The UK was the first country to introduce mandatory unemployment insurance in 1911, and since then the principal concern of the State has been to ensure that benefit entitlement is contingent on the claimant actively and permanently seeking work. This objective is based on the Beveridgean approach, whereby the main aim is to combat underemployment by distinguishing between workers actually seeking employment, and therefore entitled to benefit, and economically inactive or ‘unemployable’ people, dependent on welfare (Beveridge 1909)¹.

From 1909 onwards, the government introduced a national network of free, centralised public employment offices, which was gradually extended across the country. 254 offices were grouped into 11 regional divisions and placed under the responsibility of the Ministry of Industry. The principal aim was to match supply and demand for industrial labour, but unemployment soon became a major concern for these offices. They began to monitoring job seeking and undertook the first administrative headcount of unemployed persons. From 1911, therefore, entitlement to unemployment benefit was granted solely to the involuntarily unemployed, on condition that they were registered with one of these employment offices, and visited that office daily. Workers who had resigned without ‘just cause’, or were dismissed for misconduct, were ineligible for unemployment benefit for several weeks. The duration of benefit was capped at 26 weeks, and its amount was determined by family circumstances (number of dependants), rather than by previous earnings.

¹ At the time, welfare from the State was still determined according to the New Poor Law of 1834, which considerably restricted the eligibility for public aid, confining it to people in need by distinguishing between the needy who were unfit for work and those who were fit for work. The latter were sent to ‘workhouses’, where wages were significantly lower than market rates.

* Socio-economist at the Institut de Recherches Economiques et Sociales (IRES)
Unemployment benefit was financed by flat-rate contributions from employers and workers as well as out of State funding\(^2\).

Thus the modern concept of ‘involuntary unemployment’ appeared, and it began to be measured objectively (Mansfield, 1994). From the beginning, the low level of benefit and limited entitlement period were specifically designed to encourage jobseekers to find a new job as quickly as possible.

The general trend that followed the introduction of the first mandatory unemployment insurance was one of relaxing the rules (less restrictive conditions of eligibility, increased benefit duration, abandoning assessments of job search etc.), particularly to encourage economic growth and more favourable industrial relations for workers in the post-war period. It is important to remember, however, that the tightening of the rules on benefit entitlement and stricter monitoring of jobseekers under Conservative governments from 1979 were in fact directly in line with the original Beveridgean approach. In contrast to the universal health insurance system (National Health Service), which provides healthcare free to all at the point of delivery (without prejudging quality), unemployment insurance in the UK has always been restrictive.

The benefit system in the UK is unique among the various types observed in Europe: benefit amounts are fixed, and the proportion of contribution-based benefits is limited (20% of all claimants); the vast majority of claimants receive a means-tested sum. Following the ‘welfare to work’ principle (aiming for a rapid return to work), unemployment benefit is subject to rigorous monitoring of active job seeking through a network of agencies (Jobcentre Plus offices) under the responsibility of the public employment service. The restrictive nature of registration for unemployment benefit and its payment leads to a proportion of unemployed people relying on other forms of social assistance, in particular invalidity benefit, a scheme that the British government is seeking to reform in order to align it more closely with the labour market. These reforms are, however, being thwarted by the rapid rise in unemployment since the autumn of 2008.

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\(^2\) Named after Peter Hartz, former Director of Human Resources at Volkswagen and Chairman of the Commission on ‘Modern services for the labour market’ set up in 2002 by the federal government to spearhead reforms to the labour market.
The current unemployment benefit system

The low amounts and atypical structure of public spending on labour market policies

