enabling individuals to maintain their standard of living during job loss by smoothing consumption [20]. Moreover, empirical evidence suggests that well-formulated programs can mitigate these concerns. Marinescu et al. find that short-term provision of unemployment benefits during the pandemic provides social stability, without influencing individuals' work incentives [21].

However, even though unemployment insurance shields unemployed individuals from risk, concerns that it leads to moral hazards arise. Katz and Meyer found that when unemployment benefits last longer, people tend to remain unemployed or take longer to find a job, reducing their incentives to work [22].

On the other hand, studies have provided a more nuanced interpretation. Acemoglu and Shimer claim that properly designed Unemployment Insurance can increase the overall efficiency of the economy by allowing workers to search for jobs that match their skills, rather than accepting the first available position [23]. Chetty further distinguished between the moral hazard effect and the liquidity effect of unemployment insurance, finding that the primary benefit of UI is providing liquidity to credit-constrained households rather than insuring against risk. This suggests that the optimal level of UI depends critically on households' access to the credit market [24].

Research Gaps

Despite the large number of studies, gaps remain in the field. First of all, most studies focus on developed economies such as the United States, leaving developing countries unrepresented. For developing countries, scholars argue that the absence of a formal insurance system increases households' reliance on informal risk-sharing networks, which are less efficient and more vulnerable to covariate shocks such as droughts or economic crises [25]. Secondly, few distinguish direct effects on recipients from externalities on third parties. Employers, firms, charities, and local societies often experience these negative externalities, while these spillover effects have received limited attention. Third, the interaction between governance quality and cutbacks is rarely tested systematically. Existing research tends to analyze welfare policies or governance quality separately rather than exploring their interaction. This paper addresses these gaps through a structured comparative case analysis of seven countries with substantial variation in governance quality and development characteristics.

Methods

This paper utilizes structured comparative case study analysis to systematically compare the results of different policies across different governance contexts and examine how governance quality shapes the externalities of public insurance cutbacks[26]. Secondary data were collected from the OECD, the World Bank, the World Health Organization, the International Labor Organization, peer-reviewed publications, and other transparent, authoritative international databases. Sources were selected based on the following criteria: 1. Relevance to public insurance cutback and the influence of governance quality; 2. Cross-country comparability; 3. Publication and its reliability.

The seven countries in this paper were selected using the Most Different Systems Design[27]. The selected countries differ substantially across the following three dimensions: First, governance quality, where Norway has a CPI of 81 and Nigeria has 26[28]; Second, the samples cover different income levels, from high to medium to low income. Lastly, the demographic structure of an economy means that France suffers from an aging population, whereas Nigeria has a youthful one. This variation allows this paper to analyze the quality of governance as a key analytical factor, while recognizing its interaction with other national characteristics.

This paper assesses the cases along three analytical dimensions, each corresponding to a type of insurance and its externalities: 1. Health Insurance and information asymmetry- Will public health insurance reduce information gaps and improve social welfare, and how does the quality of governance influence the impact (Norway vs. Nigeria). 2. Social Security and financial sustainability: Does the pension system reduce poverty, increase social trust, and continue to remain stable in an ageing society (UK, China, and India). 3. Unemployment Insurance and work motivation: Under what conditions does unemployment insurance begin to weaken job-seeking incentives (France vs. United States)?

Results and Discussion

Health Insurance: Governance Quality and the Generation of Positive Externalities

Norway and Nigeria provide a contrasting example of how governance quality shapes outcomes under public insurance cutbacks. Norway is a country with strong governance that has maintained universal healthcare coverage despite rising pressures across sectors, including an aging population. It has a CPI score of 81, ranking in 4th place in the world[29]. Rather than implementing large-scale insurance cutbacks, Norway has introduced minor changes in different sectors. This includes increased patient cost-sharing, efficiency reforms, and growth in the private insurance market. With its near-universal coverage, these alterations have still achieved high levels of equity and efficiency, increased labor productivity, and reduced inequality. Nigeria, with a CPI score of 26/100, is an example of a region where governance challenges are associated with limited public insurance. Nigeria's National Health Insurance Scheme (NHIS) has experienced chronic underfunding since its launch in 2005, despite its primary purpose of achieving universal health coverage. Federal government health expenditure as a percentage of total government expenditure fell from 5.05% in 2003 to 2.99% in 2019[30]. This represents a de facto cutback through budget erosion rather than explicit policy change- a pattern Pierson terms "systemic retrenchment"[19]. These public healthcare cutbacks are associated with negative externalities that extend beyond households to society at large, including increased information asymmetry, private-market dominance, and reduced healthcare accessibility.

