

Unemployment benefit systems in Europe and North America:  
reforms and crisis



# **Unemployment benefit systems in Europe and North America: reforms and crisis**



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# 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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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.

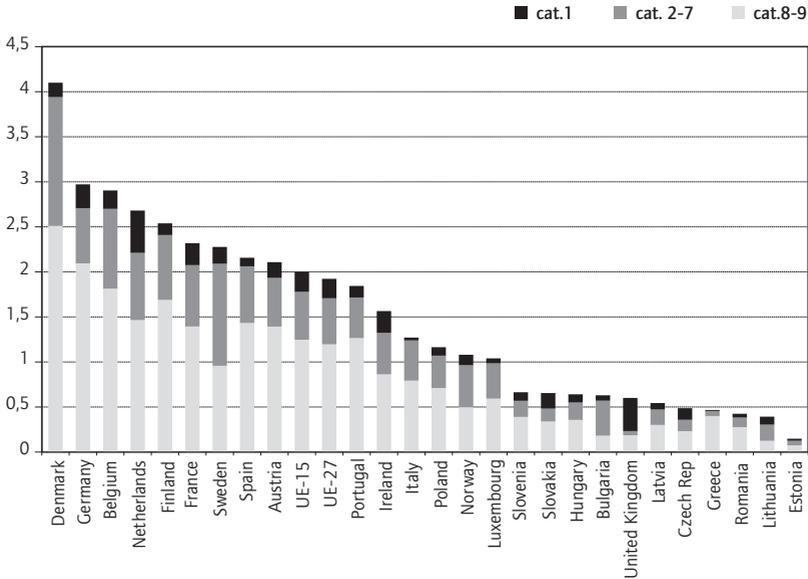
Comparing the two European databases that record expenditure on unemployment benefit shows that the two sources do not coincide, and that there are even some fairly significant discrepancies between them in the case of some countries. For example, in 2005 in France, unemployment benefit represented 1.535% 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)] x 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)] x 100 where:

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

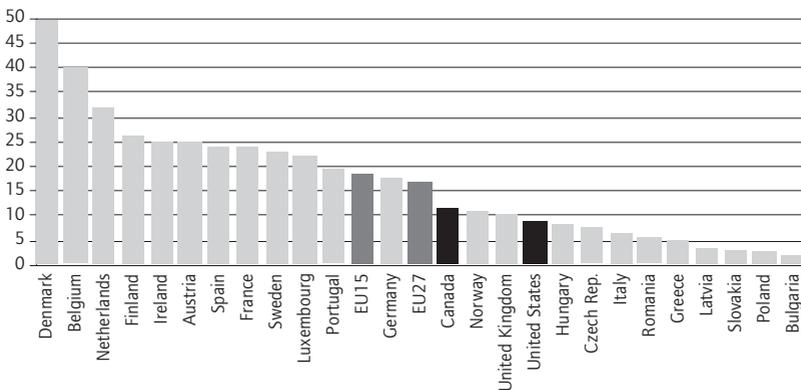
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3. Jacques Freyssinet (2002) used the Labour Market Policy database, whereas we have opted for the Social Protection database, which is less associated with monitoring of the European Employment Strategy guidelines.

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).

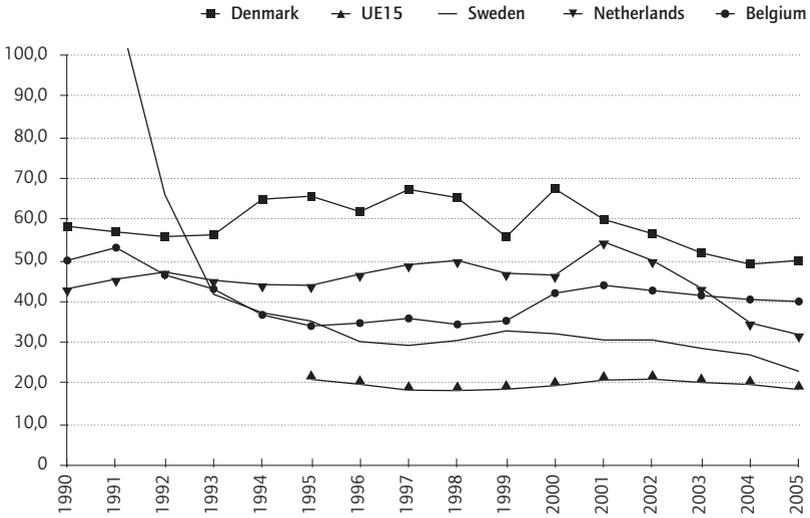
The changes (rises and falls) also differ from country to country, without a very marked fall being observed on average. Three groups of countries may be identified (Charts 3a, 3b and 3c), based on their average level of outlay identified over the period from 1990 to 2005. Sweden presents a special case (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



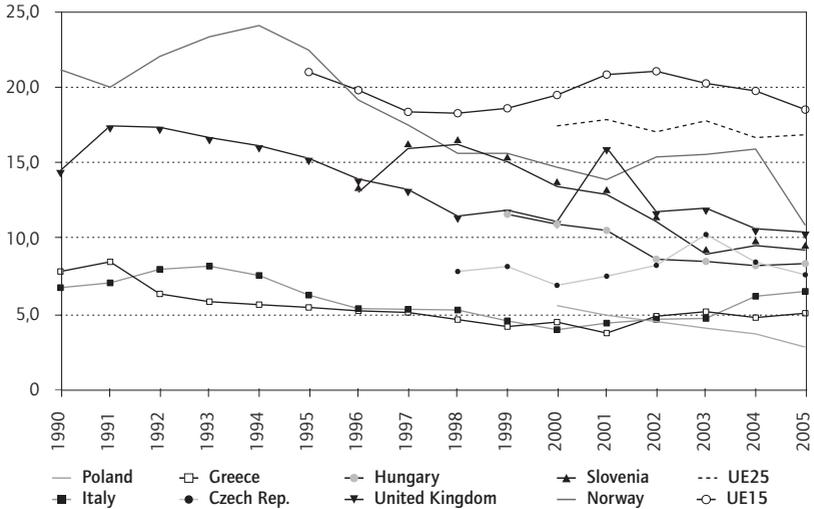
Source: ESSPROS-Eurostat, OECD-SOXC (for the United States)  
 NB: 2004 data for Portugal; OECD-SOXC data have been used here for the United States and Canada (it slightly under-estimates the level of benefit payments compared to the European data, without however changing the hierarchy of countries).

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



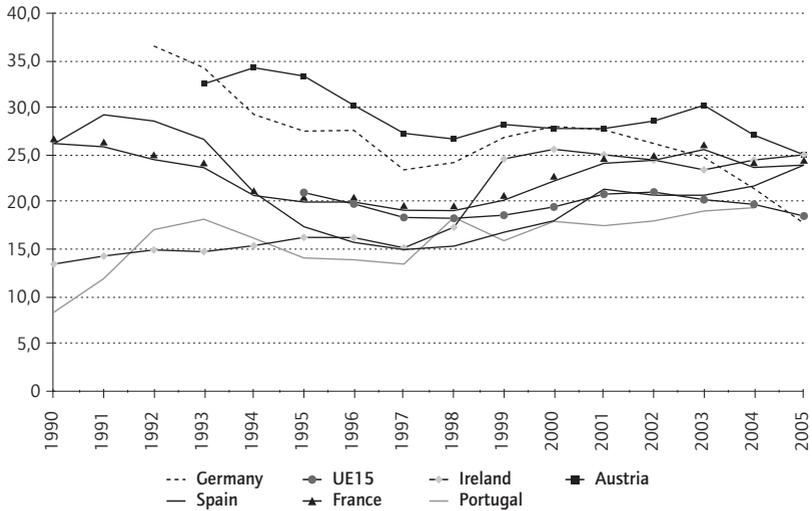
Source: Eurostat-ESSPROS

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



Source: Eurostat-ESSPROS

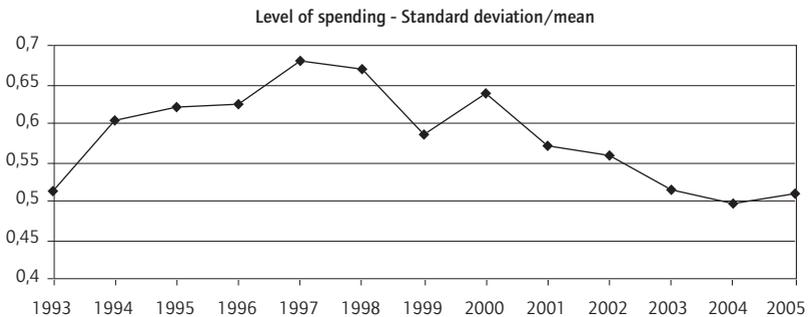
Figure 3c Countries with an intermediate level of benefit spending



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

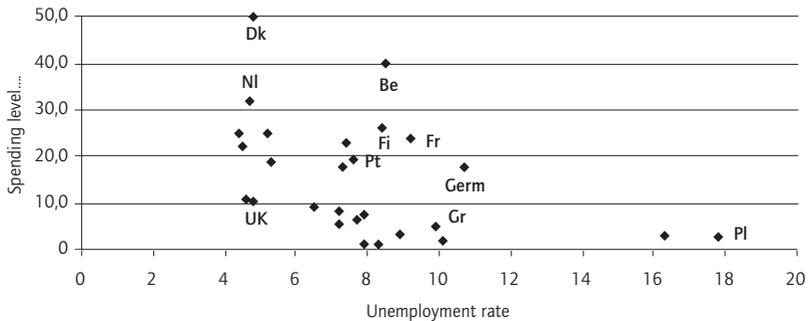


Source: Eurostat-ESSPROS

## 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 Tuchsirzer.

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.

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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 (*Kurzzeitgeld*), 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.

Incapacity 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 incapacity 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 incapacity 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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<sup>27</sup>. 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

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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).



# A European approach to unemployment benefits?

Philippe Pochet\*

The economic crisis has brought back into the limelight the question of unemployment and the institutions set up to deal with it. In some countries the amount and/or duration of benefit payments has been increased. Meanwhile, the various institutional formulae, such as part-time unemployment, have had a significant impact on official unemployment rates (Glassner and Galgoczi 2009).

While the official discourse on flexicurity remains dominant, initial estimates indicate that the countries regarded as less flexible and the best institutionally equipped have, for the time being, proved better able to resist the crisis. The debate is only just beginning, particularly because, at the time of writing, in most of the member states, the major employment crisis is still to come. To give only one example, youth unemployment is bound to explode with the arrival on the labour market of young persons just out of school. This will undoubtedly effect a shift in the debate that has previously focused on employment traps (see below). This contribution can of course not anticipate the debates that will inevitably be conducted but that have not (yet) taken place, any more than it can foresee their effects. The analysis presented below deals, in the main, with developments prior to the crisis and seeks, first of all, to propose a methodological approach designed to facilitate perception of the European influence.

The attempt to identify any European influence that might have affected unemployment reforms, in general, and the financing regulations and reforms of the public employment services, in particular, requires a preliminary definition of the different channels of influence. We do not refer to analysis of any one aspect in particular, the idea being to facilitate perception of a cumulative effect. After completion of this exercise, the

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next step will be to identify the various dimensions for examination in this analysis. The central topic on which this special issue focuses is the payment of unemployment benefit. If we were to confine ourselves to the monetary aspect of this topic, the article could end here for, as has been stressed by Dubois (2007: 74-75) 'taking the EU alone, the details of unemployment benefits and, a fortiori, of monitoring the unemployed, remain strictly national competences in which the Community level does not directly intervene.' Common trends, such as the tightening of eligibility criteria, a reduction in the volume of benefits paid and in the amounts received by claimants, are to be found but these cannot be interpreted as 'europeanisation' if this is taken to mean some kind of mechanical application of supranational requirements (Chabanet and Faniel 2007).

In other words, the European influence has to be analysed within policies and associated choices which – may – have consequences that are indirect and have become the focus of attention by the national media, institutions, and actors, and in national debates. This does not mean that it is possible to assume an absence of European influence, as shown by a certain number of national contributions.

## **What are the possible channels of influence by the European Union?**

In the discussions on the possible impacts and interactions of the European level, few attempts have so far been made to produce a systematic analysis of the different channels and mechanisms that can bring about change at the national level. European influence on national policies can take place via different channels entailing effects that are more or less binding. We distinguish four such channels.

The first channel is the classic instance of European legislation (regulations and directives) which affects national law either directly or via transposition of the national law. The recent book by Gerda Falkner and her colleagues shows us that the impact of European social legislation has been considerably under-estimated and that up until 2004 large numbers of social directives were adopted (Falkner et al. 2005; for an analysis up to the present, Pochet 2009). She shows us also that the process of transposing directives is frequently far from straightforward. What is more, a large number of directives contain a combination of mandatory provisions and guidelines (soft law).

Secondly, the European Court of Justice (ECJ) has played an essential role through its case law, principally as a result of its interpretation of legislation governing the free movement of persons and competition, on the one hand, and of the social directives, on the other (Leibfried and Pierson 1995). The recent *Laval*, *Viking*, *Rüffert* and *Luxembourg* judgments, all of which relate to the balance between fundamental social rights and the free movement of businesses and/or competition law, eloquently illustrate the Court's role<sup>1</sup>, which includes establishing the boundaries of national public action and the demarcation between what is (or remains) public and what is subject to the rules of competition. These interventions by the Court give rise to a framework that is above all intellectual and normative. They also determine what is no longer possible. Researchers' interest frequently focuses on the policies actually conducted and not on the binding framework that specific policies are required to observe and within which they have to seek achievement of their aims.

Thirdly, national policies may be affected by European economic and monetary policies, particularly with regard to the financing of social protection. The influence here tends to be indirect, relating essentially to the dominant economic model which in turn affects social choices. The limitations on budgetary deficits – such as those defined at Maastricht and subsequently in the Stability and growth pact – might, for example, affect policy choices in relation to benefits. In this way, current social policies are attuned to the economic and monetary model that has been gaining dominance since the 1980s (see also Clegg 2007 in relation to unemployment).

Lastly, the new so-called 'soft' methods have seen a rapid development in the social field (European employment strategy, open method of coordination). Their aim is to foster convergence of European policies. They can also exert a normative and cognitive influence on national policies and the direction of reforms (Zeitlin and Pochet 2005; Serrano 2004).

All European policies are reinterpreted by national actors and this is particularly important when it comes to the 'soft' methods. It thus becomes necessary to analyse the effects of 'selective downloading' (Visser 2005) or the 'leverage effect' (Palier 2002). These are frequently

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1 For detailed references, see [www.etui.org](http://www.etui.org).

one component of a much broader set of policies at the national level. In other words, it is inappropriate to imagine passive policy-makers subservient to European diktats, especially as, in some cases, it is much more a question of a general direction to be followed than of any precise requirement in terms of policy content (de la Porte et al. 2001).

The actors are not solely recipients of European policies, for they also contribute to their (re)shaping, to their 'uploading' to the European level. Europeanisation has to be thought of as a cycle involving the placing of national preferences on the European agenda and implementation at the national level (Pochet 2007). It represents, accordingly, a complex dynamic among different levels that is constructed in the course of time.

The influence of non-binding soft strategies takes place through ambiguous thematic complexes (flexicurity, employability, making work pay, etc. see below) that are frequently polysemic (Barbier 2008), thereby allowing diverse and indeed divergent interpretations. This is why the approach in terms of indirect and discursive influence has to be conducted so carefully. Countries and actors are not affected in an identical manner, as shown for example by the sophisticated analysis of the press in six countries conducted by Lahusen (2007) who analysed the press coverage of European themes associated with the European employment strategy, whether directly (reference to Europe) or indirectly (reference to the EES categories). The direct influence is negligible and the indirect influence more significant but nonetheless quite variable over time. For example, while Lahusen found little debate in the press in Italy, the Italian contribution in this issue stresses the impact of European reports and documents in the national debates.

One answer to this contradiction is that European influence can also spread through specialised networks (the Permanent Representatives' Committee – or Coreper, the Employment Committee in the EES context, Social Protection Committee in the framework of the Social Protection OMC, networks of directors-general of public employment services) which serve as forums for exchange and socialisation of political and administrative elites and to a lesser extent social partners. As stressed by Jean-Claude Barbier (2008:95), 'the OMCs are also channels via which influence circulates among States, for, even if it is the case that, in terms of the national debate and electoral cycles, as well as the issues directly decided by them, political cultures remain compartmentalised, this does not mean that political communities are impermeable to influence.'

This mode of socialisation of elites and their participation in the construction of a reference discourse at European level are aspects frequently disregarded by researchers. For example, as early as 1997, the directors-general of public employment services created a network and were able to take advantage of incentive measures on the basis of article 129 of the Treaty which allows cooperation between public employment services (benchmarking among services, promotion of cross-border mobility, identification of bottlenecks, for example). Insight into the influence and socialisation of European themes can be gained, for example, from the recent Charpy report on flexicurity issued by the public employment service directors-general (2008).

## The topics covered

In their standard reference work on public employment services in Europe, Freedland *et al.* (2007) distinguish five major policy rationales which we have grouped into three categories: institutional change; activation of the unemployed and life-long learning; ‘making work pay’. The links between the unemployed and the employment services are dealt with in conclusion.

A superficial view of the situation would seem to indicate that in this area, of the four channels of influence identified, the Court of Justice and directives have little significant role to play. The reality, at least for the Court, is, as we shall see, somewhat more ambiguous. Where soft law is concerned, the European employment strategy is quite obviously of primary importance<sup>2</sup>. Two aspects appear essential: on the one hand, the whole employability section of the EES and, on the other, the approach in terms of ‘making work pay’, in all its various facets – employment traps, poverty traps, minimum wage, etc. – which are to be found both in the EES and in the European approaches to social protection (that we will not cover here).

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<sup>2</sup> The guidelines are to be found in a box at the end of the article.

## Institutional change

Three major changes came about at the beginning of the 1990s: the end of the public monopoly, the partial application of competition law, and territorial extension. The scope for action of public employment services was restricted by recognition of the end of their monopoly on job placement. This came in the wake of the Court of Justice judgments (cases C-41/90 Höfner and C-55/96 Job centre coop.) on the nature of placement services and recognition of the role of the private sector. This is not the place to go into detail about the judgments. It is enough to consider the implications and Freedland *et al.* point out that in both cases, the Court's reasoning focused on the *efficiency* of the monopoly: public enterprise abused its monopoly because it was inefficient in satisfying the relevant demand' (Freedland *et al.* 2007:181). What is more, the Member States supported adoption of the International Labour Organisation (ILO) convention 181 (1997) which removes public monopolies on placement services, calls for regulations to combine private activities with social standards and seeks to foster public-private cooperation. This led to the development of temporary work, particularly in countries that had no legislation in this sphere and where private agencies did not exist (Italy or Spain, for example). After protracted discussions, the European Parliament adopted, in October 2008, the directive on temporary work and temporary agencies that will also have consequences on national employment markets by acting on the terms of pay of agency workers.

This opening up to the private sector and end of the public monopoly are extremely important and frequently ignored points, even in most of the contributions to this issue. The contribution on Poland shows, however, the role played by the European Social Fund (ESF) in support for private placement services (see also Freedland *et al.* 2007: 185-187).

In this debate, it is also important to stress that the principle that placement services must be free of charge has been retained. This stipulation was already mentioned in the charter of fundamental rights of workers (1989) and is also a provision of the charter of fundamental rights (Article 29) adopted in Nice in 2000.

Another aspect is that of competition law applied to national employment services. The latter are considered as general economic and social interest services, which allows certain exceptions to the competition rules

(Freedland *et al.* 2007:183). But that does not prevent the opening up of calls for tenders in situations where formerly there frequently existed historically founded relations of cooperation between the public employment services and private or associative operators.

A third aspect is that of territory. There has been a geographical expansion (from the national territory to that of the European Union) and the EURES programme in which the public employment services take part extends placement beyond national frontiers (this is also an aim of guideline 19, if not also of guideline 20). It should be noted also that European law allows free movement of the unemployed.

### Activation and lifelong training policies

Labour market activation and lifelong training policies are a leading topic in the European employment strategy. In this area, the EES has set different targets over the years.

All unemployed persons should be offered a job, an apprenticeship, a training course or other measure intended to facilitate their recruitment. This offer should take place, in the case of young persons just out of school, within a period of maximum four months between now and 2010 and, in the case of adults, within twelve months at most. While national implementation of these guidelines varies (see the national contributions in this issue; Serrano 2004), it remains true that rapid activation of young unemployed persons has become a priority in political agendas.

By 2010 25% of long-term unemployed should take part, according to the aims of the European strategy, in an active measure consisting of training, retraining, job experience or any other measure intended to facilitate their recruitment, the objective being to arrive at the average achieved by the three most advanced member states.

The EES has helped to reinforce national trends to regard unemployment as no longer a mass phenomenon but a series of individual cases to be treated as such (persons suffering from 'employability disorder' to borrow the felicitous expression coined by d'Oriane 2005). Cases of employability disorder are to be found in identifiable categories (migrants, young persons without qualifications, women returning to the labour market, and so on) which should be treated as a matter of priority. The public

employment services have been directly involved in the EES (CEC 1998) for the purpose of ‘modernising’ their action. They also developed, in concerted fashion, a joint vision of their actions and priorities (EU/EEA 2006).

In terms of conceptual framework, the emphasis on employability refers also to an approach based on the supply of labour rather than on the lack of demand for labour as an explanation of unemployment. It thus consolidates the dominant approach in the economists’ sphere, one that is gradually seeping down into other forums for reflection and academic disciplines. This emphasis has thus become legitimised in public discourse without any confrontation of the ideas and results having taken place.

## Making work pay

The various national articles and the comparative article by Florence Lefresne provide detailed treatment of the development of the ‘making work pay’ notion and debate. Here we will confine ourselves to analysing the dynamic, in relation to this issue, between the Member States and the European level. Indeed, the theme of work that ‘must be made to pay’ provides an ideal illustration of the theoretical description given in the first part. In a detailed analysis of the Belgian and French cases, Cazenave (2006) shows that the topic of disincentives to work had been much discussed in France and Belgium since the late 1990s, much more even, according to this author, than in other countries. As is well known, the United Kingdom was also a pioneer in this field and central elements of its social discourse were taken up at European level (Freedland *et al.* 2007). Cazenave stresses that the problem in question has received many different names (from ‘employment trap’ to ‘inactivity trap’) depending on the differing situations and preferred solutions (to reduce benefits or increase minimum wages; to adjust, or not, workers’ social security contributions, or to make use of tax mechanisms). This whole question has been the subject of institutional reports (CERC, 2001 in France; CSE, 1998 in Belgium, among others), and it is a topic that extends beyond unemployment *stricto sensu* and also covers minimum income (L’Horty 2004). Though the topic also featured in the explanation of unemployment expounded in the Commission’s Growth, competitiveness, employment white paper (1993), it is the OECD that played a key role in spreading the idea of disincentives. Invention of the concept of ‘making

work pay' (OECD 1997) represented an important milestone in drawing attention to this problematic. The OECD report described the spread and danger of the aforesaid 'traps' and recommended 'making work pay' as a means of removing them, an approach that provoked widespread criticism. The European employment strategy, however, did not initially focus on this question but on the major economic policy directions associated with economic and monetary union. Accordingly, the theme of making work pay did not appear in the employment guidelines until later (2003), following on from a working group recommendation on this topic (Group of experts 2003). As such, the paternity of a debate that sprung up in individual countries, with possibly some involvement of the OECD, cannot be attributed to the EU. The EU formulation, what is more, is particularly ambiguous (guideline 19) 'continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection'.

Though the Kok report on revision of the strategy, issued in 2005, made an even stronger case for making work pay, this approach was soon supplanted by another debate, focussing this time on 'flexicurity', a concept which, to take the standard example furnished by the case of Denmark, is supposed to deliver optimum results on the basis of a high level of unemployment benefits coupled with a virtually compulsory training system. It is to be noted that the generosity of the Danish system has diminished in the course of time and that the government wished to impose further radical cuts (a reform that was not approved for adoption). Thus it is stated in the Communication on flexicurity (CEC 2007): 'Good unemployment benefit systems are necessary to offset negative income consequences during job transfers, but they may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work. This can be largely offset by setting up efficient job search support and work incentives, ensuring a balance between rights and obligations.'

In recent reports generous benefit levels are equated with a sense of security (CEC 2006:96 ff.). The harsh form of making work pay, otherwise known as 'workfare', is here replaced in the flexicurity debate by a much more positive version that is designed to facilitate transitions within a deregulated labour market. In this debate as a whole, including the flexicurity variant, Europe has invariably reinforced national trends

but without developing any uniform approach to the topic. There is a convergence in terms of the general drift of the ideas expressed, with continuing diversity of the policies actually implemented. More generally, there is a tendency to 'economise' on social debate (for France see Barbier 2008a), corresponding, at the European level, to the growing influence of DG Economy and Finance in social debates (Pochet 2006).

## Conclusion

This brief overview of European influence shows that it is undoubtedly more significant than most of the national contributions would seem to indicate. Multiform and constantly evolving, it puts in place a reference framework in terms of public-private links as well as in relation to a normative analysis of the causes of and solutions to unemployment. To put in place a framework does not mean to impose specific measures and, whereas national developments frequently precede the European discourse, the latter serves to reinforce national trends and, above all, contributes to the elimination or marginalisation of different opinions. Influence does not, as we have stressed, mean the convergence of particular policies according to a single model.

It is thus that the European influence offers support for an analysis in terms of individual responsibility and for solutions consisting of early activation of the unemployed and/or those in receipt of welfare benefits. Certain categories of unemployed will be 'privileged'. This applies, for example, to young people, to the detriment of the long-term unemployed. Specific groups – migrants for example – will be singled out and specific forms of so-called 'active expenditure' will also be accorded priority (training) to the detriment of others (partial subsidisation, for example).

The European analysis has taken as its model, in accordance with the current conventional wisdom propagated by mainstream economists, a rational individual who calculates the extent to which it is in his/her (immediate) interest to work. The notion of 'making work pay' entered the European discourse gradually in the wake of recommendations from the OECD and the experience of pioneering countries like Great Britain. Yet this notion entered the Belgian and French discourse before it became standard currency at European level. In other words, it is never a case of automatic or mechanical effect.

The debate on flexicurity displaced, to some extent, the focus on ‘making work pay’, stressing instead the need for a substantial level of unemployment benefit in combination with a deregulated labour market and virtually compulsory training. The debate thus came full circle, a link having been supplied between ‘making work pay’ and the debates on ‘lifelong activation’.

Convergence, as we have emphasised, takes place not at the level of policies but at that of diagnosis. Insofar as this is a process spread essentially by means of specialised networks, it entails both strengths and weaknesses. While the existence of such networks provides a forum for the circulation of ideas, these ideas are less present in national public debate which continues to be conducted in accordance with historically constructed categories and interests.

While new debates will undoubtedly emerge in the wake of the economic crisis, there can be no knowing in advance to what extent they will be consolidated and how far genuinely new issues will be raised and tackled. For the time being there is a tendency, partly attributable to institutional inertia, to hear repetition of the ‘pre-crisis’ debates (particularly in terms of flexicurity) (Andersen et al., 2009). Another reason for this absence of discursive innovation in the immediate aftermath of irruption of the crisis is the general lack of consensus on what caused the crisis and hence on the most appropriate structural responses. This has not ruled out some institutional innovations (short-time work and part-time benefits, etc.) that may well entail important consequences in the longer term. By the same token, topics such as employment traps or the rejection of early retirement as a means of early exit from the labour market have somewhat fallen by the wayside.

### **Employment guidelines**

The main provisions of the Community guidelines 2008-2011 are given below

Guideline 17. Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion. ...

...

Guideline 18. Promote a lifecycle approach to work (...)

- a renewed endeavour to build employment pathways for young people and reduce youth unemployment, as called for in the European Youth Pact,
  - resolute action to increase female participation and reduce gender gaps in employment, unemployment and pay,
  - better reconciliation of work and private life
- (...)
- (...)

Guideline 19. Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive through:

- active and preventive labour market measures including early identification of needs, job search assistance, guidance and training as part of personalised action plans, provision of necessary social services to support the inclusion of those furthest away from the labour market and contribute to the eradication of poverty,
- continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection,
- development of new sources of jobs in services for individuals and businesses, notably at local level.

Guideline 20. Improve matching of labour market needs through:

- the modernisation and strengthening of labour market institutions, notably employment services, also with a view to ensuring greater transparency of employment and training opportunities at national and European level,
- removing obstacles to mobility for workers across Europe within the framework of the Treaties,
- better anticipation of skill needs, labour market shortages and bottlenecks,
- appropriate management of economic migration

Guideline 21. Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through:

- the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements,

- addressing the issue of undeclared work,
- better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitate adaptation.

Guideline 22. Ensure employment-friendly labour cost developments and wage-setting mechanisms by:

- encouraging social partners within their own areas of responsibility to set the right framework for wage bargaining in order to reflect productivity and labour market challenges at all relevant levels and to avoid gender pay gaps,
- reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid.

Guideline 23. Expand and improve investment in human capital.

Guideline 24. Adapt education and training systems in response to new competence requirements.

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# Germany

## Employment policies, unemployment administration, placement of unemployed workers: the great shake-up

Mechthild Veil\*

Since the end of 2008, the recession has been affecting the German labour market, forcing a further roll-out of employment policies. At the beginning of 2009 the government launched a second pact to deal with the economic situation. The ‘Law on ensuring Employment and Stability in Germany’, which was approved on 5 March 2009 and came into force the next day (Bundesgesetzblatt I No. 11 of 5 March 2009), provides for 50 billion euro to be injected into the economy, making it the largest short-term economic programme in the history of the Federal Republic. One of the main measures in terms of employment policy is the re-emergence of ‘partial unemployment’. This instrument of social policy, which in German is called *Kurzarbeit* (short-time working), had lost its attractiveness after 1997 as a result of the increased use of time savings accounts which proved to be more flexible. By means of this cushioning measure, the federal government is seeking to align the short-term needs of both employers (adapting to a downturn in demand) and employees (avoiding job losses). The reforms made to the system of short-time working include: its duration (moving from 6 to 18 months, 24 months in an emergency); greater flexibility of access criteria; more generalised use of fixed-term contracts for beneficiaries; and lastly, financing<sup>1</sup>. In 2009 and 2010 employers will be exempt from paying social charges in the case of short-time working to the tune of 50%, or more if vocational training is provided for the workers concerned. The Federal Employment Agency (BA) is expecting a large increase in costs arising from short-time working in 2009, up from 287 million euro in 2008 to 2.1 billion.

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1. Unlike the situation in France, partial unemployment forms part of the unemployment benefit scheme, funded entirely by social security contributions, and hence excludes all employees who do not pay social security contributions.

The increased use of short-time working, and its re-evaluation as an adjustment measure, for a strictly limited period, has met with approval from trade unions and the great majority of employment experts, but is not seen as a panacea.

Even before the current international crisis broke, however, changes to the employment system had presented a challenge to the traditional institutions of employment policy. The underlying convictions associated with the world of work and industrial relations had been transformed following the erosion of the standard model of employment, as had attitudes towards new models of the family, the link between work and family life, and the demand for equality between men and women. Job insecurity and insecurity *within* employment gained ground. The demand for reform became stronger as unemployment insurance was seen to be on its last legs. In 2002 the ‘Hartz’ laws<sup>2</sup>, supplemented by a whole series of changes, initiated a ‘modernisation of services in the labour market’. This reform has brought about a much more far-reaching transformation of the structure and content of employment policies than any previous legislative reform. It reflects the new convictions of those involved in employment policy about unemployment, its origins and how it should be dealt with (Baethge-Kinsky *et al.*, 2008:4). New regulatory instruments, based on business management principles, are being used to re-organise advisory, placement and administrative services for unemployed persons, in an effort to reduce ‘passive expenditure’ and achieve greater ‘intensity’ of follow-up.

The Hartz laws put into practice the OECD’s recommendations and guidelines advocating a policy of activation, and also the Lisbon employment strategy which aims at achieving a 70% employment rate in all Member States by 2010. This reform measure has played a major part in re-orientating employment policy, and for this reason will receive particular attention in the course of this article.

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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 evolution of institutional thinking: a historical review**

The German State was quick to concern itself with the administration of labour and the placement of unemployed workers. The first system to be created and funded by the government, entitled ‘assistance for the unemployed’ (*Erwerbs-losenfürsorge*) was introduced in 1918, just after the First World War. It was directed solely at people who ‘having become unemployed as a result of the war, find themselves in need’ (Gerhard, 1988:47). Men were the target group for this measure, along with women who were forced to provide for their families in place of men: ‘Female persons shall only qualify for assistance if they are dependent on paid employment’ (*ibid.*).

### From assistance for the unemployed to unemployment insurance

An important stage was reached nearly ten years later, in 1927, when ‘assistance for the unemployed’ was changed to become unemployment insurance, set up as a third branch of social security (together with sickness and pensions insurance). The system, which was funded by contributions, was managed jointly by the two sides of industry within an autonomous body<sup>3</sup>. Having won acceptance for the insurance principle, the State transferred the costs of unemployment to the social players by means of social charges. Previously, mutual aid had been organised via independent support funds, which since the 19<sup>th</sup> century had been managed by occupational associations, trade unions and women’s unions, with increasing involvement of local authorities (Gerhard, 1988:49).

Unemployment insurance brought together two activities which had previously been kept separate - job placement and compensation for the unemployed. The latter could now be claimed as of right and was not subject to a means test. The long-term unemployed, persons about to join the labour market or those who had not worked for a sufficiently long period to claim insurance, continued to benefit from State assistance payments.

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3. [www.deutsche-sozialversicherung.de/de/arbeitslosenversicherung](http://www.deutsche-sozialversicherung.de/de/arbeitslosenversicherung)

An amendment to the law in 1929 restricted access to unemployment insurance benefits. The introduction of a criterion of 'availability for work' limited access in effect to persons without domestic commitments. This legally vague criterion remains a feature of present placement practices, excluding women in particular from benefits and social entitlements since the supply of subsidised childcare facilities remains poorly developed.

The National-Socialist government (1933-1945) put an end to joint management of unemployment insurance by the social players. A *dirigiste* approach to placement of the workforce was adopted and promoted as a State programme (Glismann *et al.*, 2002).

## After 1945

The Federal Labour Office (BA, Bundesanstalt für Arbeit), later to become the Federal Employment Agency (Bundesagentur für Arbeit), was set up in 1952 using the 1927 model of unemployment insurance. The institutional integration of unemployment insurance into the social security system thus took place earlier in Germany than in France. The BA was a body established under public law with a tripartite management structure (*paritätische Selbstverwaltung*). It held a monopoly over placement and advice services to unemployed workers, which it gave up only in 2003, with the Hartz reforms.

In the Socialist GDR, the right to work was enshrined in the Constitution. Officially, no-one was unemployed, and hence there was no unemployment insurance.

## The move towards a more active employment policy

A new approach to unemployment and to employment policy underlay the reform to the Law on the Promotion of Employment (*Arbeitsförderungsgesetz*, AFG), a decisive measure adopted in 1969. The BA's powers were enhanced by elements of an 'active employment policy': in addition to advice and placement services for unemployed workers, its remit was now to promote training and occupational qualifications for job-seekers, so as to prevent 'low-value' jobs. The idea was not to find 'a job at any price' but 'good jobs at a fair wage' (Glismann *et al.*, 2002).

The reform to the Law on the Promotion of Employment took place in a context of full employment which lasted from the mid-1960s until the beginning of the 1980s. Unemployment was not a major political issue. This led those involved to pin their hopes on the economic feasibility of the project; this however proved illusory following the sudden increase in unemployment which began in the mid-1980s and has persisted over the years. The AFG law perpetuated and consolidated the German tradition of the welfare state, based on a logic of 'de-commodification' (i.e. a partial decoupling of work and income) which, by providing generous replacement income, makes it easier for wage-earners to avoid having to accept work at any time and at any price during periods of non-employment.

The austerity laws (*Spargesetze*) of the late 1990s marked a turning-point: the idea of an active employment policy was progressively abandoned. In 1998 the legal autonomy of the Law on the Promotion of Employment was abolished, and this area of law was incorporated into the Social Code (*Sozialgesetzbuch*, SGB III). The unemployed were about to be given their own sense of responsibility. The slogan of the Hartz laws, 'promote and demand' (*Fördern und Fordern*) has since 2002 summed up this way of thinking. The objectives pursued by the Law on the Promotion of Employment (AFG) – new tools to qualify people for high-quality jobs – have slipped into second place.

## **The unemployment benefit system**

Bismarck's model of social security was based on the insurance principle, with benefits funded by contributions. In a broader interpretation, the idea of social security involves more than just replacement income funded by contributions, and includes benefits funded out of taxation. The latter were out of favour for a long time in West Germany – because of the need to distance themselves ideologically from the East German model of the 'protective' social State funded by taxation, and because this type of benefit seemed out of step with post-war economic policy and its notion of the 'economic citizen' (*Wirtschaftsbürger*), at the very time when people were keen to promote the image of the (male) head of the family in his role as breadwinner. Since then, perceptions and the financial resources of social insurance schemes have both evolved considerably: thus one-third of the receipts of the pension insurance scheme now come from the federal budget (*Bundeszuschuss*) and the unemployment insurance funds are likewise topped up from the public purse (SGB III para. 363).

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## A restrictive view of paid employment ... and access to social security benefits

The restrictive view of paid employment has nonetheless persisted, being used to justify similarly restricted access to social security benefits, and hence to unemployment benefit. Historically, the German social security system has linked entitlement to social benefits to the exercise of a job (usually the preserve of men) capable of feeding a family. Access to benefits from the Federal Employment Agency is more limited in Germany than in France, for example. The corollary to this is the relatively wide range of jobs which are not subject to social security contributions. Some contracts of employment, such as the so-called *Mini-Jobs* (also known as '*400-euro jobs*') are exempt from social charges for employees; employers must make a flat-rate contribution to the pension and sickness insurance schemes as well as paying a flat-rate tax. In the same way the 'new' self-employed (for example those heading up the single-name companies established under the Hartz laws, the so-called '*Ich-AGs*') are generally not required to pay social security contributions.

### Organisation and role of the Federal Employment Agency

Payments made by the Federal Employment Agency (BA) are targeted at three categories of beneficiaries: employees, employers and institutions (see Bundesagentur für Arbeit 2008a, 2008b).

- Employees receive, in addition to unemployment benefit, payments to facilitate resumption of employment (aids to mobility) or to set themselves up as self-employed persons (start-up aid). The BA finances training measures and help with returning to work; disabled persons also benefit from these measures. It pays out subsidies under the law on part-time working in retirement, and finances measures targeted more generally at senior citizens.
- Companies receive subsidies for measures designed to integrate and train different categories of employees. The BA pays them redundancy allowances, refunds social security contributions for seasonal work, and reimburses extra wage or salary payments due under the scheme for part-time working in retirement.

- Benefits paid to institutions consist in funding socially useful jobs (*Arbeits-beschaffungsmaßnahmen*) and subsidies to placement agencies (*Personal-Service-Agenturen*, see below).