It is important to note first of all that, compared to other European countries, public spending on labour market policies in the United Kingdom is very low: 0.67% of GDP in 2006, while the EU27 average stood at 2.2% and Denmark allocated 4.1% (Eurostat 2008). A particularly low proportion of this expenditure is devoted to ‘passive’ measures (i.e. unemployment and early retirement allowances): 28% compared with the EU27 average of 64%. It would therefore be reasonable to expect a high proportion allocated to ‘active’ measures. Yet an even smaller proportion of the total sum is specifically dedicated to schemes such as jobseeker training, back-to-work incentives, or even support for job creation (17%, compared with the EU27 average of 25%). By far the largest proportion of labour market expenditure is devoted to public employment services (55% compared with the EU average of 11%), which absorb funding without necessarily changing the labour market status of their clients. From this point of view, the United Kingdom has an atypical structure of labour market expenditure compared to what is generally observed elsewhere in Europe. The activation of passive spending is in fact primarily based on providing relatively generous resources for employment agencies, rather than on activation schemes as such.

Jobseeker’s Allowance; a flat-rate, limited, and mainly means-tested benefit

Up until the early 1980s, the unemployment benefit system was remarkably stable. It consisted of two components:

- Unemployment Benefit: a non means-tested benefit, paid for a maximum of one year and of a fixed amount. In 1966 an additional benefit was introduced (Earnings Related Supplement), proportional to previous earnings up to a certain amount and paid for the first six months;

- Income Support: a means-tested welfare benefit, without a time limit, paid to unemployed people who were ineligible for, or who had lost their entitlement to, unemployment benefit.
The Conservative governments led by Margaret Thatcher and John Major introduced thirty or so changes to the rules governing benefit entitlement between 1979 and 1996. The most significant ones include the exclusion of people with personal pension schemes in 1979, and the withdrawal of the additional benefit based on previous earnings in 1982: the Thatcher government viewed it as a disincentive to work. All of these reforms made access to unemployment benefit considerably more difficult and reinforced monitoring of unemployed people, who would lose their entitlement if they did not obey the rules. The main reform of the unemployment benefit system, however, occurred in 1996 with the introduction of the Jobseeker’s Allowance (JSA), which became the sole form of unemployment benefit.

To be eligible for Jobseeker’s Allowance, the claimant must: be working less than 16 hours a week and actively seeking a job; be available to work for at least 40 hours a week; be aged over 18, and under the State pension age (65 for men and 60 for women); not be in education; live in the country (not be subject to immigration control); have a ‘Jobseeker’s Agreement’ (see below).

There are two versions of JSA. The first follows an insurance logic. For unemployed people who have paid sufficient social security contributions, calculated over the last two tax years and over each of the two years, the contribution-based JSA (JSA-C) is non means-tested and paid for a maximum of six months. The amount as of 1 April 2009 is:

- £50.95 per week (equivalent to €235 per month) for young people aged between 18 and 24;
- £64.30 per week (€296 per month) for people aged 25 and over.

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4. Combining JSA with a part-time job is possible; the amount of the benefit is reduced accordingly.
5. The Pensions Act of July 2007 will increase the basic State pension age for women to 65 in 2010 (compared to 60 previously), and to 68 in 2044 for both men and women (cf. Join-Lambert O., Lefresne F., 2007).
6. Conversions take into account the exchange rate (on 5 September 2009), but not the differences in standards of living between countries.
7. JSA-IB is, in principle, paid to people aged over 18. However, 16-17 year olds can be entitled to receive the benefit for a limited period of time, according to certain conditions (in addition to the general eligibility conditions): they must live away from their parents; have dependants; prove that they are living in poverty.
For unemployed people registered with employment agencies who do not qualify for JSA-C (80% of cases), the income-based JSA (JSA-IB) is means-tested according to the same criteria as for people on Income Support. In this case, the amount of the benefit is calculated according to personal savings, income and size of the household. A person is not eligible to receive this benefit if their partner works for more than 24 hours per week. The benefit is paid for an unlimited duration and can follow on from the contribution-based JSA after the six-month period comes to an end; it can also be paid to unemployed people who are ineligible for JSA-C. Nevertheless, even if a person is eligible for JSA-C, (s)he can receive JSA-IB instead (on more favourable terms), if his/her family and financial circumstances justifies it. The very large proportion of unemployed people receiving benefits according to welfare criteria rather than insurance criteria is one of the singular features of the British system.

