

# **A comparative overview of unemployment benefit: striving to provide security for employees in their career paths**

Florence Lefresne\*

The national unemployment benefit systems that have gradually been introduced since the early 20<sup>th</sup> century were derived from different social protection systems, and have played a significant part in the social construction of the wage-earning status. Thanks to these benefit systems, unemployment has been able to develop beyond a situation of extreme insecurity and to establish itself, in its own way, as a ‘status’, backed by a social identity (an administrative classification clearly distinguishing it from destitution or inactivity, see Topalov, 1994), and based both on entitlements (existence of a replacement income, recourse to a public employment service) and obligations (claimants must demonstrate that they are actively looking for work). The status of being unemployed is a corollary of the status of an employee: both its negative image and the pre-condition of its existence. In the historical context of the post-war period, recognition of the risk of unemployment and the benefit cover provided for it were an absolute prerequisite for the Keynesian convention of full employment, expressing the collective responsibility of States vis-à-vis employment (Salais *et al.*, 1986).

The erosion of the wage-earner’s status over the past thirty years has been accompanied by a similar process operating in the social category of unemployment. The fragmentation of standard employment practices accentuates the risk of unemployment, especially for those groups of employees whose unemployment insurance cover has been shrinking. Benefit systems are therefore having to make major adjustments and the founding beliefs on which they were built reveal a paradigm shift: collective recognition of the right to work is losing ground to the idea, which admittedly has been around for a long time, of taking individual responsibility for unemployment. Tougher eligibility criteria, a reduction

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\* Socio-economist, senior researcher at the IRES (Institut de Recherches Economiques et Sociales), Marne-la-Vallée, France.

in benefit amounts and entitlement periods, tighter controls, making payment of benefits conditional upon acceptance of activation mechanisms, and finally a revised definition of ‘suitable employment’ are all changes characterising trends shared throughout the European Union and well beyond. This diagnosis was established for the 1990s, when a sharp upsurge in unemployment at the start of the decade gave rise to a cost problem that was likely, in the view of governments, to burden either the competitiveness of their production apparatus (where benefit financing was based on wage and salary costs) or the public deficit (where financing was provided by the State) (Freyssinet, 1999). The following decade confirmed that an erosion of benefit systems was under way, accompanied by a growing legitimisation of the rhetoric on disincentives to work (Dubois, 2007; Burgi, 2009). The process clearly bears the hallmark of the dynamics of activating passive expenditure, as advocated by the OECD and the European Commission, via the Lisbon Strategy, establishing a closer link between adjustments to benefit systems and the governance of national employment services<sup>1</sup> (Serrano, 2004).

Yet for all that, significant national disparities remain in terms of the level and scope of benefits providing protection against the risk of unemployment. The institutional structure of a country’s unemployment benefit system (the ways in which job placement and payment of benefits are interlinked; the role played by the social partners, the government and regional or local authorities) continues to be dependent on distinctive characteristics that greatly influence the terms of the national debate. The very notion of benefit provision, along with social representations of unemployment and the compromises that underlie social policy and employment policy, varies from one country to another. It is this dual impulse at work – the effects of convergence and the maintenance of certain distinctive, albeit evolving, features – that we intend to report on here. The context of a global economic recession and the rapid rise in unemployment add particular significance to this comparative appraisal. It underlines the key issue of creating a sense of security in the career paths of millions of employees affected by the upsurge in unemployment.

Based on a statistical framework, Part One provides an initial table showing expenditure on unemployment benefit in the different countries, in relation to so-called active employment policy expenditure. What

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1. See chapter by Philippe Pochet in this volume.

budgetary outlay does each of them devote to replacement income for the unemployed? Is this outlay converging? Is it correlated to the level of unemployment? Part Two takes stock of the main reforms that have taken place over the past decade and, in many cases, are still on the agenda of governments and social stakeholders. The reforms in progress and the debates surrounding them are following different timetables, and are influenced not only by national contexts but also by European or even global developments, but together, they are redefining the notion of social protection.

## **Unemployment benefits paid in different countries: constructing a statistical framework<sup>2</sup>**

There are two ways of viewing expenditure on unemployment benefit, which refer to two different databases. Replacement incomes resulting from unemployment have long been paid and accounted for as part of the social security budget, but they are also listed as an item of expenditure under labour market policy (see Box). Interestingly, the data derived from each of the two databases do not match and may even reverse the hierarchy of countries. Each database is exploited in a particular version by Eurostat and the OECD, and here too, discrepancies may arise according to the field selected. In the European context of implementing the European Employment Strategy, the Labour Market Policy (LMP) database is directly linked to the monitoring of the employment guidelines. We propose here to use this second database, firstly to put into perspective the passive expenditure earmarked for the labour market, which is normally distinguished from active expenditure on employment. Secondly, we shall use social protection data, which one would expect to be less subject to the pressures of European commitments, to try to measure the degree of investment devoted by each State to its unemployed.

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2. This statistical framework owes a great deal to Antoine Math (Ires).

## Sources of unemployment benefit statistics

Two European statistics databases enable us to determine the level of expenditure on unemployment benefit. Firstly, ESSPROS (European System of Integrated Social Protection Statistics) data apply to expenditure on social protection. Unemployment benefit derived from all benefit schemes (whether means-tested or not) can be identified in the form of 'cash' benefits. ESSPROS, which was developed in the late 1970s and has since been revised several times with a view to enhancing measurement quality, offers the advantage of seeking to take account of all income flows devoted to social protection, and not limiting itself - in the way that domestic accountants do - solely to public expenditure disbursed by social security authorities. Social protection is actually defined as 'any intervention by public or private bodies, which is intended to ease the burden represented by the materialisation of certain risks or needs for households and individuals, provided that it does not form part of a personal arrangement'. In the case of unemployment benefit, private non-compulsory insurance schemes are not taken into account (e.g. those for the liberal professions).

Secondly, the Labour Market Policy (LMP) database, a more recent creation than the other database, was set up by the European Commission under the auspices of Eurostat to monitor framework employment guidelines for the European Employment Strategy. Using official national sources, this database is able to compile a record of all public expenditure relative to interventions in the labour market and the number of beneficiaries (in terms of inventory and flows) affected by this expenditure. The latter is apparent not only in the form of actual services and/or benefits but also tax breaks for employers (exemption from social security costs) or employees (job incentives) as far as it is explicitly targeted at groups of persons with difficulties in the labour market. They are classified as follows:

- Category 1 applies to the public employment service's own expenditure;
- Categories 2-7 apply to public expenditure involved respectively in training, job rotation/job sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives;
- Categories 8-9 apply respectively to out-of-work income maintenance and support, and early retirement benefits.

The two European databases are consistent with OECD data. Since 2004, the OECD has applied the same methodology as Eurostat for its own Labour Market Policy database, which is published annually in 'Employment Outlook'. The only difference however relates to the scope adopted in the definition of category 1. Eurostat takes account solely of public employment service expenditure, whereas the OECD includes the expenditure of private bodies and associations, and excludes some public employment service expenditure that is deemed to lie outside the scope of the labour market. As far as social protection data are concerned, generally speaking the OECD's SOCX database covers all of those contained in Eurostat's ESSPROS accounts, though with one slight differential. SOCX data indicate slightly lower levels of unemployment benefit than ESSPROS data, without however changing the hierarchy of countries.