Norway provides one of the world's most successful examples of well-governed, universal public health insurance. With public health expenditure accounting for 85%, virtually 100% of Norwegians are covered by health care[31]. Due to high coverage, Norway's life expectancy has increased to 83.4 years[32]. The system is funded through two sources: the general tax system and out-of-pocket payments. This system, combined with strong government institutions, reduces the risk of political rent-seeking and administrative frictions, ensuring that funds reach each medical provider with minimal leakage and corruption. This mechanism also created significant positive externalities: it not only reduced information asymmetry in the healthcare market but also enhanced labor productivity by reducing catastrophic health spending[13]. As a result, in Norway, 48% of people had high or moderately high trust in the national government, above the OECD average of 39% in 2023[33]. The statistics indicate that Norway achieves both equity and efficiency. This suggests that under good governance, universal public health insurance maximizes social welfare.

Nigeria stands at the other end of the spectrum. Since the establishment of NHIS in 2005, fewer than 5% of Nigerians are enrolled as of June 2024, while 70% still finance their healthcare independently[34]. All of these statistics suggest uncertainty within the organization, which may discourage the public from participating. The lack of trust reflects concerns regarding fund leakages and political interference on the global stage. This results in Nigeria's health sector being dom-

Table 1 Case Selection Matrix

Country	Income Level	CPI Score (2024)	Health Coverage (%)	Old-Age Dependency Ratio (%)	UI System	Primary Analytical Focus
Norway	High	81	∼100	27	Moderate	Health Insurance
UK	High	70	∼100	31	Moderate	Social Security (Reform)
France	High	66	∼100	35	Generous	Unemployment Insurance (efficiency)
China	Upper-Middle	43	∼94	25	Expanding	Social Security (Transitional)
India	Lower-Middle	39	∼25	10	Limited	Social Security (Weak governance)
Nigeria	Low	26	∼5	6	Minimal	Health Insurance
United States	High	64	∼92	28.5	Limited	Unemployment Insurance

Table 2 Governance Quality and Health Insurance Effectiveness

Country	CPI Score (Rank/182)	Health Insurance Coverage	Government Trust level	Main externalities	Welfare Outcome
Norway	81 (4th)	∼100%	48%	Positive Externalities: universal coverage, higher labor productivity, reduced inequality	High- achieves both equity and efficiency
Nigeria	26(142th)	∼5%	20%	Negative Externalities: worsened information asymmetry, private-market dominance, deteriorated healthcare accessibility	Extremely low- institutional failure

inated by private businesses, in which public access remains limited. Instead of reducing information asymmetry, Nigeria's public and medical care systems create barriers and negative externalities between consumers and providers. Nigeria shows that when corruption and inefficiency can contribute to a privately dominated health insurance market, inequality and inefficiency prevail.

The comparison above between Norway and Nigeria suggests that whether public health can generate externalities is closely related to how governance affects information asymmetry. In a developed and well-governed country like Norway, public insurance generates social welfare, while in a developing and poorly governed nation such as Nigeria, a similar design further exacerbates market failure.

Social Security: Fiscal Sustainability and Externalities in Ageing Societies

In recent decades, an aging population has had a significant influence on many countries, placing a greater financial burden on each nation. The United Kingdom, China, and India represent three different stages of this challenge. The United Kingdom has a CPI score of 70, ranking 20 out of 182 countries[35]. It is claimed that by 2021, £37bn less will be spent on working-age social security compared with 2010[36]. Moreover, the UK has implemented gradual pension reforms, such as increasing the state pension age. China, in comparison, has experienced an expansion in social security coverage. The basic pension insurance expanded by 278 million to 1.066 billion people from 2012 to 2023[37]. However, China also faces growing pressure from its rapidly aging population and regional disparities. Lastly, India has limited pension coverage and will face future sustainability challenges. In 2004, the government replaced the defined-benefit pension system with the National Pension System, reducing future fiscal liabilities by shifting risk to individuals[38]. These three examples demonstrate that the impact of pension reforms is influenced by demographic pressure and governance quality.