The amount of JSA-IB is the same as that of JSA-C for single people, but it varies according to the family circumstances of the unemployed person. For example, the amount as of 1 April 2009 is:

- £64.30 per week for lone parents (aged 18 and over) (equivalent to €296 per month);
- £100.95 per week for a couple (each aged 18 and over) (€465 per month).

Two associated benefits can be claimed in addition to unemployment benefit (JSA-C and JSA-IB). Firstly, Child Tax Credit (a tax credit, or a sum of money if the household is not liable to tax) calculated pro rata according to declared income and the number of dependent children. Secondly, means-tested benefit claimants are automatically entitled to receive Housing Benefit and Council Tax Benefit.

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8. Income Support is a differential, means-tested benefit disbursed to people aged between 16 and 60 on a low income, who do not have a full-time job, and who are not actively looking for work. Claimants do not have to visit a Jobcentre Plus office if they are a lone parent, sick or disabled, registered blind, or cannot work because they are a full-time carer for one or more people. The benefit cannot be claimed if the person’s partner works for more than 24 hours per week.
All JSA claimants are entitled to healthcare and statutory maternity pay, and periods of unemployment are taken into account for pension entitlements.

Claimants may only receive JSA if they have signed a Jobseeker’s Agreement, which determines their rights and obligations throughout the successive stages of benefit payment. Throughout these stages the services on offer become more varied while also becoming more restrictive: material assistance for active job seeking, skills appraisal, work experience etc. Participation in back-to-work or training schemes may become mandatory after a certain amount of time out of work, which is variable according to the jobseeker’s age and circumstances.

In total, just over 90% of all those officially registered as unemployed (the ‘claimant count’) (1.54 million people in May 2009), receive JSA. The number of unemployed people receiving JSA is 68% of all unemployed (2.26 million) according to the International Labour Organisation (ILO) (see Graph 1).

Figure 1  ILO unemployment rate and JSA claimant count (% of the active population)

Source: Office for National Statistics

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9. The delay between official registration and the detailed examination of cases (assuming changes in circumstances) means that approximately 10% of applications are eliminated.
The creation and responsibilities of Jobcentre Plus offices

Until 2001, in terms of institutions, the Benefits Agency and the Employment Service were under the responsibility of two different government departments (the Department of Social Security for the former, and the Department for Education and Employment for the latter). The law of 8 June 2001 attributed both tasks to the newly created Department for Work and Pensions (DWP). Therefore, between 2002 and 2006, the local offices previously managed by the two former ministries, Jobcentres on one hand and benefit offices on the other, progressively merged to become Jobcentre Plus offices, under the responsibility of the Jobcentre Plus branch of the DWP. There are 11 Regional Offices in the UK, subdivided into districts (between 3 and 7 districts per Regional Office), each district being responsible for several local Jobcentre Plus offices. It is worth noting that, in contrast to the French institutional landscape concerning employment policy, the British system relies hardly at all on local councils; over recent years, however, their responsibility has increased in terms of coordination among various stakeholders striving to find solutions for poverty issues.

Rationalisation of the public service

The one-stop Jobcentre Plus offices, introduced after a trial period between 1999 and 2002 (‘Programme One’, tested in 12 pilot areas), administer all the different services available to unemployed people of working age (whereas pensions are managed by a different body), including services for people unable to work (see below). Their official responsibilities are (in order of priority): to help unemployed people find a job or, if necessary, to guide them towards a training or employment scheme; to encourage employers to provide extra job opportunities; to inform people about the financial assistance for which they are eligible (Jobseeker’s Allowance, Income Support, family allowances, housing benefit, tax credits etc.); and to pay these benefits as appropriate.