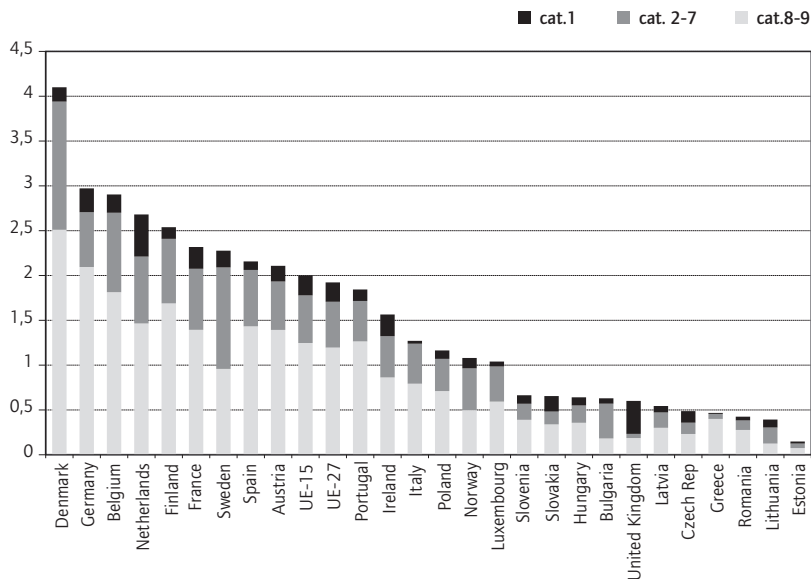
Comparing the two European databases that record expenditure on unemployment benefit shows that the two sources do not coincide, and that there are even some fairly significant discrepancies between them in the case of some countries. For example, in 2005 in France, unemployment benefit represented 1.535% of GDP according to Labour Market Policy data and 2.2% according to ESSPROS data. Explanations relating to differences in scope (inclusion of private flows for compulsory benefits in the case of ESSPROS) do not seem very pertinent in the case of unemployment benefit. Taking different sources may even reverse the hierarchy of countries. For example, in 2005, France spent more on unemployment benefit than Germany did, according to ESSPROS data, whereas the opposite is true if we consult the LMP data.

The choice made here has been to use the Labour Market Policy source to provide a framework for comparison of the structure of expenditure based on the three category groupings described above and to use the Social Protection source to compare the unemployment benefit expenditure of different countries.

## Passive and active expenditure: not mutually exclusive

The goal of activating passive expenditure combines an element of efficiency (internal redeployment of budgetary resources is supposedly the key to job creation) with an element of harmonisation, involving the very terms used (who would wish to encourage passivity?). Having said that, might we view the process as a way of transferring unemployment benefit expenditure to so-called active expenditure?

Figure 1 Labour market expenditure in 2006 - As a % of GDP



Source: Eurostat, Labour market policy (see Box)

NB: The figures for Denmark relate to 2004, and for Greece, to 2005.

Category 1 applies to the public employment service's own expenditure. Categories 2-7 apply to active expenditure (see Box). Categories 8-9 apply to expenditure on unemployment benefit and public expenditure on early retirement schemes respectively.

Expressed as a proportion of national wealth, the levels of expenditure earmarked for the labour market continue to contrast sharply within the European Union (Chart 1), and moreover, are a long way from reflecting unemployment levels. Within this global expenditure, passive expenditure (here described as 'income guarantee' and 'expenditure on early retirement schemes'; see Box) accounts for a majority share in the case of most countries. Globally, the level of active expenditure correlates positively with that of passive expenditure. In two countries, however, the level of active expenditure exceeds that of passive expenditure: Sweden, whose active expenditure exceeds 1% of its GDP, and Bulgaria, which devotes few resources to its labour market but instead focuses these on so-called active programmes. Denmark, Germany, Belgium and the Netherlands are characterised by high volumes of both active and passive expenditure. By contrast, in the Mediterranean countries, the United Kingdom and the 'new entrants', the low level of passive expenditure puts into perspective the very notion of activating this

expenditure. The United Kingdom presents a particularly distorted structure in terms of its expenditure on labour market policies. Activation constitutes a key political objective, and is reliant primarily on extensive funding – in terms of relative value – of job placement agencies, rather than of activation programmes proper.

This initial framework for consideration should prompt us to treat with caution the popular notion of contrasting passive expenditure (with negative connotations) and active expenditure (positive connotations), which can be seen to make little sense in reality. Maintaining a high level of benefits for a significant proportion of the unemployed population, in countries where this is still the case, can be combined with an active policy and, far from having demotivating effects, may on the contrary be viewed as a pre-condition for a successful return-to-work strategy. Conversely, the gradual erosion of benefit systems observed in many countries may raise questions about the conditions required for successful activation strategies where there is too little to be activated (see below).

## Spending on unemployment benefit

To obtain an order of magnitude for the spending on benefits for the unemployed, we shall use a simple ratio comparing the percentage of gross domestic product devoted to unemployment benefits with the unemployment rate (Freyssinet, 2002)<sup>3</sup>.

The outlay on unemployment benefit =  $[(1) / (2)] \times 100$  where:

- (1) = 'Cash unemployment benefits' as a % of GDP (ESSPROS database – social protection data);
- (2) = Unemployment rate.

The same indicator can also be written as:  $[(3) / (4)] \times 100$  where:

- (3) = 'Cash unemployment benefits' per unemployed worker;
- (4) = GDP per person in work.

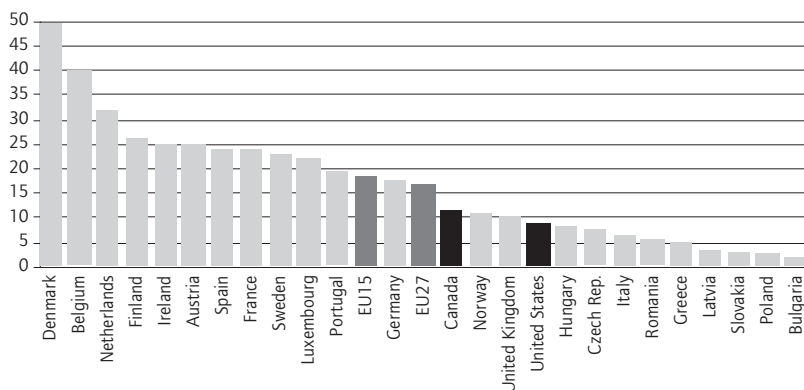
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3. Jacques Freyssinet (2002) used the Labour Market Policy database, whereas we have opted for the Social Protection database, which is less associated with monitoring of the European Employment Strategy guidelines.

The contrasts in terms of benefit spending observed in the 2005 data appear quite marked (Chart 2). The group of countries leading the pack holds no surprises: Denmark, the Netherlands, Belgium and Finland. On the other hand, for some countries, the results are less intuitive. For example, Spain now invests more than France in benefits for its unemployed, (and this finding cannot be explained by the use of ESSPROS data, as it is virtually identical using Labour Market Policy data). Nevertheless we should bear in mind the possible effects of the economic cycles being out of phase in different countries. Thus 2005 constituted a peak in unemployment in the latest economic cycle in Sweden (7.4%), and also Germany (10.7%), which helps to explain the relative ranking of these two countries, usually seen as ‘generous’ in terms of their unemployment benefits (the effect of major reforms was not felt until after 2005; see below). In the case of Germany, using the LMP data would have significantly improved its relative ranking (see Box).

The changes (rises and falls) also differ from country to country, without a very marked fall being observed on average. Three groups of countries may be identified (Charts 3a, 3b and 3c), based on their average level of outlay identified over the period from 1990 to 2005. Sweden presents a special case (Chart 3a): in 1990, expenditure on unemployment benefit accounted for 3% of GDP, at a time when the unemployment rate was 1.7%, indicating that spending was particularly high here in the early 1990s.

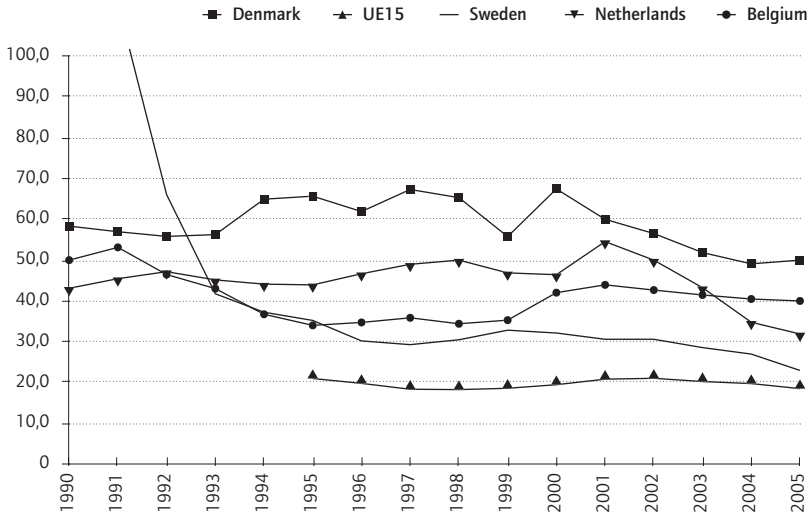
Figure 2 Spending on benefits by country 2005