The BA itself is financed by public subsidies and by contributions paid jointly by employers and by employees whose jobs are subject to social security contributions (Table 1). The trend of contributions is downward: currently they represent 3.3% of gross pay. A reduction to 2.8% is currently being discussed<sup>4</sup> in order to justify the corresponding increase in contributions to the sickness insurance scheme. Neither the employers nor the trade unions are mounting any significant opposition to this scheme; neither has any interest in seeing a rise in social security contributions.

Table 1 Unemployment benefit scheme

Rate of contribution	3.3% (2.8% from January 2009) - 1.65% paid by employers - 1.65% paid by employees
Minimum conditions for affiliation	12 months during the last 2 years
Level of benefit	60% of reference wage *) 67% if claimant has dependent children
Reference wage ceiling (gross/month) **)	original Länder: €5,300 new Länder: €4,500
Minimum level of monthly allowance	./.
Maximum level of monthly allowance	original Länder: €2,166.30 new Länder: €1,908
Minimum wage	./.
OECD unemployment rate Dec. 2007 (except where indicated)	7.8%

\*) The reference wage for calculating the unemployment allowance is the net pay (gross pay less tax and social security contributions).

\*\*) Gross pay subject to social security contributions.

Source: Unedic DAJ (Département des études internationales), formatted by the author.

In order to receive unemployment benefit, a claimant must be able to demonstrate a period of contribution to the unemployment insurance scheme of twelve months during the two years previous to becoming

4. Contributions will be reduced to 2.8% from January 2009, for a period of 18 months. They will be raised to 3.0% from July 2010.

unemployed (instead of 32 months as before). The level of benefit depends on the previous net wage or salary (capped) and on the claimant's family situation. It corresponds to 60% of net pay<sup>5</sup>, or 67% when the household includes dependent children. Since Germany does not have a statutory minimum wage, there is no minimum threshold for unemployment benefit, although the upper level is capped. The period during which unemployment benefit is paid out depends on the claimant's age and the contributory period. From age 58 onwards, the maximum period for payment of benefits is 24 months<sup>6</sup> (Table 2).

Table 2 Maximum period of benefit (entitlement acquired since 1 January 2008)

Total contributory period (minimum in months) <sup>*)</sup>	Age conditions	Entitlement: number of monthly payments
12 – 24		6 - 12
30	50 years	15
36	55 years	18
48	58 years	24

\*) In determining the contributory period giving an entitlement to benefit, only payments made during the 5 years preceding unemployment are taken into account.

Source: <http://www.arbeitsagentur.de>

In Germany the gap between wages for men and for women is 22% (Busch, Holst, 2008:188); this is relatively high by European standards, because women have shorter working hours and less favourable career patterns. This discrepancy also has a knock-on effect on the level of unemployment benefit: monthly allowances for women are on average one-quarter less than those for men.

Table 3 Average level of unemployment benefit (Arbeitslosengeld I) in 2006

	Women	Men	Total
Monthly amount paid	€624	€898	€775

Source: Bundesagentur für Arbeit (2007), Arbeitsmarkt 2006, Nuremberg. Formatted by the author.

5. Net pay less income tax and social security contributions (i.e. -21% in total).
6. When the Hartz laws were introduced, the right to benefit was limited to 18 months for persons aged 55 and over; the figure has since been increased.

## From an active employment policy to a policy of activation

The Hartz reforms, implemented from 2002 onwards<sup>7</sup> against a background of long-term structural unemployment, marked a paradigm shift: promotion of employment was replaced by ‘workfare’ (‘welfare to work’); in other words, the idea of a social State founded on the logic of ‘de-commodification’ gave way to a social model based on the logic of ‘workfare’. The ‘activation’ paradigm is central to reform of the labour market. To this end, changes were made to the organisational structure of the BA and the services it provided, and the institution itself, re-named ‘Federal Employment Agency’ (Bundesagentur für Arbeit), was adapted to take account of new regulatory strategies. A Commission was set up, entitled ‘Modern services for the labour market’. As a result of its proposals four laws were adopted (Veil, 2005):

- The BA lost its monopoly on job placement. With the setting-up of private agencies, known as *Personal-Service-Agenturen* (PSA), the emphasis is on speeding up the re-integration of unemployed workers. PSAs work along the same lines as temping agencies: they sign contracts with local employment agencies and place job-seekers in firms (Hartz I, 2003).
- The employment agencies in the Länder (*Landesarbeitsämter*) were transformed into ‘Job-Centers’ by merging the local employment agencies with the local authorities’ social security offices (in preparation for Hartz IV, see below). The separation of local facilities for job-seekers and social security claimants was done away with, in order to bring advisory and assistance services ‘into one set of hands’ (Hartz II, 2003).
- The BA was re-organised to become a service agency. The objective is to achieve a better ‘density’ of advisory activities, delivered in a more individualised way. For this purpose, advisors in individual counselling were introduced (*Fallmanager*)<sup>8</sup>; return-to-work

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7. In 2002, half of all job-seekers were long-term unemployed (as against 40% in France and 20% in Denmark). The average period of unemployment was 7-8 months, twice the average in Denmark (cf. Veil, 2005).

8. For a critical assessment, see Baethge-Kinsky *et al.*, 2007.

contracts are signed with job-seekers. In a parallel move, the legislature tightened the conditions for receiving benefit. A contributory period of twelve months during the two (instead of three) years preceding the onset of unemployment is now required in order to receive unemployment benefit (Hartz III, 2004).

- The benefit paid to unemployed people who have reached the end of their entitlement ('unemployment assistance', *Arbeitslosenhilfe*)<sup>9</sup> and social assistance benefit (*Sozialhilfe*)<sup>10</sup> have been merged. The result of this merger is a single benefit, called 'basic protection' (*Grundsicherung*) or ALG II (*Arbeitslosengeld II*, Unemployment Benefit II), intended for the long-term unemployed. This law forms the keystone of the Hartz reforms. It is aimed at activating people who are fit for work but require assistance (cf. Text Box 1): under the new *Grundsicherung* (basic protection) measure, they are slotted into activation programmes run by the BA's job placement services (Hartz IV, 2005).

### 1. Persons fit for work who require assistance (erwerbsfähige Hilfebedürftige)

The category 'persons fit for work who require assistance' is made up of people aged between 15 and 65 years who are able to work at least three hours per day. 5.13 million people were in this situation in May 2008. But barely half of these are included in the job-seeker statistics: they are workers who do not have a paid job which is of benefit to society, are not in early retirement, and are not unavailable to the labour market because they are bringing up children or are themselves undergoing education or training.

9. The means-tested unemployment assistance paid to long-term unemployed persons was funded out of taxation. It was granted for an unlimited period if justified by the means test. The method of calculating the benefit was the same as for unemployment benefit, but at a lower rate.
10. Social assistance, which was codified in the federal law on social assistance (BSHG) of 1961, was funded out of taxation and managed by the local authorities. It was intended to guarantee a minimum level of subsistence for persons who could not themselves provide for their own needs or rely on support from parents, spouses or children (the subsidiarity principle). Social assistance was universal in nature. In their capacity as managers, local authorities could adapt basic rates and the housing allowance to reflect local conditions.

The new means-tested 'basic protection' (ALG II) is a flat-rate benefit funded from taxation. Calling it 'Unemployment Benefit II' may be misleading: unlike the earlier aid to the unemployed, it is not a replacement income determined on the basis of one's occupational status and previous rate of pay. ALG II is a means-tested benefit whose level is dependent on the degree of need.

Single persons and lone parents receive the full basic amount. This is set at 351 euro (347 euro before 1 July 2008, at which date it was increased by 4 euro!). The basic rate for married people is 316 euro. For children under 14 it is 211 euro, for children aged 14-15 it is 281 euro, and also 281 euro until they reach adulthood (until age 25 for those still living with their parents). Added to this are 'reasonable' expenses for housing and heating costs. Recipients may also make an application for allowances to cover exceptional items (e.g. moving house)<sup>11</sup>.

Since 1 January 2005, advisory, counselling and job placement services for those benefiting from 'basic protection' have been entrusted to a number of different agencies. This opening-up to competition, on an experimental basis, has created a very opaque situation.

The joint services of the employment agencies and the local authorities' social benefit offices (ARGEN) are the main managers of the 'basic protection' scheme (Text Box 2). The way in which responsibility is shared has however proved problematic in both legal and organisational terms. The employment agencies are dependent, legally and technically, on the Federal Ministry of Labour and Social Affairs, whereas the local authorities, who are responsible for social assistance, operate according to the federative principle of self-administration (*Selbstverwaltung*), under the aegis of the *Länder*. The task of devising employment strategies now falls on teams who are often under-prepared (i.e. the staff in the social benefit offices). The Constitutional Court has recently upheld a claim brought by eleven local authorities, declaring the ARGEN model unconstitutional in December 2007. For the time being, the repercussions of this judgment for the management model concerned are not known.

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11. <http://www.arbeitsagentur.de>

## 2. Bodies responsible for managing 'basic protection'

- Service providers working together (*Arbeitsgemeinschaften*, ARGEN – 'working communities'). Setting up a joint service involving local employment agencies and local authority social benefit offices is the standard configuration provided for under the Social Code (SGB II). This form of cooperation is based on public or private law contracts. It is the principal mode of management for 'basic protection' and counselling for claimants.
- Local authorities approved to manage 'basic protection' on their own. For an experimental period of six years, 71 districts (*Kreise*) and cities have been charged with carrying out all the tasks involved in monitoring people who require assistance. They have to test alternative models for re-integrating job-seekers into the labour market. After the experimental period, in 2010, the managing bodies for *Grundsicherung* will be permanently appointed.
- Distribution of responsibility. In the absence of a joint service (ARGEN) or an approved local authority, the employment agencies and local authorities manage those functions falling within their field of competence on an autonomous basis. The employment agency pays Unemployment Benefit II and funds work integration measures, while housing expenses and social work provision (debt or dependency counselling, for example) are the responsibility of the local authorities. 23 districts (*Kreise*) fall under this model (see also Kaps *et al.*, (2008)).

### Limited success for the BA's placement services

It is difficult to say what precise role can be attributed to the job placement efforts of the Federal Employment Agency in bringing people out of unemployment, and how much is due to way the labour market is evolving. It is nonetheless true that the intervention of the BA has had only a small influence on ending unemployment across the board (Table 4).

**Table 4. Ending unemployment: reasons given, 2006, in %**

Return to employment without intervention by employment agency	20.4%
Return to employment following intervention by employment agency	12.6%
Self-employed	2.8%
Vocational training	15.4%
Other unspecified activity	6.0%
Unfit to work	14.9%
Unavailability/refusal to participate	4.1%
Other/unknown reasons	23.8%

Source: Bundesagentur für Arbeit (2006), Arbeitsmarkt 2006, Nuremberg. Formatted by the author.

Only 12.6% of all people coming out of unemployment in 2006 were due to the job placement activities of the employment agencies. That represents only a third of all outcomes resulting in employment (return to employment with or without BA intervention, transition to self-employment, or ‘other’ activity). These outcomes are already low, at a rate of only 42%.

A statistical analysis in June 2008 targeting specifically the long-term unemployed produced even more pessimistic results (Bundesagentur für Arbeit, 2008c). The rate of transition to jobs subject to social security contributions, in the first half of 2007, was 4.0% as a national average. There are, however, marked regional variations. The rate is high (around 8%) in regions with a favourable employment situation (Bavaria and southern Germany); it is very low (2-3%) in the east of Germany.

It must be borne in mind, however, that only around 30% of available jobs are notified to the public employment services. The overwhelming majority of recruitment takes place through other channels: Situations Vacant adverts in the press, job-search websites, private contacts<sup>12</sup>.

Returning to working life does not however offer the prospect of lasting re-integration. Periods of unemployment often lead to serious gaps in a person’s cv, and few formerly unemployed workers take up a new job under conditions equivalent to the job they have lost.

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12. [www.sozialpolitik-aktuell.de](http://www.sozialpolitik-aktuell.de)

This somewhat nuanced picture highlights the limits to the BA's placement activities. A member of the BA board, Heinrich Alt, said much the same thing when he stated that 23% of long-term unemployed persons who had managed to come out of the ALG II scheme in the first half of 2007 (i.e. 400,000 people) would find themselves back there three months later (Neugebauer, 2008:3, footnote 9).

## A muted response from the trade unions

The trade unions put up a relatively weak show of resistance to the introduction of the Hartz laws, and their criticisms have remained somewhat muted – thus far. Rather, criticism has come from academics, churches and associations, and from some political parties (*Die Linke*). The trade unions seem to have concentrated their attack on specific aspects rather than on the reforms as a whole. This may perhaps be explained by the fact that the Hartz reforms were implemented by a coalition of Social Democrats and Greens.

Criticism has focused essentially on three areas. The trade unions first condemned the deterioration in the conditions for granting Unemployment Benefit I (increased qualifying period and reduced payments). They then challenged the introduction of subsidised jobs – the so-called *1 euro jobs*. In a joint move, the DGB and ver.di have since 2004 been calling for the period of application of this measure to be limited, and for the establishment of stepping-stones to facilitate entry to the primary labour market<sup>13</sup>. Ver.di is not rejecting the principle of these jobs as such, but is insisting on a differentiated form of application, so as to avoid unwanted side-effects: windfall effects, pressure on the wages system, the relegation of long-term unemployed people essentially to these types of jobs<sup>14</sup>. The DGB has expressed a similar view (DGB-Bundesvorstand, 2004). All these dangers have since turned out to be real.

The low level of basic sums payable to the long-term unemployed (ALG II) is currently being hotly contested. A household with a dependent child aged 14 received (before July 2008) 311 euro for each of the two adults and 207 euro for the child (excluding housing and heating costs). The

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13. <http://www.verdi.de>

14. [http://www.verdi.de/positionen/1-euro-jobs/data/ver\\_di-positionen\\_1-euro-jos](http://www.verdi.de/positionen/1-euro-jobs/data/ver_di-positionen_1-euro-jos)

increase of 4 euro in the basic rate in July 2008 set the cat among the pigeons. The trade unions have given their support to a number of individual claims for an increase in basic rates. Until now the Constitutional Court and the Social Affairs Court have rejected these claims. The DGB is calling for an autonomous basic amount for children to cover their needs in terms of education, school meals and out-of-school activities. Faced with increasing child poverty in families who are dependent on 'basic protection' (the so-called 'Hartz IV families'), such calls are gaining ground.

The very fact that debates about reforms to the labour market have spread to the issue of child poverty shows just how much these reforms affect the day-to-day life and future expectations of the persons concerned.

### **Limits of the 'promote and demand' paradigm of activation**

The reforms to the labour market have re-defined the management structures for unemployment around two entities: unemployment insurance, managed by the BA, as defined in the Social Code (SGB III), which determines the limits within which Unemployment Benefit I is granted; and 'basic protection' (*Grundsicherung* or ALG II) which guarantees resources for job-seekers under a different chapter of the Social Code (SGB II) and is managed by a number of different bodies (ARGEN involving employment agencies and local authorities, 'autonomous' municipalities, and local employment agencies acting under the banner of distributed responsibility (see Text Box 2 above and CERC, 2005:128).

The legal competence of the BA and of the local employment agencies – which are responsible for one-third of unemployed workers – is centred on the so-called active promotion of employment, which involves activating 'clients' with the aim of integrating them rapidly into the primary labour market. In the low-wage area, this type of activation leads to an overlap between wages and *Grundsicherung* benefits. A growing number of working people are dependent on supplementary benefits under 'basic protection', even when they are working full-time. In March 2007 there were 2.28 million workers receiving 'top-ups' ('*Aufstocker*'), i.e. some 21% of workers who are fit to work but require assistance (BA, 2007: 16). Employers are thus offering low wages at society's expense.

The aid system funded by taxation, 'basic protection' for the long-term unemployed, is part of the so-called passive promotion of employment which aims above all at 'giving a sense of responsibility' to people who are fit to work but require assistance. Two-thirds of unemployed/inactive persons fall into this legal category (Baethge-Kinsky *et al.*, 2008).

For both these legal entities, advisory, counselling and placement services for job-seekers, together with services offered to employers, have been re-organised according to business management principles. New regulatory instruments have been introduced, which it is hoped will provide an 'activating' stimulus for job placement: profiling, individual counselling, return-to-work contracts, new rules on acceptable jobs, and sanctions. Rights for the unemployed are being replaced by the provision of services, which are subject to assessment.

At the point where the employment system and 'basic protection' meet, two ways of thinking come into contact: the logic of earned income, whose reference point is the labour market and the individual; and the logic of guaranteed resources, which is directed towards the living conditions of the household (the community of need, in the case of 'basic protection'). In a context where there is no statutory minimum wage to protect against poverty while working ('working poor'), 'basic protection', which was designed to be a final safety net, finds itself inevitably linked to the wages system (Baethge-Kinsky *et al.*, 2008).

The priorities for the active promotion of employment have shifted: less help available for a return to stable employment; more subsidies for the creation of mini-companies (*Ich-AG*) and for opportunities to work (*1 euro jobs*). Integration into the labour market is winning out over the creation of proper jobs, quick-fix initiation measures over longer courses of vocational training. Encouraged by the reform process, small part-time jobs not subject to social security contributions (*Mini-Jobs*, see above) are showing a lively development. From around 4.1 million at the time of the first Hartz laws (2002), their number rose to over 7 million in 2007. Parallel to this, the number of jobs subject to social security contributions fell from approximately 27.4 million in 2002 to around 26.1 million in 2005, and only recovered its starting position in 2007, with a little over 27.3 million<sup>15</sup>. The extension of a low-wage sector has thus been

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15. [www.sozialpolitik-aktuell.de](http://www.sozialpolitik-aktuell.de)

encouraged, based on the empirically unvalidated hypothesis that low wages help to overcome obstacles to recruitment. The absence of a statutory minimum wage has only accentuated this development.

## Conclusion

The reforms to the labour market since the beginning of the millennium have introduced a segmentation among unemployed workers – first and second class unemployed – based on the sole criterion of length of unemployment. ‘First class customers’ who are close to the labour market (claiming ALG I) are entitled to an insurance-based benefit. For them, their occupational activity remains the assessment criterion in unemployment both materially – benefit is calculated on the basis of their last net wage or salary – and conceptually, because the aim is to re-integrate them as quickly as possible into the primary labour market. Economic reasons also play a part: the BA has to pay a compensatory amount (*Aussteuerungsbetrag*) to the federal budget for every job-seeker not placed after one year of unemployment.

The long-term unemployed, for their part, are dependent on assistance irrespective of the length of their occupational activity and their level of skills. All links with their previous employment (for which insurance contributions have been paid) have been cut: their level of benefit is determined by the needs of the individual and the household (‘community of need’, *Bedarfsgemeinschaft*); neither their vocational qualifications nor the quality of their previous employment are taken into account. The long-term unemployed cannot claim the right to a return to work in line with their previous career path. The status of ‘Hartz IV beneficiary’ somehow dispossesses them of their occupational identity and reduces them to the status of social benefit claimants. They are the real losers from the reforms to the labour market, all the more so because the State has strengthened the means whereby the personal histories of long-term unemployed workers - a population of around 7 million people - can be monitored on a permanent basis.

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# Belgium

## Unemployment insurance caught between pressure from Europe, regional controversy and fall-out from the crisis

Jean Faniel\*

In Belgium, unemployment insurance has undergone a series of changes in recent decades. Its future is still a matter of debate. Just as in other EU countries, such discussions and reforms take place in the context of an economic, ideological, political and institutional framework common to all, albeit characterised by features specific to each country. While taking stock of the recent changes which have affected unemployment insurance in Belgium and of ongoing debate about it, this chapter will seek to present both the common and the specific aspects.

### Characteristics of unemployment insurance in Belgium

There are certain features specific to Belgium in its current system of unemployment insurance<sup>1</sup>. It was incorporated into the social security provisions applying to employees when these were first introduced in December 1944, and is funded through the National Social Security Office (NSSO). The main source of funding for the social security budget covering employees is contributions levied at source on their gross wage or salary. These contributions, which make up the workers' 'deferred wage', are subdivided into the employer's contribution and the individual employee's contribution<sup>2</sup>. In addition to these contributions, the budget also receives input from the federal government (approximately 11% of

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1. On the historical bases of the Belgian unemployment insurance system, see Faniel, 2007 and 2009a: 106-107.
2. The employer's contribution amounts to around 33% of an employee's gross wage and is added to his/her pay, while the individual contribution is approximately 13% of the gross wage and is included within it. The net pay is calculated by subtracting from the gross wage not only the 13% personal social security contribution but also a variable amount of payroll tax (an automatic payment by the employee towards personal income tax).

the budget in 2007), together with what is known as ‘alternative’ funding, derived essentially from VAT and excise duties (17%)<sup>3</sup>.

The NSSO pays the budget allocation set aside for funding unemployment insurance<sup>4</sup> to the National Employment Office (NEO), the public body which then disburses it to those entitled to unemployment benefit, early retirement benefit or career break allowances. The NEO is under the supervision of a management committee, made up of members appointed by the federal government, together with equal numbers of representatives from employers’ organisations and trade unions<sup>5</sup>. Four bodies act as payment agencies, disbursing unemployment benefit: the three trade unions (CCTU, GLFB and GCLTUB), which handle 85% of cases, and the Auxiliary Fund for the Payment of Unemployment Benefits (AFPUB), a public agency established for the express purpose of dealing with workers who do not wish to join a trade union. The NEO is also tasked with supervising the payment agencies, to ensure that they comply with the legislation. It is also the body responsible for monitoring and, where appropriate, imposing penalties on claimants who do not meet their obligations, or those who do not meet the eligibility criteria for receiving benefit. Lastly, the NEO management committee is consulted by the Minister for Employment, should (s)he wish to make changes to the legislation governing unemployment insurance.

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3. These two types of contribution have changed significantly in the last few years, *inter alia* to compensate for a number of reductions in social security contributions granted to businesses.
  4. A breakdown of contributions indicates that the proportion of gross pay levied in order to fund unemployment insurance is in principle very small: 0.87% of the individual contribution and 1.46% of the employer’s contribution (i.e. less than one fifteenth of the 13% and less than one twentieth of the 33%). However, since 1995, the way in which funding is allocated has been rendered more flexible, the NSSO determining the amounts needed in each of its sectors. In 2007, 15.73% of total expenditure on social security payments to wage earners was in the form of unemployment benefit. The largest amounts disbursed are for sickness insurance and incapacity benefit (45.05%) and retirement pensions (29.20%).
  5. The Confederation of Christian Trade Unions (CCTU), the organisation with the largest number of members since 1958, and the General Labour Federation of Belgium (GLFB) each appoint three representatives. The General Confederation of Liberal Trade Unions of Belgium (GCLTUB), a much smaller organisation, has one voting member. This allocation of seats has remained unchanged. The employers’ organisations also appoint seven representatives, from the Federation of Enterprises in Belgium (FEB) or from its sectoral federations. The remaining members of the management committee are two representatives appointed by the federal government, the chair (currently a former leader of the GFLB), and the two most senior officials of the NEO.

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## Role of the trade unions

The trade unions therefore have a twofold part to play in the system of unemployment insurance. Firstly they act as benefit payment agencies. To enable them to fulfil this role, a status of specific legal entity is conferred on them, distinct from their status as *de facto* associations for the exercise of their other activities. In practical terms, union staff meet with claimants in their local offices, where they compile case files for the jobless, making sure that all necessary documents are included, and then forward the files to the NEO. The NEO verifies the contents of the files, then transfers to the trade unions the funds needed to cover the amount of unemployment benefit to be paid, plus an additional sum (worked out according to the number of case files processed), to cover staff and operating costs incurred by the union in providing services to the unemployed. The unions then make the benefit payments. In practice they frequently anticipate NEO decisions and make payment to a claimant some days in advance. This practice, taken together with the fact that the unions have a substantial network of local offices, goes a long way towards explaining why claimants prefer to receive their benefit via their union rather than from the AFPUB<sup>6</sup>. Since the NEO monitors very closely how the money received by the unions to pay unemployment benefit is spent, it is not possible for this funding to find its way into union coffers. Indeed, the unions are legally compelled to reimburse the NEO from their own funds if they disburse amounts which should not have been paid.

The unions also play a part, along with others, in managing the NEO. What this means is that they are involved in drafting advice to be submitted to the government on how legislation in the field of unemployment insurance is evolving.

In addition to their role in the provision of unemployment benefit as such, Belgian trade unions offer other services to the unemployed. For example, in the event of a dispute between a claimant and the NEO, or of the claimant being required to attend a hearing with an NEO official, they provide individual legal assistance. Furthermore, since the early 1980s, some departments have been tasked with running 'unemployed workers'

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6. On the impact of the trade unions' role in the field of unemployment benefit on union membership levels, see Vandaele 2006.

groups. These groups provide the unemployed with information, hold meetings and organise a variety of activities which may, in some cases, lead to a return to work (see Faniel, 2006a, 2009a: 112-114 and 2009b).

## Rules governing entitlement to benefit

It is not only the way in which the unemployment benefit system works, but also the rules governing entitlement to benefit, established in Belgium at the time of Liberation, which have certain specific features not found in other countries. The first of these concerns the period of entitlement to benefit. Once (s)he has worked for a specified period of time<sup>7</sup>, any employee is entitled to claim unemployment benefit, provided that (s)he has become unemployed involuntarily and is available for work. This entitlement is in principle not time-limited, something which the Organisation for Economic Co-operation and Development (OECD), and other international institutions, have frequently criticised. The amount of benefit is, however, reduced after a specified period of unemployment. A further specific feature is that young people who have completed compulsory education, and have not found a job, are entitled, after nine months referred to as a 'waiting period', to what is known as an 'interim allowance', at a rate lower than that of unemployment benefit but subject to similar criteria (involuntary job loss, available for work, and benefits in principle not time-limited).

## Rates of benefit

Since 1980, claimants have been placed in one of three categories, defined according to family circumstances. The rate of benefit varies according to whether the claimant is a 'head of household', a 'person living alone' or a 'cohabitant', and according to the length of time (s)he has been unemployed (Table 1). The rate of benefit is calculated as a proportion of last gross wage or salary, subject to an upper limit (€1,921 per month for all claimants up to 2009). A minimum amount is also stipulated. In some cases the gap between the maximum and the minimum amount is small, which significantly reduces the impact of both the proportional aspect of

7. As a general rule, the equivalent of 12 months in full-time employment in any 18 month period. The age and employment history of the claimant may, however, affect these parameters.

the benefit, and the insurance function of the unemployment benefit system. An increase in some rates of benefit since 1 January 2009 (see below) has only partially changed this state of affairs.

Table 1 Monthly rates of unemployment benefit in Belgium (December 2008)

Entitlement based on work (unemployment benefit)

	Head of household		Person living alone		Cohabitant	
1 <sup>st</sup> period (one year)	60%		60%		58%	
	min. €988	max. €1,144	min. €830	max. €1,144	min. €622	max. €1,106
2 <sup>nd</sup> period *	60%		53%		40%	
	min. €988	max. €1,144	min. €830	max. €1,010	min. €622	max. €763
3 <sup>rd</sup> period	60%		53%		Flat rate	
	min. €988	max. €1,144	min. €830	max. €1,010	€438	

\* Three months, plus a period defined according to the person's length-of-work record

Entitlement based on education ('interim allowances')

	Head of household	Person living alone	Cohabitant
Under 18	€963	€274	€235
18-20		€430	
Over 21		€712	€374

Bearing in mind that the poverty threshold is set at €878 per month for a person living alone and €1,844 for a household (2007 figures, the most up to date available), the inadequacy of most unemployment benefit rates is appreciable<sup>8</sup>. Rates for 'interim allowances' are all less than €878, or €1,844 for young heads of household. Furthermore, the value of unemployment benefits has declined significantly over time. In 1980 the average rate of benefit was equivalent to 41.6% of average gross earnings in the private sector. This replacement rate had dropped to 21.7% in 2004.

8. In 2007 the average rate of unemployment benefit was €980.98 for a head of household, €857.74 for a person living alone and €679.90 for a cohabitant.

## Large-scale unemployment but unevenly distributed

Unemployment became a major cause of concern as of the mid-1970s. Jobless figures in Belgium rose by almost 70% between January and December 1975. They increased almost five fold in a decade. The number of people out of work and claiming benefit, registered as jobseekers, was 100,000 in 1974 (i.e. 2.6% of the total workforce); by 1984 there were 500,000 (11.8%). Since then, this percentage has never fallen back below 7%, and hovers on average around 9%.

To tackle the situation, successive Belgian governments have deployed a variety of different instruments. A number of job creation schemes have been launched, sometimes using unemployment benefit as a means of reducing the employer's contribution to the worker's pay packet (a process described as 'activation of unemployment benefit'). Such practices have had limited results in quantitative terms and/or have contributed markedly to the decline in job quality, especially through the creation of 'sub-status' jobs, where those employed enjoy lower standards of protection than those covered by traditional contracts, whether fixed-term or open-ended. To reduce expenditure on unemployment benefits, the authorities have also, on several occasions, introduced greater stringency in the criteria governing entitlement and reduced the rates of benefit payable. Budgetary considerations, together with a desire to reduce the number of claimants, led to the introduction of the category of 'cohabitant' in 1980, stipulating a lower rate of benefit, as we have seen, as well as making it possible to refuse benefit to the claimant concerned if (s)he is unemployed for longer than the specified period<sup>9</sup>, thus significantly restricting the scope of the basic principle of entitlement with no time limit. It is worth noting that the overwhelming majority of cohabitants are women. Ultimately, a variety of different circumstances characterising unemployment has been identified, such that the numbers of people out of work and claiming benefit, registered as jobseekers, who made up 90% of the jobless total in 1975, and 85% in 1984, had fallen to 61% by 2004<sup>10</sup>. Official statistics usually refer only to those out of work and claiming benefit, registered as jobseekers, yet relatively little criticism

9. Varying according to sex, place of residence, etc.

10. Apart from those out of work and claiming benefit, registered as jobseekers, the category of 'out of work claimant' (*chômeurs complets*) also includes older workers, who enjoy special status and are, for the most part, no longer required to be registered as jobseekers, as well as some claimants dispensed from registration for, *inter alia*, 'social and family reasons'.

is voiced of their consequent underestimation of the phenomenon of unemployment.

Over and above its scale and persistence, unemployment in Belgium is distinguished by significant differences between regions. While all three regions making up the country suffered from an accelerated increase in the rate of unemployment initially, Flanders managed to slow down the rate quickly and, on the eve of the current crisis, some districts and sectors were even bemoaning labour shortages. The economic fabric of Flanders is relatively recent and advanced in its structure, which, together with the prosperity of the region, goes a long way to explaining this degree of success. The same does not apply to Wallonia, a region characterised by old-established industries, which bore the brunt of the crisis in coal mining, then in the steel industry as well as in other sectors, nor to Brussels, a region of huge economic importance but in which jobs are largely done by Flemish or Walloon workers, and where a substantial proportion of the resident population is of immigrant origin, frequently less highly skilled and the object of discrimination when applying for jobs. In 2006 the number of people out of work and claiming benefit, registered as jobseekers, was approximately 12.4% of the total number of those in paid work in Belgium. In Flanders the figure was 7.8%, while in Wallonia it was 19.4%, and in Brussels 21%<sup>11</sup>. The current crisis is, however, changing this scenario somewhat.

## **Jobs and unemployment at the heart of the debate about the regions**

For some years these discrepancies have been the subject of trenchant criticism in Flanders. As we have seen, social security, including unemployment benefit, is the competence of the federal authorities. The three regions, each with its own Parliament and government, have, however, had some competence in the area of employment policy since the 1980s<sup>12</sup>, while other powers are retained by the federal government. The main political parties in Flanders, and Flemish employers, have

11. These data are available only as a percentage of the number of wage earners, not as a percentage of the total workforce.

12. The government of the Flemish Community, which exercises the powers of the Flemish Region, and its counterpart in the Walloon Region, were appointed for the first time in the winter of 1981-2, while the Brussels-Capital Region was not created until 1989.

levelled criticism at the cost to their region of the persistently high levels of unemployment in Wallonia and Brussels. They advocate a substantial transfer of additional powers from the federal authorities to the regions, to enable the regions, in their view, to implement the employment policy needed to solve their particular problems: unemployment in Wallonia and Brussels; a shortage of labour and low rates of employment among older workers in Flanders (Palsterman, 2007).

The regions are empowered to grant recruitment subsidies, in particular by authorising a reduction in employers' contributions, targeting particular groups which they regard as a priority for assistance. They also have the responsibility of helping the jobless to find work. Initially the NEO exercised two functions in dealing with the unemployed, since it was responsible for job placement but also for policing benefit claims. Throughout the 1970s, the unions were increasingly vocal in their criticism of these two tasks being entrusted to one and the same body, taking the view that it is not possible to gain the confidence of the unemployed, necessary to help them find work, while simultaneously being responsible for imposing potential penalties on them. In 1978, the functions of job placement and supervision of the unemployed were therefore separated into distinct departments within the NEO. Institutional reform, brought in ten years later, moved things a step further. The NEO retained its policing function, while that of job placement was devolved to the regions. Each region has set up a public body specifically to discharge this responsibility. In Flanders, as well as in the Walloon Region, the same body is also in charge of providing training opportunities for job seekers<sup>13</sup>.

We have seen, then, that policies for dealing with employment and unemployment are in part the purview of the federal authorities, and in part that of the regions. This division of responsibility has, for a number of years, been the subject of demands for, and negotiations on, institutional change, which still exercise the minds of those involved in social and political debate in Belgium. As we shall see, this is not without consequences for reform of the Belgian system of unemployment insurance.

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13. The situation is slightly different in Brussels, where there are separate bodies responsible for training and for job placement. The German-speaking Community, too, has its own job placement organisation.

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## **Employment and unemployment subject to international influence**

When comparing unemployment insurance in a number of European countries, C. Lévy (2003) and her colleagues demonstrated that each system has evolved in its own way, but that a degree of convergence was detectable even before the establishment of the European Employment Strategy (EES). The fact that they were all confronted with the same rapid increase in unemployment, and consequent increase in cost, is undoubtedly one of the factors responsible for systems having developed in similar ways and at much the same rate. This similarity is, however, also a result of a change in economic policy and, more broadly, in the paradigm relating to social security mechanisms since the beginning of the 1980s, moving away from the Keynesian framework and its philosophy of protection for workers, towards a neo-liberal reasoning, advocating rather the competitiveness of businesses (see for example Pierru, 2005). OECD and, in some cases, International Monetary Fund recommendations have encouraged such changes (Cordonnier, 2006; Dubois, 2007). Drawing on a significant body of literature on economics, these institutions frequently characterise unemployment insurance as too generous, standing in the way of proper adjustment of the labour market, and, by paying what they refer to as ‘passive benefits’, discouraging the unemployed from seeking work (Cordonnier, 2006). Thus the reports produced by these bodies call for ‘social assistance and protection systems to be rendered less “attractive”’: more stringent eligibility provisions, shorter benefit periods, requirements to be imposed in return for benefit, and more rigorous monitoring, all of which are practical “solutions” and a logical extension of the principle of “valuing work” (Dubois, 2007:83).

As of the end of the 1990s, the EES reinforced these trends and established them still further within a common framework. The EES takes second place to the European Union’s Broad Economic Policy Guidelines (BEPG), which call on Member States, among other things, to bring down their budget deficits, while the EES itself is aimed at improving rates of employment, especially in specific categories of the workforce (women, older workers etc.). In some respects the EES can be viewed as a policy designed to make the labour market flexible and provide a buffer of unemployment sufficient to restrain wage increases (Conter, 2007). In this context, the EES implicitly supports more rigorous monitoring of the unemployed, ensuring that the training they undertake and their efforts to find a job – the effectiveness of which is carefully

monitored – keep up the pressure on those who are in paid employment (Conter, 2007; Dubois, 2007). While it is not necessarily at the forefront of public debate in individual countries (Lahusen, 2007), the EES nonetheless exerts an influence on the way in which EU countries formulate their policy on employment, and on reform of unemployment insurance, and it has had serious consequences in terms of undermining social protection, together with making employment more flexible and less secure (Chabanet, 2007: 165-166).

## **Reform of social assistance, unemployment insurance and early retirement provisions**

It was against this background of Europeanisation, of the quest to balance budgets and of pressure from the regions, that the federal government in Belgium implemented a package of reforms in the early 2000s, affecting three areas more or less directly linked to unemployment insurance.

In 1974 the minimum subsistence income, known as the ‘minimex’, was introduced (outside of social security) as a payment made to those in need who have no job and who are not entitled to social security benefits such as unemployment benefit. Since the 1980s an increasing number of unemployed people, categorised as cohabitants, having been refused unemployment benefit because they have been unemployed for an ‘abnormally long’ period, have turned to (municipal) welfare centres which pay the ‘minimex’. In 2001-2002 the government replaced the ‘minimex’ with what it termed the ‘social integration income’ (RIS)<sup>14</sup>. Hiding behind an argument purporting to stress ‘the right to social integration’, this reform reinforced the obligation imposed on applicants, especially those under 25, to accept a job or training course, including those which do not meet the criteria for ‘suitable’ employment commonly used in the context of unemployment insurance<sup>15</sup>, and to sign a ‘social integration contract’ committing themselves vis-à-vis the public authorities to taking certain steps. In addition, the welfare offices themselves are increasingly offering atypical and casual jobs to

14. The current amount paid as RIS (1 June 2009) is €484 per month for a cohabitant, €726 for a person living alone, and €968 for a head of household. These amounts are all – by a considerable margin – below the poverty threshold defined for a person living alone (€878) or for a family (€1,844).

15. The ‘law on the right to social integration’ refers to ‘appropriate’ employment.

beneficiaries. This policy of putting welfare beneficiaries to work is a clear expression of the determination to increase the rate of employment in the Belgian population, not least among its most vulnerable groups (Faniel, 2006b).

### More rigorous monitoring of unemployed

In 2004 the federal government introduced substantial reform of the provisions governing monitoring of unemployed (Faniel, 2005). First of all it tabled a cooperation agreement, for signature by the regional governments<sup>16</sup>, whereby bodies acting as job placement agencies undertake to provide the NEO more quickly with more detailed information collected about claimants, relating to any job offers turned down or failure to attend job interviews. Not only does this agreement respond to employers' demands, it is also a riposte to Flemish criticisms that unemployed in Wallonia and Brussels are less likely to face penalties than their 'colleagues' in Flanders, despite the fact that the former outnumber the latter. It also forms a part of the overall picture of more rigorous monitoring of claimants. In Belgium, this redefinition of the relative importance attached to the job placement function and to that of monitoring claimants, must be viewed against the background of how responsibility is shared by the various institutions, and of disputes between regions.

Furthermore, the federal Minister of Employment at the time, Flemish Socialist F. Vandenbroucke – a proponent of an 'active welfare state' in Belgium – instituted a new system for tracking unemployed, officially for the purpose of providing them with extra help in finding a job. Any claimant who has been out of work for a certain length of time<sup>17</sup> is called in by the NEO for a one-to-one interview, at which (s)he must demonstrate that (s)he has been actively looking for work. This, therefore, fundamentally changes the whole philosophy underlying unemployment insurance in Belgium. Not only is it no longer enough for the unemployed to be available for work, but (s)he is now also responsible for providing evidence that (s)he is actively looking for work. If the outcome of the

16. And that of the German-speaking Community. It should be noted that the Flemish Community has regional competence in this area.

17. 15 months for under 25s, 21 months for over 25s.