In reality, local offices have very little autonomy, since the services on offer are nationally defined and highly standardised, and the local manager is directly answerable to his/her hierarchy (Grivel et al., 2007). Budgetary cutbacks were among the reasons behind the merger: thus the number of civil servants in the employment services was reduced from
80,000 in March 2004 to 67,500 in March 2008. The retrenchment of the public service led directly to an increase in the number of agreements with a network of external contractors, on which the local Jobcentre Plus office can call directly, and which will eventually compete with the public service (Freud Report, 2007). A proportion of the personal advisers’ salary is performance-related (‘box marking’). For example, in terms of redeployment: a higher bonus is received for cases where the redeployment of an unemployed person is more difficult due to poor skills or disabilities of various kinds.

Jobseekers’ obligations

Each person who applies for unemployment benefit must attend an interview. The aim of the interview is to determine the reasons why the person is unemployed and, most importantly, to discover the person’s aptitude for work. The main concerns of the employment agencies are much the same as at the beginning of the last century, namely to check benefit applications from workers who have resigned from their jobs. The adviser seeks to establish the existence of a ‘just cause’ for the resignation, or else the reasons for a dismissal - which the employer can be called upon to explain. If the resignation was without just cause, or if the worker is found to be at fault (misconduct), a ‘Decision Maker’ is immediately assigned to the case and determines the conditions according to which benefits are paid, based on extensive relevant case law. In most cases, Jobseeker’s Allowance is paid after 26 weeks. The Jobcentre Plus offices also closely monitor active job seeking. If the claimant does not visit the office fortnightly, or cannot prove active job seeking, his/her benefits may be suspended or even stopped indefinitely; Jobcentre Plus employees have the power to impose sanctions. Unemployed people aged over 60 can refuse JSA and claim Income Support instead, in which case, they are not obliged to actively seek work or regularly visit the Jobcentre.

A ‘suitable job’ is not formally defined in terms of skill level, pay or location. Over the first 13 weeks, the job search may be restricted to the wishes or previous occupation of the claimant, on condition that (s)he

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10. David Freud, a former journalist and bank manager in the City, was asked by the Minister for Work and Pensions to produce an analysis of the Welfare to Work policy in place since 1997.
can prove that (s)he has a reasonable chance of finding a job which corresponds to his/her demands. After 13 weeks, the terms of the Jobseeker’s Agreement may be changed, as the claimant is then obliged to accept all types of work. After six months of unemployment, the claimant loses all right to demand a certain wage or salary. If the claimant refuses four consecutive job offers, or refuses to attend a back-to-work or training programme (or has deliberately dropped out of such a scheme), sanctions may be applied by the Decision Maker (suspension of benefit for a period ranging from one to 26 weeks). These sanctions can be challenged at an appeal tribunal.11

**Significant numbers of unemployed people transferred to the status of ‘economically inactive’**

Among the success stories of European countries where the unemployment rate fell sharply in the mid 1990s, the British case is noteworthy; while the population of working age grew, the active population stagnated, and even decreased in the case of men. The decline in male unemployment was in fact more marked than the increase in employment, as a proportion of unemployed men had been transferred to ‘economic inactivity’. For women, however, the rise in employment was accompanied by an almost identical decrease in unemployment. Unusually, a slight drop in the rate of activity for men aged 25-54 was observed, dropping from 94.6% in 1991 to 91.6% in 2006. Ill-health is by far the principal cause of inactivity in the UK, and among these inactive people (of working age) the unskilled or poorly skilled are widely overrepresented: between 1984 and 2001, the activity rate of the latter fell from 81% to 44.7%, while the activity rate of skilled workers fell from 94% to 91% (Bell and Smith, 2004).

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11. Decisions of the appeal tribunal may in turn be contested before a Social Security Commissioner.
2.7 million people on Incapacity Benefit, three times the number on unemployment benefit

The institutional impact of this phenomenon lies in the large number of recipients of Incapacity Benefit\(^{12}\): 2.7 million people according to official sources, with an annual budget of £12.5 billion in 2007, whereas the budget for unemployment benefit was £2.5 billion. The number of people on Incapacity Benefit in 2008 was three times as many on unemployment benefit (see Graph 2). In an econometric study, Manning (2005) demonstrates that there is no solid proof that stricter monitoring of JSA applicants had a positive influence on their return to work. On the contrary, the shift in status from jobseeker to Incapacity Benefit applicant is proven through a series of regional monographs based on long-term monitoring of JSA claimants (Alcock \textit{et al.}, 2003).