Source: ESSPROS-Eurostat, OECD-SOCC (for the United States)

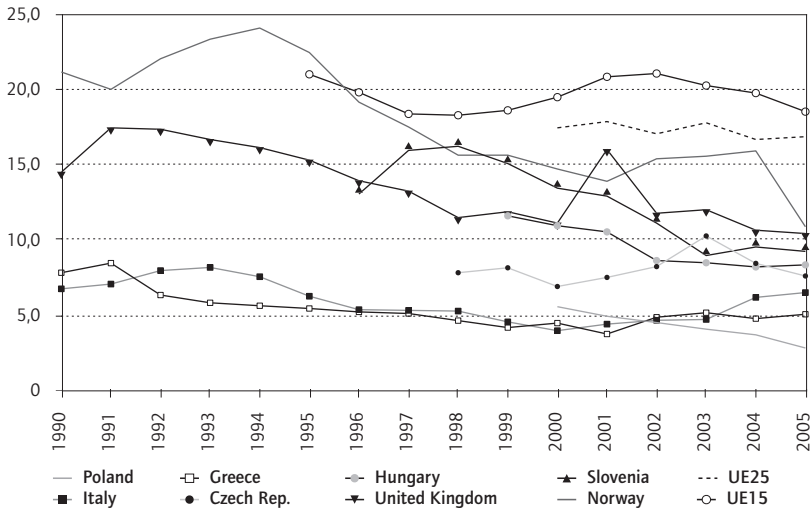
NB: 2004 data for Portugal; OECD-SOCC data have been used here for the United States and Canada (it slightly under-estimates the level of benefit payments compared to the European data, without however changing the hierarchy of countries).

Figure 3a Countries with a significant level of spending on benefits



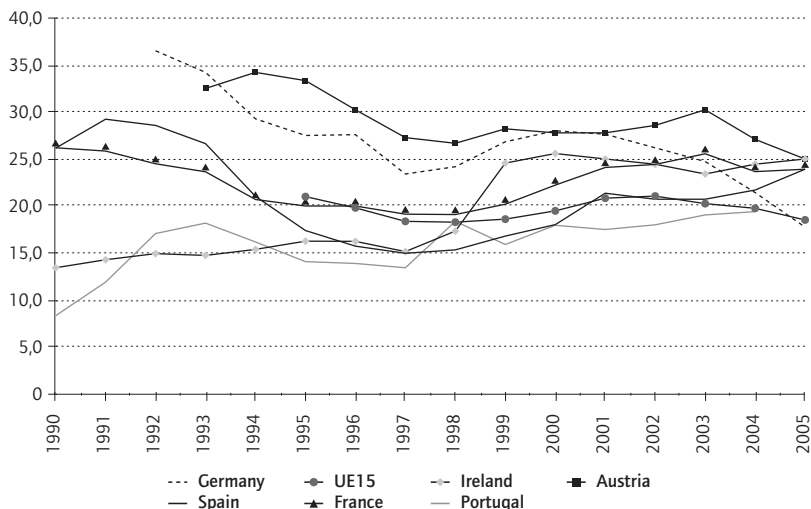
Source: Eurostat-ESSPROS

Figure 3b Countries with a low level of spending on benefits



Source: Eurostat-ESSPROS

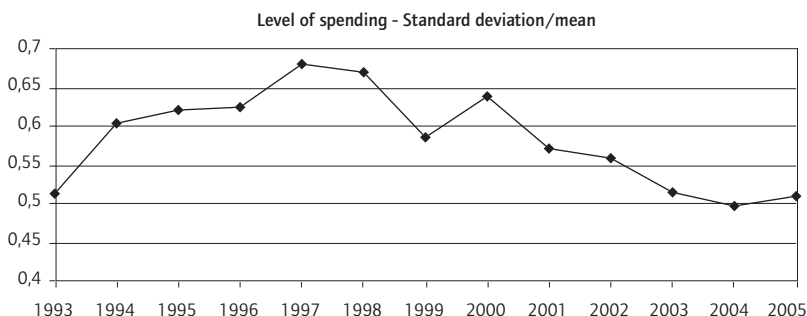
Figure 3c Countries with an intermediate level of benefit spending



Source: Eurostat-ESSPROS

Can we identify a convergence of spending on benefits? In the European Union of 15, the dispersion of expenditure levels kept rising until 1997, but has since tended to fall (with the exception of a second peak in 2000); in 2005, it returned to its 1993 level (Chart 4). While maintaining a degree of caution, we may therefore express the hypothesis that there has been an underlying convergence of spending on benefits since the late 1990s, with the average level of outlay having fallen by 15% over the same period.

Figure 4 Dispersion of spending on benefits

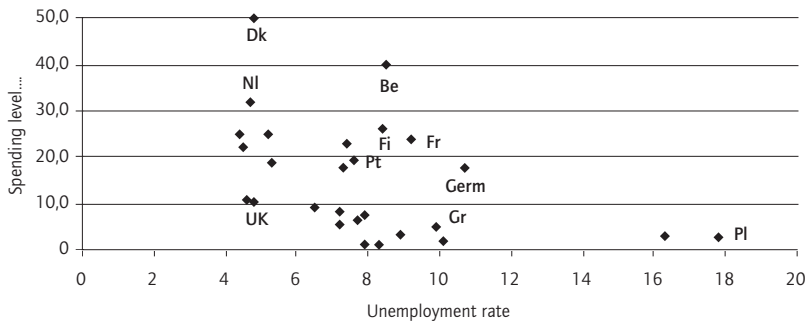


Source: Eurostat-ESSPROS

## No counter-cyclical pattern of unemployment insurance

Is there also a link between the level of spending on benefits and the unemployment rate? If considered statically (using a transverse approach), the correlation between the two values appears strongly negative: the correlation coefficient for 28 countries<sup>4</sup> (EU 27 + Norway) was -0.425 in 2005 (Chart 5).

Figure 5 **Spending level and unemployment rate**  
28 countries (EU 27 + Norway), 2005



Source: Eurostat-ESSPROS

Can a correlation over the course of time be established? There would appear to be grounds for seeing a counter-cyclical function of unemployment benefit in operation, whereby benefit spending rises at times of rising unemployment, in order to offset the fall in demand created by loss of income<sup>5</sup>. Yet the opposite is apparent in the European Union, although it is still not easy to interpret the phenomena involved. It might be thought that a fall in unemployment would allow an increased level of spending, whereas a rise might result in the outlay on benefits being curbed, to help balance the budget and maintain competitiveness, which were the reasons given by governments in the mid-1990s. Over the periods 1990-2005 (EU 15 + Norway) and 2000-2005 (EU 25), there is a strong, negative correlation between unemployment and benefit

4. In the EU 15, this correlation coefficient was -0.30 in 2005.

5. A counter-cyclical logic of this kind can be found in the United States, where some of the ways in which unemployment insurance operates may be altered by individual states of the Union, sometimes in association with the federal administration, during economic slowdown phases (in particular, the payment period may be extended – see below).

spending in a majority of countries (Table 1). However, in the case of Denmark, there is no correlation between the two values and in some countries, including the United Kingdom, it is positive. In those countries that have seen a continuous fall in unemployment since the early 1990s, such as the United Kingdom, this positive correlation therefore reflects a decline in benefit spending following an improvement in the labour market.

Table 1 Correlation rate between unemployment rate and level of spending (1990-2005 for EU 15 + Norway, variable period for other countries)

European Union (25 countries) 2000-2005	-0.56	Finland	-0.24
European Union (15 countries)	-0.29	Italy	-0.19
Ireland	-0.94	Spain	-0.18
Greece	-0.93	Denmark	-0.07
Germany (including the former GDR from 1991 onwards)	-0.93	Portugal	-0.03
Belgium	-0.88	Norway	0.75
France	-0.83	United Kingdom	0.82
Sweden	-0.68	Poland 2000-2005	-0.34
Austria	-0.53	Czech Republic 1998-2005	-0.14
Luxembourg (Grand Duchy)	-0.38	Slovakia 1998-2005	-0.68
Netherlands	-0.35	Estonia 2000-2005	-0.55

Source: Eurostat-ESSPROS

## Benefit system reforms: a further step towards restricting employees' rights?

In the United States, where unemployment insurance<sup>6</sup>, financed solely by employers' contributions, is characterised by limited, short-term benefits (payable for a maximum of 26 weeks<sup>7</sup>) and is mainly dedicated to temporary job losses, the benefits system has enjoyed a remarkable degree of stability since its introduction in 1935. Neither the federal administration, for which it represents a relatively low cost, nor the trade unions have ever really attempted to try to modernise the architecture of

6. See chapter by Catherine Sauviat.

7. This is the maximum period in the largest number of states. During a period of recession, this maximum period may however be significantly extended by way of programmes jointly financed by the federal administration and individual states of the Union.

this system<sup>8</sup>. In a counter-cyclical logic not found in Europe, the benefit entitlement period has been significantly extended, and the amount of benefit increased by the succession of stimulus plans adopted since the end of 2008.