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interview is positive, the claimant will be required to attend a further interview 16 months later. Should his/her efforts to find work be deemed inadequate, the claimant must enter into a contractual obligation to take a specified number of steps to look for a job (sending letters of application, registering with a temping agency, etc.). A second interview must then be scheduled four months later to assess compliance with the conditions stipulated in the contract. Should the second interview prove unsatisfactory, the claimant is subject to a penalty, which could, at worst, amount to suspension of benefits. A fresh contract is then signed, in general more stringent<sup>18</sup>. The third interview, again after a further four months, may result, for any category of claimant, in their being excluded from access to unemployment insurance. This system was brought in gradually, applied first to unemployed under 30, before being progressively extended to cover any claimant under 50; the new rules have since been reviewed and amendments introduced, to which we shall return later.

With the employers' backing, this reform of monitoring for unemployed is entirely consistent with the EES, and indeed looks remarkably similar to it, as demonstrated by the fact that the minister's announcement of it laid considerable stress on the dimension of assistance to claimants, while the NEO has authority only for monitoring. The consequences of this provision are also a perfect match to those sought by the EES. For instance, it quickly became clear that claimants entering into such contracts were frequently being urged to register with temping agencies, thereby contributing to the development of this particular form of employment. The succession of interviews and their potential consequences (reduction or suspension of benefits, followed by possible exclusion from access to unemployment insurance) puts intense pressure on unemployed and often has an extremely painful impact on them psychologically.

This new monitoring instrument also has implications for the debate between the regions. With its lower rate of unemployment and public finances in rather better health, Flanders can offer its claimants much more by way of assistance upstream of the – federal – monitoring process

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18. Despite the fact that, as those opposing this reform have pointed out, the claimant is deprived of his/her means of subsistence, in whole or in part, making it yet more difficult to afford what is necessary to find a job (postage, transport costs, etc.).

than can the regions of Wallonia or Brussels. Conversely, municipal welfare centres in Wallonia and Brussels complain much more of the increased burden on them, deriving from unemployed people penalised by the new procedure. While designed to reduce differences between regions, the new rules have thus partially had the effect of increasing the burden on some of them. They have also caused a change in the behaviour of some stakeholders. For instance, the Wallonia Region initially opposed the conclusion of the agreement requiring regional job placement agencies to forward information to the NEO. It subsequently agreed to a slightly amended text. Since then, whenever the NEO publishes figures on penalties applied to claimants, the Walloon government expresses satisfaction that this sharing of data is equivalent to the system in Flanders and has meant that Walloon unemployed are now penalised just as much as their counterparts in Flanders.

### Reform of early retirement provisions

Confronted with major restructuring occurring in a number of industrial sectors, unions and management worked out, in the course of the 1970s, a range of early retirement arrangements. They offer those who have been in work for a relatively long time the opportunity to retire early, perhaps freeing up jobs for young workers, and have the not inconsiderable advantage of attenuating the social cost of collective redundancies, which is why the employers have long shown great interest in them, and indeed many companies still do, even more so in times of crisis. Early retirement usually combines intervention from the NEO, in the form of an allowance paid to the early retiree, with a supplement paid by the employer who has dispensed with his/her services.

In 2005 the government decided to make swingeing cuts in early retirement opportunities, emphasising the need to tackle the cost of an ageing population and to increase the rate of employment among older workers. While the employers supported this process, the unions opposed it and called the first general strike in twelve years (Moulaert, 2006). Here again, the indications in the EES, and the insistent recommendations from the EU to Belgium on the subject, gave the Belgian government every encouragement, following the example of its counterparts in other European countries, to embark on this reform. Once again, such changes have their effects, and the issues are viewed differently depending on the region. While in Flanders employers

complain of a labour shortage, and many older workers there have left the workforce, in a region such as Wallonia, where unemployment rates remain particularly high, the idea of keeping older people in jobs seems more surprising.

## Debate on the eve of the crisis

In the course of half a decade, the main facets of Belgian unemployment insurance, and of social assistance paid *inter alia* to those excluded from insurance, have changed considerably. Continuing previous trends, the EES had a major impact on decision-making. Disputes between regions also shaped some of the reforms introduced, in particular compliance monitoring systems for claimants, and the relationship between the NEO, a federal body, and the regional job placement agencies.

Belgium's institutional debate still casts a shadow over prospects for the future of unemployment insurance. Some groups in Flanders are openly demanding that their social security system be separate, and are calling for independence for Flanders. Should this happen, the other two regions, on their own, would have to meet significant costs or would have to make the choice of drastically cutting expenditure linked to unemployment benefit. Flemish opponents of this prospect fear that this would mean the unemployed in Flanders would also be put to severe test, and that their level of protection would be reduced by a Flemish government characterised by the ideology advocating an 'active welfare state'.

While they do not subscribe to this line, the main Flemish political parties are nonetheless insisting on the regions accepting greater 'responsibility' for the fight against unemployment. The liberal parties go further, demanding a time limit on payment of benefits.

This demand was not included in the government agreement signed, after protracted negotiations, by the French- and Flemish-speaking Liberals, the Flemish Christian Democrats, the French-speaking Centre Party (formerly the Social Christian Party) and the French-speaking Socialists. However, there is in the agreement a decision to reduce the amount of benefit paid more quickly, without lowering the minimum sums, in exchange for higher rates of benefit at the start of the period of unemployment.

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## Moving towards another change in the monitoring of unemployed

In May 2008, the new federal Minister of Employment, from the French-speaking Centre Party, tabled a plan following on from a review of the procedure for monitoring claimants introduced in 2004. Under the new rules, the unemployed person would be required to sign a contract, not with the NEO, and not only if (s)he has been unable to prove (s)he is actively looking for work, but automatically with the regional job placement agency in advance of any form of monitoring. Furthermore, the time lag between the onset of unemployment and the first interview would be considerably shorter. The implications of these changes are multiple. Unemployment benefit would be construed even more as a *quid pro quo* for action to be taken by the individual, rather than, as previously, an entitlement. All unemployed would be under suspicion of not actively seeking employment. Greater emphasis on the monitoring function attributed to job placement agencies would be confusing to claimants and constitute a return to the situation pre-1978. Finally, in spite of their limited financial margins, the Wallonia Region and the Brussels-Capital Region would have to make a much more significant proportional increase in funding invested in this aspect of claimant monitoring than Flanders, which is the region calling for the reform.

The employers have backed this plan and, more generally, all changes likely to lead to more rigorous claimant monitoring procedures. The unions, however, have shown less enthusiasm. They too have their differences of opinion on the way in which Belgium's institutions should be developing.

### **Debates sparked by the crisis**

The economic and financial crisis which struck Belgium in the autumn of 2008 changed the terms of the debate, at least in part. Unemployment is once again on the rise. Initially temporary contracts were not being renewed. Then it was the turn of fixed-term contracts. At the same time there were many more companies going bankrupt or having to restructure, speeding up the trend. The Federal Planning Bureau is forecasting an explosion of unemployment, likely to affect 800,000 workers in 2011, i.e. 15.5% of the total workforce. This would be an all-time record, more than a third higher than the previous record of 11.8% in 1984.

Flanders seems to be most affected by the increase. Its starting rate of unemployment is low, but it is a region characterised by high-tech industries and branches of multinational companies, thus extremely sensitive to economic fluctuations. The crisis in motor manufacturing, a major provider of jobs in Flanders, has plunged the region into contemplation of a bleak future. In comparison, Wallonia and Brussels, already badly hit by unemployment, have suffered less from the current increase. This change in the unemployment situation may well have an impact on politicians' and trade unionists' perspectives on the subject. Is it still possible to make the case for an 'active welfare state' exactly as before, along with its contention that unemployment is a matter of individual responsibility, at a time when huge numbers of jobs are being cut, manifestly as a result of the crisis?

The current crisis has already led to several changes in the unemployment benefit system. In December 2008, negotiators representing unions and employers, meeting to work out the biennial Interprofessional Accord (IPA), decided to increase rates of unemployment benefit. All minimum amounts were increased by 2%. In addition, all benefits paid in the first months of unemployment were raised, taking into account two parameters: the amount of benefit as a percentage of pay lost (capped), and an increase in the ceiling for calculating the percentage<sup>19</sup>. On the other hand, there has been no change in 'interim allowances'.

Table 2 Monthly rates of unemployment benefit in Belgium (October 2009)

Entitlement based on work (unemployment benefit)

	Head of household		Person living alone		Cohabitant	
1 <sup>st</sup> period (6 months)	60%		60%		60%	
	min. €1,008	max. €1,324	min. €847	max. €1,324	min. €634	max. €1,324
2 <sup>nd</sup> period (6 months)	60%		60%		60%	
	min. €1,008	max. €1,234	min. €847	max. €1,234	min. €634	max. €1,234
3 <sup>rd</sup> period*	60%		55%		40%	
	min. €1,008	max. €1,153	min. €847	max. €1,034	min. €634	max. €769
4 <sup>th</sup> period	60%		55%		Flat rate	
	min. €1,008	max. €1,153	min. €847	max. €1,034	€447	

\* Three months, plus a period defined according to the person's length-of-work record

By this means, unions and management have without question improved the living conditions of certain number of unemployed people. Equally they have responded to the government's requirement for a speedier reduction in benefit rates, while increasing some amounts. However, it should be noted that the main beneficiaries of the new measures are the recently unemployed, those who lost their jobs after 1 October 2008, in other words those affected by the current crisis. As for the others, in particular the long-term unemployed, the improvement is less substantial, or even non-existent unless they manage to find a job and keep it for at least a year, which in present circumstances seems more theoretical than real.

The IPA has also substantially improved benefits for those workers placed on 'temporary unemployment'. A form of unemployment for blue-collar workers only, its use has increased significantly: +70% in February 2009 compared to February 2008 (Van Gyes, 2009). This mechanism makes it possible to reduce the loss of income incurred by workers, who retain their contract of employment and their links to the company. It is also of benefit to the companies concerned, enabling them to reduce the wage burden while retaining their workforce, which can then be redeployed once the order books fill up<sup>20</sup>.

This use of temporary unemployment has also given rise to lively debate. Since the autumn of 2008, employers' organisations have sought to extend the practice to white-collar workers. The trade unions, however, put up a long fight against any such extension, stressing the loss of income which would be experienced by the workers concerned, as well as the cost to society as a whole, and highlighting the existence of other means of making an overall reduction in working time. This issue, furthermore, affects the whole question of harmonisation of the status of blue-collar and white-collar workers, a sensitive area of debate between unions and management for many years. After a breakdown in negotiations, and only after intervention by the federal government, an agreement was reached and came into force in June 2009. In the view of

19. €1,921 gross for all before 2009, thereafter €2,206, €2,056 or €1,921, depending on the payment period (1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>).

20. Such is, incidentally, the other face of the 'industrial reserve army' as defined by Marx (1867: Chapter XXV): by ensuring that a buffer group of people remains without jobs, capitalists can not only exert downward pressure on working conditions and pay for those in the workforce (the 'industrial army') but also have available a reserve of labour to call on when required by an upturn in economic activity.

several observers, it amounts to an extension of temporary unemployment by any other name, valid for a period theoretically limited in time.

The emergence of the present crisis may well lead to some demands being put back on the table. Despite the dramatic deterioration in the employment situation, the NEO is pressing on with its task of monitoring claimants' compliance with the requirement to take steps to find a job. Voices are, though, beginning to be heard, especially in trade union circles, calling for a halt to such measures in a time of crisis or, at the very least, demanding that no penalty be imposed on claimants if they have not been made an offer of suitable employment by a job placement agency. Unless this change is made, an increasing number of unemployed people will be subject to monitoring, just as announcements of redundancies are growing in number. The only good news on the jobs front is that more monitoring staff will have to be taken on.

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## **The Netherlands Long years of reform now tested by the recession**

**Marie Wierink\***

In the Netherlands, a wide range of benefits providing a replacement income existed from the end of the 1960s. They were linked to rates of pay or the minimum wage and particularly included welfare benefit, which was funded by taxation as a safety net that replaced unemployment and disability benefit in the event of expiry of entitlement or ineligibility, i.e. for those without work or income. Thus the issue of ‘welfare without work’, which put pressure on non-wage labour costs and the competitiveness of a country, was identified in the Netherlands early on, at the time when the impact of the two oil crises was felt in the 1980s. At the same time, there was a dominant view that the system of protection against dismissal and unemployment was excessively rigid and harmful to the economy. As a result of these two trends, the Netherlands has been in a virtually continuous process of reforming unemployment policy and the unemployment benefit system. Over more than 20 years, the systems, financing and structures have been redesigned many times in the context of social security reforms. The aim has been to effect a reversal of priorities by seeking first and foremost to put people into, or keep them in, employment and only secondly, where this proves impossible, to pay benefits. In considering the impact of these developments on unemployment benefit (unemployment in the broad sense of absence of employment), it is apparent that there has been an overall reduction of protection due to more stringent eligibility criteria and changes to the benefit structure, with a trend towards retrenchment. However, in terms of combating unemployment, ever since the first Kok government (1994) emphasis has been placed on activation and on modifying the structure and working methods of the public employment service, and this has nonetheless helped to generate new momentum for integrating or reintegrating the unemployed into the labour market. This trend was

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reinforced to such an extent by the renewed growth apparent from 2005 onwards that, in the first half of 2008, the most pressing task in the Netherlands was no longer to combat unemployment but to increase employment rates, in a context of 3.6% unemployment as defined by the ILO.

Today, the repercussions of the financial crisis and the sudden slowdown in global growth have brought the Netherlands into a recession that is all the more severe given the particular sensitivity of its economy to global economic developments. The unemployment rate is rising again, reaching an average of 4.6% between February and April 2009 and increasing by over 10% in the space of a year. In view of the rapid economic downturn, growing unemployment and shrinking employment rates, the question is whether the right balance has been struck, in this new situation, between the amount of flexibility and security present in the various strands of the social security system that have been pared down somewhat. In seeking to answer this question, we will start by outlining trends in the overall economic context and in the number of benefit recipients within the various social security schemes. We will then go on to describe the changes to the management structure of these schemes, before addressing developments in the benefits system and activation policy.

## **A sudden downturn**

The Netherlands is a small country with a very open economy that is highly sensitive to developments in international trade: one third of its value-added comes from exports, which are ‘the engine of the Dutch economy’ (CPB, 2009). The fall of around 10% in international trade in 2008 therefore had a substantial impact on the Netherlands. The entry of the economy into recession following the financial crisis of summer 2008 rapidly led to a worsening of the employment situation, which since 2005 had shown extremely positive development.

Growth in GDP, on a downward trend between 2000 and 2005, recovered and accelerated until to 2007 (3.5% according to CBS), maintaining a higher level than in the eurozone. The sound health of the Dutch economy was reflected in job creation, the growth of the working population and falling unemployment. However, this rosy view of the situation needs to be qualified in a number of ways. On the one hand, youth unemployment, which remained higher, and persistent long-term

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unemployment continued to cause concern. On the other hand, despite a deliberate policy to promote the employment of older people (Wierink, 2005), unemployment figures from the Dutch administration indicated that older people and the unskilled were over-represented among the long-term unemployed (CWI, 2008).

Finally, a consideration of the structure of social security results in a more differentiated view of unemployment rates in the Netherlands. Both the system of unfitness for work - which in the 1980s and 1990s accepted people as unfit for work because they were unemployable - and the welfare assistance scheme, a safety net replacing unemployment benefit on expiry of entitlement or providing a minimum income to those without financial resources, were readily accessible to people out of work and gave unemployment in the Netherlands a character all of its own. For this reason, the Dutch were constantly concerned with taking action to contain and reduce the number of people drawing these social security benefits, at the same time as they performed remarkably well in terms of the actual rate of unemployment. Thus the number of people receiving social security benefits dropped considerably from 2004 to 2008 (CBS, 2008). Unemployment among older people, however, fell by much less (-3% for those aged 55 to 65). Over the same period (end of 2004 to the end of 2007), the number of people on disability benefit (847,000 at the end of 2007) fell by 12%. Finally, the number of welfare beneficiaries (274,000 at the end of 2007) also decreased, by 19% from the end of 2004.

But the financial crisis, bringing in its wake a sudden contraction of international trade, had a serious impact on the Dutch economy and put an end to these positive developments. From autumn 2008, economic growth slowed and growth in GDP, at 3.5% in 2007, fell to 2% in 2008 and is expected to be -3.5% in 2009. The unemployment rate as a percentage of the working population is again on the rise and forecast to reach 5.5% in 2009 and 8.75% in 2010 - having fallen to as little as 3.9% in 2008 (CBSa, 2009). Although the number of welfare benefits paid out decreased by 3% between March 2008 and March 2009, a new upward trend represents a further sign of a worsening economy: in May 2009, for the first time since 2005, there was an increase (+1.7%) in the number of welfare recipients and a 10% rise in benefits that had been paid for less than a year to new entrants to the system (CBSb, 2009). The most recent downward adjustments to replacement income payments for unemployment or inactivity, along with efforts to refocus benefit schemes on activation - inspired by an approach offering incentives for job

creation - are now required to have positive effects in a situation where demand for labour has suddenly fallen.

## **A trend towards benefit cuts**

The overall impression that one gains from considering the long-term development of the various income protection schemes is one of a gradual reduction linked with a number of factors that are alternative or cumulative. But across the board, in all of these restructured schemes, enabling people to return to work is affirmed as a priority, with a redefinition of acceptable work, i.e. work that must be accepted to avoid the reduction or cancellation of benefit.

### Unemployment insurance

It is certainly no accident that the unemployment insurance system is the one that appears to have changed least, to be best funded – by contributions – and so less of a direct burden on the public finances, and most strongly defended by the social partners. In the course of successive reforms, eligibility conditions have become stricter and the benefit period has been reduced, partly to block this benefit as an alternative option following the abolition of early retirement schemes in 2004. With each reform, the amount of work a person is required to have done in the period prior to unemployment has increased and the age factor, which determined the period of unemployment benefit for those entitled to benefit proportional to their last pay, was done away with in 2005 and replaced by a person's 'actual' length of service.

Until the 2005 reform, the Dutch unemployment benefit system was relatively generous. The conditions relating to previous employment were not very exacting. The payout period was long - up to 5 years - for people who had 40 years of service or more, with an original approach to length of service, according to which a person's age determined what the Dutch called their 'notional' length of service<sup>1</sup>. In 2005, a number of new

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1. This is calculated by adding to the years of service calculated as above the number of years obtained by subtracting 23 years from the worker's age. For example, for a person of 43 who is made redundant and meets the 3/5 condition, their entitlement is calculated as follows: 43 years of service – 23 = 20 years, with an entitlement of 1.5 years to benefits that extend the basic benefit.

adjustments were made to the system. These were part of the compromise that ended a crisis provoked by the abolition of tax relief on early retirement schemes and the introduction of a system of individual savings to finance extended periods of leave. The intention was clearly to close off the option of using unemployment as an interim solution prior to retirement. These changes had been put forward to the government on the basis of a unanimous vote in the Economic and Social Council in April 2005. The reference period became stricter: a person now had to prove that they had worked for 26 of the previous 36 weeks, and the maximum period for receiving benefits proportional to pay was substantially cut, from 60 to 38 months. This reflected a desire to remove the option of long-term unemployment for older people who were out of work. Entitlement to extended benefit was now calculated on the basis of a person's actual length of service, with one month of benefit per year of work, with at the same time a transitional period for unemployed people already in the system on the basis of their notional length of service. Finally, the specific assistance scheme for the oldest unemployed remained in place, after the maximum period mentioned above, i.e. between 50 and 60 years.

The definition of acceptable work was revised on 1 July 2008. Guidelines from the Minister of Social Affairs, who has authority over the UWVs (the agencies that manage employee benefit schemes, pay benefits and are responsible for activation), impose an obligation on unemployed persons in search of work for over a year to apply for any available vacancy, whatever its nature and even if they are overqualified. This guideline will apply from 1 July 2009 to the unemployed registered after 1 July 2008 (MSZ, 2008). The change above all affects the most highly qualified. Under the previous rules (dating back to 1996), acceptable work was defined in relation to a person's previous job, their professional experience, training, pay and a reasonable journey time, and every six months, a job at one grade lower was deemed to constitute acceptable work. In the new system, after two six-month periods, any accessible job, even unskilled, must be accepted regardless of its duration. It must be accepted irrespective of the level of unemployment benefit, i.e. with a supplementary benefit paid to maintain the level of unemployment benefit during the period of entitlement. Thus if a person takes a job, even part-time, they will not lose their benefit and their income will be maintained at the level of their previous benefit.

It may be that the system has not yet stabilised. A commission, set up following the failure of discussions on the reform of redundancy procedures, considered alternative scenarios for stimulating labour force participation. It delivered its report in June 2008<sup>2</sup>, proposing sweeping changes to unemployment insurance, combining a personal budget system for each employee to finance continuing training, with 'work insurance' covering the two six-month periods before a local authority assistance scheme takes effect. This proposal, which substantially reduces the benefit period, greatly concerns the FNV. The union tried to hinder it by going it alone and making a verbal agreement at the beginning of September with the employers in the VNO-NCW (Jorritsma, de Waard, 2008; Berghuis, 2008, and FNV, 2008), without the CNV or any consultation with its federations. In doing so it accepted what it had hitherto rejected, that is, limiting redundancy pay to one year's pay for those with an annual salary of over 75,000 euros (*cf.* Wierink, 2007 and 2008). Discussions between the social partners at the beginning of October finally endorsed this compromise, to which all parties rallied in the struggle against inflation, with the government abandoning plans to raise VAT by 1% on 1 January and abolishing employee unemployment insurance contributions as of the same day (de Waard, 2008).

## Incapacity benefit

Any study of unemployment benefit would be incomplete if it failed to include the benefit system for incapacity, disability or unfitness for work, depending on how one chooses to translate the WAO scheme. Established in 1967 to guarantee a replacement income for people incapable of working, whether or not for professional reasons, the scheme very rapidly acquired a huge number of beneficiaries. This was the result of a structure that was accessible to people who had become unsuitable for work due to technological developments or the nature of the labour market. The WAO scheme, more favourable than unemployment benefit (80% of the last wage or salary until retirement), was therefore used by the social partners - which managed the benefit agencies - as a means of absorbing the crises in employment that affected the Netherlands up to the 1990s. From 195,000 people in receipt of benefit in 1970, this figure rose to 610,000 in 1980 and 912,000 in 1990 (Holcman, 1998). Since the beginning of the 1980s, a constant concern of the government has been

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2. The Bakker Commission.

how to slow down the entry of new claimants and reduce the number of beneficiaries. The system has been modified on numerous occasions. The benefit system first underwent radical reorganisation in 1993<sup>3</sup> (Holcman, 1998). For new entrants and those under 50 who already receive benefit, the calculation formula may vary the amount and duration of benefit depending on the age at which the beneficiary became disabled. The degree of incapacity for work was redefined so that rather than taking account of a person's capacity to find work that is 'appropriate' considering their skills set and former earnings, it was based on their capacity to take on 'acceptable' work. Up to 2005, subsequent reforms aimed to increase the involvement of companies in preventing incapacity for work. The period during which companies were responsible for funding sick pay and for redeploying workers was increased from 52 to 104 weeks, before they could be covered by incapacity benefit, and a system was established under which employers paid incapacity insurance contributions that varied in proportion to their use of the system.

In 2005 the system was restructured even more fundamentally by a reform that was part of the compromise agreement ending the crisis surrounding the abolition of early retirement as of 1 January 2006 (*cf.* Wierink, 2006). The title of the law is indicative of how the system was refocused on employment: the Law on Incapacity for Work became the Law on Work and Income (WIA). It can be divided into two parts:

- a system of incomes for people with total and long-term incapacity to work (IVA), with over 80% incapacity;
- a regulation on returning to work for people with partial incapacity to work, i.e. between 35% and 80% incapacity.

The system no longer covered people with a degree of incapacity of less than 35%, unlike the previous scheme that covered incapacity rates from 15%. Without employment or resources, these people were reduced to claiming unemployment benefit if entitled to it, or welfare benefit.

A vast exercise was embarked upon to review all cases of incapacity of people under 50. In terms of benefits, those hardest hit by the reform were people with partial incapacity. The idea was to amend the definition

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3. The law *Wet Terugdringing beroep op de arbeidsongeschiktheidsregelingen (TBA)*, 1 August 1993.

of incapacity to make employability a central plank of the system, by no longer taking into account a person's remaining capacity to work but rather their remaining capacity to earn by doing '**generally** acceptable work', and to ensure that employment was more attractive than remaining inactive, even if a job did not correspond to a person's skills set or previous level of pay. The degree of incapacity was thus fixed in inverse proportion to a person's remaining capacity to earn. Benefits for total and long-term incapacity (with no prospect of improvement in the next 5 years) are now fixed at 75% of the last wage or salary, with no time limit, and are subject to an annual medical examination. For someone acknowledged to have a degree of incapacity of 35 to 80%, there are several levels of benefit, depending on how long they worked prior to their illness, their age and whether or not they have a new job. This new approach to benefits means that the amount of benefit is always higher for those who have a job, particularly a substantive one.

### Social welfare benefits, or minimum income

The third system (*Bijstand*) providing a replacement income is a type of universal minimum income, financed from taxation, for people over 18 without employment or financial resources. Established in 1963 as a replacement for the Poor Law of 1912, it constitutes a key element of the Dutch social security safety net before people are covered by the general pension system. It was not until 1972 that national rules were laid down on the level of this benefit, which was designed to enable people to meet their everyday needs, and amounts were specified that applied nationwide. The introduction in 1969 of a mandatory minimum wage for adult workers represented a further stage in the process of normalising welfare assistance. Initially, this kind of benefit guaranteed a household an income based on the minimum wage, which itself was standardised at a level that would guarantee a reasonable standard of living for a traditional family with a housewife and two children (Albeda, Dercksen, 1989). Single mothers, many of whom received this benefit, were completely exempt from seeking work until their youngest child reached the age of 12. At the end of 1998, a quarter of welfare claimants were lone parents, and mainly single mothers.

In 1996 a first reform gave local authorities more responsibility for managing the system and authorised a policy of individual supplements of up to 20% of basic benefit for specific costs or expenditure. It also

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defined new obligations to take steps to return to work for all those aged under 57.5 years, who were obliged to accept any 'suitable' job (*passende arbeid*) or embark on training or a back-to-work programme. Requirements for single mothers were stepped up, with only mothers with children under 5 now exempt from preparing to return to work.

1 January 2004 saw the entry into force of a new welfare assistance reform, after no fewer than 61 amendments since the 1996 law. As with the incapacity law, the new title reflected the shift in the intention behind it: it was now called the Law on Work and Assistance (WWB). The emphasis on employment was now a priority. The system was funded by a state subsidy to local authorities consisting of two parts, one financing the minimum guaranteed income and the other financing the activation policy. Local authorities were given greater autonomy to define their benefit policy, and the national funds allocated to them for welfare benefit were no longer ring-fenced, to encourage them to reduce this expenditure and spend the savings elsewhere. It was up to local authorities to reduce the flow of people entering and increase the flow of those leaving the system. Helping benefit claimants to return to work became the top priority, and the traditional exemptions for older people and women caring for small children were no longer enshrined in legislation. Young people under 21 had their benefit reduced to the same level as family allowances, and it was up to their parents to supplement it or, if they did not, up to the local authority to intervene on a case-by-case basis. Finally, a person claiming benefit was obliged to accept any 'generally acceptable' job rather than merely any suitable job as under the previous law, even if it had no connection with their previous job, was less well paid or was beneath their level of skills.

Besides a trend in all three systems towards tightening eligibility criteria and cutting benefits, there is also considerable convergence in their approaches to enabling people to return to work in the context of unemployment policy. Activation will be a shared priority in the management of all three systems.

## **Destination employment**

The incapacity and welfare assistance systems are structured in a way that makes them, in effect, into systems that target very long-term unemployment caused by exclusion, both social and health-related. As in

the unemployment benefit system, the activation policies implemented within these schemes (training, guidance, support, job placement, conditionality, job subsidies etc.) have the common goal of enabling people to return to work, although they use different instruments and involve different agencies.

## Support rather than training

According to Georges, Méda and Grivel, the proportion of 'active' expenditure on labour market policies is twice as high in the Netherlands as in the EU-15: 56.1% in the Netherlands in 2005 compared with 27.7% for the EU-15 in 2004. Within this active expenditure, however, training expenditure is still the poor relation, being reserved for the unemployed who are most distant from the labour market and targeted at short vocational courses.

Employment subsidy measures are largely implemented by local authorities as a way of reintegrating welfare benefit claimants into the labour market. For the unemployed who require closer, more targeted support in order to return to work, measures mainly take the form of coaching or individual support tailored to their specific profile. An evaluation of such measures carried out between 2000 and 2004 highlighted the positive effect of this support on the number of people leaving the unemployment schemes (Georges, Grivel and Méda, *op. cit.*). Coaching takes various forms, depending on how distant an unemployed person is from the labour market and which agency is responsible for their case. After the intake phase, or registration of unemployment, people with the most valuable assets in terms of skills and experience are the only ones taken on by the CWIs (Centres for Work and Income): they receive low-level support, largely in the form of information from employers about vacancies. Other categories of unemployed (those in receipt of welfare benefit and the disabled) are handled by the local authorities, while those who appear more difficult to reintegrate are dealt with by the UWVs (employee benefits agencies).

## Targeted activation backed up by media coverage of its aims

In a consideration of the priority areas within unemployment policy, one priority that becomes apparent is the provision of specialised coaching

aimed at different target groups, similar to a marketing approach. At the end of the 1990s, when unemployment among people of foreign origin was a priority issue, the government stated its objective of reducing unemployment among foreigners from 16% to 10% by 2002 (Wierink, 2003). A new priority was identified for 2003-2007, targeting unemployment among young, unskilled people aged under 25. A working party was established, the *Taskforce Jeugdwerkloosheid*, headed by the president of the SME employers' association. The aim was to both encourage and support employment under job creation schemes and apprenticeships for young people in the private sector and to provide incentives for people to return to education to obtain school-leaving qualifications or complete unfinished training. A somewhat similar media campaign was launched in 2005 on the employment of older people - another group experiencing difficulty in returning to work - based on the work of a taskforce focusing on them. For each campaign, dedicated human resources were made available within the Centres for Work and Income in the form of specialist employment advisors.

### Privatisation of support

Since 2000, the reintegration of people deemed unfit for work has become a market, and this change was supported by the entry into force of the SUWI law on the unemployed. The UWV agencies subcontract support for unemployed people registered with them to private-sector reintegration companies. Through a tendering process, the agencies entrust to these companies 'batches' of beneficiaries who share common characteristics, in an attempt to limit any 'cherry-picking'. The sector has seen exponential growth but remains extremely heterogeneous, and there are difficulties with quality control. Between 2000 and 2007, the number of reintegration companies rose from 40 to 2000.

The local authorities, for their part, making use of the social work budget now earmarked for employment, have become more active in guiding benefit claimants towards employment, and now only contract out 50% of support services. They refer those on benefit to 'client managers', who are often able to provide individual, tailor-made support. Since 2005 the unemployed have been able to choose their reintegration company, with which they conclude an individual reintegration contract. One in two of the unemployed makes use of this option. It appears that this arrangement, which is more expensive than the allocation method

traditionally used by the UWVs, is also more effective in enabling an unemployed person to be more actively involved in their own reintegration plan (Georges, Grivel and Méda, *op. cit.*).

## Local authorities more involved in subsidising employment

It is the local authorities that implement job subsidy measures. They have a long-standing tradition in this area dating back to the first Kok Government (1994-1998) and the so-called 'Melkert' jobs, named after the then Minister of Social Affairs. These were socially useful jobs in the public and quasi-public sector (such as janitors in educational establishments), for which people were paid up to 130% of the minimum wage depending on their qualifications. Although the programme itself has been terminated, a large number of people remain employed under this scheme. Subsequently, the so-called *I/D-banen*<sup>4</sup> jobs were introduced, offering work experience or temporary employment, which only to a very limited extent met their objective of facilitating the transition into 'regular' work by offering a reduction in employers' social security contributions.

Following the introduction of the Work and Social Assistance Law (WWB) in 2004 and the separation of the benefit and reintegration budgets, local authorities developed the WorkFirst programme. Here they were free to develop their own policies on providing financial incentives for recruitment and allowing people to receive benefits and earnings from employment at the same time. In 2007, only 5% of local authorities had failed to introduce financial incentives for recruitment, and here too it is clear that they also spent very little on training. In contrast, there were fewer schemes for combining benefits and earnings from work (from 3 to 6 months' duration), which local authorities considered to be ineffective in helping the least employable people back to work. For such people, authorities tended to focus on 'social activation' schemes rather than integration into the workforce (Kemper, 2008).

The website of the Dutch Association of Directors of Social Services indicates that 47.3% of expenditure on labour market integration is spent on remuneration for socially useful work (formerly Melkert jobs and I/D

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4. Law on Integration of Job-seekers, or *Wet Inschakeling Werkzoekende*.

jobs), 5.5% on new measures under the WorkFirst programme, and 6.6% on recruitment subsidies (*loonkostensubsidies*). However, it should be borne in mind that, according to this Association, 27.6% of those receiving welfare benefit in 2007 were exempt from seeking work.

At the end of 2007, the government announced new subsidies for job creation in the private sector, amounting to half of the minimum wage for one year. This is to permit people who are less immediately employable to work for a period of two years, during which they receive their social security benefits plus a bonus and gain work experience in a company with one day of training per week; there is no commitment from the employer to hire them afterwards (NRC, 7/12/2007).

### Doubts about the effectiveness of activation

In spring 2008, members of the lower house of Parliament demanded a debate on the use of the two billion euros allocated each year to reintegrating the unemployed into the labour market, after a report by the Ministry of Social Affairs concluded that reintegration pathways generated little value-added in terms of helping the unemployed back to work. An evaluation of the effectiveness of support services contracted out to reintegration companies has recently been published, but is inconclusive (SEO, 2008). More fundamentally, should we endorse the criticism, supported by Plantinga and Tollenaar (2008), of the short-termism of this policy of ‘activation by any means’ and particularly of the local authority WorkFirst programme? Another study highlights the limitations of this non-co-operative policy, which provides a financial incentive for local authorities to take beneficiaries out of the welfare system as quickly as possible, without them having any real scope to influence the local labour markets that are naturally outside their purview (Erdzes, 2008) – even up to the point where, several months later, they find the same people again unemployed.

### **The long and winding road towards a one-stop-shop**

While, as Daniel Clegg suggests, changes to the management of unemployment benefit have made it possible to reorient the system towards activation, it is important to note that this was a lengthy process of trial and error. The removal of the social partners from the

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management of unemployment insurance funds and the merging of benefit agencies with job placement services and local authority social services departments dealing with welfare benefits were processes that took a long time and are not yet fully complete. From 1995 to 2000, from the OSV Law on the Organisation of Social Insurance Funds right up to the SUWI Law on the Implementation Structure for Work and Income, the Netherlands went through a turbulent period characterised by layer upon layer of organisational reforms, some of them contradictory.

### Removal of the social partners from management of social insurance funds

From 1952 until the beginning of the 1990s, the social insurance funds (sickness, unemployment and incapacity insurance) were managed by social security management associations organised by occupational sector and on the basis of parity<sup>5</sup>. As a consequence of the worrying trend in the number of people claiming incapacity benefit (WAO) and of the rise in unemployment at the end of the 1980s, the activities of these occupational associations were subject to close scrutiny. In spring 1992 it was decided to embark on the extraordinary procedure of a parliamentary inquiry, to be headed by PVDA member Flip Buurmeijer and tasked with investigating the implementation of the social security laws between 1982 and 1992. The final report was submitted on 7 September 1993.

The report concluded that the administration of benefits was correct and efficient, but that the fund management bodies had totally failed in their task of controlling social security expenditure. In particular, eligibility rules for incapacity benefit (WAO) were very lax and examining doctors had a great deal of latitude in assessing cases and accommodating people's wishes. Such practices were encouraged by the consensus that existed between the social partners to channel excessive numbers of employees towards WAO benefit in particular, which paid higher amounts and was less likely to lead to disputes. Parliament adopted three motions aiming to place the management bodies under independent administrative control, remove access to WAO benefit from the social

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5. Cf. [www.europa-nu.nl](http://www.europa-nu.nl) for information on the parliamentary inquiry into social security management bodies.

partners' sphere of responsibility, introduce a management structure by region rather than by sector and unify benefit and job placement services within a one-stop-shop.

## The competitive model in benefit management

A 1995 law began by separating the responsibility for social security management from the responsibility for defining management policy. The latter remained with the sectoral, parity-based associations, but day-to-day management was taken over by four new independent, privatised institutions, each responsible for a number of sectors<sup>6</sup> and recognised by the Ministry. Competition was introduced between them in terms of administration and management costs and thus in the rate of contributions that they could charge, since the sectoral associations were entitled to change from one management body to another. Under the legislation, the system was headed up by an independent monitoring body that no longer included the social partners, the CTSV or Board of Supervision for Social Insurance, while responsibility for coordination and guidance was given to TICA, the Temporary Institute for Coordination and Harmonisation. In March 1997, new legislation abolished the occupational associations, with only inter-sectoral associations permitted.

## Closer involvement of social partners in job placement

With regard to job placement and employment policy measures (guidance, training and job subsidies), the network of government Employment Offices underwent a thorough reorganisation in 1990 (Jacobs, Heerma van Voss, 1996). In line with a major drive at the time to make public administration more efficient, the aim was to render them more autonomous rather than to privatise them. A non-governmental public-sector organisation was established, called the *Arbeidsvoorziening*, literally 'employment scheme' (Law of 28 June 1990). This body consisted of a central management body (CBA), regional management bodies (RBA) and local employment offices. Management at central and regional level was tripartite, with state representatives and

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6. GUO, SFB Groep, Cadans, GAK Nederland BV.

the social partners accounting for a third each. These offices in charge of job placement were also responsible for registering the unemployed and sending on their details to the benefit agencies. However, this reorganisation did not succeed in breathing new life into the system or relieve it of the administrative practicalities of registering the unemployed. The weakest link remained job placement, which was heavily dependent on companies forwarding details of vacancies to the employment offices.

### Another turnaround in 2002: management back in the public domain

Between 1998 and 2002, the search was on to find an administrative structure for the job placement and benefit services. Following a new reform proposal for the *Arbeidsvoorziening* in 1998, the government tabled a Law on the Implementation Structure for Work and Incomes (SUWI), which came into force in 2002. The new structure represented a major shift away from the organisation that had existed since 1997, doing away with the various inter-sectoral benefit agencies and replacing them with a single body that was autonomous yet under the auspices of the Ministry of Social Affairs – the *Uitvoering Werknemers Verzekeringen* (UWV), or employee benefits agency. This organisation dealt with claimants at a second stage, once the Centres for Work and Income (CWIs) had registered people as having lost their jobs or unfit for work, processed their benefit applications and assessed their chances of finding other work (Herbillon, 2004; Georges, Grivel and Méda, 2007). For their part, local authorities continued to deal with applications for welfare assistance. To maintain a role for the social partners sidelined by successive reforms in 1995 and 2002, a Council for Employment and Incomes (RWI) was created alongside the CWI/UWV structure, tasked with drawing up policy proposals and carrying out follow-up. This Council was composed of representatives of trade union and employers' organisations and local authorities. Also noteworthy was the legal obligation to establish Client Councils, a forum in which users could express their views and have the right to monitor activities of organisations at national, regional and local level.