Figure 2 \textbf{People of working age receiving Incapacity Benefit or Jobseeker’s Allowance}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{incapacity_jobseeker.png}
\caption{People of working age receiving Incapacity Benefit or Jobseeker’s Allowance}
\end{figure}

NB: Incapacity allowances replaced invalidity allowances in 1995, causing certain changes in eligibility conditions.
Source: Department for Work and Pensions

\footnotesize
\textbf{12.} Incapacity Benefit is a flat-rate, non means-tested benefit paid to people aged over 16 who have been declared unfit for work. It was introduced in 1995 to replace Sickness Benefit and Invalidity Benefit. Payment is subject to a contribution threshold (social security contribution threshold) over the two years preceding the declaration of incapacity. The amount is fixed, with different stages, and depends on the age of the claimant. After 24 months (2\textsuperscript{nd} stage), the benefit is higher than Jobseeker’s Allowance. Incapacity Benefit can be paid for an unlimited period of time.
Incapacity Benefit claimants, as with Income Support claimants, are not obliged to actively seek work; but the context of low unemployment on one hand, and the limited number of people receiving unemployment benefit on the other, has increasingly led to a debate about the extent of underemployment hidden by this ‘inactive’ status. Political priorities regarding labour market policy are therefore aimed at activating expenditure on the population of working age registered as unfit for work or as lone parents (the largest category of Income Support recipients who could work). This is not a new concern. The shift of unemployed people towards welfare benefits had already led to stricter monitoring (medical check-ups). The ‘New Deal for Disabled’ programme aimed to get people back to work in part-time jobs in the retail and community sectors, in the best cases with some training. The ‘Pathways to Work’ programme now imposes a period of six months of interviews concentrating on active job seeking before being eligible for Incapacity Benefit. This monitoring system can lead to sanctions going as far as the suspension of benefits, but it must be noted that the reintegration of these people in the world of work remains marginal. Reintegration seems to be all the more difficult because the scheme is aimed at people who are outside of the labour market on a long-term basis. Statistics from the DWP illustrate that 75% of Incapacity Benefit claimants have been receiving the benefit for two or more years. This is typically the case of former miners ousted from the labour market after the clashes of 1984-85. It seems, however, that there has been a change in the principal health reasons cited to obtain Incapacity Benefit: in 2006, 40% of claimants were reportedly suffering from mental or behavioural problems (Freud, 2007).

The Welfare to Work reform, and the challenges presented by recession

The Green Paper on Welfare reform13, published in 2006 and preceding the law of 2007, recommended that Incapacity Benefit and Income Support be replaced by a single benefit, the Employment and Support Allowance (ESA), which came into force in October 2008 (see Box). It is however one name for two different benefits: people who are recognised as ‘incapable’ of work will receive a higher amount than those only

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temporarily or slightly unable to working. The medical check-ups used to establish what benefit a person receives will be reinforced through the introduction of a Work Capability Assessment programme. In parallel, the Pathways to Work programme will be extended in order to increase the services provided for these groups by Jobcentre Plus offices. The choice that has been made is therefore once again to incentivise people to work, to reinforce the selection procedures and to step up the activation measures for population groups who have often been outside of the labour market for long periods of time. The recommendations are identical to those found in the Freud Report (2007), which aimed to reduce ‘inactivity and in-work poverty, and meet the Government’s 80% employment aspiration’ within ten years. The difficulty of the task is easy to imagine, as it involves a population of 3.65 million people (2.7 million on Incapacity Benefit and 950,000 lone parents on Income Support) within the current budget of the public employment services; there is also a risk of differential treatment being caused by vagaries in ‘work capability’ assessments.