On the other hand, the wind of change continues to blow in the European Union. Admittedly, these reforms continue to be driven by national systems. In this respect, Annex 1 provides an insight into the wide variety of ways in which unemployment insurance operates, while Annex 2 gives a detailed outline of the income replacement rates provided by the unemployment insurance systems in more than twenty countries. It is however possible to identify a set of common themes among the changes taking place. Firstly, we are witnessing a further contraction of the scope of unemployment insurance, a process that may be even harsher in countries that traditionally had a 'generous' system. Secondly, checks and penalties are being stepped up, in association with social representations in which unemployment is increasingly seen as a matter for individual responsibility. Thirdly, as unemployment insurance narrows in scope, we are seeing increasing recourse to other types of social protection schemes, which are frequently less favourable to employees. Partly under the impetus of the European Employment Strategy, activation of these schemes usually appears to be a central concern of these reforms, which raises, fourthly, the question of new standard employment practices 'legitimised' by (re)integrating the most vulnerable groups of people into the labour market. Fifthly, these reforms are a vehicle for a number of institutional considerations reflecting, at either national or regional level, the complexity of the social relationships between all those involved in the benefits system.

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8. Despite its lack of reforms, the US system has continued to be a source of inspiration for reforms in Europe. In France in particular, the practice of 'experience rating', which involves adapting employers' contributions in line with the number of workers they have made redundant, has been the subject of proposals in several reports (Blanchard-Tirole, 2003; Camdessus, 2004; Cahuc-Kramarz, 2004) attempting to introduce this measure in return for greater flexibility in the employment contract. Such an arrangement has been clearly ruled out by the multi-industry labour market modernisation agreement of 11 January 2008.

## Unemployment insurance: tougher eligibility conditions, shorter entitlement periods and lower benefit payments

The case of Spain demonstrated early on the harsh effect of changing eligibility criteria. The effect of the 1992 reform, extending the previous contribution periods (from 6 to 12 months) was to significantly reduce the cover provided by unemployment insurance, by excluding a significant proportion of people on temporary employment contracts, only some of whom were 'saved by the unemployment welfare safety nets'<sup>9</sup>. By shortening the period of entitlement to insurance benefits (from 1 year to 6 months), the reform introduced in the United Kingdom in 1996 transferred the vast majority of benefit claimants (85%) to means-tested benefits<sup>10</sup>.

Some of the economies in transition have made even more drastic adjustments. For example Poland, under the influence of ultra-liberal policies inspired by the Washington consensus, and in an attempt to reduce its social budget deficits before joining the EU, undertook a radical overhaul of its benefit system. It introduced stricter access requirements plus a fixed-rate benefit, and reduced the maximum benefit entitlement period to six months, other than in the event of particularly high unemployment in a local area. In total, just 18% of those registered as unemployed in July 2008 were eligible for unemployment benefits<sup>11</sup>. Less drastic but still very significant adjustments can also be seen in the Hungarian system, where the maximum period of benefit entitlement was cut from two years to one in 1993, and subsequently to 9 months in 1998<sup>12</sup>.

The 2000s have witnessed similar changes but this time extending to countries traditionally characterised by fairly long benefit entitlement periods. In Germany for example, the Hartz IV law, which came into force in January 2005, cut the maximum period of benefit entitlement from 32 to 12 months for those aged under 50. Furthermore, the minimum affiliation requirement (12 months) now has to be met over the two years (and no longer three) preceding the onset of unemployment<sup>13</sup>. In the

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9. See chapter by Catherine Vincent.

10. See chapter by Florence Lefresne.

11. See the chapter written by Stéphane Portet and Karolina Sztandar-Sztanderska.

12. See chapter by Bela Galgoczi.

13. See chapter by Mechthild Veil.

Netherlands, in a context of ‘end-of-crisis compromise’ (spring 2005), the activity period required to qualify for entitlement was extended (26 weeks during the 36 weeks preceding unemployment), the calculation method for this activity period was itself significantly altered<sup>14</sup> and the maximum period of benefit payments to the oldest category of unemployed workers was substantially cut (from 60 to 38 months)<sup>15</sup>.

In Sweden, two successive waves of reforms, in 2006 and 2007, pursued by the Reinfeldt government, imposed limitations on one of the most generous systems in the world<sup>16</sup>. The minimum previous working time required to qualify for insurance was raised to 80 hours per month (from 70) for 6 of the previous 12 months; students were no longer entitled to any benefits; and the exemption period in the event of illness, parental or study leave was cut from 7 to 5 years. It is also worth noting that the amount of benefit was cut (the ceiling was reduced and a sliding scale of payments introduced: 80% of the claimant’s last wage for the first 200 days, followed by 70% through to the 300<sup>th</sup> day, and finally 65% thereafter). Lastly, in April 2008, the maximum period of benefit entitlement was cut (from 600 to 300 days)<sup>17</sup>.

In Denmark, where the benefit entitlement period is four years<sup>18</sup>, a proposed reform involves cutting this period further, in a context of historically low unemployment (2.3% in 2007). The high levels of tension in the labour market are acting as a backdrop to legitimise applying increased pressure to the unemployed to encourage them to make a rapid return to the labour market where they are much needed<sup>19</sup>. It should be borne in mind that the ‘passive’ benefit entitlement period (i.e. before the claimant joins an activation programme) has already been cut; this constitutes a major issue for the trade unions, who wish to maintain it: the right to enjoy a high replacement income without being under any obligation to accept activation for the first 9 months in receipt of benefit (6 months for the under 30s) has hitherto been part of the Danish-style

14. This was changed from a ‘fictitious’ calculation method, generally acknowledged to favour older claimants, regardless of the length of their career, to a ‘real’ calculation method based on the actual number of years of contributions.

15. See chapter by Marie Wierink.

16. See the chapter written by Annie Jolivet and Timothée Mantz.

17. Only the parents of a child aged under 18 on the 300th day in receipt of benefits may then continue to claim benefit up to 450 days.

18. The 1994 labour market reform cut this period from 7 to 4 years.

19. See chapter by Christèle Meilland.

economy of rights and obligations, in which generous benefit payments are combined with activation initiatives, without the former being sacrificed to the latter.

One – admittedly very relative – exception to the trend towards tighter unemployment insurance rules is provided by the case of Italy<sup>20</sup>. In 2007, when unemployment here was at its lowest for thirty years, the low average replacement rate in this country which, together with the United Kingdom, came in last place among the EU 15, prompted the authorities, following the signature of a tripartite agreement, to slightly alter the rules on qualifying for ordinary unemployment benefit (*indennità ordinaria piena*<sup>21</sup> – the scheme applicable to most unemployed workers claiming benefit): the payment period rose from 7 to 8 months (from 10 to 12 for the over-50s), the amount of benefit was increased<sup>22</sup> and the sliding scale of payments (introduced in 2002, with the agreement of the social partners) was slightly relaxed.

### Pre-conditions for maintaining benefits: eliminating 'bogus' claimants

The second raft of joint policy changes involves tightening the contractual mechanisms linking the public employment service (PES) and the job-seeker (Willmann, 2001), revising the definition of suitable employment, stepping up checks on active job-seeking and, finally, setting out penalties.

Although the rules governing the acceptance, monitoring and supervision of job-seekers are based on methods that are now quite similar from one country to another, the way in which the PES is organised and the resources at its disposal reveal very different levels of operation. In the United Kingdom, where the PES has the first claim on expenditure earmarked for the labour market, claimants are dealt with particularly rapidly (the first interview with an adviser is held within a matter of days

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20. See chapter by Salvo Leonardi.