The United Kingdom has one of the most widespread and developed pension systems among developed countries, with an estimated 12.95 million state pensioners in Great Britain in 2024/25[39]. The state pension, funded through national insurance, general taxation, and the pay-as-you-go system, provides benefits based on age. In addition to the state pension, privately offered pensions supplement the system. Strong governance has supported the reliability of the insurance system, both public and private, and it is reliable and trusted. This reduces leakage among citizens and ensures that the elderly receive services. Moreover, the United Kingdom's pension system plays an essential role in reducing poverty and promoting equality. According to gov.uk, in 1997, pensioner poverty stood at 30%, and by 2010, this had reduced to 15%[40]. In addition, the stability provided by the pension system brought a more predictable future for households, allowing them to allocate more resources to other areas such as education and consumption, thereby strengthening human capital.

Even though the United Kingdom has a well-regulated pension system, one risk is the pressure posed by an aging pop-

Table 3 Social Security Systems, Demographic Pressure, and Welfare Externalities

Country	CPI Score (Rank/182)	Old- Age Dependency Ratio	Pension Coverage	Main Positive Externalities	Main Negative Externalities/ Risks	Sustainability Assessment
UK	70 (20th)	∼30.8%	High (12.95 million recipients)	Poverty rate reduced from 30% to 15%; increased human capital investment	Rising fiscal pressure from population ageing	Sustainable – strong governance supports reform
China	∼43 (76th)	∼25% (Rising rapidly)	60% (1.05 billion people)	Reduced rural poverty; expanded basic livelihood security	Urban–rural disparities; short-term political incentives distort long-term planning	Uncertain – narrowing window for reform
India	39 (91th)	<15%	< 25% of workforce	Limited poverty alleviation	Governance leakages; increased family dependency risk	Vulnerable – institutional window exists but is closing

ulation. It has an old-age dependency ratio of 30.8% and is projected to increase[41]. The steady rise in the ratio threatens the balance between insurance providers and recipients in the pension system. However, strong governance and management allow the government of the United Kingdom to manage these issues through reforms, although a shift in demographic structure remains a long-term issue.

China has a two-tier pension system, consisting of a basic pension and a mandatory second-tier plan. It covers urban workers, and many of the parameters depend on province-wide average earnings. With a CPI score of 43, it ranks 76th, indicating decent governance quality[42]. The mandatory basic pension system covers 1.05 billion residents, making up 60% of the overall pension system[43]. This expansion in coverage has helped improve basic living standards for the elderly and reduce poverty and inequality, especially in rural areas where government support is hard to access. It can also help to strengthen a household's sense of security. Over the past 40 years, 800 million people have been lifted out of poverty, enhancing their basic livelihood security partially as a result of the expansion in social security[44]. The fixed income provides a last-minute fallback if the issue is urgent.

However, China faces two crucial challenges: an aging population and uneven governance. It is estimated that over one-fifth of the Chinese population is 60 years of age or older[45]. This is still expected to grow in the near future. Besides that, differences in regional governance between urban and rural areas further increase inequality. For the Urban Employee Pension Scheme, pensioners received an average of RMB 3605 per month; whereas under the Rural Urban Resident Scheme, workers can only receive around RMB 205 per month in 2022[46]. This meant that those who are richer get richer and more opportunities, while those who suffer from poverty continue to do so. This exacerbates urban-rural disparity, creating challenges for long-term growth. Moreover, the government's political incentives, in some circumstances, can encourage short-term benefits rather than long-term ones. While the government announced increases in retirement ages to 63 for men and 58 for women, other measures to increase human capital should also be considered. In conclusion, China illustrates a country that has improved governance and a surge in development in the past few decades. This is essential for strengthening social welfare, but further development is needed to secure a better future.