In a detailed response to the Freud Report, the Trades Union Congress (TUC) (2007) explicitly challenged the tightening up of monitoring processes related to such at-risk population groups as those on Incapacity Benefit or lone parents, denouncing a policy of forcibly raising employment rates and drawing attention to the risks involved in further privatising employment services. According to the TUC, the solutions lie in better support and increased personalised assistance for jobseekers. However, the TUC did not highlight the low rates of unemployment benefit as constituting insufficient social protection or as inevitably having the dysfunctional effect of transferring people to other benefits. The TUC’s position is illustrative of the relatively high legitimacy enjoyed by the benefit system in the United Kingdom, a legitimacy historically rooted in the response to unemployment provided by the Beveridge Commission of 1909: on one hand, the introduction of mandatory insurance enabled a move away from the limits imposed by mutual insurance in force at the time (the workers most exposed to unemployment were also the least well organised, and so did not pay

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14. The social partners play a purely consultative role in the implementation of employment policy. When reforms are announced, White Papers or Green Papers on Bills presented to Parliament are made public; employer and worker representatives then have an opportunity to make their opinions known. Every Bill is subject to the consultative opinion of the Social Security Advice Committee, where the social partners are represented.
contributions to friendly societies); on the other hand, low and flat-rate benefits were a means of preventing need rather than of maintaining a previous standard of living (Merrien, 1997). On an institutional level, the British trade unions have never played a direct role in the benefit system, or indeed in the general area of employment policy. Nevertheless, the TUC broadly supported the Welfare to Work policy introduced by Tony Blair. Through their Unemployed Workers Centres, the trade unions have been active in two directions: firstly, legal assistance for unemployed people with limited access to unemployment benefit; secondly, local trade union representation in various schemes such as the New Deal.

The Employment and Support Allowance (ESA)

The ESA came into force in October 2008 and is a two-phase programme. A Work Capability Assessment of the applicant is undertaken during the first 13 weeks. The principal phase begins as from the 14th week. Two groups of claimants are identified: people fit for work (placed in the Work Related Activity Group) are immediately put in touch with a personal adviser, with the aim of actively seeking a job (not attending interviews with the adviser leads to suspension of benefits); and people declared unfit for work (placed in the Support Group).

The benefit amounts are as follows:
- During the first 13 weeks: £50.95 per week (equivalent to €235 per month) for people under 25; £64.30 per week (€296 per month) for those over 25.
- From the 14th week: £89.80 per week (€413 per month) for claimants in the first group (fit for work); £95.15 (€438 per month) for those in the second group (unfit for work).

For people on a State pension of more than £85 per week (€391 per month), the benefit amount is reduced by half of the amount that exceeds the £85. For example, for a pension income of £100, the excess is £15. The amount of Employment and Support Allowance payable is reduced by half of that, which is £7.50.
The unemployment rate in the United Kingdom does not by any means reflect the extent of under-employment, and the incapacity and welfare schemes are the principal safety valves for an unemployment benefit system offering little protection which, in aiming to eliminate disincentives to work, has automatically made other benefits more attractive. As Cazenave and Zajdela (2006) argue, ‘in wanting to tackle the problem of disincentives, the government has created a problem at another level, which is even more serious as it will undoubtedly guide the people concerned towards long-term unemployment rather than employment’. Unless all the different benefits are aligned at the lowest level, thereby running the risk of increasing poverty, it is difficult to see a way out of this reasoning. Neither the work integration schemes for the unemployed – which as already stated obtain a small proportion of total public spending on labour market policy – nor the tax incentives for a return to work (to ‘make work pay’) have prevented this drift. The harshness of the current recession, leading to 100,000 redundancies per month, and the ensuing upsurge in unemployment have seriously stalled the ambitious goal of raising employment rates which lies at the heart of the new Welfare to Work reform.

References


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