21. It should be noted that the ordinary unemployment benefit scheme is financed solely by employers' contributions – a rarity that Italy shares with the United States – with contribution levels differing according to the economic sector, the size of company and the worker's status within the company.

22. The benefit level rose from 50 to 60% of the reference wage, subject to a ceiling of € 1,000.

after claimants have registered as unemployed) and compulsory interviews with the adviser are held at regular intervals (every two weeks). The same applies in the Scandinavian countries, where the supervision levels of the unemployed by the PES are higher on average. On the other hand, in Spain and Italy, although these rules have been set as an objective, they come up against a recurrent problem of PES organisation and resources. Inadequate PES resources also lay at the heart of trade-union criticism of the reform introduced in 2006 in Portugal, seeking to activate unemployment benefit expenditure in the context of a sharp rise in unemployment<sup>23</sup>. This criticism was exacerbated by uncertainties over whether or not the levels of subsidies awarded by the European Social Fund would be maintained.

The definition of an offer of 'suitable employment' is constantly being widened everywhere. In France, at the tripartite conference held in March 2008, the government offered its own vision of reform of the benefit system, more than six months prior to the start of negotiations on the unemployment insurance agreement, by defining a 'reasonable offer of employment', which is now quoted in the law on job-seekers' rights and obligations (1 August 2008). The law adopts an open-ended definition. During the first three months of looking for work, job-seekers are required to accept any job remunerated at their previous earnings level. Between 3 and 6 months, they are required to accept a drop in earnings of no more than 5%. After 6 months, unemployed workers may be forced to accept a 15% cut in wages and a job that involves commuting up to 30 km to work or a one-hour journey each way on public transport (any reference to previous qualifications disappears at this stage). After a period of one year, any job that is remunerated at the level of unemployment benefit and complies with employment legislation and collective labour agreements will be deemed acceptable. Here, it should be noted that the government has legislated on a subject which, in principle, has traditionally been regarded as a matter for the social partners<sup>24</sup>.

The changes to the rules on suitable employment have been even more drastic in Germany, where job-seekers are now obliged to accept a cut in wages of 20% after 3 months and 30% after 6 months; from the 7<sup>th</sup> month

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**23.** See the chapter written by Nádía Simões and Helena Lopes.

**24.** See chapter by Carole Tuchsirer.

onwards, no pre-conditions at all apply in respect of earnings. The applicant is also required to accept an offer of employment anywhere in the country. In the Netherlands, the definition of suitable employment was reviewed at 1 July 2008. Anyone registering as unemployed after this date is required to apply for any available job after one year of being unemployed, with no qualification criteria applied. In Sweden, under the guise of encouraging geographical mobility, the government has removed the reference to the 'nearby area'. Since July 2007, the unemployed have been unable to refuse a job offer on the grounds that the proposed place of employment is too far away from their home.

These new rules involve penalties that are themselves highly codified in terms of sanctions: claimants may even suffer a temporary or permanent suspension of benefit entitlements. In Bulgaria for example, the reform of the unemployment protection system in the late 1990s denied payment of benefits for one year to any unemployed worker who refused to participate in an active employment policy programme<sup>25</sup>. Whilst the rules and penalties appear to be rigorously enforced in the United Kingdom, which incidentally triggers some of the trade-union action focused on the unemployed (legal assistance), the same is not true in other countries, either due to a lack of budgetary resources (as with southern Europe and the new entrants) or because these rules are subject to local interpretation by the unemployed worker's adviser. In Denmark, for instance, suitable employment is defined in a comprehensive manner. However, in practice there is an arrangement set out in the agreement signed by the job-seeker with the PES, which may change in line with the period of time spent unemployed.

Recourse to other types of social protection, which are increasingly subject to activation

Whilst the relative positioning of unemployment insurance and benefits is manifestly linked to the nature of the social protection system, the boundaries between the two are proving to be particularly fluid. The reduction in levels of cover provided by unemployment insurance witnessed in the majority of countries is also resulting in wholesale transfers to other schemes. Some of these schemes may be more

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<sup>25</sup>. See chapter by Katia Vladimirova.

favourable to the unemployed, but the overall trend is towards less favourable schemes and their activation.

Some of these schemes are clearly more favourable. They involve paying benefits to offset partial or temporary unemployment for the purpose of managing restructuring exercises, without any termination of the employment contract in the legal sense. The best-known cases are those of the *Cassa Integrazione Guadagni* (CIG) in Italy, which firstly has an ordinary scheme aimed at employees of companies that are experiencing temporary difficulties and, secondly, a ‘special’ scheme, which can assume responsibility for victims of industrial restructuring plans for a period of several years, and also Germany which used a system of benefits for short-time working (*Kurzarbeitgeld*), especially in the new *Länder*, payable for up to 24 months. In the current context of recession, short-time working has been widely used by German companies as a social cushioning measure, the annual quota of hours qualifying for such payments having been substantially raised (this arrangement applied to 1.1 million employees in July 2009).

Early retirement schemes were used as an instrument for extensive social processing of unemployment via large-scale redundancies in the 1980s and 1990s. The desire to raise employment rates among older workers subsequently led to a drastic reduction and even a gradual drying up of public schemes, and to stricter regulation of collectively agreed arrangements. In some countries however, early retirement schemes continue to enjoy high levels of social legitimacy, and any proposals to withdraw them may trigger widespread industrial action. This was the case in Belgium, where the government’s plans to limit them led, in 2005, to a general strike<sup>26</sup>. Nonetheless, in many cases, a significant proportion of older workers leaving work join the unemployment register, as most benefit systems allow for benefit payments to continue to be made to older unemployed workers through to retirement age, in some cases with more advantageous levels of benefit and exemption from the obligation to seek employment. In France for example, most people who have taken early retirement are in receipt of unemployment benefit but under no obligation to look for work. However, these changes vary from one country to another. In the Netherlands, we have seen that reducing the period of entitlement to insurance benefits was a measure clearly aimed

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26. See chapter by Jean Faniel.

at older workers (see above). In Denmark, since 1 January 2007, claimants aged over 55 who have been in receipt of benefit for a four-year period no longer automatically qualify for continued entitlements through to the age of 60<sup>27</sup>. In return, the benefit entitlement period is no longer limited to 30 months from the age of 60 onwards. Conversely, in Germany, the number of unemployment insurance categories – which was first of all cut in 2006 – was increased in 2008, to allow a longer benefit entitlement period for claimants aged 50 or over.

Invalidity or disability benefit schemes continue to be widely used in some countries. In the United States, the people most vulnerable to the risk of unemployment are having increasing recourse to the country's Social Security Disability Insurance scheme. In the United Kingdom, there are now three times more people on invalidity benefit than there are unemployed workers claiming benefit: the sharp decline in unemployment since 1993 has been accompanied by a fall in the activity rate of men aged between 25 and 54. In the Netherlands, in 2005, this regime still accounted for 8.5% of the active population of working age. The reforms implemented in each of these two countries seek to exercise more rigorous control over access to the invalidity benefit scheme. The British government, for its part, is opting to pay a less advantageous allowance (it represents the same amount as unemployment benefit) to people who are declared fit for work. In the Netherlands, on the other hand, it is more a question of changing the employment behaviour of the partially disabled and encouraging the private sector to assist with their reintegration into the labour market. However, the activation of such schemes continues to suffer from high levels of inertia, owing to their function as both a regulator of the employment system (illness, stress in the workplace) and a mechanism for absorbing long-term unemployment.

A large proportion of countries have tended to 'transfer' some of the unemployed workers claiming benefit (under insurance or welfare benefit schemes) to general welfare schemes, or else to a minimum guaranteed income system if applicable. This is typically the case in France, where the drop in the level of cover provided by unemployment insurance has resulted in a substantial number of transfers to the minimum guaranteed

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**27.** This option was extended to people who meet the conditions required to take early retirement at the age of 60, through to age 65.

income (RMI) scheme, leaving the local authorities with responsibility for funding. In Canada, the federal government's withdrawal from the financing of unemployment insurance in the early 1990s, combined with a series of reforms restricting access to this, led to a situation where responsibility for paying benefits to unemployed workers not eligible for insurance was transferred to welfare schemes managed by the country's provinces: this was a particularly heavy burden as the federal welfare scheme had itself been abolished<sup>28</sup>.