The area of reintegration into employment became a marketplace open to all service-providers, with services commissioned by the UWVs, local authorities, social partners in association with sectoral training funds, or

companies with responsibility for redeploying people in danger of losing their jobs or becoming unfit for work. The organisational model was the 'one-stop-shop', or at least, at the time, 'one building' where, as far as possible, all relevant agencies were to be based.

The stage was thus set and between 2002 and 2006, the employment and benefits agencies worked to build effective and genuine co-operation. All kinds of problems remained to be resolved – to do with logistics, human resources and computer files. Subsequent to the 2004 law reforming the welfare system, the local authorities became increasingly integrated into the system, and the CWIs became the gateway to the whole employment and benefits system.

Following an evaluation in 2006 of the 2002 SUWI Law, it was decided to proceed to full integration of the UWV and CWI agencies, and this is scheduled to take effect on 1 January 2009. Over the past few years, a pilot scheme has been running at several different locations, aiming to facilitate dynamic change by disseminating good practice identified at various sites<sup>7</sup> with early experience of integrating the processes of registration, profiling, career guidance, job placement and reintegration. New functions have been defined in the CWI front office: that of case manager, who deals with people out of work, and head of sector, responsible for ongoing contact with companies. The assumption is that case managers are the interface with the UWV: whether dealing with someone who has been made redundant or someone claiming incapacity benefit, they are responsible for all the different aspects of a case, i.e. looking for work, reintegration pathways or benefits. With just a few months to go until 1 January 2009, and despite difficulties with harmonising their statutes, the merger of the CWI and UWV agencies seems to be well under way<sup>8</sup>. In contrast, the integration of local authority social services that deal with welfare claimants has not progressed as far to date.

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Given the extent of these reforms, the reduction in the number of benefit claimants and the momentum behind job creation in the 2005/2008 period, the Netherlands has been viewed as a country that has

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7. The sites called 'Toonkamers' or showcases.

8. The new local integrated agencies are named WERKbedrijf.

successfully adapted its social security system to the current situation in the European and global economy. Today, however, we should exercise caution in evaluating such developments. Firstly, such achievements may in part be purely cosmetic: the introduction of an overarching administration for the three schemes – unemployment, incapacity and welfare – means that the mechanisms by which claimants may be transferred from one to the other are less transparent than in the past (for instance, a welfare recipient who is newly entitled to unemployment benefit after so-called ‘successful integration’ in short-term employment). Secondly, in the absence of any clear indication of jobs being open to older workers (Wierink, 2007) and against a backdrop of employment cuts and a slowdown in job creation, older workers who lose their jobs will be even harder hit by the shorter benefit period. Finally, the introduction of stricter eligibility conditions for social security benefits, coupled with priority given to activation – as already criticised by W. van Oorschot (2002) – might prompt something of a rude awakening if the recession deepens and continues for a long time. It is to be feared that the ‘flexicurity’ that inspired these reforms – pursuing the structural objectives of controlling social security expenditure and promoting growth – may prove counter-productive in a time of crisis. People who are out of work run the risk of losing out on both fronts: they have less security with lower benefits over a shorter period, and less flexibility because of fewer jobs being available.

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## Denmark

# A stay of execution for the unemployment benefit system?

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Whereas in 2008 Denmark was facing a historically low rate of unemployment, the country has since been hit by the economic and financial crisis. The unemployment rate rose sharply at the beginning of 2009. Although they remain very cautious, the unemployment forecasts for the next two years are a cause for some concern.

1993 marked a turning point in Denmark's rate of unemployment. After rising rapidly in the late 1980s and early 1990s, unemployment underwent a significant decline from 1993 onwards: the rate fell from almost 12.5% in 1993 to 5.7% in 1999 and 4.8% in 2005. It reached its lowest level of 2% (one of the lowest in the European Union) in 2008 but increased markedly during the first quarter of 2009, rising to approximately 3.3% (Danmarks Statistik, April 2009).

The Danish economy has nevertheless remained vibrant and responsive: the journal of the employers' association *Dansk Arbejdsgiverforening* (DA) has in fact published an analysis showing that almost half of all employees who lost their jobs last November as a result of the crisis found new employment over the course of the following four weeks (Planet Labor, March 2009).

In 2008, the risk of labour shortages led the liberal government of Anders Fogh Rasmussen to propose changes to the unemployment insurance system (mainly by shortening benefit periods). Even the opposition was prepared to listen. However, the financial crisis and its repercussions are likely to alter the characteristics of Denmark's economy in the years ahead and will no doubt accelerate the transformation of the current system. Future developments may well go to show that Denmark's unemployment benefit system - regarded as a mainstay of Danish

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workers' feeling of security and a key component of flexicurity<sup>1</sup> - is for the time being experiencing a stay of execution.

## **Original and specific features of the unemployment insurance system**

Denmark, known for its liberal approach to employment policy (Henning, 2003), introduced in 1994 a reform which broke with the previous trend<sup>2</sup> and set up a relatively active employment policy. The reform imposed on jobseekers the principle of both rights (with the guarantee of an adequate replacement income and help in their search for employment) and duties (to actively seek work, be available for training, etc.). The government and the social partners are jointly responsible for determining the goals of the country's employment policy. The combination of low-level employment protection and generous unemployment benefits is strongly supported by all the social partners, both trade unions and employers.

As a result of a reform adopted in 2007, the two institutional systems established to manage jobseekers are now being brought together so as to create a single network of agencies catering for people in search of employment.

Employment policy goals differ from one region to another (as has been the case since 1994), taking into account particular regional requirements. This is a specific feature of Danish employment policy, which involves various national and regional stakeholders.

Thus guidelines, or objectives, are issued by the National Employment Council (a tripartite body chaired by the Minister and comprising representatives from the employers' confederation *Dansk Arbejdsgiverforening* (DA), the trade unions and the local authorities). The guidelines are then monitored nationally by the Labour Market

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1. On the Danish model of flexicurity, please refer to the article by Katrine Sondergard, '*La flexicurité danoise et tout ce qui l'entoure*', *Chronique Internationale de l'IRES*, No. 110, January 2008.
  2. Insurance funds first appeared at the end of the 19th century in the form of 'monetary relief funds run by the trade unions. The aid paid out was funded solely from members' contributions. Not until 1907, with the law on insurance funds, did the government begin to subsidise the existing unemployment insurance funds, on condition that they subject themselves to state control. The funds remain responsible for collecting contributions, allocating benefits and placing jobseekers in work (Assedic Infos, 2008).

Board (AMS), a department of the Ministry of Employment. The AMS, responsible for overseeing the labour market, produces analyses and forecasts in order to provide necessary information for the regional labour market councils and for stakeholders in the world of work. One of the main tasks entrusted to the AMS and the regional bodies is to monitor 'bottlenecks' in certain sectors: particular attention is paid to these and they are the subject of regular publications. The AMS is also responsible for coordinating and overseeing all active labour market policies.

At regional level, executive power lies with the regional employment councils. It is their duty to lay down the aims of the regional employment agencies.

At local level, lastly, it is the task of the employment agencies to provide guidance and support for jobseekers, whether or not in receipt of benefit.

As already indicated, the 2007 reform merged all the local employment offices into 91 *Jobcentres*. The *Jobcentres*, which provide support for the unemployed, bring together under one roof the government services responsible for placing benefit recipients in work and the local authority services responsible for finding work for unemployed persons not in receipt of benefit. The purpose of the merger was to simplify matters for companies when seeking to recruit new employees, so that all jobseekers and all companies can henceforth use a single local agency.

The *Jobcentres* are independent units operating for the sake of companies, people in work and the unemployed, whether or not in receipt of benefit. They advise companies and workers on recruitment, jobs and training, they maintain contact with companies, including in the form of support for new recruits and assistance with recruitment, they assist people who are experiencing difficulty in their search for work, they draw up individual job search plans and they provide help with activation.

## **A dual system of unemployment benefit**

Denmark's unemployment benefit system consists of two strands. One, unemployment insurance, is voluntary and is governed by the law of 11 September 2005 on unemployment insurance; the other, unemployment assistance, which is governed by the law on active social policy, ensures a subsistence income where necessary.

Membership of an unemployment insurance scheme is optional in Denmark. The system covers workers in the private sector, the self-employed, and public sector employees who have chosen to join an insurance fund. The number of members is more than 2.2 million out of a working population of 2.8 million, representing just over 80% of the labour force. In reality, however, the coverage rate is closer to 75% if one takes account of the fact that early retirement allowances likewise come out of unemployment insurance (Danmarks Statistik, 2008).

Table 1 Members of unemployment insurance funds (as at 1 January of each year)

	2007	2008
Total	2,255,569	2,086,488
Full-time insured workers	2,220,297	2,061,776
Part-time insured workers	35,272	24,712

Source: Danmarks Statistik, Statistical Yearbook, 2009. The figures for 2009 have not yet been published on the website.

Unemployment insurance funds are non-profit-making associations established under private law. They are founded by organisations of employees or self-employed workers in order to ensure a replacement income for any of their members who find themselves without work. There are 33 such funds (*a-kasse*) and they are approved by the government. The funds were traditionally connected with the trade unions, even though they were independent in principle and open to people not belonging to a union. The last point to be made about these funds is that they pay out daily allowances (*dagpenge*) to claimants meeting the eligibility criteria, but they also disburse early retirement allowances.

Despite the onset of the financial crisis, the number of workers registered with unemployment insurance funds is declining: during October and November 2008 the funds lost 4,359 members, or 0.21% of all insured workers, even though unemployment went up over the same period (Plant Labor, January 2009). This drop in the number of those insured could have serious consequences at a time of economic uncertainty or mass redundancies.

### Conditions for membership of a fund

Members must:

- be employed or self-employed; or
- be the spouse of a self-employed worker and help to run his/her business (either as an employee or on a self-employed basis); or
- have undertaken at least 18 months of vocational or continuing training and register within two weeks of the end of the course; or
- be performing military service (or be a conscientious objector or a woman serving voluntarily in the army); or
- have held municipal office (mayor, town councillor or committee chairperson), or be a Member of the Danish Parliament, the Danish Government or the European Parliament.

Moreover, members must be permanently resident in Denmark (or work in Denmark if resident in another country), be between 18 and 63 years of age and belong to one of the occupations covered by the fund.

Self-employed workers must be insured on a full-time basis, whereas employees may be insured either part-time or full-time.

Until 2002, each fund covered a particular occupation or sector of the economy. Since 1 September 2002, however, following a reform put through by the liberal-conservative government in the face of trade union opposition, several funds have begun to operate on a cross-industry basis. Single-occupation funds currently exist alongside cross-industry funds. The number of funds has varied since September 2002, since new ones have been established and others have merged. These fluctuations result from the new stipulation that any newly established fund must have 10,000 members (previously 5,000 members were necessary). This requirement led to quite a few shifts and amalgamations. The reform standardised the benefit allocation rules for all funds; the only distinction between them now lies in the services, information and advice they offer to their members. Satisfaction surveys are conducted by the ministerial department every two years and published by way of information for members of the various funds (Assedic Infos, 2008).

## A very generous and active benefit system, but for how much longer?

In general terms, membership of an unemployment insurance fund is a prerequisite for entitlement to unemployment benefit. In addition, the jobseeker must have been a member of a fund for 12 months and still be a member when applying for benefits. He/she must also have worked for at least 1,924 hours (i.e. 52 weeks full-time) during the previous three years, in the case of workers insured on a full-time basis, or 1,258 hours (34 weeks full-time equivalent) for part-time workers (Mansuy, 2005).

During his/her benefit period, the claimant must be registered as a jobseeker with the local *Jobcentre* and must be actively seeking work. The job search must be active in the sense that the person must accept any job offer, even if it is not within his/her usual field of work. Penalties are imposed on anyone who behaves in such a way as to be turned down for a post, with the fund deciding what constitutes improper conduct. Furthermore, benefit is immediately suspended in the following cases: failure to attend an interview with the employment services or to answer a letter from them, not complying with one's individual job search plan or not attending a training course.

Unemployment benefit amounts to 90% of the reference wage<sup>3</sup>, subject to a ceiling of around DKK 14,798.33 per month (or € 1,985). In practice, the average rate of benefit is around 55% of the person's former wage or salary. Besides, a minimum amount (82% of the above-mentioned ceiling) is guaranteed to claimants who can provide evidence of three years' full-time work and three years' membership of an insurance fund (on a full-time basis). This minimum amount applies in particular to claimants who do not have a reference wage, such as fund members who are completing a vocational training course lasting at least 18 months, or people who are members of a fund during their military service<sup>4</sup>.

3. The reference wage is calculated on the basis of the claimant's gross earnings in the three months or 12 weeks preceding the start of unemployment, provided that the number of hours worked during this period is at least two thirds of full-time hours. Where this condition is not met, the reference wage is calculated based on an earlier period of equivalent duration. All sums paid to the employee during the last three months are taken into account in the calculation, including for example any special bonuses (Assedic Infos, 2008).
4. People belonging to a fund during their military service, who were members before it and can provide evidence of previous gainful employment, are covered by common-law rules entitling them to benefits equal to 90% of the reference wage, subject to the ceiling indicated (Assedic Infos, 2008).

The allowance payable to people with partial insurance is equal to 90% of the reference wage (as for those insured on a full-time basis), but the ceiling is reduced to two thirds of the upper limit for those insured on a full-time basis, i.e. € 1,323 per month.

Benefits are disbursed for four years (208 weeks), including during activation periods, and the four years are counted over a reference period of six years. People who turned 54 before 1 January 2007 and who are aged 55 or more at the end of the maximum benefit period may continue claiming up to the age of 60. Finally, entitlement to unemployment benefit ceases in all cases on reaching the age of 65.

Out of a total of 142,800 people registered as unemployed in June 2005, 115,300 received full-time insurance payouts and 2,000 received part-time benefit. Just 25,500 were uninsured. In 2008, there were 67,784 registered unemployed in January and 62,702 in February. The proportion of people out of work and uninsured has risen since 2005 (from 17% to 25% approximately). This trend may result partly from an increase in the number of young employees not joining unemployment insurance funds.

Table 2 Insured and uninsured jobseekers in 2007

	Jobseekers			Jobseekers (in % of the working population)		
	Men	Women	Total	Men	Women	Total
Total	40,725	53,297	94,021	2.8	4	3.4
Full-time insured	31,464	42,165	73,629	3	4.1	3.6
Part-time insured	108	1,008	1,116	8.6	4.3	4.5
Uninsured	9,152	10,124	19,276	2.2	3.6	2.8

Source: Danmarks Statistik, Statistical Yearbook, 2008.

Denmark's unemployment rate fell spectacularly in less than five years: by roughly 74% (Planet Labor, 2008). This decline in the unemployment rate affected all categories of working people including older workers. Some analysts explain this drop in the unemployment rate for older workers on the grounds that, when older workers are made redundant, they prefer to opt for early retirement rather than claiming unemployment benefit. This hypothesis would appear to be borne out in the case of older women: 62% of female employees over the age of 60 have taken early retirement, compared with 18% of male employees of the same age (Danmarks Statistik website).

Table 3 Jobseekers by age and sex in 2007 (in % of the working population)

	Men	Women	Total
16-17	0	0	0
18-19	1.4	1.4	1.4
20-24	2.4	3	2.7
25-29	3.3	5.1	4.1
30-34	3.1	5.3	4.2
35-39	2.8	4.7	3.7
40-44	2.6	3.8	3.2
45-49	2.6	3.1	2.8
50-54	2.5	2.9	2.7
55-59	3.5	4.8	4.2
60-64	3.7	5.8	4.5
Total	2.8	4	3.4

Source: Danmarks Statistik, Statistical Yearbook, 2008.

As far as insured jobseekers are concerned, the Danish statistics indicate that the three main reasons given for becoming unemployed are redundancy, the end of training leave and resignation.

Table 4 Recipients of unemployment insurance benefits by reason for unemployment in 2007 (in %)

	M01	M02	M03	M04	M05
Redundancy	57.6%	57.9%	57.3%	56.6%	54.9%
Short-time working	1.2%	0.9%	1.0%	0.8%	0.7%
Resignation	6.9%	6.9%	6.8%	7.1%	7.3%
National service – end of studies	4.5%	4.6%	5.5%	5.2%	5.0%
End of training leave (activation completed)	11.1%	10.7%	10.5%	10.8%	11.1%
End of training leave (other)	1.8%	1.8%	1.7%	1.7%	1.8%
End of parental leave	0.2%	0.2%	0.2%	0.2%	0.2%
End of maternity leave	1.5%	1.5%	1.5%	1.6%	1.7%
End of a break from labour market	1.7%	1.9%	2.0%	2.1%	2.7%
End of self-employment	2.7%	2.8%	2.9%	2.9%	3.0%
Reason for unemployment unknown	9.3%	9.2%	9.3%	9.7%	10.3%
Other	1.6%	1.6%	1.5%	1.4%	1.3%

Source: Danmarks Statistik website, 2008.

The exceptionally low rate of unemployment over the past few years has led to labour shortages for companies in certain sectors; this still holds true today in spite of the recession. Given this state of affairs, the trade unions, employers and government are attempting not only to retain 'grey gold' (older workers) on the labour market but also to attract youngsters.

For instance, in the case of older workers - who have done very well out of the country's excellent economic situation (their unemployment rate more than halved in the two years to 2008) - the government has recently attempted to revise both the age for early retirement and the duration of unemployment insurance benefit. The number of people in retirement, especially those having retired early, rose sharply during the 1990s, which brought down the unemployment rate by a significant amount. Now, even in these times of economic crisis, the government is trying to keep older workers in the workforce owing to bottlenecks in the labour market. In order to do so, it has launched a media campaign focusing on the 'talents' of older workers, in the hope of encouraging them to remain on the labour market and companies' human resources departments to recruit them. All these proposals form part of a set of recommendations put to the government by the Labour Market Commission, a body set up in December 2007 whose final report is to be submitted before the end of 2009. The report will map out strategies for boosting the population in work, with a view to achieving the government's economic targets for 2015. The Commission's proposal on unemployment insurance is that benefit payment periods be adjusted in step with the economic situation (longer when there is less demand for manpower and shorter during periods of robust job creation). This proposal has received a cool reception from the trade unions: although they are not totally impervious to the idea, they nevertheless suggest that a precondition for any discussion of more flexible payment periods should be an increase in the amount of benefit paid. According to LO, however, such a reform would be of limited value in terms of raising the number of people in the labour force.

The social partners (employers and trade unions) share similar views on the issue of unemployment benefit, given that the typically Danish system of flexicurity is largely based on striking a balance between weak employment protection and generous unemployment allowances<sup>5</sup>.

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5. For example, in 2004 the Ministry of Employment raised the possibility of extending the period of employment necessary in order to be eligible for unemployment insurance. In response, the employers and trade unions joined forces to insist that the government withdraw its proposal.

### **The government's 'four initiatives'**

Employment Minister Claus Hjort Frederiksen responded to the financial crisis on 19 March 2009 by unveiling some measures geared towards new jobseekers. The 'four initiatives to support employees threatened by unemployment' is a package containing four sets of measures to assist workers who fall victim to the recession:

- introducing more flexible rules regarding short-time working arrangements (two weeks' work followed by a two-week shutdown, instead of one week's work followed by a one-week shutdown);
- enabling faster access to the fund that finances job-search courses or retraining programmes lasting a maximum of eight weeks (this fund had hitherto been confined to employees of companies with at least 100 workers but is now accessible to employees of companies with at least 20 employees);
- establishing a national alert system seeking to help the unemployed to find a new job before the end of their notice period (a scheme being piloted by the regions);
- regularly publishing accurate statistics on the labour market situation (Planet Labor, March 2009).

## **An original method of funding: by the State and the insured**

Unemployment insurance benefits are financed out of a special Fund (the Unemployment Insurance Fund) whose revenue derives from two sources:

- two thirds from income tax and from the 'labour market contribution' paid by all employees and self-employed workers, whether or not they are members of an unemployment insurance fund. This sum currently amounts to 8% of earned income (or profit in the case of the self-employed);
- one third from members' contributions to their unemployment insurance fund.

The premium paid by members of unemployment insurance funds varies from one fund to another. It comprises the payment to the national

Unemployment Insurance Fund, which is fixed, and the payment made to the fund itself, which covers its administrative costs and the non-statutory services it provides (job-search assistance, training, supplementary cash benefits, etc.); this sum therefore varies from one fund to another. For those employed full-time, the annual contribution to the national Fund is set at eight times the maximum daily unemployment allowance granted by the scheme.

Specific contributory rates are set for people opting for partial insurance, with the normal contribution to the national Fund reduced by approximately a third; they may also pay into the supplementary pension fund ATP. Only people working part-time may opt for partial insurance, but part-time workers may choose to insure themselves at the full rate.

Furthermore, people may undertake to contribute to their unemployment insurance fund towards early retirement benefits (*efterløn*): the monthly premium for a full-time worker in 2005 was € 13.37. Finally, there are special contributory rates for young people and for people over the age of 60.

### **Helping those not covered by unemployment insurance: unemployment assistance**

Alongside the classic unemployment insurance arrangements, Denmark also has a system of unemployment assistance which, subject to certain conditions, pays out allowances to jobseekers who have no insurance or are not eligible to join an unemployment insurance fund. This safety net is available to everyone in Denmark, including jobseekers who have exhausted their entitlement to unemployment insurance payouts. It consists of two types of benefit: cash allowances (*kontanthjaelp*) and 'starter allowances' (*starthjaelp*).

These forms of assistance are designed as a minimum income to replace an individual's resources when he/she no longer has any, or to top them up when the claimant's own income is insufficient. The finances of all family members living under the same roof are taken into consideration. These allowances are taxable just like all other income, and their levels are set with reference to the maximum amount of unemployment benefit.

The conditions attached to disbursement of cash allowances relate to residence status (recipients must have been resident in Denmark for seven out of the last eight years) and resources (less than € 1,340 per month for a single person and € 2,680 for a couple). The amount payable varies according to the recipient's family circumstances (household expenses) and his/her age. Anyone unable to claim this allowance is entitled to a benefit known as a 'starter allowance', which likewise varies according to age and family circumstances: it amounts to approximately € 320 for a claimant under the age of 25 living with his/her parents and € 775 for a single person over the age of 25 (Assedic Infos, 2008).

Denmark's liberal-conservative government did however restrict access to benefits a few months ago by introducing a maximum individual upper limit of DKK 28,000 (€ 3,780) per adult per month, so as to prevent a combination of different family allowances - minimum income, housing benefit or loans to owner-occupiers and the various supplementary payments - from adding up to excessively large sums. There is currently fierce opposition to this move.

## **Generosity in exchange for obligations**

Denmark's active employment policy, as we have seen, is based on the notion of rights and duties. The *Jobcentres* and unemployment insurance funds are responsible for supervising jobseekers in their search for work and for ensuring that they comply with their personal employment plans. The two entities have to keep one another informed as to the situation of each individual jobseeker.

The obligations incumbent on the jobseeker are, firstly, to post his/her curriculum vitae on a website ([jobnet.dk](http://jobnet.dk)) which constitutes a CV database available to the public employment service, the unemployment insurance funds, jobseekers themselves and companies. Then, having identified themselves in this way, jobseekers must attend interviews once every three months with both the *Jobcentre* and the insurance fund. The purpose of these interviews is to check that the person is actively seeking work and to identify any suitable job offers. Jobseekers must in addition 'reactivate' their CVs weekly so as to confirm and prove that they are actively seeking work (Mansuy, 2005).

Failure to meet these obligations will of course result in penalties. For instance, if a job offer or an activity envisaged in the employment plan is turned down, or if the training schedule foreseen by the plan is broken off, a three-week suspension of benefit will ensue. Entitlement to benefit is withdrawn altogether if this situation occurs more than once in a year.

If, at one of the quarterly interviews, a claimant's efforts to find work are deemed inadequate, the fund or the *Jobcentre* may issue him/her with a warning. The person's job-seeking efforts will again be reviewed and evaluated three months later: should they again be deemed unsatisfactory, the jobseeker's benefit may be stopped. In order to regain his/her entitlement to benefit, he/she will have to give evidence of having worked for 300 hours within a minimum period of 10 weeks.

The penalty in the case of a jobseeker receiving unemployment insurance benefit consists of a one-third reduction in the allowance paid.

## Conclusion

In sum, the amount of benefit received by the unemployed in Denmark does not depend on the length of time spent out of work (within certain limits, however) and is more generous for people on low and average pay than for high earners (owing to the existence of a ceiling) (Boyer, 2006). The unemployment insurance system affords good protection, but one must not forget that it is dependent on active job-seeking and the acceptance of any job offered by the public employment service. Furthermore, although the rate of benefit paid is certainly high, the replacement earnings provided by these allowances appears much less generous once tax has been deducted. What is more, some individuals are excluded from this benefit system, which in reality protects around 75 to 80% of the working population. And the guaranteed subsistence allowance paid out by local authorities to jobseekers without insurance is subject to the same conditions.

It might seem surprising at first sight that the formal system of unemployment insurance is in fact a dual system for managing jobseekers, but as a result of the 2007 reform both jobseekers and companies are gradually beginning to deal with a single agency. Meanwhile, the local authorities are becoming increasingly influential in respect of helping the unemployed back into work. The reform has seen

something of an increase in the local authorities' powers, particularly through the growth in the number of staff working for the municipal employment services (almost ten times as many as work for the public employment service). However, this administrative reform gives the *Jobcentres* and the unemployment insurance funds much cause for concern: they complain of inadequate staff and resources, and are critical of the local authorities' lack of experience when it comes to tackling rising unemployment.

The fact nevertheless remains that Denmark's labour market is still vibrant and responsive, with the government keen to pursue more targeted, faster action in respect of new jobseekers.

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# Sweden

## Far-reaching reforms to the unemployment insurance system since 2007

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The Swedish system of unemployment insurance is often held up as an example: linked to an active labour market policy (implemented by the AMS, *Arbetsmarknadsstyrelse*), in principle it provides a generous level of benefit, for quite a long period, with fairly unrestrictive qualifying conditions. In return, job-seekers are subject to strict requirements arising from the so-called ‘activation’ philosophy. Although the conditions governing benefit and eligibility were tightened by the Social Democrat government between 1994 and 1997 in order to make up the deficit on unemployment insurance, the system became more generous again from 1997-1998 onwards.

During the election campaign for the 2006 parliamentary elections in Sweden, employment and unemployment were key issues. Despite a relatively low ‘visible’ unemployment rate<sup>1</sup>, the difficulties encountered by young school-leavers and the numbers of people benefiting from the various employment policy measures gave rise to a degree of scepticism, not to say discontentment, with the Social Democrat government. The opposition Alliance coalition, led by Fredrik Reinfeldt, in fact made reducing unemployment one of its priorities.

Reforming the unemployment insurance system was one of the first measures to be introduced by the Reinfeldt government following the 2006 parliamentary elections. Approved by Parliament on 21 December 2006, this reform measure changed the mode of funding and the rules governing benefits. Since then, other aspects have been the subject of individual amendments. Taken as a whole, this has resulted in a profound change to the benefit arrangements.

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1. In 2007, the visible unemployment rate (*öppet arbetslöshet*) was 4.6%; this rises to 6.2% when measured in ILO terms.

## Origins and principal features of the unemployment insurance system

The voluntary unemployment insurance scheme, subsidised by the State, was established by a Decree in 1934. Unemployment insurance funds, most of which were set up in the years 1920-1930, are bodies established under private law, with links to the trade unions<sup>2</sup>. They are responsible for managing and paying benefits, while the rules governing compensation are defined by the State. Originally, nearly two-thirds of their funding came from contributions paid by their members. Since the early 1980s the State's involvement has increased considerably: in 2005, membership subscriptions to the funds represented 13.5% of the costs of unemployment insurance (including management costs).

Two laws adopted in May 1997 changed the unemployment insurance system as from 1 January 1998: the Law on Unemployment Insurance (*Lagen om Arbetslöshetsförsäkring*) and the Law on Unemployment Insurance Funds (*Lagen om Arbetslöshetskassor*). A second level was added to the unemployment insurance system, which henceforth comprises:

- a basic scheme, which pays a flat-rate daily allowance, the basic allowance (*grundförsäkring*), to all job-seekers who meet certain conditions;
- an insurance scheme, on a voluntary basis, which pays a replacement allowance calculated on the basis of previous earnings (*inkomstbortfallförsäkring*). To receive this allowance, the person concerned must be a member of an unemployment insurance fund. Provided they are affiliated to a fund, the scheme covers both workers and company managers.

These allowances (basic and replacement) are paid out by the 32 unemployment insurance funds, which since 1998 have been legally independent of the trade unions. A specific fund, the Alfa-kassa, set up in 1997, pays the basic allowance to unemployed people who are not affiliated to an unemployment insurance fund, or have not been members for a sufficiently long period.

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2. Membership of a trade union normally involves membership of the corresponding unemployment insurance fund.

## A series of changes since 2007

The Reinfeldt government's reforms have profoundly altered both the mode of funding and the rules governing benefits.

The reform of funding is designed to increase contributions as a proportion of in the resources of the unemployment insurance funds, thereby allowing the State to reduce its level of participation. The idea is to strengthen the link between the risk of unemployment and contributions made to an unemployment insurance fund, thus reinforcing the insurance-based philosophy. The reform has taken place in two stages. Since January 2007, the State has reduced its funding to 55% of the costs of the funds, and considerably increased the level of contributions for persons in employment. The funds are being encouraged to reduce their costs and/or strengthen their supervisory mechanisms, and the trade union organisations linked to them are being encouraged to reduce the number of unemployed by moderating their wage claims (Mantz, 2007). Starting on 1 July 2008, individual contributions<sup>3</sup> have been partially reduced, but contributions now vary more widely from fund to fund depending on the risk of unemployment.

The rules governing compensation have been subject to a large number of modifications (Table 1, next page).

The criteria for entitlement to compensation have been tightened since January 2007. The minimum period of work has been raised to 80 hours per month (instead of 70) in the previous 12 months. Being a student no longer confers entitlement to an unemployment allowance. Moreover, the period of exemption in the case of sickness, parental leave or study has been reduced to 5 years (previously 7 years).

As for the amount of benefit, this has been reduced in two stages. From January 2007 the reference level of earnings for calculating the allowance has been capped at 18,700 SEK (approximately €1,800<sup>4</sup>), a considerable reduction from the previous figure of 20,700 SEK (approximately €1,990). The ceiling for the allowance, previously set at 730 SEK for the

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3. Contributions vary according to whether membership is individual or collective (via a related trade union) and whether the person is in employment or unemployed.

4. The conversion to euros is given for illustrative purposes only. It does not take account of the recent depreciation of the Swedish krona (SEK).

first 100 days, has been reduced to 680 SEK for the whole period during which the replacement allowance is claimed. In March of that year, the reduction in the rate of the replacement allowance came into force. Previously set at 80% of reference earnings, it now decreases in steps depending on the length of unemployment: 80% of last earnings for the first 200 days, then 70% until the 300<sup>th</sup> day, and finally 65% beyond that; or a maximum of 680 SEK (approximately €73) per day throughout the whole period.

A fresh modification introduced in the spring 2007 budget relates to offers of employment. As from July 2007, unemployed workers can no longer claim that the distance between the proposed place of work and their home is too great: the reference to 'in the immediate vicinity' has been deleted. It is also stipulated that unemployed workers in receipt of the basic allowance will have to seek employment, which is in line with their initial training. Although each case will be judged on its merits, the aim is clearly to encourage unemployed people to resume work more quickly, through increased geographical mobility amongst other means.

Since April 2008 a specific rule has applied to part-time workers (Andersson, 2007). Until then, an unemployed person who was compelled to work part-time could claim compensation for time not worked for up to 300 days. After the 300 days they had to choose: either to continue working part-time, but without any further compensation via the unemployment insurance system; or to resign and, provided the necessary conditions were met, receive unemployment allowance on the basis of their part-time earnings. Now the benefit period in the case of part-time working has been reduced to 75 days. The government's aim is to encourage full-time employment. The only exception is for lone parents of children under 18 years of age, who benefit from an extended period under the 'guarantee of employment and development'.

Finally, the benefit period was reduced to a maximum of 300 days in July 2007, whereas before it could be as much as 600 days. Only parents with a child under 18 years of age on the 300<sup>th</sup> day of compensation can continue to receive benefit for up to 450 days.

Table 1 Summary of reforms 2006-2008

	Before 2007	Changes since 2007*
<b>Funding</b>	The State funds almost 90% of total allowances paid	<p>1 January 2007: Introduction of an additional contribution for fund members in employment (<i>förhöjd finansieringavgift</i>), depending on the proportion of members who are unemployed. 150 to 300 SEK per month**</p> <p>1 July 2008: Contributions to an unemployment insurance fund based on cost of benefit</p>
<b>Benefit</b>		
Qualifying period	Replacement allowance paid if contributions paid to an unemployment insurance fund for 12 successive months	Unchanged
Period of employment	<p>Number of hours worked: 70 hr/month for 6 out of preceding 12 months</p> <p>University students entitled to claim an allowance Exemption period: 7 years</p>	<p>1 January 2007: Number of hours worked: 80 hr/month (for 6 out of preceding 12 months) or 480 hr over 6 months (at least 50 hr per month)</p> <p>University students no longer entitled to claim allowance Exemption period: 5 years</p>
Amount of allowance	<p>Basic allowance: 320 SEK per day</p> <p>Reference earnings capped at 20,700 SEK, calculated over previous 6 months</p> <p>Replacement allowance: 80% of last earnings, capped at 730 SEK per day for 100 days, thereafter 680 SEK per day.</p>	<p>Unchanged</p> <p>1 January 2007: Maximum allowance: 680 SEK per day</p> <p>Replacement allowance: 80% of last earnings for first 200 days, thereafter 70%</p> <p>5 March 2007: 70% up to 300 days, thereafter 65%</p>
Period of benefit	300 or 600 days for everyone	<p>5 March 2007: Maximum period: 300 days (450 days for parents with children under 18)</p> <p>2 July 2007: Possibility of extending benefit period removed 450 days maximum for parents with children under 18</p> <p>1 October 2007: days covered by 'activity support' deducted from benefit period</p> <p>7 April 2008: for part-time workers, maximum period of 75 days, except for lone parents</p>
Waiting period	5 days	7 July 2008: 7 days ...

\* Dates when measures entered into force. \*\* 10 SEK = €0.95

...	Before 2007	Changes since 2007*
<b>Benefit</b>		
Offer of employment	For first 100 days, right to seek employment close to home and in line with qualifications	2 July 2007: no restriction based on place of employment Requirement for those receiving basic allowance to seek employment in line with initial training

\* Dates when measures entered into force.

## Effects of the reforms

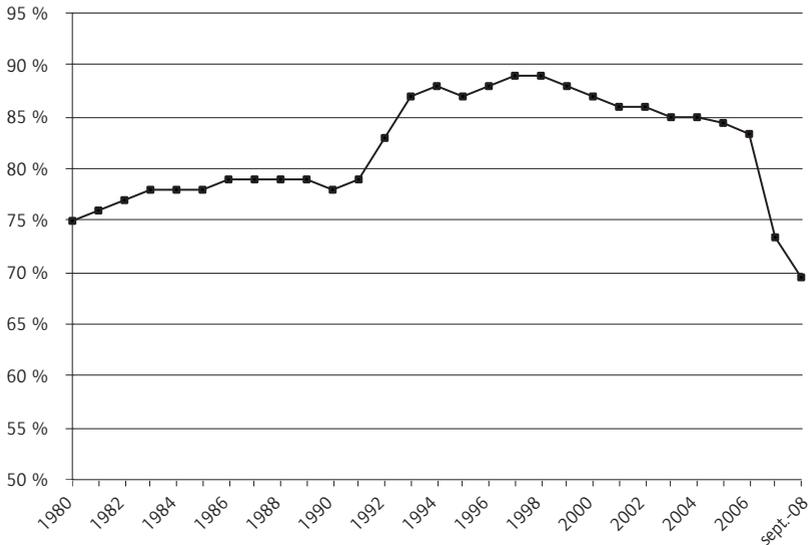
The effects of the reforms have been twofold: an increase in inequality amongst unemployed people, to the detriment of those in part-time work, and a decline in the number of members of unemployment insurance funds.

The trade union confederations had been quick to emphasise the negative consequences of the stricter conditions for receiving benefit, which came into force in January 2007. The reduction in the exemption period is likely to affect women in particular, since they take parental leave much more frequently than men (LO, 2007). Before these measures came into force, Samorg had estimated that 110,000 persons would see their allowances reduced from 1 January, 75% of them women. The severe restriction on compensation for involuntary part-time working since January 2008 is also particularly unfavourable to women, who do much more part-time work than men, mainly because of the sectors in which they are over-represented (e.g. commerce, local government). They are also over-represented amongst unemployed workers receiving benefit. On this last point, they suffer from the difficulty of converting part-time jobs into full-time jobs. The employers' organisations maintain that such a conversion is in fact impossible, and would in any case have negative consequences for the unemployment rate.

Before the reform of membership of unemployment insurance funds came into force, there were 36 such funds. The trade union confederations fiercely criticised the increase in the level of contributions to an unemployment insurance fund, highlighting the danger that members would choose to disaffiliate. In fact the fall in membership of these funds proved very rapid once the measure came into force (Graph 1). As early as April 2007, the IAF (*Inspektionen för arbetslöshetsförsäkingen*) was reporting a fall of around 210,000 persons. By the end

of September 2008, the IAF was giving a figure of 3,308,212 members, i.e. 487,000 fewer members than in December 2006 (a fall of over 13%). At that date, only 70% of the working population was covered by voluntary unemployment insurance<sup>5</sup>. Among those who have left the unemployment insurance funds, two categories are over-represented: people on low wages, working part-time, who are at high risk of unemployment but have little chance of meeting the new criteria for claiming replacement allowance, and older workers, approaching the end of their working lives and on open-ended contracts (Eliasson, 2008). The drop in membership has been particularly marked in sectors such as hotels and catering, retailing, transport, and among local authority workers. The commonest reason given for leaving is the financial cost linked to the increase in individual contributions<sup>6</sup>.

Figure 1 Membership of unemployment insurance funds, 1980 - Sept 2008 as % of working population



Source: Anxo (2008)

5. Being covered does not necessarily imply that they can claim replacement allowance. This depends on how long they have been members.

6. All the more marked because these contributions have ceased to be tax-deductible since January 2007.

In response to this reduction in membership numbers, some funds had to merge. Thus the painters' and decorators' fund (*Målarnas a-kassa*), with 12,242 members, joined up with the 92,600 members of the building workers' fund (*Byggnadarbetarnas a-kassa*) on 1 October 2007. The fund for technical staff and office workers (*Svenska Industritjänstemannaförbundet, SIF a-kassa*) and that for workers in the commercial, transport and services sector (*Handelstjänstemannaförbundet, HTF a-kassa*) were merged on 1 January 2008 to form a new fund, *Unionens a-kassa*, with over 500,000 members. The funds for workers in the graphical industries (*Grafiska arbetarnas a-kassa*) and in forestry (*Skog- och Träfacket's a-kassa*) also merged to form *GS a-kassa* on 1 April 2008, with 62,000 members. One last merger took place in January 2009 between STs and SeAs. There are therefore now only 32 unemployment insurance funds. But the drop in membership has not been stemmed. The building workers' fund, for example, lost nearly 14,000 members (i.e. 12%) between September 2006 and June 2009 (IAF, 2009b).