India presents an alternative example, where weak governance has limited the effectiveness of public pensions. India's pension system, the National Pension System (NPS), with less than 25% of the workforce covered, demonstrates a lack of regulation and contributors[47]. This demonstrates the limited coverage for many elderly people, leaving them dependent on family support and unprotected against shocks. Moreover, it limits poverty alleviation, widening the income gap between the rich and the poor. The lack of trust sets the foundation for this scenario. Ranked 91st out of 182 countries on the Corruption Perceptions Index, India demonstrates the lack of trust people have in their government[48]. Moreover, economic leakage further diminishes the credibility of the public pension system. Even though India's aging population is not a severe issue, with the projection that in 2050, people aged 60 and older are expected to make up nearly 20% of the population, weaknesses in governance create challenges for achieving a sustainable and effective pension system[49]. Without reform, the little reliance on the system can lead to a greater social burden.

The pension system has the potential to increase social trust, reduce inequality, and increase human capital. However, they also pose challenges to long-term development in an aging society, especially in countries with weak governance. In developed countries, such as the UK, good governance, combined with a well-organized state pension, can generate a sustainable long-term social security program. In transitional economies like China, expanding pension coverage is beneficial, but it must be combined with governance development. Thus, its sustainability is uncertain, with a narrowing window for reform. Lastly, in developing countries like India, improvements in governance and the pension system are needed to better shield more individuals from shocks, given the program's high vulnerability.

Unemployment Insurance: Balancing Labour Market Incentives and Social Stability

France and the United States demonstrate two contrasting approaches to unemployment insurance reform. France represents a generous welfare state that has attempted to reduce fiscal pressure while maintaining labor market stability. In contrast, the United States shows more limited generosity, with reductions primarily aimed at fiscal sustainability while placing greater emphasis on protecting civilians.

France, with a CPI score of 66, has one of the most generous unemployment insurance systems in the world[50]. The system provides a maximum of €274.80 per day, or up to 75% of your previous gross salary[51]. However, it has introduced UI reform since 2019. This includes progressively tightening eligibility and reducing maximum benefit duration. These reforms have resulted in a 25% reduction in benefit duration in 2023[52], followed by a reduction from 18 months to 15 months for workers under 55 in 2026[53]. Unlike large-scale reductions, the reformation of Unemployment Insurance in France was accompanied by activation policies. Notably, France Travail, a government agency in France that aims to help unemployed individuals, was using Artificial Intelligence to identify skills to fill employment vacancies[54]. This supports public service employment in France. France's strong governance, with limited administrative inefficiency and political interference, ensures that these reforms have been implemented effectively through public institutions. As the product of a negotiated agreement between the two sides of industry, even though the market has been through reform, unemployment insurance still aims to preserve living standards and social cohesion. Furthermore, unemployment insurance in France improves labor market efficiency by giving workers time to find a job suited to them, rather than choosing a job under financial pressure.

On the other hand, the generosity of the French Unemployment system brings challenges. Long-term benefits can weaken job-search intensity and incentives, thereby increasing unemployment duration and discouraging workers. In France, the poverty rate among unemployed workers is 36.1%, which is significantly higher than in other European countries[55]. Moreover, the payment term ranges from 122 to 730 days, which is significantly longer than expected. These factors demonstrate that, under generous UI provisions, workers are discouraged to some extent.

The United States presents a contrasting case where a reduction in unemployment insurance was partly due to concerns about financial burden. The United States has experienced two major rounds of unemployment insurance cutbacks: After the Great Recession and COVID-19. Between 2011 and 2015, nine states reduced their maximum duration of regular unemployment benefits from 26 weeks[56]. In particular, the duration dropped to 12 weeks in states like Florida and North Carolina. During the COVID-19 pandemic, the number of workers receiving unemployment insurance skyrocketed from 2 million to 8.3 million in March, and the federal government supplemented state UI with an extra $300 per week under the CARES Act[57]. However, in September 2021, this program expired, representing a major contraction in unemployment protection[58].

The cutback is related to some positive externalities for American society. This reduction will increase the incentive for workers to seek job opportunities after periods of uncertainty. This will fill up vacancies in the job market much more quickly. Scholars have estimated that if all states had ended benefits even earlier, the unemployment rate in July and August 2021 would be about 0.3 percentage points lower[59]. Moreover, the significant decrease in the unemployment rate after the pandemic demonstrates the stimulation that the insurance cutbacks have on society. In April 2020, the unemployment rate was 14.7%, the highest of all time, and it fell to 3.6% in the 4th quarter of 2022[60]. This demonstrates that a fall in benefits increases the incentive for some people to actively seek work, benefiting the United States labor market.