In addition to the conventional phenomenon of transfers to other schemes, the 2000s also saw the creation of new schemes. In Germany, for example, the restrictions placed on unemployment insurance were accompanied by a merger of the unemployment benefit scheme<sup>29</sup> and the general welfare scheme<sup>30</sup>. Here, the 'basic protection' mechanism embodies a radical change of paradigm: whereas historically, unemployment benefit – including its welfare component – was linked to occupational status, which constitutes the cornerstone of the German employment and social protection model, the new modest, fixed-rate benefit<sup>31</sup>, financed by taxation, is unconnected with the recipient's occupation, and is paid as a means-tested benefit to anyone who is unable support themselves and is fit to work three hours per day (a classification that applied to more than 5 million people in May 2008). The Italian system also claims to be moving towards a gradual reduction in insurance-based thinking in favour of extending the principle of universality: the recent reform of its social cushioning measures are aimed at: 'the creation of a single mechanism to provide benefits and to help unemployed persons back into work (...), irrespective of their qualifications, sectoral affiliation, company size and type of employment contract'. That said, the extensive fragmentation of the Italian system and the conflicting interests of the players involved in each sub-system give rise to a certain degree of circumspection regarding the desired objective.

**28.** See chapter by Mouna Viprey.

**29.** Means-tested payments for the unemployed used to be granted to the long-term unemployed. They were financed by taxation, and paid for an unlimited period of time if means-testing justified this. The benefit calculation method used was that of unemployment benefit, but at a lower level.

**30.** See the chapter written by Stéphane Portet and Karolina Sztandar-Sztanderska.

**31.** Social welfare benefits used to be financed by taxation and managed by the municipalities, which were authorised to vary their basic amount. This guaranteed a minimum subsistence level for people who could not personally support themselves or rely on family support (the principle of subsidiarity).

The so-called activation process adds further mechanisms to the traditional instruments of employment subsidies, allowing unemployment benefit to be used in whole or in part to promote (or restrict) access to employment. In some cases, the employers receive directly a proportion or even the full amount of the unemployed worker's benefit entitlements, at the time when they are recruited. In other cases, unemployed workers who accept low-paid jobs are allowed to retain some of their entitlements, to give them an incentive to take up a job or resume employment, and thereby to avoid the classic 'unemployment trap'. In France, the CI-RMA ('integration contract-minimum working income') and more recently the RSA (active solidarity income) are both schemes based on a notion of this kind for those in receipt of minimum social security payments. However, Belgium's experience of combating long-term unemployment probably reveals most about this coupling of unemployment and employment. It is a long way from achieving a consensus as it substantially accentuates the risk of 'temporary employment traps', consistently highlighted not only by the trade unions but also by the authorities responsible for evaluating employment policies (Belgium's Employment Council). Paradoxically, activating welfare benefits via a 'social integration income' can even be used as a way of avoiding 'suitable' employment.

Recurrent experiences of activation jobs and unemployment are all part of the effect of 'insecurity traps'. This phenomenon can be seen in the case of unemployed workers doing part-time work in France (job-seekers working more than 78 hours per month). This issue is also starting to be debated in the Netherlands, where people in receipt of welfare benefits now once again qualify for unemployment benefits if they secure a short-term job. In Denmark, however, it was precisely in order to avoid this risk that the instigators of the 1994 labour market reform sought to impose collective rules strictly controlling access to activation-assisted jobs, with a view to guiding job-seekers into the 'regular' labour market (Lefresne and Tuchsirer, 2004).

In countries where unemployment benefit expenditure remains very low (e.g. Italy, Poland), activation is also under way. In Italy for example, a 'service agreement' is under consideration, which would establish a contractual link between the public authorities (via employment agencies) and benefit claimants who are required to return to work. This might even become a fully-fledged legal obligation, any failure to comply with which might result in sanctions for the claimant. However, the low

levels of unemployment benefit expenditure to be activated on the other hand, and the well-known inadequacy of the training and integration facilities on the other represent serious impediments to this initiative. The same limitations are to be found in Greece: here, the social partners recently approved the introduction in law of an activation mechanism (limited to subsidies in the commercial sector), but the proportion of unemployed workers claiming benefit is particularly low (18%, via both the insurance and welfare routes)<sup>32</sup>.

### Towards a legitimisation of new standard employment practices?

Most insurance schemes have been based on standard employment practices derived from the notion of a society of wage-earners and the figure of the male breadwinner. The very design of these schemes makes them systems for 'insiders'. This is typically the case in the United States and the United Kingdom, where the low level of benefits and the fact that they are payable for only a limited period of time was originally designed to encourage employees who had been made redundant to return to work as quickly as possible. In Bismarckian systems, occupational status on the one hand, and the status of being a family man on the other, define the basis of insurance arrangements. Yet the scope of these insurance schemes has failed to keep up with the transformations taking place in the employment market, especially the rise in female employment and the emergence of new risks (lack of job security, fixed-term jobs, integration of young people, long-term unemployment). The failure of the very players responsible for unemployment insurance to take proper account of these risks has led to a fragmentation of benefit systems and heavier penalties imposed on the groups affected by these risks. At the same time, it is apparent that successive adjustments made to insurance systems have finally penetrated through to the core of 'stable jobs' themselves, as the reductions in entitlements may prove to be a severe handicap in redundancy situations.

Under the universalist systems of northern Europe, unemployment insurance as such does not form part of the social protection system (universal and generous fixed-rate benefits). In this sense, the application

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**32.** See chapter by Maria Karamessini.

of Esping-Andersen's classic typology (1999), drawing a distinction between liberal (Ireland, United Kingdom), social-democratic (Scandinavian countries) and corporatist-conservative (continental Europe) regimes does not follow naturally in terms of unemployment benefit. The relative generosity of insurance benefits in the countries of northern Europe, and the period of time for which they are payable, correspond to 'Bismarckian' thinking based on replacement *occupational* income, and the historical role played by the trade unions (affiliation to an unemployment insurance fund being dependent on the status of union member), exclude unemployment insurance from any universalist principle. Nevertheless, these countries did set up special schemes catering for categories of people who did not fit into occupational norms. In Sweden for example, young people without any work experience used to be entitled to unemployment benefit. Likewise, women workers who were 'forced' to accept part-time jobs qualified for benefit based on full-time employment for 300 days. The first of these mechanisms was abolished by the 2007 reform, while the second was substantially curtailed by the 2008 reform<sup>33</sup>.

The transformations in the labour market and the inadequacy of measures taken to deal with them by the providers of unemployment insurance thus created 'holes' in the social security net in all countries, which primarily penalised 'outsiders'. This situation can even be used to support or legitimise the shift away from insurance-based thinking to welfare-based thinking, which in turn adds momentum to deregulation of the labour market. The case of Germany is symptomatic of this drift (Leschke, 2007). The category of beneficiaries of basic protection corresponds to all those people left to fend for themselves by the Bismarckian welfare model - which is now in crisis (long-term unemployment, a rise in unskilled jobs, part-time jobs for women, family break-ups, life on the margins of the labour market, etc.) - who are dealt with by a welfare mechanism. However, welfare cannot in itself guarantee to provide an adequate replacement income and its social legitimacy (under the new system of 'promote and demand' rules) can only be affirmed by securing a job or returning to work. Activation then justifies the crumbs of employment ('mini-jobs' paying less than € 400 per month

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33. The benefit entitlement period in the case of 'enforced' part-time work was cut to 75 days. The sole exception is single parents of children aged under 18, who enjoy an extended entitlement period via the 'employment and development guarantee'.

and ‘midi-jobs’<sup>34</sup> paying between € 400 and € 800, or even ‘one-euro jobs’ in the non-profit sector), which is assumed to promote entry to the labour market.

## Institutional issues associated with reforms

In most countries, reforms to benefit system involve a reorganisation of the institutions concerned. For example, the idea of a single gateway grouping together job placement and benefit payment services is fairly widespread. Although this is justified in most cases by the need to simplify the administrative steps that job-seekers are required to follow, and a desire to modernise the PES, the methods and institutional issues involved still vary significantly from one country to another. Modernisation of the PES usually takes the form of using new public-sector management techniques (management by objectives, benchmarking of performance, assessment procedures, etc.). The United Kingdom, via the introduction in 2002 of *Jobcentre Plus* offices, under the supervision of a new ministry (the Department for Work and Pensions), is probably the country that has made the most progress in developing these new management tools, while at the same time cutting the number of agents and advisers by more than fifteen thousand, and basing their remuneration on achievements in the redeployment of the unemployed.