By the end of July 2008, 1,200,000 workers (a quarter of the working population) were not affiliated to any unemployment insurance fund and were therefore unable to claim an allowance in proportion to their income. With the reduction in the number of subscribers, the rate of cover for the risk of unemployment is falling. The Swedish Council for Fiscal Policy, in its report for 2008 (Finanspolitiska Rådet, 2008), has also highlighted the potentially negative impact of reforms to the funding of unemployment insurance, which could result in an increase in the number of new claimants for other benefits (for example the basic subsistence allowance, *socialbidrag*, paid by local authorities).

## **From a voluntary to a compulsory insurance scheme**

The debate over whether unemployment insurance should be compulsory is as old as unemployment insurance itself. The first proposal to set up a compulsory unemployment insurance scheme goes back to 1928. In 1974 a parliamentary committee was charged with examining the modalities of setting up a compulsory unemployment insurance scheme. The system proposed was seen at the time as too onerous, and voluntary membership of unemployment insurance funds organised for each industry thus continued (SOU, 2008). Nevertheless, the establishment in 1974 of the KAS (*kontanta arbetsmarknadsstödet*), a flat-rate allowance of 35 SEK

per day, marked the beginning of a movement towards universal cover for the risk of unemployment. The KAS was paid to unemployed workers who did not have unemployment insurance or did not fulfil the qualifying conditions (SOU, 2008). Although it was more in the nature of social assistance than an insurance mechanism, this allowance did make it possible to extend the level of cover for the risk of unemployment.

Based to some extent on the proposals of a report on the means of organising and funding a compulsory unemployment insurance scheme<sup>7</sup>, Carl Bildt's government introduced two proposed pieces of legislation<sup>8</sup> along these lines in 1993. Once approved by Parliament, the new system partly came into force on 1 January 1994 (SOU, 2008). In the autumn of 1994 the Social Democrats won the elections and repealed it. Nobody therefore received any allowances under this ephemeral compulsory unemployment insurance scheme (Larsson, 2007).

Believing that unemployment insurance is essential for proper economic development, and should be guaranteed for all workers, Fredrik Reinfeldt's government sought once again to make unemployment insurance compulsory. On 28 June 2007 the government therefore commissioned a report from Sören Öman, Director of the Stockholm Centre for Commercial Law at the University of Stockholm, on the modalities of such a reform. This report was submitted to the Minister of Labour on 15 May 2008. A supplementary report on unemployment contributions was submitted on 30 September 2008.

The system proposed does not alter the present system of autonomous funds with a voluntary membership. It supplements it with another system designed to provide an unemployment allowance in proportion to the income for everyone who is not a member of a fund<sup>9</sup>. Payment of this allowance would imply additional expenditure for the State. Öman therefore proposes the establishment of a new unemployment contribution (*arbetslöshetsförsäkringsavgift*) payable by workers who are not members of any fund and whose income from employment is above a certain threshold<sup>10</sup>. The whole of the working population

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7. *Ersättning vid arbetslöshet* (SOU 1993:52).

8. Propositionen 1993/94:80 *En allmän och obligatorisk arbetslöshetsförsäkring* and propositionen 1993/94:209 *Den fortsatta reformeringen av arbetslöshetsförsäkringen*.

9. For the time being they can only receive a flat-rate daily allowance paid by Alfa-kassa.

10. The contribution would not be payable in the first year in which the threshold was exceeded.

(employees in the private as well as the public sector, plus company managers) would be covered by this contribution. The total number of those potentially liable is estimated at almost 510,000 persons (SOU, 2008). So as not to encourage fund members to switch to the supplementary system, it was stipulated that the amount of this contribution should be equal to the highest contribution charged by the funds, i.e. 433 SEK per month in 2008<sup>11</sup>.

## Potential effects of the reform

The proposed system would have two main consequences: an increase in the numbers of those affiliated to funds, and an acceleration in the process of re-drawing the landscape of the unemployment insurance funds.

Indeed, people who for the time being are not members of any fund would have a strong economic incentive to join: not being a member of an unemployment insurance fund would mean, on average, an additional cost of 100 SEK (€9.50) per month. Hence it was estimated that nearly 450,000 people would seek to join an unemployment insurance fund under this system. The funds would therefore find themselves enjoying a membership figure close to that achieved before the 2007 reforms (SOU, 2008).

Moreover, the need to weigh up whether to join an unemployment insurance fund or not would disappear. The choice would lie only *among* the different funds, with each individual seeking to join the fund where he or she could pay the lowest contribution. Funds offering the lowest contributions would thus see their membership numbers increase. Company managers and employees in the commercial and building sectors would be over-represented among those liable to pay the new contribution. The relative weight of the funds covering these sectors would therefore be accentuated, to the detriment of the funds covering the industrial, and health and social, sectors (SOU, 2008).

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11. The amount of contribution would be identical for all those liable to pay, and unlike the situation in the unemployment insurance funds since 2007, would not vary according to the unemployment risk in the insured person's own industry. The conditions for claiming allowances paid under the supplementary scheme would be the same as under the voluntary unemployment insurance scheme, as would the level and period of payment of the benefit.

## Unanimous rejection

The employers' organisations and trade unions have been unanimous in rejecting the proposals of the Öman report. They are opposed to the principle of compulsory unemployment insurance, even if it merely supplements the existing system. On the one hand, they fear that the position of the trade unions on the labour market will be weakened. The requirement to pay an unemployment contribution might, because of the extra costs involved, encourage some workers to stop paying their trade union subscriptions. The level of trade union membership might therefore diminish. The legitimacy of the unions and the collective agreements they negotiate would thus be weakened. On the other hand, the system proposed does not respect the freedom of affiliation and individual choice. Given that 480,000 people have chosen to leave their unemployment insurance funds, the system proposed, in the opinion of the social partners, shows a lack of consideration for the informed choices made by Swedish workers. Particularly since these people, though not members of a fund, would now have to pay a contribution in order to benefit from an insurance which they had specifically decided they did not need.

In addition to this rejection in principle, other reasons are given. The employers' confederation *Svenskt Näringsliv* opposes the proposal mainly because company managers make up 30% of those potentially liable for the new contribution, which is four times their share of the overall working population (SOU, 2008)<sup>12</sup>. The trade unions LO (*Landsorganisationen i Sverige*, representing manual workers), TCO (*Tjänstemännens Centralorganisation*, representing white-collar workers) and SACO (*Sveriges Akademikers Centralorganisation*, representing higher-education graduates) for their part fear a weakening of the necessary link between payment of a contribution and the right to unemployment insurance. Under the proposed system, some people on low incomes might be able to claim unemployment allowance without having paid contributions, while others on high incomes but who did not meet other conditions for claiming the allowance (for example, part-time workers who had not worked a sufficient number of hours) would still pay the contribution. Such situations would risk undermining the

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12. *Företagarna*, an employers' organisation representing essentially very small enterprises and SMEs, has also indicated its rejection of compulsory unemployment insurance, as has *Arbetsgivarverket* (representing public sector employers).

legitimacy of unemployment insurance (TCO, 2008a). Lastly, the proposal also contradicts the principle of proportionality between contributions and the unemployment risk in the insured person's sector of the economy, a principle which emerged from the reforms of January 2007 (TCO, 2008a).

Although the social partners share the government's objective of extending cover for the risk of unemployment throughout the working population in Sweden, they are nonetheless proposing different solutions from that envisaged until now by the government. The trade unions want an audit of the whole system of social protection to be carried out, so that the interaction between the various benefit schemes can be brought to light (SACO, 2008). They also consider that the best way of increasing the rate of cover for unemployment insurance is to make the funds more attractive by reducing the level of contributions and increasing the ceiling and the replacement rates for unemployment insurance (LO, 2008b). This would mean the government reversing some of the changes made since 2007. The employers' organisations, for their part, want above all to make the unemployment insurance funds more attractive by offering bodies other than trade unions the opportunity to manage them, by strengthening competition between funds, and by having greater individualisation of contributions based on the individual unemployment risk (Bergström and Morin, 2007).

## **Impact of the economic downturn on the debate**

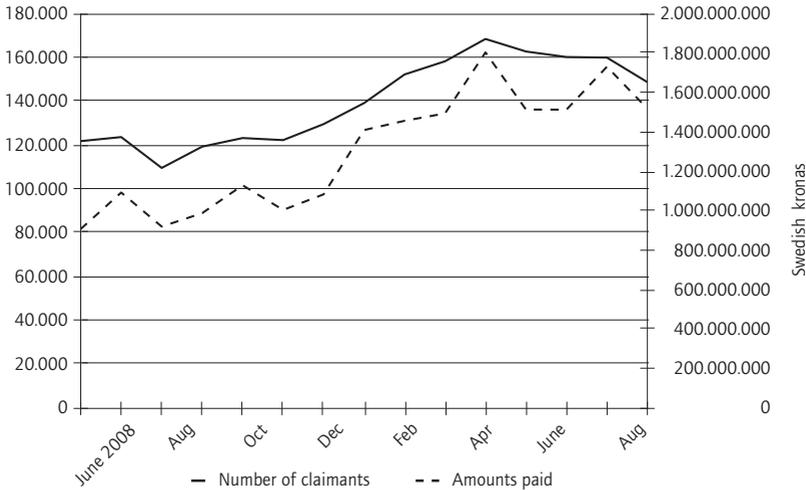
Since the autumn of 2008, the terms of the debate about unemployment insurance have changed very markedly. The trends in respect of unemployment and the membership of funds have been reversed. The government's policy on unemployment insurance has seen a major turnaround. The position of the trade unions has become firmer.

### **A reversal of the trend in indicators linked to unemployment**

The first consequence of the economic downturn was a strong increase in the unemployment rate. Sweden moved into recession in the last quarter of 2008. Lay-offs increased massively in December 2008, and forecasts became increasingly pessimistic from March 2009 onwards. Many public services are reducing their numbers of employees, especially

in the education sector. In May 2009 the unemployment rate reached 9%, an increase of 3.1 percentage points compared with May 2008 (SCB, 2009). The number of unemployed persons has reached 446,000 (SCB, 2009), compared with 122,187 in May 2008, when the level of unemployment had reached its lowest point since 1991.

Figure 2 Number of claimants and total payments made by unemployment insurance funds, June 2008 – August 2009

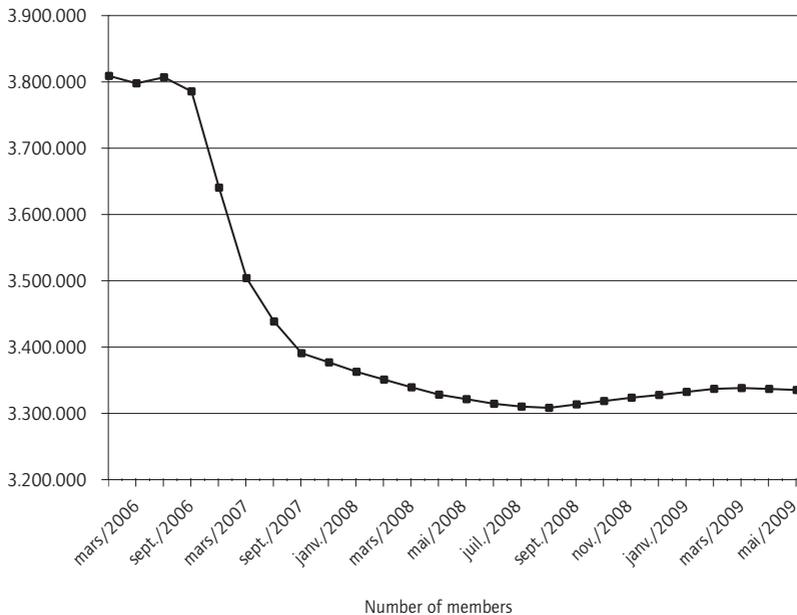


Source: IAF (2009a)

This growth in the numbers unemployed was of course accompanied by an increase in the total amount of money paid out by the unemployment insurance funds and an increase in the number of claimants for unemployment benefit. 2008 had been a particularly good year for the unemployment insurance funds' finances. The total amount paid out by the funds was at its lowest level since the early 1990s: the figure in 2008 was slightly less than half that for 2006. From autumn 2008 onwards, the number of persons claiming unemployment insurance allowance rose sharply, moving from 109,524 in August 2008 to a peak of 168,441 in April 2009, an increase of nearly 54%. The total amount paid out by the unemployment insurance funds followed a similar trajectory, almost doubling during the same period (IAF, 2009a).

The third striking factor in this development is the stabilisation in the membership of the unemployment insurance funds after October 2008. The number of members had declined constantly since the reforms to the unemployment insurance scheme came into force in January 2007. It reached its lowest point in September 2008, with 3,308,383 members. Since then the membership of unemployment insurance funds has increased slightly. Thus the funds had 3,338,263 members at the end of April 2009, almost 30,000 more than the figure for September 2008 (IAF, 2009b). There seems to be a slight decrease since then.

Figure 3 Membership of unemployment insurance funds, March 2006 – June 2009



Source: IAF (2009b)

## An abrupt reversal of policy

This reversal of the trend in the progression of the indicators linked to unemployment led the government to amend its policy on unemployment insurance.

The abandonment of the compulsory unemployment insurance scheme proposed by Sören Öman, which was deemed to be too complex, was announced even before Öman had submitted the final conclusions of his report at the end of September. The vote on the budget in the autumn<sup>13</sup> was an opportunity to adopt three measures designed to encourage and facilitate membership of unemployment insurance funds (Arbetsmarknadsdepartementet, 2008):

- unemployment contributions reduced by 50 SEK per month (€5) from 1 July 2009<sup>14</sup>,
- the period of membership required to claim wage-related benefit reduced temporarily from 12 to 6 months for the year 2009,
- the condition relating to a minimum period of employment abolished after 1 July 2009.

By introducing these measures, the government was seeking to encourage an increase in the rate of cover for the risk of unemployment at the very time when unemployment insurance appeared more necessary than ever, following the downturn in the economy.

## The trade unions go on the offensive again

The social partners welcomed the short-term economic measures taken to encourage membership of unemployment insurance funds and the apparent abandonment of the proposed compulsory unemployment insurance scheme. Nevertheless, the three trade union confederations felt that the measures put forward by the government in its 2009 budget amounted to only a marginal change, and would not enable a return to a rate of cover for the risk of unemployment similar to that which prevailed before the 2007 reforms (LO, 2008a). The measures were not enough to provide sufficient security to as many workers as possible during a period of very sharply rising unemployment<sup>15</sup>. Only a greater reduction in

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13. The 2009 budget.

14. In order to reduce the cost of moving from unemployment into employment, the amount of individual contributions is set at 300 SEK per month for persons in employment.

15. In a report published in December 2008, the public employment agency (*Arbetsförmedlingen*) estimates that the proportion of unemployed persons without insurance has risen from 16 to 32% since 2006.

contributions and an end to contributions being modulated according to the risk of unemployment in a particular sector would enable a return to an equivalent rate of cover (TCO, 2008b).

The trade unions' criticism focussed on the level of the ceiling for unemployment insurance. Having remained unchanged from 2002 to 2007, the ceiling was lowered under the 2007 reforms, dropping from 730 to 680 SEK per day for the first 100 days of benefit payments. The result of this reduction is that an ever-decreasing number of unemployed people can claim replacement income equivalent to 80% of their last earnings. This proportion has constantly diminished since 2002. At that time, four out of five full-time unemployed workers could claim allowances at a rate equivalent to 80% of their last earnings. Now only one out of five full-time unemployed workers can claim allowances equivalent to 80% of their last earnings (SO, 2009).

An increase in the ceiling for unemployment insurance is now the principal demand of the trade unions. The three confederations (LO, TCO, SACO) have moreover distributed a joint petition to this effect which to date has received almost 100,000 signatures. The brand-new unemployment insurance fund for teachers stipulates that there shall be no ceiling. In April 2009, LO also set up a working group on unemployment insurance together with the Social Democratic Party SAP.

On the employers' side, although the employers' confederation *Svenskt Näringsliv* has welcomed the abandonment of the proposed compulsory unemployment insurance scheme, it has on the other hand criticised the decision to reduce the unemployment contributions paid by fund members. This decision in fact runs counter to the government's declared intention, supported by *Svenskt Näringsliv*, to strengthen the link between the level of contributions and the unemployment risk (Andersson, 2008b).

## Conclusion

Reforms to the system of unemployment insurance are designed not only to encourage unemployed workers to take up jobs quickly, but also to have an effect on wage formation. The increased burden of funding on the unemployment insurance funds and the modulation of contributions

depending on risk are meant to encourage the funds, and hence the trade unions, to moderate their wage claims.

However, the downturn in the economy, which is being felt in Sweden as elsewhere, has highlighted the negative effects of reforming the benefit rules. A not inconsiderable number of people, especially those in insecure jobs on low wages, no longer enjoy sufficient protection against unemployment. The government has therefore adjusted its policy since the autumn of 2008, in order to mitigate its more negative impacts, including the reduction in the membership of unemployment insurance funds.

Paradoxically, the government did not take advantage of the downturn in the economy, and the resulting need to increase the rate of cover for the risk of unemployment, to speed up the introduction of a compulsory unemployment insurance scheme. This appears to be no longer a topical issue. The government seems instead to favour economic measures to encourage membership of unemployment insurance funds (and hence a reduction in contributions) and relax the conditions for claiming earnings-related benefit. The idea of a compulsory scheme might nonetheless re-emerge during the campaign for the parliamentary elections due to take place in the autumn of 2010. Both the Finance and Labour Ministers have declared their willingness to debate the terms of a compulsory unemployment insurance system (Borg et al., 2008). They are simply concerned that this system should not call into question the link between the trade unions and the insurance funds, which they believe lies at the heart of the Swedish model, and that nothing should be forced on those who feel that they have no need of such insurance. Two conditions which, it appears, the model proposed by Sören Öman did not fulfil.

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## France

# An unemployment insurance system ill-adapted to the economic crisis

Carole Tuchsirer\*

Compulsory unemployment insurance was quite late to appear in France. It was the outcome of a long history of indecision over the merits of introducing such a system. At the start of the 20<sup>th</sup> century, many players on the political scene preferred recourse to public or private welfare schemes. The first of these routes was the one taken by France, on a massive scale. Prior to the creation of Unédic, most unemployment benefit cover came from local unemployment funds set up by municipalities and *départements*. However, given the low territorial density of this network, the cover provided fell far short of applying across the board to all jobless workers. In 1958, an estimated 20% of the unemployed were assisted by unemployment funds. The creation that year of a joint unemployment insurance scheme (with equal representation for the employers' organisations and trade unions) did not call into question the existence of this public welfare scheme, which still endures today, both in its traditional forms (e.g. the solidarity scheme, which pays an allowance to some of the people not covered by insurance schemes) and in more unconventional forms (e.g. the basic guaranteed income [*revenu minimum d'insertion* - RMI], which was initially set up with other objectives in mind). Maybe the composite nature of this benefits system should be seen as the product of persistent doubts surrounding the status of the unemployed: are they really out of work through no fault of their own? This recurring suspicion might explain why, ever since its creation, other than in exceptional circumstances, Unédic has never managed to provide cover for more than one unemployed person in two, whatever the economic and social situation in France.

The unemployment insurance scheme is coming under huge pressure as a result of the economic crisis, which is forcing the prospect of

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unemployment on a growing number of workers, most definitely against their will. A spectacular rise in the numbers of the unemployed was observed during the course of 2009, with the experts forecasting a jobless total around 500,000 by the year end. Given the alarming nature of this economic situation, it is incumbent on Unédic to make an active contribution to the social management of this crisis, so as to mitigate its effects on household incomes. In other words, expectations were greatly raised that the reform of unemployment insurance, the negotiations surrounding which have coincided with the deepening of the crisis, would address the challenges of the day. Now that these reforms have been completed, the verdict on the unemployment insurance scheme is clear: it appears both to be out of step with the economic situation, in view of the crisis, but also structurally out of phase, given the trends in the labour market (Cornilleau, Elbaum, 2009). In many ways, the new unemployment insurance agreement, which was signed on 19 February 2009 and came into force on 1 April this year, is a minimum-level agreement that does not reflect the full extent of the crisis.

## **A benefits framework already revised a number of times**

Since the time of Unédic's creation in 1958, the collectively agreed unemployment insurance scheme, which is jointly managed by the trade union confederations and the employers' organisations, has undergone some profound transformations. From the outset, the objective of this joint social protection scheme, which is separate from the social security system, has been clear: its remit is to ensure that workers who lose their jobs through no fault of their own can enjoy a stable income to assist with their occupational mobility. The creation of Unédic therefore had more to do with efforts to adapt the French economy to meet Common Market imperatives than with merely addressing the need to provide assistance to the unemployed, who in any case were quite few in number in the late 1950s. From the start, the unemployment insurance scheme was intrinsically linked to the public scheme (now known as the 'solidarity scheme') which provides benefits to jobless workers who do not qualify for assistance from Unédic. At the present time, while these two component parts do not form a coherent system, they nevertheless constitute an integral part of the unemployment benefit system. This is a complex system of working relationships involving the government and the social partners in a somewhat uncoordinated benefits system. Some of the blame for the reduction in the level of benefit cover for the

unemployed can undoubtedly be laid at the door of this tripartite arrangement, given that the players concerned have failed to shoulder their responsibilities properly.

As far as the respective positions of unemployment insurance and unemployment assistance are concerned, history shows that various combinations have been tried out. From 1958 to 1979, unemployment insurance was a collectively agreed scheme that supplemented the welfare scheme. In reality, most of the unemployment benefits allocated to job-seekers were channelled via the unemployment insurance scheme. Unemployment benefits continued to be paid via these two separate routes until 1979. Throughout this period, we find a growing number of reports produced by the authorities, all of which call for structural reform of the unemployment benefit system, to bring the two benefit schemes closer into line. For example, the Ortoli report in 1967 recommended merging the two benefit systems, so as to place all employees on an equal footing. Three years later, a working party chaired by Raymond Soubie reached the same conclusion and recommended radical reform by way of a merger between government assistance and the collectively agreed scheme. This recommendation was repeated in 1978 in the Jouvin report (Daniel, Tuchsirer, 1999), which emphasised ‘the institutional complexity of two uncoordinated systems, which have put in place benefits and forms of welfare based on unharmonised rules’.

#### **A brief history of unemployment insurance agreements**

**Agreement of 31 December 1958:** this established the national multi-industry system of special allowances paid to jobless workers in industry and commerce, to supplement the pre-existing government assistance scheme. However, the co-existence of these two schemes led to a complex system of regulation, which gave rise to discrimination among the unemployed.

**Agreement of 27 March 1979:** this merged government assistance and unemployment insurance benefits into a single scheme, managed by Assurance chômage [the unemployment insurance authority]. One third of the cost of this scheme was financed by the government, with the remaining two thirds coming from contributions from the employers and employees. An early retirement system was also created. ...

...

The rise in unemployment levels and the high cost of the early retirement system introduced led to a major financial crisis. Benefit and contribution levels were reviewed, a loan was taken out and the government granted a subsidy. However, these measures were still not enough to overcome the crisis.

**Decree of 24 November 1982:** as the social partners could not reach a new agreement, the government amended the benefit and contribution levels by decree. This was the only time in the history of welfare insurance that the social partners failed to reach an agreement.

**Agreement of 24 February 1984 on unemployment insurance:** the state solidarity scheme became a subsidiary component of Assurance chômage unemployment insurance benefits. Unemployment insurance paid out benefits on the basis of entitlements acquired by the job-seeker. The state solidarity scheme paid a fixed amount and intervened in cases where the job-seeker did not qualify or no longer qualified for unemployment insurance. This dual system is still in existence today.

**Agreement of 18 July 1992:** in the face of a serious financial crisis, contribution levels were increased, a sliding scale of benefits was introduced, benefit entitlement periods were altered, and the benefit deferment period was increased.

**Agreement of 1 January 1993 on unemployment insurance:** introduction of the sliding-scale single allowance (Allocation Unique Dégressive - AUD).

**Agreement of 1 January 2001 on helping job-seekers back into work and on unemployment benefits:** the surpluses generated by the improvement in the labour market allowed for a reduction in contribution levels, the abolition of the sliding-scale scale of unemployment benefits and the creation of the plan providing assistance with returning to work [Plan d'Aide au Retour à l'Emploi - PARE]. This plan committed unemployment insurance to a programme of expenditure activation. Unemployment insurance financed the introduction, via ANPE, of individualised support for job-seekers receiving benefits.

**Agreement of 20 December 2002:** Faced with a deficit of 3.7 billion euros at the end of 2002, the social partners decided to increase contribution levels and to alter the benefit payment categories (reduction in benefit entitlement periods and changes in affiliation periods), while at the same time reducing the benefit deferment period. The PARE was maintained.

**Agreement of 1 January 2004 on helping job-seekers back into work and on unemployment benefits:** concluded on 20 December 2002, for the period from 1 January 2004 to 31 December 2005.

**Agreement of 18 January 2006 on helping job-seekers back into work and on unemployment benefits:** Assurance chômage enhanced and individualised its arrangements for providing support to the unemployed to help them to return to work more quickly. To ensure that its cumulative deficit of almost 14 billion euros at the end of 2005 was rapidly made up, contributions were increased slightly and affiliation categories were adjusted.

Finally, in 1979, this dual system was abolished through a framework law establishing a single system for paying unemployment benefits. Unédic, with financial support from the government – in the form of a subsidy – then began to pay benefits to unemployed workers who could not find a job through no fault of their own; the nature of these benefits depended primarily on workers' personal circumstances with regard to the labour market. These institutional transformations were accompanied, through to the early 1980s, by an ongoing improvement in the social security entitlements of job-seekers. It should be emphasised that during the early stages of unemployment insurance, the principle of occupational solidarity enabled people who had not previously contributed to the scheme – such as young people, former agricultural workers and the French settlers repatriated following Algerian independence – to subscribe to the joint scheme, to help them integrate into the labour market. Consequently, during this period, unemployment benefits were used as a way of helping people to find work and managing mobility within the labour market. However, this unified scheme focusing solely on the status of the job-seeker only lasted for a while.

## **Financial adjustments on the agenda since the 1980s**

Since 1982, on the other hand, we have witnessed a complete overhaul of the benefits policy pursued up to that point. The period of crisis and unemployment that followed, coupled with the dogma of balancing the budget, weighed heavily on the system of paying benefits to the unemployed. Under the cover of a managerial logic endeavouring to guarantee the continuity of the joint scheme, a process of individualising

benefit entitlements became apparent from 1982 onwards. Thus the 1982 decree introduced the so-called benefit categories mechanism. In concrete terms, since that date and through to the present time, the terms under which benefits are paid to unemployed persons no longer depend on the circumstances in which they lost their job but rather on the length of time for which they contributed to the joint scheme before becoming unemployed. This reform redirected Unédic's focus towards an insurance-based logic, via a greater emphasis on the contributory nature of the scheme. Taking this contributory criterion into account accentuated inequalities of treatment among the unemployed, thereby reproducing the labour market dysfunctions that the scheme had previously sought to correct.

Table 1 Benefit categories applicable under the unemployment insurance scheme

	Period of paid employment	Maximum benefit entitlement period
Since 18 January 2006	6 months' employment over the past 22 months	7 months
	12 months' employment over the past 20 months	12 months
	16 months' employment over the past 26 months	23 months
	27 months' employment over the past 36 months age 50 and over	36 months

Source: Unédic

A further threshold was crossed in 1984 when, under heavy pressure from the employers' organisations, the scheme was split into two. On one side there was unemployment insurance, managed and financed by the social partners, and limited to those employees who had contributed to the scheme for long enough. And on the other, a government-run 'solidarity' scheme financed through taxation and aimed at those not covered by insurance schemes (the long-term unemployed, young people seeking their first job and unemployed people who had only worked for a short while). These reforms were to have painful consequences for the vast majority of the unemployed, who saw their benefit entitlements cut. The succession of reforms embarked upon from 1982 onwards (a sliding-scale allowance declining over the course of time, introduced in 1992, followed by several successive changes tightening the restrictions on access to the scheme and the conditions governing previous contributions within each category) led to a slow deterioration in unemployment insurance: its scope contracted just as the job situation was seriously deteriorating. As for the introduction of a so-called solidarity scheme aimed at people not covered by insurance, it was difficult for this scheme to fulfil its role

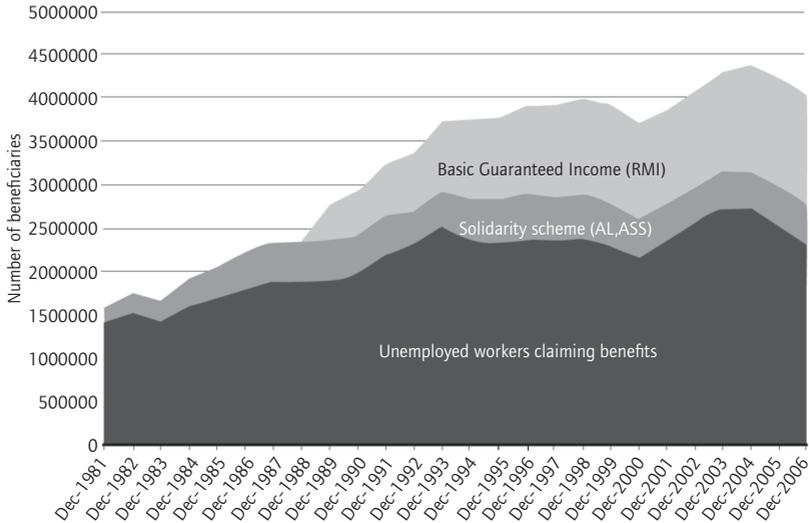
properly from the outset, because the previous employment conditions required to join it were so strict (five of the past ten years spent in work).

## **The RMI, the latest vehicle for paying benefits**

In this context, it is easier to understand the specific position occupied by the basic guaranteed income (RMI), although the original reasons for its introduction in 1988 were unrelated to the operation of the labour market (F. Audier, A-T. Dang, J-L Outin, 1998). The primary objective was to modernise policies for combating poverty by introducing equal entitlements for the entire population nationwide, in contrast to the decentralised workings of the social welfare system. Yet from the mid-1990s onwards, a different interpretation should be placed on the significant rise in the number of claimants receiving the RMI. A link has been established between this rise and the number of unemployed workers not receiving any form of benefits (Bouchoux, Houzel, Outin, 2006). Very long-term unemployment exhausts benefit entitlements, short-term jobs do not give rise to sufficient entitlements, and any tightening of the benefit rules disqualifies many job-seekers from benefit schemes, so the consequence of this change was that some workers who were not covered - or were no longer covered - by the insurance or solidarity schemes qualified for the RMI paid by the *départements*, if their means were below the threshold.

The chart 1 confirms the existence of an ‘overflow effect’ among these three forms of benefit: this effect is primarily linked to the fact that the social partners and the government have sought to maintain the scope and cost of the solidarity and unemployment insurance schemes at a relatively stable level.

Figure 1 Respective changes in the number of unemployed workers claiming benefits, beneficiaries of the solidarity scheme and recipients of RMI since 1981 (Metropolitan France and overseas territories)



Source: CNAF, UNÉDIC

## The unemployed qualify for unequal levels of benefits

If we limit ourselves to a purely benefits-related view of the system of social protection against the risk of unemployment, we find in France a system with two heads (the insurance scheme and the solidarity scheme). Paradoxically, this structure, which is heavily influenced by the importance attached to work, has failed to adapt to the employment crisis that first arose in the 1980s. Over a long period of time, fewer than one in two job-seekers have been covered by the insurance scheme, which has therefore failed to achieve the goal initially set for it, i.e. extending protection against the risk of unemployment to all employees.

**Table 2 Percentage of unemployed workers receiving benefits (unemployment insurance scheme [RAC], solidarity scheme + RAC)**

	RAC (%)	RAC+ solidarity scheme (%)
1985	45.9	59.1
1990	47.7	62.4
1992	52.6	62.7
1994	45.4	56.9
1996	43	55.1
2000	43.8	55.2
2002	53.1	59.4
2003	53.9	63.1
2004	52.5	62.1
2005	48.6	59.3
2007	49.6	59.6

Source: Unédic

If we include the solidarity scheme, which only pays a flat-rate allowance to job-seekers (a maximum of €14.74 per day), nearly 60% of unemployed workers enjoy protection in the form of benefits linked to losing their job. According to Unédic's own analyses, there are two main reasons why unemployed people do not qualify for benefits: either their period of previous employment has not been long enough to qualify for the scheme (this reason applies to 60% of unemployed workers who are not covered); or they have been unemployed for too long and thereby exhausted their entitlements under the insurance scheme without, in the process, qualifying for the solidarity scheme, as their period of former employment is not long enough (applies to 11% of those not covered).

**Table 3 Breakdown by age and sex of workers receiving benefits at 31.12.2007 (return-to-work allowance [ARE] + solidarity payment)**

	aged under 25	25 to 49	Aged over 50	Men	Women	Total
% receiving benefits (cat 1, 2, 3, 6, 7, 8, active job-search dispensation [DRE])	42.4	54.5	80.2	62.5	56.1	59.1

Source: Unédic

The inevitable conclusion here is that the unemployment benefit system has not responded to the development of new categories of unemployed workers, generated by changes in the labour market (young people, part-time women workers, those employed on fixed-term and temporary contracts, the long-term unemployed). The unemployment insurance scheme, for its part, has continued to be marked by the way in which it came into being, and by the figure of the 'male breadwinner': thus it favours older employees, people who have been made redundant and, more generally, those who have already enjoyed many years of service.

These are the conclusions to be drawn in late 2008, as the unemployment insurance agreement is about to be renegotiated. This renegotiation will take place in a specific institutional context, i.e. that of the merger of the two operational networks represented by ANPE [*Agence nationale pour l'emploi* – the national employment agency] and the Assédic offices responsible for paying unemployment benefits and implementing various measures to promote employment, put in place by the unemployment insurance scheme.

## **Combining the tasks of paying benefits and job placement: a debatable move**

For several years now, the idea of merging Unédic and ANPE has been raised at regular intervals, especially in a number of reports produced by the authorities. This had already prompted the decision, in 2005, to set up a single gateway providing access to the services provided by ANPE, which is responsible for job placement, and by Assédic, responsible for paying unemployment benefits. This merger entered a new phase with the law of 13 February 2008: the law established a new entity as from 1 January 2009: *Pôle Emploi*, which is a merger of the two bodies mentioned above. This step may be viewed in two radically different ways, although both of them probably account to some extent for the decision to amalgamate the two bodies. One factor behind the merger was undoubtedly an attempt to improve the efficiency of the public employment service helping job-seekers to find work. It is noteworthy that France is unique in basing its support mechanisms on the benefit status of unemployed workers. Consequently, until *Pôle Emploi* was created, employment policy was based on three totally separate component parts: unemployed workers receiving benefits under the solidarity scheme [*allocation de solidarité spécifique* - ASS], overseen by

the government departments concerned; those receiving a return-to-work allowance [*allocation d'aide au retour à l'emploi* - ARE], who come under Unédic's activation arrangements; and claimants receiving the RMI (which was renamed 'active solidarity income' [*Revenu de Solidarité Active* - RSA] on 1 June 2009), who come under the integration policies pursued by the departmental councils [*Conseils Généraux*]. This barrier created by variations in workers' status tends to give rise to inequalities of treatment in access to employment services, and consequently one of the major aims of this reform is to cut the umbilical cord between the benefits system and the system of support for the unemployed (Tuchsirer, 2008).

With this goal in mind, assisted contracts linked to employment policy, and likewise job-seeker support mechanisms, should in future both be designed to meet people's identified needs, regardless of their benefit status. To some extent, the merger appears to be moving in this direction, as Unédic appears to be abandoning its policy of activating job-seekers and the many different mechanisms that it previously used to assist its claimants (training programmes, job-search assistance, support via its private operators).

The position adopted by the social partners constitutes a radical turning point. After 2000, as part of their radical social reform project, the employers wanted Unédic to move towards an approach based on activation, by endowing the institution with its own intervention policy aimed at recipients of the return-to-work allowance (ARE). In abandoning this route, *Pôle Emploi* now looks set to enjoy a greater degree of latitude to introduce integration mechanisms designed to match people's own particular circumstances with regard to the labour market. The future will show whether the merger will bring greater universality of services offered, or whether, despite the merger, we shall witness the recreation of systems dedicated to those claiming unemployment insurance benefits.

It is possible to take the view that this merger is less about combining Unédic and ANPE, i.e. the dual functions of paying benefits and placing people in jobs, than about pooling the support networks for unemployed workers who come under the auspices of these two institutions. After all, the social partners continue to be responsible for managing the joint unemployment insurance scheme, so they can still define the rules and parameters governing the payment of benefits to job-seekers,

independently of the reform of the public employment service (SPE). Nevertheless, and this is perhaps the other reason behind the merger, we cannot ignore the authorities' current determination to tighten up the requirements that unemployed workers have to meet in order to remain in the unemployment insurance scheme. This is of course the thrust of the law adopted on 1 August 2008 concerning 'job-seekers' rights and obligations': it seeks to monitor the effectiveness of unemployed workers' efforts to find a job, by obliging them to accept, under certain conditions, any offers of employment put to them by the new merged structure<sup>1</sup>. From now on:

- 'a job offer compatible with a person's vocational qualifications and skills, which pays at least 95% of their previous wage or salary, shall be considered reasonable. This rate is reduced to 85% after six months on the unemployment register. After one year, a job offer compatible with the job-seeker's vocational qualifications and skills, which pays at least as much as the replacement income shall be considered reasonable';
- Beyond a period of six months' unemployment, the law now considers a job offer to be reasonable if it involves a commuting time of up to one hour each way on public transport, or a distance of up to 30 kilometres each way.

This incursion by the government into an area over which the social partners might previously have been considered to hold sway is not without risks. What is more, all of the trade unions opposed this law, taking the view that it might contribute to a deterioration in the standards of employment in force in the labour market. However, the scale of the present economic crisis and the substantial increase in the numbers of unemployed people are likely to see this law left in abeyance, given that the immediate priorities of *Pôle Emploi* appear to be focused on the need to pay benefits to the unemployed.

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1. Law No. 2008-758 dated 1 August 2008 on job-seekers' rights and obligations.

## **A benefits agreement that fails to meet present-day requirements**

The extremely gloomy economic situation should have prompted the social partners, in association with the government, to revamp the benefits scheme and make it fulfil its rightful role of cushioning the effects of the economic crisis, yet we can see that this has not happened. Although the agreement delivers some positive measures for certain categories of job-seekers, it falls far short of meeting the challenge posed by the current period, i.e. that of providing all unemployed workers with a proper replacement income until they can find work.