However, the negative externalities of UI cutbacks can be substantial, as they can increase poverty and financial insecurity among households. Unemployment Insurance serves as a last resort for those who don't have sufficient income to live and helps prevent a collapse. Reducing benefits increases the likelihood that households will have greater difficulty managing debt and expenditures. It has been found that during the Great Recession, median real household cash income fell from $57,357 in 2007 to $52,690 in 2011, and poverty increased from 12.5% in 2007 to 15.1% in 2010[61]. This demonstrates how unemployment insurance acts as a safety net that mitigates poverty. Without sufficient UI combined with external forces, the impact of the cutback will be externalized onto wider society. This increases the burden on different charities and programs. Moreover, although UI reductions lowered government expenditure, they transferred financial risks from the state to households, increasing reliance on other social support systems.

The comparison between France and the United States demonstrates that the externalities of UI cutbacks are shaped not only by the scale and cause, but also by the institution. In France, the generous welfare system promotes welfare and social stability, but it also may weaken society's incentive to work. In the United States, a lower level of generosity, combined with periods of structural and social challenges, stimulates employment after the challenges but also increases poverty and financial insecurity. France demonstrates a nation with a centralized national insurance framework in which re-

Table 4 Unemployment Insurance Benefit Levels, Externalities, and Governance Capacity

Country	CPI Score (Rank/182)	Benefit Generosity	Main Positive Externalities	Main Negative Externalities	Governance Type
France	66 (27th)	Generous	Preserved living standard and social cohesion	Lower incentive to work	Centralized
US	64 (29th)	Limited	Greater incentive to find job and work	Poverty and financial insecurity	Decentralized- each state have control over administration

formations are negotiated through national institutions. The US case demonstrates a more decentralized scheme, in which each state has significant control over the administration of its UI. Therefore, unemployment insurance maximizes social welfare when governance mechanisms effectively balance moral hazard concerns with the need for economic security.

Cross-case Discussion

Based on the analysis of the three dimensions, the comparative case study in this paper identifies a key pattern that applies across all types of insurance: Public insurance's externalities are closely related to the influence of regulatory quality on system design, not on the design of the system itself.

In well-governed nations (Norway, the United Kingdom), Public insurance is associated with sustainable positive externalities by reducing market failures, including information asymmetry, adverse selection, and moral hazard. This will lead to increased productivity, reduced poverty, and strengthened social trust. In poorly governed nations (Nigeria, India), the same framework for public insurance can create negative externalities due to administrative leakage and political rent-seeking. This exacerbates inequality and market failure. In transitional economies (China) and high-welfare countries (France and the United States), the mismatch between governance quality and institutional design has produced mixed results, indicating that both positive externalities and structural risks coexist.

This finding has direct policy implications for public insurance cutbacks: reducing public insurance in a low-governance environment will disproportionately magnify negative externalities, whereas in a high-governance environment, moderate institutional adjustment can enhance efficiency while maintaining positive externalities.

Evaluation and Conclusion

This study examines how public insurance cutbacks generate social externalities under different governance conditions. Through comparative case study analysis of Norway, Nigeria, the United Kingdom, China, India, France, and the United States, this paper concludes that the outcomes of insurance cutbacks do not solely depend on the scale of change. Instead, governance quality serves as a critical mediator shaping whether the reduction yields positive or negative outcomes.

Several policy implications follow. First, governments should require ex-ante externality assessments before any cutback. Second, in low-governance countries, governance reforms must precede benefit cuts. Third, in some cases public insurance cutbacks are inevitable, so governments should continuously improve their governance quality and update their scheme as demonstrated in the seven case studies. For example, for Norway's minor healthcare adjustments, strong governance combined with limited reductions showed that significant negative externalities will not be generated. Moreover, France's unemployment insurance reforms showed that the aim of social protection can be balanced with moderate reductions to reduce financial burdens. However, this study has several limitations. First, because it relies on comparative case studies and secondary data, this design cannot establish causality. It cannot establish the precise causal relationship between governance quality and insurance reduction outcome. Future research should use panel regression to test the governance-mediation hypothesis across multiple countries, rather than only seven countries. Additionally, further research could examine how political institutions, demographic structures, and cultural factors interact with governance quality to shape the long-term effects of public insurance reform.

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