In Denmark, the 2007 reform did not concern the merger of job placement and benefit payment functions, as the latter clearly continues to be the responsibility of funds administered by trade unions, but rather the grouping together, within *Jobcentres*, of job placement services dealing with unemployment insurance recipients (the national employment agency) and services dealing with people in receipt of welfare benefits (municipal offices). The traditional segmentation of different categories of unemployed persons, which incidentally also confirms a high degree of social segmentation, gave rise to job placement cultures that are so different in practice that, despite the *Jobcentre*’s unique structure, the advisers working with recipients of insurance benefits are absolutely not interchangeable with those working with

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34. Employees are fully exempt from paying any social security contributions linked to mini-jobs, and partially exempt in the case of midi-jobs.

recipients of welfare benefits. Apart from a few minor variations, some of the issues involved in the ANPE-Unedic merger in France seem to be quite similar to the situation observed in Denmark. The aim appears to be to harmonise the services offered to the unemployed, which had hitherto depended on the nature of the benefits paid (unemployment insurance managed by the social partners/solidarity scheme managed by the State/RMI-RSA managed by individual French *départements*).

In other countries, the reforms offer a more direct illustration of the sometimes-tense relationships between governments and the social partners managing insurance schemes. In Canada for example, the desire expressed both by the trade unions and the employers' organisations for the creation of an independent fund to manage unemployment insurance benefits is nurtured by a context in which the federal State, having withdrawn in the 1990s from financing insurance (now financed solely by contributions paid by employees and employers), is using the scheme's current huge surpluses to cut public deficits. These surpluses are themselves the outcome of good unemployment figures but mainly result from significant restrictions being placed on insurance benefits. The remit of the independent financing office to be set up in 2009 will be to balance income and expenditure, which satisfies the employers' organisations. The trade unions, on the other hand, fear that the State will gain a stranglehold over the new institution and are calling for higher levels of benefit.

In Sweden, the idea of introducing a compulsory unemployment insurance scheme, justified by the government on the grounds of a sharp rise in the number of unaffiliated employees, is being rejected by the trade unions and employers' organisations, as they fear that contribution levels will be 'too' high, in a context of financial disengagement by the State. The risk facing the trade unions managing these insurance funds is that they will suffer an erosion of their legitimacy, as the principle of voluntary membership has long been based on an individual undertaking to sign up to collective rules and regulations. The entire collective bargaining system might suffer as a result.

In some cases, the reorganisation of employment services may be associated with regional issues. In Belgium, where job placement is handled by the regions, supervision of the unemployed is a matter for ONeM (the national employment office – a tripartite body in charge of managing unemployment insurance), but coordination of tasks between

these two institutions is becoming linked with the resolution of strong regional tensions. In point of fact, it was in response to 'Flemish criticisms that claimants in Wallonia and Brussels are less likely to face penalties than their 'colleagues' in Flanders, despite the fact that the former outnumber the latter', that the federal government made the regional governments sign an agreement whereby the organisations responsible for job placement undertake to be more effective in passing on to ONEm information concerning any rejected job offers or failure to attend job interviews. In many ways, these same regional tensions underlying the same type of economic and social inequalities are to be found both in Germany (eastern and western *Länder*) and Italy (north and south).

## Conclusion

Clearly, the severe recession afflicting the global economy is imposing a major responsibility on unemployment benefit systems to provide large-scale social protection. Within the European Union, employment looks set to contract by 2.5% in 2009 and will continue to decline in 2010, even if the economic situation improves. This will result in the loss of approximately 8.5 million jobs, compared to a net figure of 9.5 million jobs created during the period 2006-2008 (European Commission spring forecasts, 2009-2010). The major adjustments that benefit systems have undergone over the past two decades are seriously impairing their function as an economic and social cushioning measure for dealing with the recession. Furthermore, significant disparities still remain between different countries and different categories of working people, with regard to the quality of cover provided against the risk of unemployment (the ILO and the European Commission have yet to construct such an indicator). Risk coverage not only illustrates the conditions necessary to protect job-seekers' incomes; it can even affect their return to employment. In the much-vaunted Danish model, where the labour market is characterised by high levels of mobility, protection in the form of benefits is not simply the employee's reward for this mobility; it constitutes one of its main tools. In countries where the level of protection is too low, the opposite risk exists: involuntary mobility. In other words, benefits offering protection against the risk of unemployment constitute the first step on the road towards providing security for employees in their career paths and are a pre-condition for well-regulated mobility.

The changes over the past decade confirm the contraction, in virtually all countries, of the scope of unemployment insurance in favour of welfare benefits contingent on activation. Building on the decline of traditional models built around the figure of the permanent full-time employee, the unfolding reforms might gradually shift benefit systems towards a universal social protection system providing minimum protection against the risk of unemployment, which becomes increasingly akin to the risk of poverty, linked to an increasingly broad notion of employment itself. In this sense, the issues associated with the quality of protection for the unemployed appear to be no different from those associated with the quality of employment.

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## Annex 1

### Disparities in unemployment insurance in Europe

*Eligibility conditions* are an initial source of differences. Only the arrangements in force in France, Luxembourg and the Netherlands provide entitlement to benefit after just 6 months' affiliation. All of the other systems examined require at least 12 months' affiliation, or even 15 months in the case of Portugal<sup>35</sup>. In Denmark and Sweden, where the unemployment insurance scheme is optional, claimants must demonstrate in addition that they have paid into an insurance fund for 12 (consecutive) months on the date they become unemployed. The British and Irish schemes have no minimum affiliation period but stipulate a minimum amount or number of contributions paid in the latest tax year and a specified number of contributions paid or credited during the two tax years preceding the year of the benefit claim.

The *amount of benefit* associated with unemployment insurance is itself variable. In Denmark, the amount of unemployment benefit represents 90% of the claimant's last wage less social security contributions (in reality, therefore, 82% of their gross earnings; see Annex 2); 80% in Sweden (for the first 200 days); 70% in the Netherlands; and 60% in Belgium (if the unemployed worker is the head of a family). In these four countries, benefit levels are applied within minimum and maximum amounts, and do not vary greatly. In Spain, the amount of benefit paid is 70% of the reference wage<sup>36</sup> for the first six months and 60% thereafter. With the exception of the United Kingdom, Ireland<sup>37</sup>, Poland (since 1992) and Greece (since 2007<sup>38</sup>), where benefits are flat-rate and relatively modest, the level of benefit paid in connection with unemployment insurance is based everywhere on previous earnings. The gross earnings on which contributions are payable are the only element used to calculate the amount of benefit in Denmark, Sweden, France, Italy, the Netherlands and Portugal,

35. It should however be pointed out that if this condition is not met, but a claimant can demonstrate 6 months' affiliation over the previous 12 months, he/she is entitled to means-tested welfare benefits for a minimum period of 12 months.

36. Average earnings over the six-month period before becoming unemployed.

37. Nevertheless, in Ireland the flat-rate benefit is reduced where the reference wage is below a certain threshold.

38. The 2007 reform of the unemployment benefit system in Greece introduced three fixed levels of unemployment insurance payments. Claimants are assigned to one of these categories according to their former earnings and the nature of their previous employment contract (full-time or part-time).

whereas in other systems, family circumstances (Belgium<sup>39</sup>, Spain, Switzerland, Luxembourg) and tax category (Germany) are also taken into account. All of the systems concerned have a *ceiling* that is generally applied:

- either to the reference wage (Germany, Sweden, Belgium, France, the Netherlands, Switzerland);
- or to the amount of benefit obtained after the payment rate has been applied to the reference wage (Denmark, Spain, Italy, Luxembourg and Portugal).

This ceiling is highest by far in France: € 5,642.90, calculated on the basis of a gross monthly reference wage capped at € 11,092. This is 4 to 5 times higher than the amount paid in Belgium, Spain, Italy and Portugal, and 3 times higher than that paid in Germany, Denmark or the Netherlands.