Under the law of 13 January 2008 on the creation of *Pôle Emploi*, Unédic is to focus on its initial mission of paying benefits to the unemployed; this will be done by transferring to *Pôle Emploi* all active measures to redeploy *only* those job-seekers who come under the joint scheme. *Pôle Emploi* now enjoys a virtual monopoly over measures to assist the unemployed back into work, an innovation that represents a complete ideological break with the past for the social partners: in the past, by virtue of the principle of activation of passive expenditure, Unédic had constantly expressed the need to take part in the process of designing and steering measures to find jobs for the unemployed workers claiming benefits from it (Tuchszirer, 2008).

Once the principle of activation of passive expenditure had been abandoned, reform of the unemployment insurance scheme was mainly limited to redefining the benefit principles and rules governing replacement income paid to job-seekers. In concrete terms, the new unemployment insurance agreement establishes the ‘single category’ principle and the rule on strict proportionality between benefit entitlement period and period of affiliation to the joint scheme. The characteristics of the single category are as follows:

- the time period for which benefits are paid to job-seekers will be equal to the period of previous employment, with a minimum and maximum threshold;
- the minimum period of employment providing entitlements is now fixed at four months, compared to six months previously;

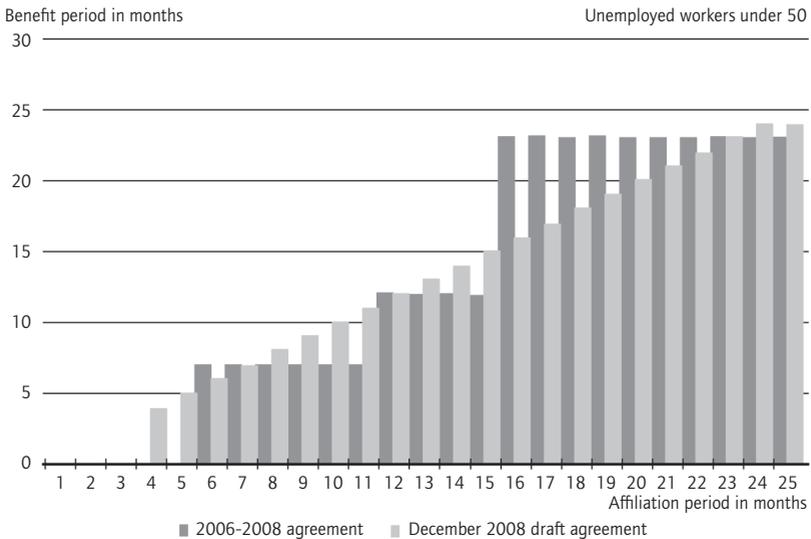
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- the maximum benefit entitlement period is now fixed at 24 months for people aged under 50;
  - the reference period during which employment is required is extended to 28 months;
  - for job-seekers aged over 50, the maximum benefit entitlement period is now 36 months, as is the reference period, provided of course that the job-seekers concerned by this age criterion can demonstrate that they have previously been in employment for an equivalent period of 36 months;
  - the agreement provides for a reduction in contributions paid into the unemployment insurance scheme by employers and employees, provided that the operating income for the previous half-year shows a surplus of 500 million euros. It is also specified that any reduction must not decrease the global contributions level per calendar year by more than 0.5 points.

For the moment it is somewhat difficult to identify what effects this agreement will have on the scope of benefit protection for the unemployed. Clearly, making it easier to join the scheme, by cutting the required period of previous contributions to four months, should enable many young people and casual workers to qualify for unemployment benefits. Likewise, extending the reference period should lengthen the time period for which benefits are payable to some job-seekers. Conversely, however, the effect of the principle of proportionality between the contribution period and the benefit entitlement period will be to reduce the latter for other job-seekers, especially those belonging to the old categories where benefits lasted longer. Simulations carried out by the Ministry of the Economy, Industry and Employment indicate that the new agreement should produce an overall increase of around two points in the cover rate (i.e. the number of unemployed workers receiving benefits as a proportion of the total number of job-seekers qualifying for benefits). The chart 2 gives a clearer indication of the effects of the new agreement, compared to the old one, on unemployed workers' benefit entitlements.

- For job-seekers whose period of previous employment is between 4 and 5 months, there is a positive effect, because they did not qualify for unemployment insurance under the previous agreement.

- For affiliation periods of between 8 and 11 months, the benefit entitlement period will also be revised upwards. The same applies to job-seekers who have accumulated an affiliation period of between 13 and 15 months.
- On the other hand, the agreement reduces by one month the total benefit entitlement period for those with a prior affiliation period of 6 months.
- The single category also drastically reduces the benefit entitlement periods of job-seekers aged under 50 with an affiliation period of between 16 and 23 months, and likewise of job-seekers aged over 50 with an affiliation period of between 27 and 36 months.

Figure 2 Benefit entitlement periods based on affiliation period



Source: Cornilleau, Elbaum (2009)

## An agreement with many limitations

In the first instance, the low social legitimacy level of this agreement should be highlighted: it inevitably calls into question the very foundations on which the joint employer/employee agreement is based.

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Indeed, only one trade union (the CFDT) of the five represented has approved the agreement. The CGT-FO and the CGT opposed the agreement. Although the CFE-CGC and the CFTC did not assert their right to oppose it, they did not wish to sign it either. At a time when a consensus seems to be emerging on the need to place the representative nature of trade unions on a firmer footing, the fact that this agreement was endorsed by just one trade union tends to minimise its significance, particularly since its final impact on the coverage rate remains highly uncertain.

What is more, far from responding to criticisms of the unemployment insurance scheme and of the benefits system as a whole, this agreement reinforces some of the very trends that needed to be reversed at the outcome of the negotiations.

The first of these trends concerns the individualisation of entitlements, a trend that is undeniably reinforced by the agreement. At the time Unédic was created, and through to the early 1980s, three months of contributions to the unemployment insurance scheme gave rise to an entitlement to benefits lasting up to 36 months. In the past, only the nature of the unemployment risk and the likelihood of remaining unemployed on a more or less long-term basis determined how long entitlements would last. A radical change occurred in 1982, when all references to the nature of the risk were abandoned in connection with paying benefits to the unemployed, in favour of a purely market-based and insurance-based approach. This individualisation of entitlements was introduced in 1982, with the decree establishing the benefit categories scheme. Since that time, benefit entitlements have varied not just on the basis of age and reason for dismissal, but also in line with the previous contributory period. Replacing the four benefit categories with just one, and, above all, seeking from now on to establish a perfect match between the previous contributory period and the benefit entitlement period are measures that reinforce the insurance aspect of Unédic, even if, as we have seen, some job-seekers will now be able to subscribe to the joint scheme. This agreement further amplifies a marked break, in terms of principles, with the doctrine prevailing prior to 1982, which conferred a social dimension on unemployment insurance, and endeavoured to turn it into a tool for enhancing the operation of the labour market, by providing a replacement income that could underwrite the management of employees' occupational mobility by guaranteeing their economic security. By way of illustration, this was the thinking that prompted the

social partners to provide unemployment benefits to young people who had not contributed to the scheme, in order to help them integrate successfully into the labour market. For similar reasons, in 1963, Unédic's managers agreed to provide former agricultural workers with special allowances, to encourage them to redeploy to companies that were covered by the scheme and needed to recruit labour. So, for the first 20 years of the scheme, those running it did not hesitate to waive the contributions mechanism, by paying benefits to people who had not contributed to Unédic, with a view to improving the operation of the labour market and helping people to find jobs. As a result, ever since the time of Unédic's creation, there has always been a close link between the conditions governing payment of benefits to the unemployed and the recipients' involvement in the labour market.

In the case of this agreement, which should be viewed at a more general level in the context of the ANPE/Assédic merger and the transfer to *Pôle Emploi* of the support measures previously managed by Unédic, everything appears to suggest that this link between payment of unemployment benefits and regulation of the labour market has been loosened. Entrusting *Pôle Emploi* with the tasks of providing support to the unemployed and overseeing activation arrangements appears to have enabled the social partners to reinforce the insurance aspect of the scheme, based on with the principle of 'one month's contributions equates to one month's benefits'.

The other trend reinforced by this agreement is that of separating out insurance and solidarity payments, first introduced in 1984. This entailed ending the unified scheme by establishing a distinction between the insurance scheme and the solidarity scheme, thereby completely uncoupling replacement income from wages by paying a minimal allowance. This split resulted in the government and *départements* assuming responsibility, in a logic based on welfare, for workers who had previously been insured under the social security scheme.

Under this agreement, job-seekers who belong to the long-term category of qualification for benefits (between 16 and 23 months), are likely to transfer more rapidly than in the past to the solidarity and welfare schemes, even before they have been unemployed in the very long term. Consequently, we are a long way from the prospect set out by the social partners who, in 2005, at the time of the last unemployment insurance agreement, called for a complete overhaul of the benefits system,

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primarily in order to clarify the linkages between the unemployment insurance and unemployment assistance schemes.

In conclusion, we would emphasise a major criticism on which the current crisis is casting new light. Faced with the huge macro-economic risk constituted by unemployment, one of the agreement's main limitations is that it will leave the procyclical nature of the unemployment insurance scheme unchanged. The way in which it is constructed makes this scheme extremely sensitive to the employment situation: benefits are financed by contributions, but the latter fall during a period of unemployment, whereas expenditure on benefits automatically increases when there is a recession. As the newsletter of the French Economic Policy Institute (Cornilleau, Elbaum, 2009) points out, good macro-economic management should allow this regulatory mechanism to run its course, by accepting the resulting succession of deficits and surpluses. However, the desire of the social partners to keep the scheme in its current format, sharing responsibility between them and thus avoiding any interference by the government, has often produced an excessive focus on maintaining the scheme's financial equilibrium. This priority has sometimes led the social partners to adopt procyclical measures entailing a cut in benefit entitlements, even though the economy was passing through a recessionary cycle. This happened in 1992, during a time of recession, when the principle was adopted of reducing unemployment benefits over the course of time. An equally restrictive benefits strategy was adopted by the social partners during the 2002 recession: it caused the job-seekers' coverage rate to fall by more than four points over the next few years. Unfortunately the present agreement scarcely calls Unédic's current financing and management arrangements into question, and this in turn raises questions in the light of the current crisis. More than ever before, there is a need for the unemployment insurance scheme to fully discharge its role as an economic and social stabilising mechanism: in association with the government, a rethink of the benefits system in its entirety is required so as to protect employees who have lost their jobs during the current depression through no fault of their own.

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# United Kingdom

## The limited protection offered by unemployment benefit

Florence Lefresne\*

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)<sup>1</sup>.

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 monitor 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.

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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.

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Unemployment benefit was financed by flat-rate contributions from employers and workers as well as out of State funding<sup>2</sup>.

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<sup>3</sup>: be working less than 16 hours a week<sup>4</sup> 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<sup>5</sup>); 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<sup>6</sup>) for young people aged between 18 and 24<sup>7</sup>;
- £64.30 per week (€296 per month) for people aged 25 and over.

3. For a more detailed description of the JSA eligibility conditions, see: [http://www.jobcentreplus.gov.uk/JCP/stellent/groups/jcp/documents/websitecontent/dev\\_015482.pdf](http://www.jobcentreplus.gov.uk/JCP/stellent/groups/jcp/documents/websitecontent/dev_015482.pdf)

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<sup>8</sup>. 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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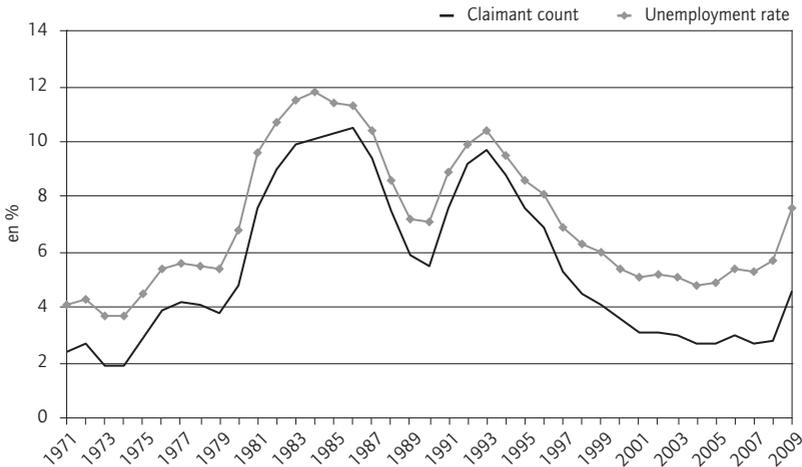
**8.** Income Support is a differential, means-tested benefit disbursed to people aged between 16 and 60 on a low income, who do not have a full-time job, and who are not actively looking for work. Claimants do not have to visit a Jobcentre Plus office if they are a lone parent, sick or disabled, registered 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<sup>9</sup>. 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

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<sup>10</sup>). 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<sup>11</sup>.

### **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).

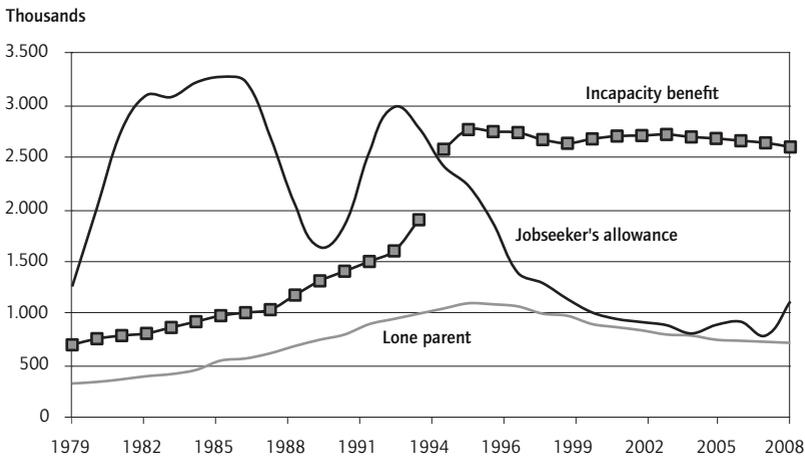
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11. Decisions of the appeal tribunal may in turn be contested before a Social Security Commissioner.

## 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<sup>12</sup>: 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 *et al.*, 2003).

Figure 2 People of working age receiving Incapacity Benefit or Jobseeker's Allowance



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

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<sup>nd</sup> 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 reform<sup>13</sup>, 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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13. 'A new deal for Welfare: Empowering people to work' Green Paper on Welfare reform, 26 January 2006.

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 or 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<sup>14</sup>. 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.

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# Spain

## Attempting to adapt unemployment insurance to a flexible labour market

Catherine Vincent\*

Over the last 25 years the Spanish economy has been defined as much by the mass unemployment that struck at the end of the 1980s as by its spectacular recovery from 1996 onwards. Tackling this unemployment, through the creation of a more flexible labour market, has been the authorities' most pressing social concern. Unemployment benefit arrangements have also occupied a key place in government policy, which has taken two successive directions. A decision was initially made in 1992 in favour of a drastic reduction in economic benefits in order to bring the scheme into balance. From 2002 onwards, priority was given to active employment policies to aid rapid re-entry into the labour market. The economic crisis, which has hit Spain hard, has brought with it a sharp rise in unemployment, demonstrating the vulnerability of employment to economic circumstances. Nonetheless, the government has remained on course, boosting subsidies for the redeployment of the unemployed and declining, for the time being, to cut back on its benefit arrangements.

Employers' organisations and trade unions do not play any role in the running of the unemployment benefit system. Unlike the labour market reforms of the 1990s, which were often carried out against a backdrop of tripartite dialogue involving the government and the social partners, the basic principles of the employment insurance system were established in a unilateral decision by the political authorities, which may explain the public opposition they have attracted, leading to no fewer than two large-scale general strikes.

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## Cutbacks in the benefit scheme to tackle the mass unemployment of the 1990s

Like all Spanish social security measures, of which it is one, the current unemployment benefit scheme was set up in 1978 at the end of the process of democratic transition<sup>1</sup>. Coming under the exclusive competence of the State, which determines the regulatory framework, the system is financed through work-based social security contributions. There are three types of unemployment benefit:

- contribution-based benefits, access to which is conditional on the prior payment of contributions for 12 months of the previous six years and which correspond to 70% of the reference wage for the first six months, and 60% subsequently. The amount is increased according to the number of dependants;
- welfare benefits for unemployed persons not or no longer entitled to receive unemployment benefit, which is the equivalent of 75% of the minimum wage and is paid for between six and 24 months according to age and the number of dependants;
- specific benefits paid to agricultural workers in the regions of Andalusia and Extremadura, which are more akin to partial unemployment compensation for seasonal farm workers.

A single budget, managed by the INEM (*Instituto nacional del empleo* – National Employment Institute)<sup>2</sup>, finances all three allowances, without any distinction between those that are insurance-based and those that are not. The INEM is also responsible for managing and implementing employment policy, thus combining the tasks of compensation and job placement. Employment policy itself is financed by the government.

The unemployment benefit system, which started out as rather generous, would undergo its first reform in 1992 in order to redress its significant financial imbalance. From the beginning of the 1980s Spain, forced to

1. Article 41 of the Spanish Constitution of 6 December 1978 states: 'The public authorities shall maintain a public social security system for all citizens, guaranteeing adequate social assistance and benefits in situations of hardship, especially in the event of unemployment...'

2. Also created in 1978, the INEM is a public body run under the auspices of the Ministry of Labour and Social Affairs.

modernise its apparatus of production in the midst of an economic crisis, had been one of the European countries hardest hit by unemployment. For two decades, industrial upheavals in traditional sectors and a large-scale rural exodus caused unemployment rates to soar, until more than 20% of the population was affected. Severe recession at the beginning of the 1990s took unemployment to the record level of 24.2% in 1994, twice the European Union average.

The unemployment benefit system became one of the main causes of the public finance deficit, the clearing of which – essential if the demands set by the Maastricht agreement were to be met – was the government's priority. The Decree of 7 April 1992 introduced a firm tightening of the conditions of access to, and payment of, unemployment benefit<sup>3</sup>. The minimum contribution period entitling someone to compensation increased from six to 12 months in the last six years. The duration of the benefit and the amount paid out were also reduced (see table in annex). The reform did not only affect the benefit scheme, but also tackled jobseekers' entry into the labour market.

For the first time, the Decree introduced the notion of a 'suitable job vacancy' (*oferta adecuada de empleo*), defined on the basis of the jobseeker's physical and professional aptitude, even if the position did not correspond to his/her previous occupation. This attempt to strengthen an active policy with regard to unemployment spending, which was boosted in 1995 by the removal of the INEM's monopoly on job placement, would have only a moderate impact, owing to the structural weaknesses in the public employment service, whose performance was unanimously judged to be mediocre (Sobrino, 2007). Active employment measures went from 23.5% of total spending in 1998 to 27.8% in 2003. Within this expenditure on active policies, the subsidies paid to companies for recruiting jobseekers accounted for the largest share, rising from 37.8% in 1998 to 43% in 2003<sup>4</sup>.

The 1992 Decree and the government's plans to create a more flexible labour market met with staunch opposition from the trade union movement. The UGT and the CCOO, the two main trade union confederations, joined forces to call a general strike, the second of the post-

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3. See C. Vincent, 'La réforme du marché et de la protection du chômage', *Chronique internationale de l'IRES*, No. 16, May 1992.

4. Source: Eurostat.

Franco era, the success of which did nothing, however, to sway the socialist government. Financial balance within the INEM, which was not achieved until the end of the 1990s, came at the cost of a dramatic fall in the coverage rate for the unemployed, which dropped by 30 percentage points in three years, from more than 80% in 1992 to just over 50% in 1995. At the same time, the Spanish labour market was undergoing major upheaval.

## **A radical attempt to adapt to a new-look labour market (2002)**

From 1996 onwards, economic growth brought with it a revival of the labour market and a spectacular recovery from unemployment, which fell from a rate of 20% of the working population in 1996 to 11% in 2001, even dropping to 8.5% in 2006. The change was far from just quantitative: Spain witnessed a profound alteration of the nature of unemployment and the unemployed (Santos, Serrano, 2006). While Spain's economic performance was the product of a period of growth that was particularly employment-intensive, it was helped by a policy - at first legislative and then contractual - of improving the workings of the labour market by making it more flexible. The number of temporary jobs grew rapidly<sup>5</sup>. They represented 15% of paid employment in 1985 and 35% in 1995. From 1994 the temporary contract became the most common form of recruitment. In spite of the bargaining policy to improve job quality pursued from 1997 to 2002, in particular at the urging of the trade unions, insecurity continued to characterise the labour market, changing the face of unemployment. Spain, which had, until then, had to contend with mass, structural and persistent unemployment, was now experiencing reduced, frictional and recurring unemployment (Santos, Serrano, 2006). These developments were accompanied by changes in the make-up of the unemployed. In fact, the fall in unemployment was most marked among first-time jobseekers, the long-term unemployed and people with a poor level of training. Women, on the other hand, suffered most as a result of the new flexibility.

The social portrayal of unemployment by the authorities also underwent a radical change. In the 1980s unemployment had been seen as a

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5. See C. Vincent, 'De la dérégulation à la recherche d'un équilibre entre flexibilité et sécurité', in a special edition (No. 97) of the *Chronique internationale de l'IRES*, entitled 'Précarisation de l'emploi et représentation syndicale', November 2005.

collective social affliction; now it was viewed as an individual's problem, a question of employability. In line with this, an overhaul of employment policy, comparable to that which had taken place in many other European countries, was deemed necessary: instead of providing assistance through economic allowances, the unemployment benefit scheme was to focus on returning people to work as quickly as possible. In 2002 the conservative government attempted, to that end, to force through a wide-scale reform of the benefits system - an attempt that ended in failure. In terms of substance, the Decree of 25 May 2002 took on board the European Commission's guidelines aimed at making active expenditure more widespread<sup>6</sup>. One of the aims pursued was to force jobseekers to accept the vacancies proposed by the employment services by widening the criteria for the definition of suitable vacancies and stepping up penalties.

In calling a general strike for 20 June 2002, the CCOO and the UGT demonstrated their opposition to the reform of the unemployment benefit system: to its content, naturally, but also to the approach taken. One of the key issues was the authoritarian nature of the decision-making process, which represented a break with the practice of prior consultation of the social partners that had been in place during the first Aznar term (1996-2000) (Bérout, 2007). Since 1997 at least, the trade unions had relied on collective bargaining at the highest level in order to battle job insecurity. Social dialogue had brought results in this regard. The same was not true for unemployment benefit, where, for the second time, the government had failed to seek a consensus with the social partners. From the trade unions' point of view, while the general strike had led to the ultimate withdrawal of the Decree, it did not help them, any more than social dialogue had done, to organise unemployed and vulnerable workers, nor to make their specific demands heard, with the notable exception of the protest by agricultural day labourers in Andalusia<sup>7</sup> (Bérout, 2007). The government's climb-down at the end of December 2002 was due as much to its political repositioning in the run-up to the next parliamentary elections as to the success of the strike, thereby demonstrating the largely ideological nature of Aznar's endeavours. In any case, there was no urgent financial need to reform the benefit payment scheme, which, owing to the continuing fall in unemployment figures, was in surplus. Since 2000 the

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6. For the content of the Decree finally repealed at the end of 2002, see C. Tuchsirer, 'Grève générale contre une politique de l'emploi plus contraignante pour les chômeurs', *Chronique internationale de l'IREs*, No. 77, July 2002.

7. One of the aspects of the reform was the abolition of the special agricultural benefit scheme set up in 1984 for agricultural day labourers working in Andalusia and Extremadura.

government had ceased to make a financial contribution to this branch of social security; on the contrary, it had been tapping the INEM's surplus funds to finance its employment policy. The benefit scheme would subsequently undergo only marginal changes, consisting mainly of a reduction in employers' contributions. The introduction by the first Zapatero government (2004-2008) of a top-up contribution for temporary employees has been the only significant change, including since unemployment began to rise again in 2008 (see table in annex).

Underpinning the government's 2002 plans was a desire to encourage jobseekers to return to work, implicitly rejecting the passivity of income guarantee measures, which are suspected of encouraging people to remain out of work, in favour of active spending on integration and training measures. While the more radical aspects of the reform had been shelved, the laws of December 2002 and of 2003 would manage to lay the foundations for a combination of greater contractual commitments and penalties and a significant modernisation of the structures of the public employment services.

### **The public employment service has difficulty adapting to flexible unemployment**

Following the failure of the authoritarian reform of 2002, the employment policy pursued in incremental fashion during the last two years of the Aznar government aimed to give priority to active labour market integration policies within an unemployment insurance system still essentially focused on providing monetary benefits. In this regard, the law of December 2002, replacing that of May of the same year, introduced into the social security regulations new restrictions on unemployment benefits, which nevertheless differed from those that had been abandoned. In terms of active expenditure, a decision was made to increase jobseekers' individual sense of responsibility in order to enhance their employability.

#### A rather one-sided commitment to labour market integration

Together, the two laws adopted in 2002 and 2003 amended, without completely turning on its head, the approach taken to integrating the unemployed into the labour market. The public employment services would now be required to offer the unemployed preventative and

personalised measures, with particular emphasis on disadvantaged groups. To do this, they would draw up, with the registered jobseeker, a 'pathway to work' (*itinerario de inserción laboral*). In return, the jobseeker would undertake to play a more active part in pursuing his/her pathway. Those in receipt of benefit were required to show even greater commitment by signing a 'work undertaking' (*compromiso de actividad*)<sup>8</sup>. In signing it, which was necessary to go on receiving unemployment payouts<sup>9</sup>, jobseekers committed themselves to searching actively for a job, taking part in courses to increase their employability and, most importantly, accepting suitable job offers that came their way. The concept of a suitable job vacancy was nothing new, having been introduced in 1992. However, the 2003 employment law adopted a standard definition based on three fairly traditional criteria:

- an occupational criterion: a job offer was suitable if it matched the occupation sought by the jobseeker or those he or she had previously held, or if it tied in with his/her physical and work-related capabilities as assessed by the employment services. The law retained the 1992 text, interpretation of which was clearly problematic, but which had provided an abundance of case law (Torrentz, 2006). However, the new law also gave the employment services greater discretionary power, in particular concerning those who had been unemployed for more than a year<sup>10</sup>;
- geographical criteria, very standard in that they deemed suitable any job vacancy situated less than 30 km from the jobseeker's home, and where the daily travelling time was less than 25% of the daily working hours and the monthly transport costs less than 20% of the wage or salary;
- conditions relating to the employment contract or the jobseeker him/herself, which included the type of contract, the proposed duration of the work, etc. In terms of pay, the only legal requirement was that it should be of a level paid in that particular occupation.

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8. The use of the word '*compromiso*' is significant, as in Spanish it can mean both an agreement, in the sense of a contract, and a commitment, in the sense of an obligation.

9. All forms of benefits are affected, contributory and non-contributory.

10. '... after one year of uninterrupted benefit payments, in addition to the worker's previous occupations, other jobs may be considered suitable which, in the view of the employment services, the worker is capable of performing' (Article 231.3 of the General Law on Social Security).

The system of penalties applicable to those who failed to meet their commitments did not change, but it is an acknowledged fact that, in practice, the actions of those responsible for enforcing the measures rather than the substance of the legal texts determine their effectiveness.

In addition to stepping up contractual commitments between jobseekers and the public employment services, the law of 2002 also sought to encourage the development of casual work as a means of transition between unemployment and employment (Lefresne, Tuchsirer, 2006). For instance, unemployed people over the age of 52 in receipt of benefit could now combine part of their allowance with earned income. The clear aim was short-term re-entry into the labour market. Instead of penalising the unemployed, it was considered preferable to help them back into the labour market as quickly as possible. The legislative amendments of 2002/2003, aimed at enabling the employment services to pursue this approach, substantially strengthened their discretionary powers, leading to a relationship balanced in their favour and to the disadvantage of the unemployed. No clarification was given of the jobseeker's role in determining his/her own pathway to work, nor as regards the type of job sought or the training courses followed (Torrentz, 2006). In practice, the 'work undertaking' was drawn up unilaterally by the public employment services.

If the aim in redefining employment policy was for the unemployment insurance scheme to accompany the introduction of greater flexibility to the labour market, for it to contribute to 'the stabilisation of instability' (Santos, Serrano, 2006), then the condition for its success was to act as an effective link to the labour market. The public employment services should have been able to put in place a well-oiled technical apparatus designed to diagnose and address the needs of the unemployed. That is far from being the case.

## Modernisation through decentralisation

One of the characteristics of unemployment in Spain is that it affects the individual regions very differently. This uneven distribution goes hand in hand with varying success in mediating between jobseeker and labour market, which explains why tackling these regional disparities remains a priority for the central government. It was therefore by means of decentralisation that the law of 2003 aimed to improve the re-integration

of the unemployed into the labour market. The territorial organisation of power in Spain, established by the 1978 Constitution, guaranteed the application of the principle of solidarity among territories, while ensuring an appropriate and fair economic balance between the 17 Autonomous Communities. In this sense, the central government is the main actor in terms of policies to tackle unemployment.

However, with the adoption of successive constitutional amendments, the allocation of competences in respect of employment policy and unemployment protection has evolved towards a weakening of State intervention (Cayado, 2005). In terms of unemployment insurance, the central State administration retains responsibility for the management of financial programmes and the management and control of unemployment payments<sup>11</sup>. The employment law of 2003 formalised the decentralisation of competence regarding the management of employment policy. It confirmed the dominant role of the central government in drafting employment policy, but, for its implementation, the law established a national employment system consisting of the INEM and the public employment services of the Autonomous Communities. The latter are responsible for managing active employment policies. Thus, with the loss of the INEM's job placement monopoly in 1995 and the transfer to the Autonomous Communities of most of the responsibilities connected with returning the unemployed to the labour market, the government's role in providing unemployment protection has been reduced to paying out compensation (Cayado, 2005). The Autonomous Communities now find themselves in charge of social assistance policy too, after taking the initiative in the early 1990s, as a means of compensating for the meagre social benefits - including unemployment allowances - of introducing a minimum income more or less related to occupational integration. The introduction of assistance measures has usually been the result of negotiations between the regional government and the trade unions. Owing to this twofold competence, the Autonomous Communities are now emerging as the key actor in policies to tackle occupational exclusion and aid re-entry into the labour market (Cayado, 2005).

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11. Article 149.1 of the Constitution states: 'The State shall have exclusive competence over the following matters: [...] 17. The basic legislation and financial system relating to social security, without prejudice to the provision of these services by the Autonomous Communities'.

In spite of these structural changes, the public employment services are not always considered by social stakeholders to be effective. The waiting time for an initial interview with the PES, the weakness of the redeployment measures proposed and the failure to monitor and follow up job searches are regularly criticised. The government and the trade unions and employers' associations broached the issue in the agreement they signed in May 2006 on tackling job insecurity. The government pledged to produce a comprehensive plan within three months aimed at modernising the public employment services at both national and regional level, with the specific objective of substantially increasing the level of labour market intermediation. Figures were attached to this aim: within six months of registration, all jobseekers were to receive a job offer, training or career advice. The plan concerned the material and technological means with which the services should be equipped, as well as the human resources needed to improve their organisational structure and the working and remuneration conditions for staff. The budget increase needed to put this plan into action was set out in the 2007 Finance Law, and remains in place, in spite of the recession that has hit Spain since then. In mid-April 2008, the government approved an economic recovery plan that placed the emphasis on providing unemployed persons in ailing sectors with guidance and vocational training. The plan also provides for a more personalised handling of jobseekers through the recruitment of 1,500 vocational guidance advisers.

## **Making the fight against unemployment a priority**

Spain is both one of the first European countries to be affected by the crisis and one of the countries in which the impact on the labour market has been most rapidly felt. In 2007 the construction sector, which fuelled Spain's growth in recent years, began to show signs of slowing down: a fall in sales and the number of new building projects, difficulties for the property development market, etc. The number of unemployed in this sector, which accounts for 13% of jobs, rose by 65.4% within one year. The effects on employment became noticeable in autumn of that year. After several years in decline, the unemployment rate, which had fallen to 7.9% in July 2007, ended the year at the higher rate of 8.6%. In 2008 the recession was confirmed and the increase in jobseekers began to affect services and industry. Unemployment soared, reaching almost 12% by the end of 2008 and 14.5% in February 2009.

In order to kick-start employment, the government initially sought the support of the trade unions and employers' organisations. Between employers pushing their two long-standing demands, namely a drop in charges and easier dismissal, and unions rejecting any assistance for businesses and calling for improved protection for the unemployed, it proved impossible to reach a consensus. The government therefore settled on a number of unilateral measures in the course of the year, aimed at stemming the rise in unemployment and reducing the social impact of the economic crisis: incentives to recruit certain jobseekers (November 2008 and March 2009), measures to encourage self-employment (November 2008) and short-time work arrangements, serving to ease the costs for companies employing such workers and provide better protection for the workers in question (March 2009). At the same time, a consultation has been launched on a possible labour market reform, but the chances of reaching a negotiated agreement appear slim.

## **Conclusion**

Repeatedly criticised by the trade unions, the decision to give priority to a policy of rapid labour market integration rather than the long-term development of skills has had some success over the last 15 years, as the approach has been based on a flexible labour market defined by an ever greater turnover of workers. Even so, this flexible unemployment model has been made viable by a rise in the number of public subsidies for the recruitment of jobseekers. On the other hand, the financial and human investment in the public employment services has not materialised. What becomes of a low-cost active employment policy when the labour market ceases to offer the job opportunities it once did? This is the problem facing the Spanish Government.

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12. I would like to thank Amparrrro Serrano for her judicious advice on background reading, which served as the basis for this article.

## Annex

### Development of the unemployment insurance scheme in Spain

	Before 1992	1992-2002	After 2002-2003	2008
Contribution rate	6.7% - 5.6% payable by employers - 1.1% payable by employees		7.55% - 6% payable by employers - 1.55% payable by employees	7.3% - 5.75% payable by employers - 1.55% payable by employees  Top-up contributions 8.3% for full-time fixed-term employees; 9.3% for part-time fixed-term employees and temporary workers
Minimum membership conditions	Six months of contributions in the last four years	12 months of contributions in the last six years	Idem	Idem
Benefit period	From 3 to 24 months		From 4 to 24 months	Idem
Amount of benefit	80% of the reference wage, 60% after 12 months	70% of pay for the first 6 months, then 60%	Idem	Idem
Minimum monthly allowance	None	None	80% of the IPREM <sup>1</sup> + 1/6 according to dependants	Idem
Maximum monthly allowance	170% of statutory minimum wage	Idem	225% of the IPREM + 1/6 according to dependants	Idem

<sup>1</sup> The IPREM (Indicador público de renta de efectos múltiples - multi-purpose public income indicator) entered into use in 2004 and serves as the basis for the calculation of the minimum wage. For information purposes, it is currently EUR 509.40 a month.

Source: UIMM Social international



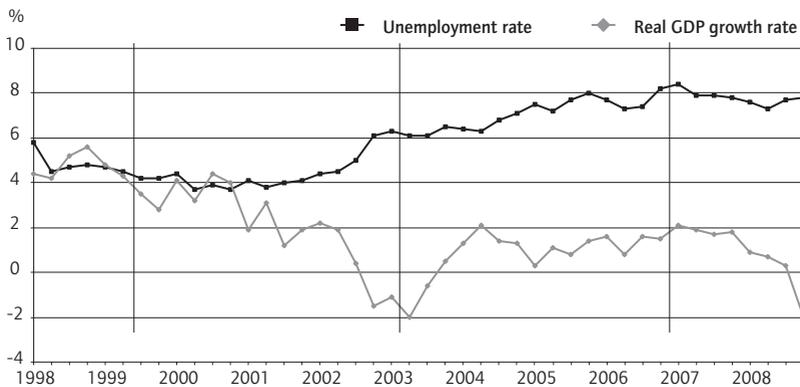
# Portugal

## Control and activation as major policy guidelines

Nádia Simões and Helena Lopes\*

In Portugal, unemployment insurance was first introduced as part of the comprehensive reform of the social protection system following the democratic revolution of 25 April 1974. Decree Law No. 169/75 of 31 March 1975 established the framework of the unemployment protection system. Since 1975, this system has undergone three reforms (in 1989, 1999, and 2006). In the fourth quarter of 2002, the unemployment rate was 2 percentage points higher than in the same period of the previous year (Figure 1). Between year-end 2001 and year-end 2002, it rose by 26.3%. In the first few months of 2003, unemployment continued to rise among first-time job-seekers and also among people already in work. To respond to these labour market developments, the government introduced temporary changes to the unemployment protection system in 2003, some of which were adopted permanently in the 2006 reform (e.g. the personal employment plan).

Figure 1 Unemployment rates and real GDP growth rates (1998:I – 2008:IV)



Source: IAF (2009b)

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The financial components of both unemployment insurance (UI) and unemployment assistance (UA) are managed by the Social Security Institute (*Instituto de Segurança Social*), while the Employment and Vocational Training Institute (*Instituto do Emprego e Formação Profissional*, IEFP) is responsible for managing active labour market programmes; monitoring job-search efforts; applying sanctions to unemployment insurance beneficiaries who fail to meet their obligations; providing advice and assistance to job-seekers; giving information on national and European vacancies; and assisting employers wishing to recruit.

In 2008, nearly 59.5% of the unemployed received unemployment benefit: 40.9% received unemployment insurance and 18.6% unemployment assistance. In 2006, before the 2006 reform, 53.7% of the unemployed were receiving unemployment insurance and 17.2% unemployment assistance. As unemployment increased between 2006 and 2007, this means that the 2006 reform resulted in a decrease in the coverage rate of unemployment insurance, as opposed to unemployment assistance whose coverage rate increased.

Table 1 provides a more detailed analysis of people receiving unemployment benefit. According to INE (the National Statistics Institute) figures – concerning overall employment – the coverage rate of unemployment benefit dropped by 17 percentage points, from 77.5% to 60.5%, between 2004 and 2008. However, this trend is not reflected in the IEFP figures – concerning registered unemployment – due to the change in the methodology used to determine registered unemployment in 2006. Registered unemployment decreased between 2006 and 2007 while overall unemployment, as measured by INE, increased.

Among the registered unemployed<sup>1</sup>, a larger proportion of men receive unemployment insurance: 47.9% of men and 40.2% of women. However, the opposite occurs for unemployment assistance: 20.8% of unemployed women receive UA compared to only 17.7% of unemployed men.

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1. Despite the methodological issue regarding registered unemployment, we use these figures here because the data released by the Social Security Institute on unemployment benefit claimants is not very detailed. To provide a more detailed picture, the present analysis is based on a study conducted by the General Confederation of Portuguese Workers (*Confederação Geral dos Trabalhadores Portugueses*, CGTP).

Table 1 Beneficiaries by gender and age group in registered unemployment (2008)\*

	UI	UA	Total
<b>Gender</b>			
% Women receiving UB	40.2	20.8	61.1
% Men receiving UB	47.9	17.7	65.6
<b>Age groups</b>			
< 25 years	16.1	14.6	30.7
25-34 years	38.5	17.9	56.4
35-54 years	46.8	21.6	68.4
>=55 years	61.5	19.7	81.4

\* December figures

Source: Ministry of Labour and Social Solidarity (MTSS) and IEFP

An interesting conclusion can be drawn from the analysis of the composition of unemployment benefit claimants by age. The coverage rate of unemployment benefit increases with the age of the unemployed. Only 30.7% of individuals under 25 have access to unemployment benefit, compared with 56.5% in the 25-34 age group, 68.4% in the 35-54 age group, and 81.4% among the unemployed over 54. This is probably due to the fact that young people have less experience and are more likely to have precarious employment contracts (nearly one third of employees under 34 have a non-permanent contract).