Several European countries apply *minimum benefit levels* (Belgium, Denmark, Sweden, Spain, France, Portugal). This lower limit is determined either by reference to the maximum amount of benefit (Denmark), or based either on a specific indicator (Spain and Portugal<sup>40</sup>) or on a minimum daily allowance (Belgium and France). In France, the minimum allowance (€ 810.90 per month) is capped at 75% of the reference wage (gross pay). In Belgium and Spain, the minimum amount of unemployment benefit varies according to the claimant's family circumstances. In Spain and France, and also in some cases in Belgium<sup>41</sup>, this minimum amount is reduced for people who used to work part-time, *pro rata* to their working hours. In Denmark, the minimum amount is guaranteed to claimants who can demonstrate 3 years of work and membership of an unemployment insurance fund, and to persons affiliated during their military service or following their studies, and who have no earnings to use for reference purposes.

Finally, a *sliding scale* exists in Italy (where it was introduced by the 2002 Pact), Belgium, Spain and Sweden, where it was introduced in 2007. ...

**39.** In Belgium, during their first year without a job, unemployed workers who are single and have no children (so-called 'lone' claimants), enjoy the same level of benefits as unemployed workers who are classified as 'cohabitantes with dependants'.

**40.** In Spain, the IPREM (*Indicador público de renta de efectos múltiples*) came into force on 1 July 2004; in Portugal, the IAS (*Indexante dos apoios sociais*) came into force on 1 January 2007.

**41.** Special case of job-seekers claiming benefit in their capacity as 'part-time volunteer workers'.

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Significant differences remain regarding the *benefit entitlement period under contribution systems*. In Denmark, unemployed workers can claim benefit for four years. The United Kingdom and Italy are the countries in which non means-tested unemployment benefits are payable for the shortest time, i.e. 6 months<sup>42</sup> and 8 months (12 months if the claimant is aged 50 or over) respectively. With the exception of Belgium, where benefit may be paid for an unlimited period, all the other systems provide for variable periods of benefit entitlement, depending on the duration of prior affiliation and also sometimes on the claimant's age. For example, in the Netherlands, the benefit entitlement period varies between 3 and 38 months according to the length of time spent in the labour market. Six months' affiliation is all that is required to qualify for three months' benefit entitlements. On the other hand, the Dutch scheme requires 38 years of previous work to qualify for the maximum period of benefit entitlement, which is 38 months. Likewise, the Spanish system offers four months' benefits in return for 12 months' affiliation but requires 66 months' affiliation to qualify for 22 months, and 72 months' affiliation to qualify for 24 months, whatever the claimant's age. A significant proportion of European systems also impose age requirements in respect of benefit entitlements. For example, the Portuguese system offers 24 months' benefits after 18 months' affiliation, but only to claimants aged 40 or over (30 months for those aged 45 or over). In France and Portugal, the oldest job-seekers may enjoy benefit entitlement periods of 3 years or more<sup>43</sup>. In Germany, the entitlement period varies according to the affiliation period completed, up to a limit of 12 months for job-seekers aged under 50, 15 months for the over-50s, 18 months for the over-55s and 24 months for those over the age of 58. For each age bracket, the benefit entitlement periods are subject to particular affiliation periods.

Sources: Unedic - Department of legal affairs, updated by the author

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**42.** After payments have been made for six months, they may be replaced by means-tested benefits, calculated on a family basis.

**43.** The French scheme entitles job-seekers aged 50 or over, who can demonstrate 27 months' affiliation during the previous 36 months, to claim benefit for 36 months. The Portuguese scheme offers a 38-month benefit entitlement period for unemployed workers aged 45 or over who can demonstrate that they have completed 20 years' paid employment.

## Annex 2

### Rate of income replacement by unemployment insurance: drawing international comparisons

Given the complexity of benefit rules, the most rigorous method for formally comparing benefit levels is that of test cases, which highlight inequalities linked to employment status and family circumstances. However, it is very difficult to establish the actual distribution of the unemployed population across categories corresponding approximately to these test cases in each country, making it particularly problematic to draw international comparisons based on this type of method. The alternative option lies in building overall indicators as proposed by the OECD. However, the 'overall replacement rate' only gives an idea of the degree of protection that unemployment insurance provides for those in stable employment (unemployed workers with a long history of employment) and therefore does not reflect significant changes in the labour market. The table below, constructed from OECD data, comes up against this limitation. Nevertheless, one way of circumventing this problem involves using different reference wages expressed as a percentage of average full-time earnings. The 100% column (on the right-hand side of the table) may be regarded as unrepresentative of the situation of the unemployed. In France, for example, around 75% of full-time employees earn less than 2,600 euros per month gross (gross average earnings in 2006), and in view of the structure of the unemployed population (which contains a higher proportion of people on low earnings than does the working population), the vast majority of unemployed people claiming benefit who worked full-time before becoming unemployed were earning less than this amount. If we reason at the level not of full-time employees but of *all* employees, the proportion of unemployed workers affected by average full-time earnings is particularly low. In other words, the column showing 50% of gross average full-time earnings (equating in France to a gross figure of around 1,300 euros per month, i.e. approximately the level of the gross guaranteed minimum wage, SMIC) is probably the most appropriate one to use to assess the level of replacement by unemployment insurance, possibly supplemented by the 75% column.

**Table 2 Gross rate of income replacement by unemployment insurance <sup>(1)</sup> for an employee <sup>(2)</sup> who is single <sup>(3)</sup>, as a function of earnings level expressed as a % of full-time average earnings <sup>(4)</sup> – 2006**

50%		75%		100%	
Denmark	82.8	Luxembourg	80	Luxembourg	80
Luxembourg	80	Sweden	78	Netherlands	70
Sweden	80	Spain	70	Portugal	65
Spain	70	Netherlands	70	Norway	59.2
Netherlands	70	Denmark	69.9	Sweden	58.5
Portugal	65	Portugal	65	France	57.4
France	64.3	Norway	62.4	Spain	55.5
Norway	62.4	Hungary	60	Canada	52.9
Finland	61	France	57.4	Denmark*	52.4
Belgium	60	Canada	55	Italy	50
Hungary	60	Finland	54.3	Slovak Rep.	50
Ireland	57.5	United States	53.3	United States	47.8
Canada	55	Italy	50	Finland	47.1
United States	53.3	Slovak Rep.	50	Hungary	45.3
Poland	52.4	Belgium	44.4	Czech Rep.	38.8
Italy	50	Czech Rep.	39.9	Austria	36,7
Slovakia	50	Austria	38.9	Germany	34.4
Austria	43.3	Ireland	38.4	Belgium	33.3
Czech Rep.	41.6	Germany	37.7	Ireland	28.8
Germany	40.1	Poland	35	Poland	26,2
Greece	34.3	Greece	22.9	Greece	17.1
United Kingdom	18.8	United Kingdom	12.5	United Kingdom	9.4

Countries are ranked in decreasing order.

(1) gross replacement rate = gross unemployment insurance benefits / gross earnings - benefit entitlement during year 1. This is not the net replacement rate as calculated by the OECD, which takes account of deductions (contributions, taxation) and other social benefits (housing benefit, family allowances, work-related benefits or other forms of incentives to return to work).

(2) a 40 year-old employee who has worked and paid contributions continuously since the age of 18.

(3) unemployment insurance benefits are higher for couples in some countries.

(4) In the case France, a gross figure of 2,606 euros per month, i.e. just above the social security ceiling. One half of this amount corresponds to a pay level slightly higher than a gross full-time guaranteed minimum wage.

Source: calculations made by Antoine Math, based on the OECD taxation-benefits model ([www.oecd.org/els/social/prestationsetsalaires](http://www.oecd.org/els/social/prestationsetsalaires)).

\* Denmark's 'poor' position will be noted if the replacement rate is considered for persons earning a reference wage equal to gross average full-time earnings. In point of fact, the replacement rate in this country is not 90%, as is frequently stated all too quickly by backers of this popular model. The rate is held in check in two ways:

- firstly, the 90% figure applies to a basic income equal to gross earnings less 8% social security contributions;
- secondly, the ceiling (approximately 2,042 euros) is low in relation to the hierarchy of earnings. It represents 52.4% of full-time gross average pay. It is true that in terms of absolute value, full-time average earnings are much higher in Denmark than in France.

The security provided for employees in their career paths in Denmark is therefore primarily attributable to the benefit entitlement period and the higher level of welfare benefits (which are up to three times higher than the minimum guaranteed income for some types of family).