## Unemployment insurance: eligibility

Access to unemployment insurance is restricted to claimants who fulfil the following conditions: they must be involuntarily unemployed; have worked and contributed to social security for at least 450 days in the last 24 months (until 2006, the qualifying period was 540 days of contributions to social security); be capable of and available for work; be registered at the employment office; and not receive any invalidity or old-age pension. The system is the same for all insured employees. Voluntary quitters and workers discharged for misconduct cannot claim unemployment benefit. As for the self-employed, the welfare protection is different; they are not covered for the risk of unemployment and are entitled to a shorter period of sickness benefit than employees (a maximum duration of 1095 days for employees and 365 for the self-employed).

## UI entitlement: reference earnings, benefit rates and duration of payment

The replacement rate (i.e. unemployment benefit in relation to gross monthly earnings) is flat and equal to 65% of the reference earnings. The reference earnings correspond to the average daily wage during the 12 months previous to the 2 months prior to unemployment. The monthly limit is three times the Social Support Index<sup>2</sup> (*Indexante dos Apoios Sociais*, IAS) and the minimum benefit amount is the IAS. UI is not subject to tax or social security contributions. There is no waiting period before receiving unemployment benefit.

Table 2 Unemployment insurance entitlement (UI systems of 1989 and 1999)

Age	1989	1999	Additional duration*
	Duration of benefit (days)	Duration of benefit (days)	
< 25	300	360	
25-30	360	360	
30-35	450	540	
35-40	540	540	
40-45	630	720	+ 60 days for every 5 years of social security contributions
45-50	720	720	
50-55	810	900	+ 60 days for every 5 years of social security contributions
> 55	900	900	
	900	900	+ 60 days for every 5 years of social security contributions

Source: Social Security Institute

Until 1999, the maximum period of entitlement was determined only by the age of the beneficiary on becoming unemployed. Though this feature was maintained in the 1999 system, longer contributory careers started to be rewarded with additional days (Table 2). Moreover, in 1999 there was a generalised increase in the duration of beneficiaries' entitlement

2. The Social Support Index was introduced in 2006 and replaced the minimum wage as the reference for setting and updating contributions, pensions and other social benefits. More information on the respective amounts is given at the end of this chapter.

in several age groups (e.g. aged under 25; 40-45 years; 45-50 years; 50-55 years). Recent studies have shown that the increased potential duration of unemployment benefit led to longer periods of unemployment among beneficiaries (Pereira, 2006; Addison and Portugal, 2007; Centeno and Novo, 2007). This effect was particularly noticeable among young people (Pereira, 2006) and beneficiaries with lower liquidity constraints. Those receiving more (in monetary terms) remain unemployed for longer. The group at the lower end of the benefit distribution, which was already the group in which beneficiaries remained unemployed for the shortest time, was the least affected by the reform of the unemployment protection system (Centeno and Novo, 2007).

Prolonging the potential period for receipt of unemployment insurance is usually criticised as it is thought to be linked to moral hazard behaviour. However, some economists emphasise the potential positive effect of increasing unemployment benefit: beneficiaries would be able to search longer for a new job, which would have a positive effect on the quality of the new matches (e.g. higher wages, better contract) (Belzil, 1999). In the Portuguese economy, the positive effects of extending the potential duration of unemployment benefit on job quality were negligible (Centeno and Novo, 2008). This impact was felt mainly among the unemployed in the lower income bracket.

The 2006 reform of the unemployment protection system introduced a considerable change in the duration of unemployment benefit. The duration of the payments started to be determined by age and social security contributions (Table 3).

According to the non-accumulation principle (Art. 60, DL 220/2006), UI beneficiaries cannot receive any other compensation related to job loss, retirement pensions, or pre-retirement benefit paid by the employer. After exhausting UI or initial UA and having entered long-term unemployment, special conditions are applied to older beneficiaries who want to start receiving old-age pensions.

If the worker begins a spell of involuntary unemployment after the legal retirement age, he/she is not eligible for unemployment benefit even if the qualifying period is fully satisfied, but receives an old-age pension instead.

Table 3 Unemployment insurance entitlement (System of 2006)

Age (years)	Social security contributions (months)	Duration of benefit (days)	Additional duration*
< 30	≤ 24	270	
	> 24	360	+ 30 days for every 5 years of social security contributions
30-40	≤ 48	360	
	> 48	540	+ 30 days for every 5 years of social security contributions
40-45	≤ 60	540	
	> 60	720	+ 30 days for every 5 years of social security contributions
> 45	≤ 72	720	
	> 72	900	+ 30 days for every 5 years of social security contributions

\* Only social security contributions made after the previous period of unemployment are considered in determining whether the worker has the right to receive additional days of unemployment insurance.

Source: Social Security Institute

In 1989, partial unemployment insurance was introduced in the Portuguese UI system. Following the trend towards workfare policies observed in other countries, the aim of this social benefit was to give UI beneficiaries additional incentives to accept part-time jobs. Since accepting a part-time job implies the need to work, and since taxation on income is less favourable than on social benefits, there is a strong likelihood of the beneficiary refusing part-time work. The partial UI is determined using the following formula:  $(1+rate)*UI-wage$ . In 1999, the rate was established at 25%. In 2003, due to a sharp increase in unemployment, the government temporarily increased the rate to 35%. The 2006 reform maintained the rate at 35%. However, despite these incentives, the number of people benefitting from partial unemployment insurance is minimal. This is no doubt due to the fact that part-time jobs in Portugal are mainly low-skilled and therefore poorly paid.

### The definition of a "suitable job"

One of the duties of a UI beneficiary is to accept a suitable job. The "suitable job" concept was introduced in the 1999 UI system (Art. 9 c), Decree Law No. 119/1999: "a suitable job is one that does not cause a

considerable loss of welfare to the beneficiary or his family”. Many jobs were refused by beneficiaries due to the ambiguity of this definition, thereby reducing the effectiveness of this provision. In 2006, the new legal provision specified the concept of a suitable job in greater detail. For a job to be classified as suitable, conditions must be met regarding educational level, wage, travelling time and expenses (Table 4).

Table 4 The concept of suitable job

Dimensions	Requirements
Education and physical health	Adequate to the education and vocational training of the beneficiary and to his/her physical health.
Gross income	$\geq 1.25 \times$ Unemployment benefit (job offers received in the first six months of unemployment) $\geq 1.10 \times$ Unemployment benefit (job offers received after the first six months of unemployment)
Travelling expenses	$\leq 0.1 \times$ gross monthly income The employer covers the travel expenses or provides free transport
Average travel time	$\leq 0.25 \times$ daily working time (without dependants) $\leq 0.2 \times$ daily working time (with dependants)

## Sanctions and monitoring

Sanctions and penalties are applied when beneficiaries and firms fail to meet their obligations. With regard to beneficiaries, their registration with the public employment services (PES) is cancelled and they stop receiving unemployment benefit in the following cases:

- Refusal of a suitable job, socially useful work, the Personal Employment Plan, or other active labour market measure;
- Non-compliance with the provisions of the Personal Employment Plan;
- Insufficient job-seeking efforts;
- Failure to regularly report and reply to notifications from the public employment services.

When registration with the public employment services is cancelled for any of these reasons, the beneficiary has to wait 90 consecutive days before being able to register again. Table 5 summarises the key penalties and sanctions applied.

**Table 5 Sanctions and other penalties related to the unemployment protection system**

	Occurrence	Financial penalty	Additional sanctions
<b>Beneficiaries</b>	Non-compliance of duties towards PES	€100 to €700	Cancellation of PES registration
	Starting a new job and continuing to receive unemployment benefit	€250 to €1000	- Cancellation of PES registration - May lose UI eligibility for up to a maximum of two years
<b>Employers</b>	Neglecting to inform the authorities about the unemployment of any of their workers	€250 to €2000 Firms with more than 5 employees	
		€125 to €1000 Firms with fewer than 5 employees	

Situations in which the beneficiary starts a new job without informing the social security authorities of the change in his/her labour market status used to be quite frequent in Portugal because the Social Security information system was not linked to that of the tax authorities. This problem has now been minimised with the modernisation of these services and greater integration between their information systems.

## The unemployment assistance system

In Portugal, UA covers two types of situation:

- When the unemployed person has not completed the qualifying period required for UI benefit. In this case, he/she can apply for initial unemployment assistance. To be eligible to receive this benefit he/she must have had at least 180 days of paid work in the 12 months prior to unemployment;
- When the beneficiary exhausts unemployment insurance. In this case, the individual can apply for ongoing unemployment assistance.

The aim of unemployment assistance is to guarantee a source of income to unemployed individuals in the lower income brackets. To be eligible to receive this benefit, the individual has to present evidence of his/her income level. The subsidy is only given if the income level of the household to which the unemployed person belongs is below 80% of the Social Support Index (*Índice dos Apoios Sociais*, IAS). Gross income from self-employment or paid work, pensions, and gross capital income are the income sources considered when defining the household income. The definition of a household includes all dependants (e.g. children under 18 years of age, husband/wife, civil partner or unmarried partner, parents) as long as they live with the unemployed person in a situation of financial dependency.

UA is set in reference to the IAS. If the beneficiary has no dependants, the amount of the benefit corresponds to 80% of the IAS. If the beneficiary has dependants, UA is 100% of the IAS. When UA is received after UI, the beneficiary is entitled to receive UA for half the number of days during which he/she received the unemployment benefit. If the individual is over 52, UA can be extended until he/she has reached retirement age.

## **The reinforced role of the public employment services**

Some of the key aspects of the 2006 comprehensive reform of the unemployment protection system have been described above. Other changes that should be highlighted include the increased number of rights and duties of the unemployed, and stricter enforcement of sanctions, should the beneficiary fail to meet his/her obligations. Beneficiaries must now search more actively for a new job, accept suitable jobs proposed to them, enrol in vocational training programmes if recommended by job centres, and are more closely monitored. On the other hand, beneficiaries receive more support from the public employment services. The recent modernisation of these services has contributed to this process due to the greater diversity, accessibility and quality of the various services. This process has resulted in faster communication with unemployed people, namely by sending information about job offers by text message, and in an increase in the number of online services available (*NET Emprego*) both for the unemployed (browsing job offers in Portugal and in the EU; replying directly to job offers; browsing information on potential employers; sending out a CV and submitting it in response to job

advertisements; accessing information on job-seeking techniques and available services, programmes and measures), and for employers (communicating job offers, browsing CVs registered online, electronically submitting applications to vocational programmes). The modernisation of the employment offices also included training their technical staff, especially those responsible for liaising with employers. Greater attention is given to the most vulnerable unemployed persons (e.g. young people, the long-term unemployed and unemployed people with higher education) by developing or enforcing targeted programmes.

The broadened responsibilities of the public employment services include elaborating Personal Employment Plans that outline a strategy to promote a fast return to employment; providing personalised support to define the best possible steps to increasing the beneficiary's employability; monitoring compliance with beneficiary obligations, and enforcing/applying sanctions.

## **Ongoing social debates**

It is still too early to assess the new unemployment protection scheme as it only started to produce effects in January 2007. Nevertheless, a number of issues have been raised by different stakeholders (particularly trade unions).

The trade unions have expressed concerns about the self-employed. In Portugal, an increasing number of firms do not offer labour contracts to potential new employees but prefer to pay for their services as self-employed workers, thus avoiding the tax and social security burden. These are “false” self-employment situations which provide additional flexibility in terms of human resource management, but generate a considerable welfare problem as these workers are the most likely to lose their jobs in a downturn without being entitled to unemployment benefit.

At the start of 2007, pensions and social benefits such as unemployment assistance started to be indexed and updated in line with the new Social Support Index – IAS - instead of the national minimum wage (Law No. 53-B/2009 of 29 December). IAS has been lower than the national minimum wage since 2008 (Table 6).

Table 6 The IAS and the minimum wage

	IAS	Minimum Wage
2008	€407.41	€419.19
2009	€426	€450

The average amount of unemployment benefit has declined since 2007 largely due to this measure. The General Confederation of Portuguese Workers (*Confederação Geral dos Trabalhadores Portugueses*, CGTP) and the General Workers' Union (*União Geral de Trabalhadores*, UGT) have both criticised this change by highlighting the negative impact on beneficiaries' welfare.

Table 7 Average monthly and daily amount of unemployment benefit\*

	Average monthly amount (€)	Average daily amount (€)
2006	474.79	16.49
2007	456.26	15.88
2008	463.16	16.06

\* December figures

Source: Ministry of Labour and Social Solidarity

As mentioned above, the 2006 reform increased the support available to beneficiaries, but the public employment services' capacity to respond to the significant increase in unemployment in recent months has been the subject of considerable debate. Registered unemployment rose by 17.6% between year-end 2008 and May 2009, which obviously puts these services under a great deal of pressure. An adequate response is impossible unless they are given more resources. To alleviate the pressure on Job Centres, the government intends to create 400 Professional Insertion Centres (*Gabinetes de Inserção Profissional*) that will support unemployed people by providing information on job offers, training, possible labour market pathways, and other on-going programmes as well as supporting them in their search for jobs. This measure is indicative of the public employment services' inability to deal with sharp increases in unemployment.

The trade unions also highlight the need to specify in more detail the responsibilities of the public employment services towards beneficiaries and to redefine the concept of a suitable job and suitable training.

## Recent developments

In the aftermath of the current financial crisis, the European Council advised the Member States to take “temporary and well targeted” measures to lessen the “impact on the most vulnerable” (COM(2008) 800). At the beginning of 2009, the Portuguese government followed these guidelines by presenting a set of measures to tackle the effects of the recession on growth and jobs (Initiative for Investment and Employment). One of these focused on unemployment assistance instruments and sought to minimise the negative impact of the crisis on lower-income households by granting UA to those with an income equal to or below 110% of IAS (as opposed to 80% previously). This is a temporary measure in effect only until May 2010. The government has also extended unemployment assistance to 180 days for beneficiaries who will exhaust these benefits in 2009.

Although job creation incentives were not a key aspect of the 2006 reform, the employment policies launched in 2009 tried to promote employment in an attempt to respond to the significant rise in unemployment. Using financial and social security incentives, the government aims to prevent redundancy and dismissals, especially involving groups with lower employability. Measures were taken to increase the demand for labour and to improve the attractiveness of jobs (e.g. giving incentives to firms creating jobs with permanent contracts).

## Conclusion

The structural features of the unemployment protection scheme have not altered in the last two decades. However, some new trends can be identified concerning the eligibility and entitlement criteria. The potential duration of unemployment benefit has decreased for all age groups except for the unemployed over 45. While age was initially the principal guideline for the duration of benefits, the person’s previous work record was added as a payment condition after 1999. With the exception of the qualifying period, the other modifications are intended to reduce moral hazard among beneficiaries and tackle fraud. Payment is now more conditional on activation measures. The receipt of insurance benefit has become strictly dependent on active job-search.

Overall, the 2006 reform increased the monitoring of beneficiaries and improved the activation measures. The changes introduced resulted in a reduction in the number of unemployed people receiving benefits and in a decrease in the amount of the payments. The latter decrease is probably due both to the shift in the reference for payments from the minimum wage to the IAS and to the fact that the rate of coverage of unemployment assistance has increased while the rate of coverage of unemployment insurance has decreased.

Due to their low educational level, their known difficulty in adapting to new and more demanding jobs and their high poverty rate, the older unemployed enjoy a higher level of protection when compared to the younger age groups. Young people appear to be the most vulnerable group in terms of unemployment protection, as they are usually unable to meet the qualifying period, partly due to their precarious labour contracts, but benefit more from activation policies. The activation strategy faces another main obstacle: most jobs in Portugal are low-skilled and badly paid. The low quality of existing jobs combined with a highly segmented labour market severely hinders the effectiveness of many activation measures.

The changes to the Portuguese unemployment system are in line with the trends observed in the reforms carried out recently in other European countries (e.g. Germany, France and Spain). Nevertheless, there is an issue specific to the Portuguese economy that raises concerns regarding the near future. Portugal has been benefiting from the European Structural Funds (2007-2013), which provided the financial resources that supported most activation measures. There is some uncertainty regarding the capacity to maintain the current policies when European funding becomes unavailable.

Comprehensive assessments of the impact of the latest reforms on the duration of unemployment, beneficiaries' welfare payouts, and on the social security budget, will be crucial to increasing the effectiveness of future reforms. A more active participation of the social partners in the design of the system may also contribute positively to its development.

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# Italy

## The debate about 'social cushioning measures': how can a fragmented, inequitable system be improved?

Salvo Leonardi\*

Unemployment protection has been a key topic in political and academic debate for at least a decade in Italy, and forms part of the more general debate about overall reform of the social security system. The institutional architecture of the Italian system, centring on employment and Bismarckian in inspiration, makes it part of the southern European family (Esping-Andersen, 1990; Leibfried, 1992; Ferrera, 1993; Pugliese, 2002; Maddaloni, 2008), with which it shares a number of characteristics. These include the centrality of the family<sup>1</sup> and, within it, that of the male breadwinner; the absence of a universal minimum safety net; the priority attached to length-of-service and old-age pensions; and the low-level 'sense of state', meaning both inadequate administrative regulation and a state apparatus that is highly permeable to political patronage (Paci, 1986; Ferrera, 2007).

The European Commission (2007) identifies five models of social security in its *Employment in Europe* report for 2006. Somewhat surprisingly, Italy finds itself grouped together with the central and eastern European countries, owing to what is deemed an average degree of labour flexibility and social security contributions and, above all, a low level of social security.

Italy brings up the rear in Europe as far as unemployment expenditure is concerned (Lagala, 2007; Maddaloni, 2008). Its 'social cushioning measures' are allocated 0.7% of GDP, compared with an OECD average of more than 1%. The resources devoted to activation policies (training, direct job creation, job sharing, etc.) amount to just 0.6% of GDP.

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1. Esping-Andersen (1990) highlights the residual nature of the social welfare typical of social security systems in southern Europe, describing it as the flipside of a system built on family solidarity. According to this thesis, welfare systems have never really been able to develop in the Mediterranean countries, where the dominant idea is still that the family not only plays the principal role in providing social assistance but is also best able to do so.

Although this figure is slightly above average for the OECD countries (0.5%), it comes a long way behind the most virtuous countries, such as Denmark, the Netherlands and Sweden (all in excess of 1% or even 2% of GDP). As for spending on employment services, it is derisory: 0.045%, compared with an OECD average of 0.145 %<sup>2</sup>.

## **Social cushioning measures: the genesis of a stratified system**

One historical weakness of the social security system is without doubt the arrangements for insurance against unemployment, known by the term ‘social cushioning measures’ (*ammortizzatori sociali*) (Giubboni, 2003; CNEL, 2003; Lagala, 2007; Bozzao, 2008). We have here a somewhat incoherent, highly fragmented system where the types and levels of protection depend on a whole host of criteria: nature of the employment contract, size of the company, sector of the economy, age of the beneficiary, regional employment situation. Access to benefits and their funding, and the degree of coverage by the system, vary considerably from one occupational category to another, depending on their negotiating powers over the decades and their ability to exert pressure on the government, itself keen to build and stabilise a social consensus.

The foundations for unemployment protection were laid in the 1948 Constitution, but certain elements date back to the second half of the 1930s and the corporatist scheme of the fascist era. The Italian model, which centres on work, is based on the principle of mutualisation, or insurance, with the criterion of need constituting a lesser concern (Negri, Saraceno, 1996). Ever since the Constituent Assembly (1946-1948), and during the post-war decades, the main political and trade union players asserted the primacy of work<sup>3</sup>, a tool of emancipation as well as social justice. Social assistance was regarded as residual and intended for persons who are unable to work owing to their mental or physical condition (Bartocci, 2005; Paci, 2005; Andreoni, 2006). Apart from such situations of need, the loss of employment is treated as a temporary, frictional, involuntary event (Liso, 2008; Giasanti, 2008).

2. [www.oecd.org](http://www.oecd.org)

3. Work represents an individual constitutional right and is described as such in the very first articles of the Constitution: “Italy is a democratic Republic founded on labour” (Article 1); “The Republic recognises the right of all citizens to work and promotes those conditions which render this right effective” (Article 4).

Article 38 of the Constitution<sup>4</sup> defines two categories of social benefits:

- a) *insurance*, intended for workers who have lost their jobs temporarily and through no fault of their own;
- b) *assistance*, which is universal and free of charge, intended for any citizen in a situation of need.

The development of legislation on unemployment benefit in Italy can be divided into two phases (Cazzanti, 2007; Balandi, 2007). During the first period, between 1949 and 1975, insurance to cover job loss was gradually extended to non-industrial occupational groups: farm workers and public sector employees. In the second phase, from the mid 1980s onwards, some forms of protection were extended to people working intermittently and for less than six months in a year.

The system is based on a vast stratification of measures intended to protect employees in the event of involuntary unemployment. No fewer than thirteen laws, enacted between 1919 and the present day, deal with unemployment insurance in some shape or form. The system is further complicated by the innumerable decrees, decisions and other circulars pertaining to this issue in Italy - often detracting from the clarity of the legal provisions. The result is a hybrid system which, over the years, has seen numerous schemes superimposed on the founding principles - a 'veritable labyrinth' (Miscione, 2007) - often dictated by urgent requirements and by the power struggles undertaken by social groups seeking recognition. A broad array of special schemes exists alongside the general provisions. Many measures falling into the category of social assistance in other countries are classed as expenditure on old-age insurance in Italy.

The methods of funding insurance-based and assistance measures have likewise become more opaque and less effective over time, and the link between contributions paid and benefits received has become particularly tenuous. This phenomenon has worsened since 2005, when the centre-right government in office made it possible for the administrative

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4. Article 38 reads as follows: "All citizens unable to work and lacking the resources necessary for their existence are entitled to private and social assistance. Workers are entitled to adequate insurance for their needs in case of accident, illness, disability, old age, and involuntary unemployment".

authorities and the Ministry of Employment to derogate from the legislation on the wages guarantee fund (the *cassa integrazione guadagni*, CIG) by extending it - subject to regional agreements with the social partners - to production sectors and companies which by law should not benefit from it.

Despite the surfeit of regulation, there is no legal definition of the social cushioning measures. It is widely accepted that, above and beyond measures to protect against unemployment, they include measures to promote employment. A narrower definition encompasses only measures to protect against unemployment, and hence covers all schemes intended to assist employees who have, at least temporarily, lost their jobs for reasons not of their own making.

### **Three benefit systems paying out different amounts**

Almost all employees in Italy are covered by unemployment insurance. The method of disbursement differs according to the scheme under which a worker can claim, and the allowance either tops up or replaces his/her earnings for a specific period of time.

The Italian system comprises three main types of allowance (Porcaro, 2004):

- the most widespread scheme, ordinary unemployment benefit (*indennità ordinaria*), excludes agricultural workers but includes all other employees with the exception of public servants and apprentices;
- the second mechanism, which for the sake of simplicity can be called the ‘industrial’ model, pays out benefits resulting in the main from Law No. 223/1991 and other regulations complementing it. These provisions include the ordinary wages guarantee fund (*cassa integrazione ordinaria*, CIGO) and the special wages guarantee fund (CIGS), mobility benefit (*indennità di mobilità*) and solidarity contracts. This system offers relatively generous cover (in terms of the level of benefit, eligibility and the payment period) to employees in medium-sized and large industrial companies;

- the third scheme, the 'agricultural' model, was extended to seasonal and temporary workers in other sectors a few years ago (Law No. 160/1988). It is distinct from the industrial model, based on 'reduced requirements' (*indennità di disoccupazione a requisiti ridotti*) and pays out rather meagre allowances.

A fourth mechanism, as mentioned above, is the derogation from the wages guarantee fund (*cassa integrazione in deroga*) for the purpose of extending the CIGO to sectors excluded from it under the legislation in force. A further, crucial, instrument, used in the event of a crisis or short-term dip in output, is the 'solidarity contract', whereby - through negotiation with workplace trade union representatives - working time can be reduced in return for a less than proportional reduction in pay.

The replacement earnings afforded by these systems are extremely diverse, a situation which is the legacy of a neo-corporatist trade-off in favour of the best-organised segments of the wage-earning classes (the industrial model) but also results from compromises reached thanks to political patronage (the agricultural model)<sup>5</sup>. Whereas fairly generous protection is provided for workers covered by the wages guarantee fund and the mobility scheme, the ordinary and 'reduced requirements' benefit provisions grant far more modest pay-outs. The allowances paid amount to:

- 80% of pay (70-75% in real terms) for beneficiaries of the CIG, both ordinary and special, the special construction sector benefit and the mobility scheme;
- 40-60% for ordinary unemployment benefit;
- 35-40% for the 'reduced requirements' unemployment benefit.

The level of benefit and the eligibility conditions are not the only differences between these models of insurance. The CIG (both ordinary and special) also presupposes that the employment relationship is suspended only temporarily and will be resumed. By contrast, ordinary unemployment benefit, the mobility scheme and the construction sector

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5. Such as for self-employed workers (farmers, shop-keepers) or farm workers, particularly as regards pensions. This last group, whose situation on the labour market is rather weak, has proved quite successful at achieving social protection, by obtaining from the ruling political parties (and from the employers) robust income guarantees during non-working periods. This would appear to be a form of *assistance* in the guise of *insurance* (Pugliese, 2002).

unemployment insurance arrangements all imply that the employment contract has been terminated (Miscione, 2007). The trade unions have always had a preference for the former type of scheme.

Contributions to these benefit schemes vary according to the economic sector and size of company (Table 1). Employers contribute a larger share than employees; contributions to the CIG, both ordinary and special, as well as to the mobility scheme, are required of employers only.

**Table 1 Social security contributions (as a % of pay) by sector and size of company**

Sector	Size	Ordinary unemployment		CIG-O	CIG-S	Mobility	Total
		Employers	Workers	Employers	Employers	Employers	
Industry (blue-collar and white-collar)	< 15 employees	1.31	0	1.90	0	0	2.21
	> 15 < 50 employees	1.31	0.30	1.90	0.90	0.30	4.71
	> 50 employees	1.31	0.30	2.20	0.90	0.30	5.30
Craft trades		0.40	0	0	0	0	0.40
Commerce	< 50 employees	1.31	0	0	0	0	1.31
	> 50 < 200 employees	1.31	0.30	0.90	0.30	0.30	2.81
Banking and insurance		1.31	0	0	0	0	1.31
Agriculture (white-collar)		0.37	0	1.50	0	0	1.87
Construction (blue-collar)	< 15 employees	1.31	0	5.20	0	0	6.51
	> 50 employees	1.31	0.30	2.20	0.90	0	4.71

Source: our calculations based on INPS data

## Ordinary unemployment benefit

Compulsory insurance against involuntary unemployment, introduced in 1919, was the first ever social cushioning measure designed to be

universally applicable; even today it affords the broadest protection of all against the risk of unemployment.

'Ordinary' benefit is still regarded as the linchpin of the system (Liso, 1995). Coverage is universal in principle: anyone having worked in Italy, whatever his/her nationality (among other criteria) is entitled to claim. But despite the role it was supposed to have had, ordinary unemployment benefit played a residual and purely symbolic role for a long time<sup>6</sup> (Lagala, 2006).

Ordinary unemployment benefit, which is capped, is calculated in proportion to the last wage or salary received, the aim being to preserve the unemployed person's standard of living in relation to his/her former earnings. Certain conditions must be fulfilled: 52 weeks of social security contributions over the two previous years<sup>7</sup>, and registration with the employment agency (*centro per l'impiego*). The job loss must have been involuntary: resignation, unless provoked by a just cause, does not confer entitlement to unemployment benefit. The application for ordinary unemployment benefit must be filed within 60 days of the start of the period of unemployment for which benefit is being sought.

Some significant changes were introduced by Law No. 247/2007, arising out of a tripartite agreement. Certain entitlements have been improved:

- the pay-out period has been extended from seven to eight months for employees aged under 50, and from ten to twelve months for over 50 year-olds;
- the amount of benefit is now 60% of the last wage or salary (instead of 50%) during the first six months of unemployment, 50% during the seventh and eighth months, and 40% for the remaining months. Previously, the allowance corresponded to 40% of pay during the seventh, eighth and ninth months (Table 2).

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6. Until the late 1980s the rate was less than 1,000 Lire per day (€0.50 in today's money). The system switched from flat-rate sums to a percentage calculation in the 1990s.

7. Construction workers must have contributed for 43 weeks over the course of a two-year period of employment in this sector.

Table 2 **Ordinary unemployment benefit**  
(**indennità ordinaria di disoccupazione**)

Payment period	Between 8 and 12 months maximum
Replacement rate	- 60% of last wage for 6 months; - 50% for the 7 <sup>th</sup> and 8 <sup>th</sup> months; - 40% thereafter. Capped.

The progression in benefits diminishes as the ceiling (set in 2006) of €830.77 is reached, for wages of up to €1,797.31 per month, or, for higher earnings, €998.50.

### The industrial model: CIG, CIGS and mobility benefit

The *cassa integrazione guadagni* (CIG), established in 1941 and subsequently enshrined in legislation in 1975, responds to a reduction in normal working time with a proportionately lower reduction in pay. It mainly applies to medium-sized and large manufacturing companies and large retailers. The CIG excludes workers in the tertiary sector, craft firms, banking and insurance, agriculture, the public sector and the public utilities (former state monopolies: post, electricity, aviation and urban transport). Pay-outs amount to 80% of former earnings (70-75% in real terms, since entitlement to this income support is subject to two different upper limits).

The *cassa integrazione guadagni straordinaria* (special CIG) was introduced in 1968 (Law No. 1115) to handle situations of long-term, structural surplus labour in the wake of sectoral economic crises or corporate restructuring and reorganisation operations. It applies to industrial companies employing more than 15 staff and retail firms with more than 50 employees (apart from apprentices). As for the ordinary CIG, pay-outs amount to 80% of former earnings.

Mobility benefit (*indennità di mobilità*) came into being with Law No. 223/1991. It provides a temporary income for workers taken out of the production process following either the expiry of their CIG entitlement or redundancy. It is geared to the employees of companies falling under the scope of the CIG, who have a minimum of 12 months of service and have worked for at least six months during this period (including sick leave and paid holidays). The allowance, which is capped, corresponds to

80% of the final wage or salary for the first 12 months, and 64% thereafter. It is paid for a minimum of 12 months and a maximum of 48 months, depending on the employee's age when dismissed and the location of the company (24 to 48 months in the south of the country)<sup>8</sup>.

### Casual and seasonal workers: 'reduced requirements' unemployment benefit

Law No. 160/1988 extends unemployment insurance to casual and seasonal workers in all economic sectors and introduces a type of unemployment benefit with 'reduced requirements' (*requisiti ridotti*) (Renga, 2006; Bozzao, 2008). This new mechanism was based on the insurance model obtaining in the agricultural sector; it forms part of a policy to gradually phase out the traditional insurance-based logic in favour of extending the universalist principle, albeit in a partial and patchy fashion.

Employees on fixed-term contracts, including those working on a part-time or temporary basis, are eligible for 'reduced requirements' unemployment benefit. To claim it, they must:

- submit proof of two years' social security contributions;
- have worked for at least 78 days in the year preceding the application for benefit. During that period they must have paid compulsory social security contributions (paid leave, public holidays, ordinary rest days and time-off in lieu, maternity leave, sickness);
- have worked a maximum of 156 (now 180) days out of 360, from which any days of unemployment already accounted for may be deducted;

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8. An arrangement similar to the CIG and the mobility scheme was introduced in the public sector in the late 1990s with a view to aligning the state of affairs in the public and private sectors, as demanded by the trade unions. Thus a form of wages guarantee fund may be drawn on here too so as to avoid having to dismiss surplus staff: employees remain available to the administration with a view to being transferred at a later date and receive 80% of their pay for a two-year period. The scheme is funded by the administration from which the employee originated. But this arrangement (governed by Law No. 59/1997 and Decrees 80/1998 and 165/2001) is hardly ever used, since the problem of staff surpluses is generally resolved by other means, namely via transfers to other administrations.

- have held the status of employee at some point during the two years preceding the benefit request, with social security contributions having been paid by the employer to the social security institute INPS for at least one week.

As for the similar provisions in the agricultural sector, this allowance is paid out by the INPS as a single lump sum in the year following the reference year. As in the case of agriculture, the intention is to combat undeclared work and encourage people to take up regular jobs (Liso, 2008): the more one works and the more contributions one pays in, the higher the allowance received in the following year.

Law No. 247/2007 raises the amount of ‘reduced requirements’ unemployment benefit to 35% of pay (up from 30%) during the first 120 days and 40% thereafter, with the maximum benefit period set at 180 days.

## **A non-inclusive and highly polarised system**

Italy stands out among European countries for its lack of generosity as concerns protection against unemployment and social exclusion. The Italian system affords less coverage as regards the number of claimants, offers a lower average replacement rate and devotes fewer resources overall to employment policies. This poor performance is a consequence both of the contribution levels set and of the amount of public expenditure earmarked for employment policies and social cushioning measures. Italy is classified among those countries devoting the least resources to both of these headings: it spends just 1.3% of GDP on employment policies. The OECD average (1.6%) is amply exceeded by the central and northern European countries, with 2.6% in Sweden, 2.7% in France, 3% in Finland, 3.5% in Germany, the Netherlands and Belgium, and as much as 4.5% in Denmark. Even two Latin countries - Spain and Portugal - are ranked well ahead of Italy, spending more than 2% of GDP.

Fewer than 30% of the unemployed currently benefit from Italy’s social cushioning measures, compared with 36% in the United Kingdom, 60% in France, 65-70% in Germany, Austria, Spain and Ireland, and as many as 70-80% in the Scandinavian countries and Belgium (EIRO, 2007; Lagala, 2007; IRES, 2008). This proportion has however risen significantly in recent years, up from 17.3% in 2000 to 28.5% today.

More than 70% of unemployed people are excluded from the social cushioning measures, in practice if not in law. These are mainly:

- jobless persons who have not accumulated the necessary minimum entitlements (e.g. young people, casual workers, apprentices and *parasubordinati* [an atypical and potentially precarious working arrangement]);
- jobless persons who have exceeded the benefit periods under the various schemes (e.g. older workers and the long-term unemployed);
- undeclared workers (especially in the south).

Italy is the only European country, apart from Greece and Hungary, where the regulations make no provision for any earnings of last resort ('follow-up benefit'), i.e. in cases where the benefit provided under the ordinary provisions, following the suspension or definitive termination of the employment relationship, has been exhausted. This is the main reason why so many jobless workers, initially covered by statutory forms of income support, end up being excluded from them once their status extends beyond the period envisaged under the legislation.

Beneficiaries of the wages guarantee fund (ordinary and special CIG) are concentrated in the north-western regions, where there is a stronger presence of medium-sized and large industrial companies affected by the crisis of Fordism. This territorial split is likewise a consequence of the unequal access to early retirement arrangements (Table 3). The Mezzogiorno (south) is excluded from the industrial model of social security since its production fabric consists mainly of small businesses. Unemployed people there more often receive benefits under the 'ordinary' scheme or specific measures (construction, agriculture, casual or seasonal workers under the 'reduced requirements' scheme). The Mezzogiorno also has the highest proportion of long-term unemployed.

Looking at ordinary unemployment benefit in isolation, we note that, although in principle it provides universal coverage, it in fact plays a residual role. Of all those persons entitled to claim help under the social cushioning measures, the only ones who receive ordinary unemployment benefit are workers excluded from receipt of the more advantageous allowances available in more robust, better protected sectors of the economy.

**Table 3 Claimants of replacement incomes in 2005**  
(annual average figures, in thousands)

	North-West	North East	Centre	South	Italy
CIG - ordinary	35.2	12.4	13.0	21.5	82.1
CIG - special	24.6	6.7	7.3	20.2	58.8
Mobility benefit	32.4	14.5	18.8	44.3	110.0
Ordinary unemployment benefit (non agricultural)	26.1	28.1	23.8	59.3	137.3
Unemployment benefit – construction	2.0	0.8	2.5	24.5	29.8
Unemployment benefit – reduced requirements	16.4	24.7	23.2	63.7	128.0
Unemployment scheme – agriculture	3.2	11.3	8.4	110.9	133.9
Early retirement	39.6	11.7	17.0	27.1	95.5
(a) Total	179.5	110.3	114.1	371.4	775.4
(b) Total without CIG and early retirement	80.1	79.5	76.7	302.7	539.0
(c) Unemployed (2005 average)	308	202	312	1,067	1,889
(d) Coverage rate (b/c)	26.0	39.4	24.6	28.4	28.5
(e) Long-term unemployed/unemployed (%)	36.6	30.9	44.2	56.1	48.3
(f) Inexperienced unemployed/unemployed (%)	14.1	13.0	16.0	23.3	19.5

Source: Ministry of Employment, based on INPS data (2007).

The main beneficiaries of this scheme are workers in the retail trade, small and micro industrial firms, craft businesses and service companies, all of which are excluded from the scope of the special CIG and mobility benefit. Most of these workers are women aged between 25 and 44, living in the north of Italy.

The ‘reduced requirements’ unemployment benefit paid to seasonal and intermittent workers (on fixed-term and temporary contracts) is claimed in particular by women and workers aged under 44 and/or coming from southern regions (Porcari, 2004).

An important function of supplementary cover has become apparent over the past four years, since the introduction of legislation allowing for derogation from the sectoral and company-size restrictions built into the

regulations on the wages guarantee fund (the *cassa integrazione in deroga*). This scheme is controversial, in that it grants the administrative authorities extensive discretionary powers, with the possibility - by no means remote - that it may be misused owing to political wheeling and dealing. Besides, these measures are funded out of general taxation and not through contributions from employers and employees, because these sectors are excluded - by law - from the benefits (but also the costs) of the CIG. Nevertheless, in the absence of a comprehensive reform of the entire system, the *CIG in deroga* has been a means of enabling hundreds of thousands of workers affected by the current recession to be covered during suspensions of production.

During the crisis of recent months, it has been deemed preferable at regional level and in sectors excluded from access to the ordinary CIG - such as the craft sector - to draw on the *CIG in deroga* rather than on the bilateral income support funds. It is estimated that approximately 200,000 suspended workers benefited from this arrangement in 2008 and 2009. The government has earmarked an overall sum of €900 million for the period 2009-2011.

## **Usage of the social cushioning measures during the current crisis**

To grasp the magnitude of the crisis currently underway, as well as the extremely grave effects it is having in terms of the suspension and loss of hundreds of thousands of jobs, one need only call to mind a few significant facts.

First of all unemployment, which rose to 7.4%, the highest rate for several years in Italy, during the first quarter of 2009. In mid 2008 the rate was still 6.8%; the prediction is that it could rise to around 10% by the early months of 2010.

No less worrying is the situation regarding employment relationships suspended on account of falling sales and output. During the first five months of 2009, CIGO usage increased by 256.59% compared with one year before, reaching 292,931,055 hours. All major sectors of the economy are increasingly turning to the CIGO. The circumstances of the CIGO are critical, with a 466.08% rise in take-up compared with the previous period. The percentage increases on 2008 remained high during

the first five months of 2009, with increases in the vast majority of sectors well in excess of 100%; in five sectors they exceeded 1,000%. Of particular significance are mechanical engineering (+1,262.83%) and metalworking (+2,177.88%). This take-up of the CIGO is a clear sign that the economic recovery has not yet begun, and that the crisis is so deep that the apparatus of production is being severely affected. Confirmation comes from the index of industrial output, which shows a decline of 22.7% for the period January-April. Moreover, it is worth noting that, in view of the large number of hours involved, even apparently slight percentage rises represent huge volumes of CIG hours.

Pay-outs under the special wages guarantee fund (CIGS) went up by 81.57% in the first five months of 2009, compared with the same period in the previous year.

In view of the already severe repercussions on employment, if the crisis were to continue for many more months all the resources hitherto set aside to provide income support for the unemployed could be exhausted. The assurances so far given by the government - 'no one will be left out' - have by no means allayed the trade unions' concerns. Large-scale redundancies could be on the cards as soon as late autumn 2009, which is when the deadlines for pay rises expire (as will the resources to fund them). The CGIL union has sounded the alarm bell, but so too has the managing director of FIAT.

## **Joint funds compensate for flaws in the system**

Given the flaws in the social security system, collective bargaining has without doubt functioned as a 'stop-gap' (Balandi, 2007). 'Bilateralism' (*bilateralità* - Leonardi, 2004), is one of the original forms of collectively agreed welfare provision which have made up for some of the shortcomings in the universal arrangements for income protection in the event of temporary job losses. Initiatives have been taken by the two sides of industry in economic sectors which have traditionally been fragmented, where employment has been unstable and the trade unions weak (construction, craft, agriculture, retailing and tourism), as well as in some fairly robust segments of the tertiary sector (banking, post office, aviation) not covered by the social cushioning measures available to industry.

A law dating from 1996 promotes the establishment of funds to finance experiments with 'income and employment support measures' in sectors and companies not eligible under the system of social cushioning measures.

The tripartite agreement on social security, adopted on 23 July 2007 and transcribed into Law No. 247/2007, advocates strengthening the role of joint (employer/employee) bodies, not least so as to establish benefits topping up those provided by the general system. These support measures must be devised as active employment policies (training, vocational retraining) and not merely as social assistance schemes. They must be justified by either a sectoral crisis or a corporate restructuring exercise.

Thus it was that, at the end of the 1990s, regional, joint 'income support' funds were set up by craft firms. They are financed by companies paying in annually the equivalent of ten hours of a blue-collar wage, based on the collectively agreed pay scale. This quota of hours is then allocated to income support for the workers (eight hours), and to support for the artisans and their companies (two hours).

Experiments with bilateralism have also yielded interesting results in the banking sector, the Italian post office and at Alitalia. Similar initiatives have likewise been developed in temporary employment firms, where specialised agencies now jointly manage training (*Formatemp*) and support for microcredit (*Ebitemp*).

These joint funds, a non-governmental stream of income support in the event of unemployment, find favour with the centre-right government<sup>9</sup> and with certain trade unions, in particular the CISL. Champions of bilateralism regard joint funds as a tool to promote regulatory autonomy on the part of the social partners, in a participatory and proactive approach to labour relations. The CGIL is more sceptical: it believes that the rhetoric around bilateralism is fraught with risk, above all that of stripping the unions of their traditional negotiating role in favour of 'para-state' intervention. A legal difficulty arises too, in that these joint agencies and funds are private-law institutions and hence unable to guarantee universal coverage (Fammoni, Piccinini, 2008). Another concern, lastly,

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9. Ministry of Employment (2008).

is that the Berlusconi government, through its Welfare White Paper, is planning a reform of the social cushioning measures which will unite all the existing institutes under the umbrella of ordinary unemployment benefit. The wages guarantee fund would be abolished, so that during suspensions of employment the bilateral - self-financed - bodies would be the only means of managing employment crises on a temporary basis. Such a reform of the entire system is deemed regressive.

Some major innovations were made at the start of 2009 with the enactment of Law No. 2, which contains provisions of considerable importance in this area. Most particularly, the craft industry model is extended to all other sectors not having access to the CIG. From now on, ordinary unemployment will be recognised even in cases where the employment relationship is suspended (but not where it is terminated) owing to a 'company crisis'. 'Reduced requirements' unemployment also now applies to craft firms and to contract staff working in craft firms. The number of days payable has been raised from 65 to 90.

Bilateralism has a highly significant role to play in this context, since it in effect contributes to managing what could be defined as a 'mixed' system of social cushioning measures. Indeed, unemployment benefit is awarded subject to a 20% contribution from the joint body: this presumably reflects a desire to avoid uninhibited recourse to unemployment benefit by employers, but the arrangement nonetheless provokes serious objections on constitutional grounds. These relate for example to the list of sectors in which joint bodies either are not, or are not yet, permitted to disburse allowances of this kind. Receipt of public allowances, in the form of unemployment benefit, is now partly contingent on a top-up from a private-law institution, namely the joint body.

Finally, another experiment (2009-11) worth noting is a flat-rate contribution amounting to 20% of 2008 earnings (10% for the following two years) in support of project workers whose employment has been terminated. The level of average earnings under this type of contract is however very modest: between €8,000 and €10,000 per year, according to studies by the IRES (2008). Above all, this measure is thought likely to affect no more than 10% of all project workers, in other words a tiny minority, on account of the very selective eligibility criteria adopted.

## Reforms under discussion

A turning-point in the debate about the social security system was reached in 1997, when, under the first Prodi government (1996-98), a report by a committee of experts coordinated by Professor Paolo Onofri highlighted the highly critical state of affairs.

Today, reform is deemed necessary in order to respond to changes on the labour market. All of the recent plans and proposals are aimed at introducing a closer link between passive compensation measures and a strategy of activation, which has until now been completely absent from employment policies in Italy. The idea is of course to widen access to the benefit system and make it fairer, whilst also raising the amounts paid out - especially for ordinary benefit, which is still the most inclusive and universal component of the Italian system. Yet there is at the same time a desire to bolster (if not to create from scratch) the principle of compulsion, in the form of a 'service contract' linking the government, its administrative outposts (the employment agencies) and claimants. Thus a full-blown legal obligation is to be established, with harsh penalties imposed for non-compliance.

It should nevertheless be remembered that the issue of activation arises in quite different terms in Italy from the rest of central and northern Europe. In those countries it is a matter of minimising, or averting, the phenomenon of the welfare trap, and hence the risk that recipients of relatively generous replacement earnings will have little incentive to find a new job. In Italy the problem is quite different in nature: there is a very large amount of insecure employment, going hand-in-hand with both an extremely modest level of replacement earnings and very rudimentary activation policies (especially in respect of training).

### Influence of the European debate and search for a national compromise

International organisations have played, and continue to play, a very important role in the development of social and employment systems in all the European countries<sup>10</sup>. The EU employment strategies have created

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10. Some even refer to the 'limited sovereignty' of national social security policies (Ferrera, Hemerijck, Rhodes, 2000).

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a favourable climate for debate about thorough reform of the Italian unemployment protection system. The social cushioning measures need to be better tied in with proactive employment policies. Another concern is to strengthen protection on the labour market and share out the existing schemes and resources more equitably. The terms employability, activation and flexicurity (Wilthagen, Tros, 2004; Wilthagen, von Valzem, 2006) loom large in this debate. The reform initiatives discussed and put forward in the course of the past decade have been clearly influenced by the idea that we should move 'from the social cushioning measures/employment duo to the social cushioning measures/employability duo' (Garofalo, 2006:66).

The European Commission's 2006 Green Paper<sup>11</sup>, championed particularly in centre-right circles, has fuelled a wide-ranging debate about the right to work and the future of work. Special attention is being devoted to 'new rights' which are less employment-centred, and to the issue of social security, which requires the creation of more universal, equitable and rational instruments and models of social integration. Critics have however challenged the notion that binding legislation on employment protection tends to undermine the dynamism of the labour market.

Discontinuity between periods in work and out of work is a problem that can no longer be ignored. A broad consensus has formed around the need to extend protection in such a way as to ensure that sectoral affiliation, company size and/or type of employment contract no longer represent grounds for exclusion from social security. At present, the dominant approach is to consider that the current trend cannot be reversed and we must therefore live with it, while rethinking and reshaping both the labour market and social security systems. 'Good flexibility', or 'acceptable flexibility' as it is described in centre-left political and trade union circles, must be introduced.

Extending protection to sectors of the labour market currently without any cover is a key element in the debate on reform of the social cushioning measures. Lawyers have expressed doubts as to the constitutionality of the present system, which could seriously infringe the principle of equality on account of 'the absurd four-way division of citizens' (Balandi,

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11. European Commission (2006); Council of the European Union (2007).

2007:612): between those who are excluded from any protection and those who are covered by ordinary unemployment benefit, the various CIG schemes and mobility benefits respectively.

The two institutions for which reform is most urgent are the wages guarantee fund (the *cassa integrazione guadagni*) and the unemployment benefit system. But the legislator appears inclined to overhaul only the latter. The tripartite protocol on social security, of 23 July 2007, and thereafter Law No. 247 contain criteria and principles for a reform of the social cushioning measures which the government was obliged to put in place within twelve months of the Law's entry into force. Their aim is 'gradual harmonisation of unemployment benefits and 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'.

A broad consensus seems to be emerging in favour of gradually scaling down the insurance-based approach by extending the principle of universality, albeit in a partial and inconsistent manner. The involuntary nature of unemployment should no longer be regarded as an absolute value overshadowing other principles which likewise justify the granting of protection from economic and social changes underway. The traditional notion of work - in the Fordist sense - should therefore be cast aside in favour of a notion of employability, whereby periods in work and out of work can and must follow on from one another without too much trauma (Sandulli, 2002; Bozzao, 2008). Everyone must undertake to fulfil the duty of social solidarity referred to in Article 2 of the Constitution.

A major debate has been ongoing for several years to determine whether protection should be more closely linked to the labour market rather than geared to the contract of employment, as is the case today. Advocates of a (decidedly) liberal slant favour linking social security to the labour market: they recommend moving from welfare to workfare, reducing protection against dismissal and strengthening the logic of activation (Sacconi, Reboani, Tiraboschi, 2004; Ministero del Lavoro, 2008).

For the political and trade union left, first and foremost the CGIL, job stability and employment protection still represent the crux of a social security system centring on the dignity of the individual. The trade unions are traditionally distrustful of forms of assistance - such as for example a

minimum income for all citizens - which are disconnected from this key element, i.e. work. They fear that a reinforcement of the social cushioning measures and of protection related to the labour market might downplay the experience of unemployment and permit a more flexible use of the labour force. This explains why Italy's trade unions have expressed such strong reservations about the flexicurity plans contained in the European Commission's Green Paper (Leonardi, 2007).

What overall shape should a new type of solidarity take? The debate here relates to a trade-off between an insurance-based approach and a universal approach. According to some observers, the insurance mechanism 'even if appropriately adapted, can guarantee neither universal protection nor that all citizens will be sheltered from need; these goals evidently call for initiatives and measures that transcend the logic inherent in the [insurance] mechanism' (Cinelli, 2008:15). Certain experts in the field, such as Massimo Paci, believe that we should overcome such old, deep-rooted distrust and should regard assistance not as a social stigma, but on the contrary as 'a pillar of modern social citizenship' (Paci, 2005:192).

On the other hand, a 'pure' universal dimension would lead one to envisage the introduction of a guaranteed minimum income scheme. The absence of any such national minimum subsistence income, along the lines of similar arrangements in most other EU Member States, is without doubt one of the anomalies of the Italian social security system. The critical points here are:

- a) the problem of making the system not just financially but also socially viable;
- b) the risk that the system may be abused and manipulated;
- c) the political risk arising from a system whose funding would come mainly from northern Italy but most of whose beneficiaries would live in southern regions (Leonardi, 2009).

Some new proposals have surfaced in the debate during the past few months, such as those from Boeri and Garibaldi (2008), who believe it advisable to apply higher contributory rates for unemployment insurance in the case of employers who make greater use of flexible and temporary forms of labour. An insurance-based approach of the 'bonus-malus' type

would be applied: the greater the use of unemployment support funds, the higher the payment to help finance them. Those employers who make heaviest use of fixed-term contracts would have to pay higher insurance contributions. Spanish legislation, for example, has moved in this direction, weighting the employer's contribution more heavily (up to 10% of gross pay) where flexible contracts of employment are used (be they fixed-term, temporary or part-time).

One problem with raising social security contributions for unemployment purposes is the fact that, as well as increasing the tax burden, these contributions already help to put Italy at the top of the European league table for the taxation of labour (Eurostat, 2009).

Another interesting proposal worthy of careful assessment is the one put forward by Tommaso Nannicini on the *lavoce.info* website: in a bid to encourage employers to put workers recruited on fixed-term contracts on a permanent footing, the severance pay awarded would be proportional to the duration of the temporary contract. The employer could only avoid having to pay this additional sum by offering the worker a permanent contract.

The indirect objective in both cases is to discourage the use of fixed-term employment. Similar proposals are under discussion elsewhere in Europe, for example the 'flexinsurance' idea advanced by Andranik Tangian (2007). This Russian researcher at the Hans Böckler Foundation in Düsseldorf has suggested aligning the employer's insurance contribution with the degree of contractual flexibility. The intention would be to compensate flexible workers for the higher risk inherent in their employment relationships, while at the same time encouraging the employer to hire them permanently. Tangian does not believe that such a practice would significantly add to labour market rigidity.

We must undoubtedly think in terms of a mixed social security model, comprising both measures to protect against unemployment and appropriate mechanisms to promote employment. A wide array of provisions will therefore be required. Measures and policies need to be adopted in three main areas: vocational training, active employment policies and income transfers.

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# Greece

## 'Activation' reforms in a residual and fragmented system of social protection against unemployment

Maria Karamessini\*

Greece has one of the most residual social protection systems against unemployment in Europe, which goes hand in hand with a familialistic model of social regulation of unemployment. In recent years the system has undergone several reforms. The main drivers for change were, first, the European Employment Strategy (EES) and the related debate on activation of both the unemployed and passive labour market policy expenditure and, second, the political decision to provide safety nets and a smooth transition to retirement for middle-age and older workers who are made redundant.

The impact of 'activation measures' on easing and shortening transitions from unemployment to employment, giving access to a market income, has yet to be evaluated. Nonetheless, recent reforms have only superficially dealt with the extremely low beneficiary rates; have increased inequality of treatment among the unemployed; and may even worsen the already low wage-replacement rates. As a consequence, the residual character of the Greek system of social protection against unemployment has remained intact and its fragmentation has increased.

### **The system of income protection against unemployment: institutional configuration and rationale**

Income protection against unemployment was first established in 1945 as an insurance-based system whose coverage gradually expanded from the Athens region to the whole national territory<sup>1</sup>. In 1951 the initial Unemployment Fund merged with the main Social Insurance Fund for employees (IKA), before becoming the main branch of the newly founded

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1. For a detailed history of the system until 1992, see Konstantinopoulos (1993).

Employment and Unemployment Insurance Organisation (OAAA) in 1954, with the purpose of grouping unemployment insurance with employment services under the same agency. This plan was abandoned immediately after the foundation of OAAA, and materialised only 15 years later with the creation of the current Manpower Employment Organisation (OAED) in 1969.

Since 1945, unions and employer organisations have always been officially represented on the executive boards of all the above-mentioned agencies, which collected contributions and distributed benefits. Employee representatives invariably made up one third of board members while those of the employer organisations constituted another third. The remaining members were appointed by the government.

### Mode of financing

From 1945 to 1954, unemployment benefit was financed exclusively by employer contributions. In 1954 the overall contribution rate was set at 3% of gross wages, split between 2% for the employer and 1% for the employee. In 1992 these rates were raised to 4%, 2.67% and 1.33% respectively, and have remained at the same level ever since. A deviation from the insurance principle took place in 1985 when the State legally assumed the obligation to transfer a pre-defined amount of resources from the state budget to the unemployment insurance branch of OAED every year.

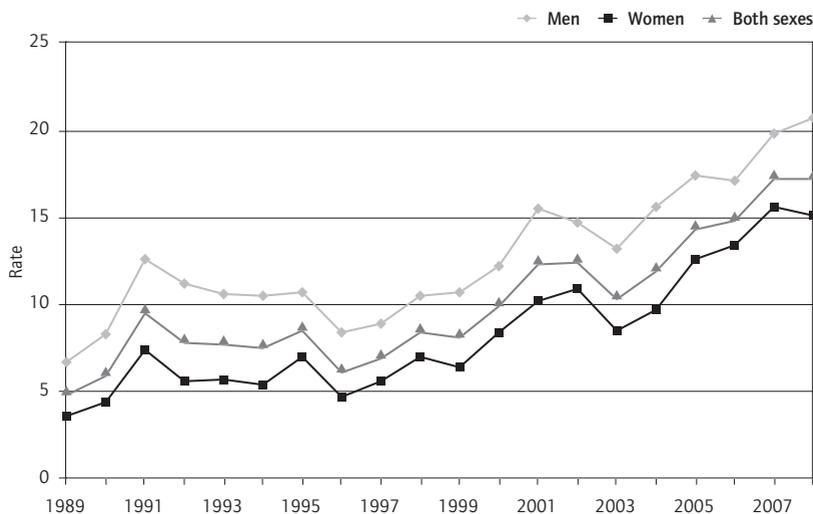
### Income support – benefits and allowances

Since 1954, income support for the unemployed has consisted of regular benefits and special allowances. The first are insurance-based and granted to the unemployed who fulfil the qualifying conditions set by law, while the second are distributed to unemployed people who are not eligible for regular benefits.

Until the mid 1980s, unemployment insurance was characterised by relatively lax qualifying conditions for benefit entitlement, except for first-time applicants and seasonal workers, but the benefit duration did not exceed 12 months, and wage replacement rates were low. In 1954 the amount of benefit was defined by law at 40% of the daily and 50% of the

monthly wage of the insurance class to which corresponded the last gross wage received by the claimant. The minimum benefit was fixed at two thirds of the minimum wage while the ceiling was set annually by the Ministry of Labour. The amount of benefit was increased by 10% for each dependant of the claimant. In 1994, the benefit scale, derived from the wages of insurance classes, was boosted up by 30%. From that year until 2007, when a new mode of benefit calculation was adopted, the benefit scale was periodically adjusted upwards, but increases fell short of average increases in wages.

Figure 1 Beneficiary rate (benefits and allowances)



Source: Own elaboration of Labour Force Survey data from the National Statistical Service of Greece (NSSG).

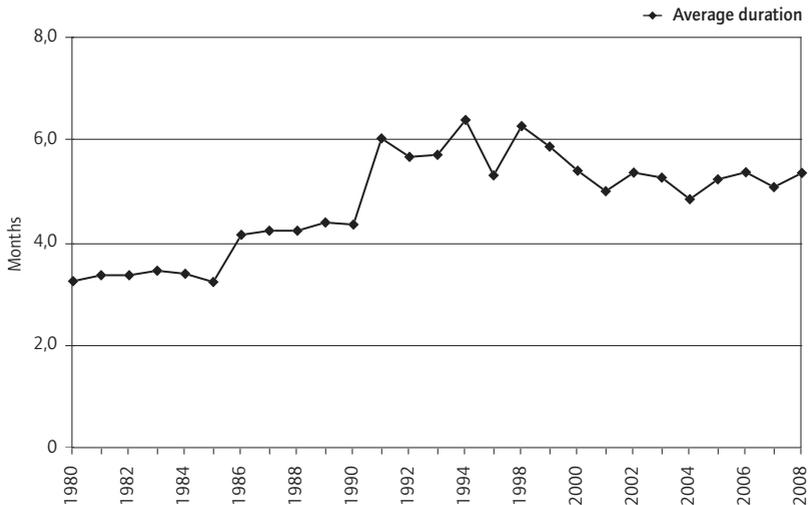
With regard to unemployment assistance, the special allowances were distributed at the Minister of Labour's discretion to individuals and whole categories of workers unspecified by law, thus reproducing clientelistic and corporatist relations through the political management of unemployment. Workers in seasonal occupations were the main beneficiaries of such allowances and remain so today.

The economic crisis of the mid 1970s became more acute in Greece in the early 1980s and revealed the inadequacy of the system to provide coverage to those particularly hit by mass unemployment, i.e. young first-time labour market entrants, and the increasing numbers of long-term

unemployed. At that time it also became evident that the system was leaning towards the welfare principle, since a large proportion of beneficiaries were receiving special allowances, which accounted for 50% of total expenditure on unemployment transfers in 1980-1981 (Karagianni, 2002).

The 1985 reform, the first major reform of the system since 1954, relaxed the qualifying conditions of regular benefits for first-time applicants and employees working in industries with seasonal activity such as construction, tourism, fishery etc. It also introduced two new special allowances, one for the unemployed whose benefit period had ended, and another, of a derisory amount, granted to young labour market entrants after 12 months of unemployment. Four years later, in 1989, a new law abolished the Minister of Labour's discretionary powers and regulated the special allowances for the seasonally unemployed who were not eligible for regular benefits. The same law provided for an allowance equal to 10% of gross wages in the case of temporary lay-off, thus raising the overall wage replacement rate of temporarily laid-off workers from 50% to 60%. Finally, in both 1990 and 1992, the duration of all regular benefits was increased by one month.

Figure 2 Duration of unemployment benefits



Source: Karagianni (2002) for 1980-1999 data. Own elaboration of OAED data for 2000-2008.

## A familialistic model of social regulation of unemployment

1992 marked the end of the period that began in 1985, during which reforms of the Greek system of income protection against unemployment sought to improve benefit coverage and duration. However, these reforms were very modest. It is thus no surprise that the system was still one of the most residual in the EU-15 and the OECD with respect to both beneficiary and wage-replacement rates in the first half of the 1990s (Schmid and Reissert, 1996). While the average duration of benefit increased from 3.2 months in 1985 to 6.4 months in 1994, during the period of economic recession and rise of unemployment in 1991-1994 the overall beneficiary rate stood on average at 8% of all unemployed people (Graphs 1 and 2).

Given the extremely low beneficiary and wage-replacement rates, and the short average duration of benefit, the Greek family was obliged, as in the past, to assume the primary role in the income protection and support of the unemployed, but this time in a context of soaring unemployment.

Gallie and Paugam (2000) have distinguished three models of social regulation of unemployment according to the share of responsibility assumed by public authorities and the family for providing for the unemployed: the public individualistic, the familialistic and the shared-responsibility models. Undoubtedly, Greece remained a good representative of the familialistic model in the mid 1990s. It will be deduced from the following sections that it still adheres to this model today.

### Income support and job placement: the missing link

As previously mentioned, unemployment insurance and employment services were only brought together under the same agency in 1969 with the creation of OAED. The new agency absorbed the existing Employment Offices founded in 1937 with the aim of placing the unemployed in jobs. But it was also supposed to develop new services for all labour force participants, such as vocational guidance, education and training (Konstantinopoulos, 1993). It is a common secret that, since their creation, the Greek Employment Offices have never developed job placement services. It is thus no surprise that, according to ECHP data, only 1.8% of all those hired in 1998-2000 found their job through these offices (Kanellopoulos, 2001).

The lack of placement services is one of the two main reasons why there has never been a link between unemployment benefit delivery and employment promotion. The other reason is that the institutional framework in place never explicitly required collaboration between the unemployment insurance and employment services in the treatment of the unemployed. Consequently, despite the 1971 administrative reform of OAED's services at local level, which brought the Unemployment Insurance and the Employment Offices together in the same building and administrative unit, cohabitation did not lead to cooperation. In 1982, these two different services split again, both administratively and in terms of location. That situation remained the same until 2007, when an administrative reform of OAED transformed the Employment Offices into 'one-stop shops', combining the delivery of benefits and allowances with individual counselling, vocational guidance and job search assistance; and implementing active labour market policy schemes, the search for job vacancies, job matching and placement. However, the search for job vacancies, job matching and placement still remain underdeveloped today.

## **Unemployment insurance: current provisions and recent developments**

We present below the current provisions of unemployment insurance benefit in Greece with special reference to recent developments.

### Conditions of benefit entitlement

To receive a benefit a person must be involuntarily unemployed, capable of and available for work, and registered with OAED. In addition, the person must not be self-employed and must not receive a retirement pension equal to or higher than the minimum pension granted by IKA. Finally, the person must have a contribution record of 125 working days in the last 14 months, or 200 days in the last two years prior to applying for the benefit, not counting the days worked in the last two months before the application. For workers in tourism and seasonal occupations, the requirement is 100 working days in the last 12 months. First-time applicants must also have worked for at least 80 days per year in the last two years prior to their application.

## Benefit duration

The benefit is paid for a period that differs according to the worker's contribution record in the 14-month, 12-month or two-year reference period. In all cases the duration of benefit is 12 months if the applicant has worked for 4,050 days or more.

Table 1 Duration of unemployment insurance benefit

Days of employment (contributions)	Duration (months)
125*-149	5
150-179	6
180-219	8
220-249	10
250 or more	12
210 days and 49+ years old	12

\* 100 days for workers in construction, tourism, fishery etc.

## Calculation of benefit amount

One of the two most important recent developments in the benefit system is the change in the mode of calculation of the benefit amount. A law passed in 2007 defined the basic unemployment benefit at 55% of the gross daily wage of an unskilled worker for those previously employed in a full-time job. 50% of this basic benefit is paid to the unemployed who were not employed in a full-time job and whose monthly wage was lower than or equal to six times the daily wage of an unskilled worker; 75% of the basic benefit is paid to the unemployed who were not employed in a full-time job and whose monthly wage was higher than six times and lower than or equal to 12 times the daily wage of an unskilled worker.

Unemployment benefit is paid for 25 days per month and increases by 10% for each dependant of the claimant. The benefit is tax free and its payment is interrupted in the case of income from commercial businesses or liberal professions.

The new mode of calculation implies the abandonment of the insurance principle, which guarantees a wage-related income, in favour of flat-rate benefits and the welfare principle, which guarantees a minimum income.

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## Special benefit schemes

The second most important recent development in the unemployment benefit system is the introduction of *ad hoc* special schemes for workers made redundant by large companies that have closed down or undergone severe downsizing. Such schemes have been sporadically introduced since the beginning of the 2000s as part of packages of measures intended to curb social protest against mass redundancies in the unionised sector of the economy; the recent crisis has intensified recourse to such schemes.

These schemes targeted workers aged 50 or more with a long contribution record. Their aim was to bridge the gap between employment and retirement by providing much higher unemployment benefit (usually equal to 80% of the last wage) and for a much longer duration (up to 5 years in some cases) than under the standard insurance scheme<sup>2</sup>. The generosity and the financing of the schemes were negotiated case by case between the government, employers and trade unions.

To standardise conditions and levels of income support between these schemes, a Special Social Solidarity Fund was established by law in 2007 for all workers aged 50 or more made redundant by firms in declining industries and located in areas of high unemployment<sup>3</sup>. However, this fund is not yet operational and new special benefit schemes are currently being negotiated and agreed upon.

## The obligation to accept job offers and recent activation policies

Both basic laws regulating unemployment benefit determined conditions for losing entitlement if the unemployed person did not accept job offers, and other requirements. The L.D. 2961/1954 stipulated that the unemployed person would lose benefit entitlement if (s)he did not accept an offer of a job related to his/her skills and with reasonable pay and prospects of advancement, or if (s)he refused to undertake an

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2. In the same direction, a 2000 law stipulates that female and male long-term unemployed, aged 55 and 60 years respectively, and who lack 5 years of contributions to be entitled to a full pension, may ask for the full coverage of the remaining contributions by a special fund (LAEK) financed by employer and employee contributions.
  3. Claimants must have paid contributions for 7,500 working days. The allowance amounts to 80% of the last wage up to €900, or covers training fees up to €900.

occupational adjustment. Also the subsequent Act 1545/1985, in application today, states that 'the unemployed person loses entitlement if (s)he does not accept a job offer by OAED in his/her broader occupational group or refuses to attend a vocational education or training course, or does not benefit from the possibilities for employment'.

Until recently it was impossible for OAED to enforce the aforementioned conditions, given the missing link in the institutional framework of OAED between benefit delivery, on one hand, and job placement and implementation of active labour market policy (ALMP) schemes on the other. The former was the responsibility of the Insurance Offices, and the latter the responsibility of the Employment Offices.

In the second half of the 1990s, the 'activation' debate in Europe and the integration of 'activation' logic and principles in the objectives and guidelines of the EES, urged Greek policy-makers to design and implement activation policies and measures. Two policy initiatives have been implemented in this direction:

- a) The administrative reform of OAED which began in 2001 and involved, among other things, the reshuffling and upgrading of the Employment Offices and the official adoption of an 'individualised approach' in the assistance provided to unemployed people. The reform culminated in 2007 with the integration of unemployment benefit delivery among the services provided by the Employment Offices (see above).

The manner in which the individualised approach is implemented is crucial for the degree of constraint it puts on the unemployed to accept job offers or participate in ALMP schemes. Currently, all unemployed people registered with OAED are obliged at least once to undergo a personal interview, receive individual counselling and agree with the employment counsellor on an 'individual action plan'. Yet they are not sanctioned if they do not follow this plan. Besides, meeting the counsellor is a prerequisite for the monthly renewal of the unemployment card for unemployed people who do not receive benefits and wish to participate in ALMP schemes; but it is not a prerequisite for receiving benefits. Individualised assistance is thus voluntary for the unemployed on benefits, and is not yet linked with any obligation on their part.

- b) The second policy initiative is aimed at the ‘activation’ of ‘passive’ expenditure on benefits. It is an open scheme, running since 2004, according to which the unemployed may use their benefits as wage subsidies for private sector employers who hire them for either a full-time or a part-time job. A recent 2009 law extended this scheme to hires in the public sector.

## **Unemployment assistance: extension to new groups, but gaps in the safety net**

Unemployment assistance in Greece has thrived in the many gaps in the unemployment insurance system. Seasonal workers were the first and indeed the only population to receive allowances from 1954 to 1985. From the mid 1980s onwards, the number of allowances has increased in two waves: 1985-1989 and 2000-2009 (Box 1).

‘First-wave’ reforms mainly granted an allowance to young new labour market entrants, and reorganised and improved income support to seasonal workers. ‘Second-wave’ reforms introduced an allowance for workers aged 45 and over with a long employment record suffering from long-term unemployment and low income; and in-work benefits for the long-term unemployed who accept part-time jobs. In-work benefits are an activation measure stemming from the ‘make work pay’ rationale, according to which benefits can be used as work incentives.

### **Unemployment allowances**

#### **Seasonal workers with limited contribution records (1989)**

The allowance is paid once a year to construction, tobacco, forestry and quarry workers, shoe makers, tile makers and potters, employees in hotels and restaurants, musicians and actors, cinema and television technicians etc. who have worked in seasonal activities related to their occupation for 50 – 210 days in the year before the payment of the allowance and have not worked for more days in other activities.

**New labour market entrants aged 20-29 who are long-term unemployed (1985)**

The allowance is granted on condition that they remain registered as unemployed for one year. It amounts to €73.37 per month and is paid for five months.

**Unemployed people who have exhausted unemployment benefit (1985)**

Claimants receive 13 basic daily benefits, on condition that they remain unemployed for one more month and that the annual family income does not exceed €8,217.68.

**Unemployed after three months of registration with OAED (1989)**

Distributed to non-seasonal workers who have worked for at least 60 days in the year prior to registration with OAED as unemployed; 15 basic daily benefits are granted, on condition that the annual family income does not exceed €8,217.68.

**Redundancy due to insolvency of the employer (1989)**

The allowance is equal to three months' earnings.

**In-work allowances for the long-term unemployed working part-time (2000)**

Granted for one year to part-time workers working at least four hours a day.

**Long-term unemployed aged 45-65 (2002)**

Distributed to people who are unemployed for twelve consecutive months, who remain registered with OAED and who have already claimed benefit for 12 months. The annual family income must not exceed €5,000 (increased by €587 for each child under 18). The allowance amounts to €200 and is paid for 12 months.

The expansion of entitlements to new groups of unemployed people is the main determinant of the increase in the overall beneficiary rate from 5% in 1989 to 18% in 2008 (Graph 1). However, the proliferation of special benefit schemes and allowances has increased the inequalities in treatment of unemployed people between and within the different groups without providing a universal safety net.

The outcome is an incomplete and fragmented income protection system against unemployment, combined with an even more

fragmented social assistance system, to which the former belongs. To overcome these deficiencies, some researchers have suggested the adoption of a flat-rate non-contributory benefit to which all unemployed people would be entitled, topped up by contributory benefits granted to unemployed people according to their insurance record (Kikilias and Chletsos, 2002).

## Explaining the persistently low coverage – structural and institutional causes

Notwithstanding some progress in the last 20 years, by international standards the coverage of the Greek unemployed by either benefits or allowances remains at an extremely low level today. Understanding how structural factors interact with institutional factors to produce a beneficiary rate of 18% even today is important in assessing the public debate on income support provided to the unemployed.

Table 2 Unemployment by age and sex in 2008

Age	Unemployment rate (%)	Share of all unemployed (%)
<b>Under 30</b>	<b>16.1</b>	<b>43.1</b>
men	12.3	18.6
women	21.2	24.5
<b>30 years or over</b>	<b>5.5</b>	<b>56.9</b>
men	3.3	20.8
women	8.8	36.1
<b>All</b>	<b>7.7</b>	<b>100</b>
men	5.0	39.4
women	11.5	60.6

Source: NSSG, Labour Force Survey.

To start with structural reasons, there is a very significant age and gender dimension of unemployment in the Greek labour market. Young people run a three times higher risk of unemployment than those aged 30 years or over, and women's risk of unemployment is more than twice that of men. Most importantly, young people under 30 along with women aged 30 or more constitute 79% of all unemployed people (Table 2). Men aged 30 or over are in fact the best protected group from the risk of unemployment, in accordance with the male-breadwinner family model, and represent only 21% of all unemployed people.

The age and gender composition of the unemployed is related to the fact that, in 2008, new labour market entrants and returnees constituted 35% and 8.5% respectively of the unemployed (Table 3). If we also consider that 4% of all unemployed people were self-employed before entering unemployment, we can explain why only 53% of all unemployed people in 2008 were previously employed as wage earners. By subtracting from the latter those who resigned from their previous job and have no official entitlement to benefits, we find that only 43% of all unemployed people can theoretically claim benefit regardless of whether or not they fulfil the qualifying conditions.

Table 3 Composition of the unemployed, and beneficiary rates in 2008

Status before unemployment	Share of all unemployed (%)	Beneficiary rate (%)
New labour market entrants	35.1	1.2
Returnees	8.5	
Self-employed	3.8	
Wage earners	52.6	34.1
<b>All unemployed</b>	<b>100</b>	<b>18.0</b>
Wage earners - reasons for unemployment		
Made redundant	18.0	37.2
On fixed-term contract that ended	24.8	40.0
Resigned for personal, family and care reasons	4.5	13.4
Resigned for other reasons	5.3	14.1
<b>All wage earners</b>	<b>52.6</b>	<b>34.1</b>

Source: Own elaboration of Labour Force Survey data (NSSG).

Table 4 Employed immediately before unemployment, by duration of unemployment

Duration of unemployment	Proportion of all unemployed (%)	Beneficiary rate (%)
Will start searching shortly	1.0	42.8
Less than 1 month	8.0	37.3
1-2 months	18.2	51.4
3-5 months	16.6	47.9
6-11 months	15.8	37.8
12 months or more	40.4	9.6
<b>All</b>	<b>100</b>	<b>30.6</b>

Source: Own elaboration of Labour Force Survey data (NSSG).

Long-term unemployment does not only hit young labour market entrants but also those entering unemployment from employment. In 2008, 40% of those who were employed immediately before unemployment had an unemployment duration of 12 months or more, and only 10% of them received a benefit or allowance (Table 4). This low beneficiary rate is explained by the incapacity of the allowance introduced in 2002, for the long-term unemployed aged 45-65, to cover a substantial proportion of the long-term unemployed who have lost their jobs. The analogous allowance for young labour market entrants who are long-term unemployed, introduced in 1985, covers 1.5% of all unemployed labour market entrants aged 20-29 years (Table 3).

Last but not least, low benefit coverage also affects those who are unemployed for less than 12 months, particularly those who are unemployed for 6-11 months. This can be explained by low average contributions, which in turn are the outcome of three main, partly interrelated, phenomena: the large proportion of seasonal workers among unemployed people<sup>4</sup>; the large proportion of workers who become unemployed at the end of a fixed-term contract<sup>5</sup>; and widespread informal work, especially among young people, women and immigrants. Evasion of social security contributions (including those for unemployment insurance) is a major aspect of informality.

In summary, low benefit coverage and the familialistic model of social regulation of unemployment are reproduced through structural phenomena, in the labour market and the family, which impact on the composition of the unemployed population and the length of contribution records, as well as through institutional regulations that determine entitlement, qualifying conditions, and benefit levels and duration.

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4. Using Labour Force Survey data for 2008 on unemployed people with previous work experience, we have estimated that 28.1% were last employed in tourism; 16.9% in wholesale or retail trade; 16.6% in manufacturing; 5.7% in construction; 5.7% in public administration; 3% in education; and the remaining 24.6% in all other economic activities.
  5. From the data in Table 3 we have calculated the relative importance of the three main reasons for entering unemployment from employment: dismissal (34%), end of fixed-term contract (47%), and resignation (19%).

## Public debate

Income protection against unemployment has not been a hotly debated issue in recent years in Greece, but the social partners have expressed their opinions and claims on several occasions, concerning several aspects of the system.

Firstly, governments and employer organisations do not consider the level and duration of unemployment benefit and allowances as possible disincentives to active job-seeking. In contrast, the Greek General Confederation of Labour (GSEE)<sup>6</sup> believes that both the level and duration of unemployment benefit are clearly insufficient to ensure a decent standard of living for the unemployed. In recent years GSEE has persistently claimed from all governments a benefit level fixed at 80% of the last wage, and an extension of the duration of benefits. It has also repeatedly denounced governments for infringing their legal obligation to set the minimum unemployment benefit at 66.6% of the minimum wage<sup>7</sup>. It is noteworthy that these central, and by far the most well-known, claims are based on the representation of the unemployed as dismissed workers.

Curiously, Law 3552/2007 that replaced wage-related benefits with a single flat-rate basic benefit hardly raised any social protest from the unions. The Opinion of the Economic and Social Committee (OKE) on the bill (OKE, 2007), endorsed by both union and employer representatives, proposed that the basic benefit should be set at 66.6% instead of 55% of the minimum wage, and that the benefit duration should be lengthened with the aim of improving the situation of the long-term unemployed. Yet there was no objection or discussion of the pros and cons of the replacement of wage-related benefits by a single flat-rate benefit anywhere in the text.

In the same text, the social partners expressed their joint opinion on the Special Social Solidarity Fund intended to provide income support to persons made redundant in declining industries located in regions with very high unemployment (see above). Among other comments, they

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6. GSEE is the single union confederation for Greek employees working under private-law contracts.

7. For instance, in 1999 the rate was equal to 47.2%, in 2004 56.5% and in 2006 50.4%.

expressed reservations about the provision stating that claimants should lose their entitlement to benefits if they refuse a job offer. In particular, they pointed out that the provision could not be applied before the 'broader occupational categories', within which unemployed people are legally obliged to accept jobs, were defined through social dialogue and ratified by law. This Joint Opinion thus reveals that employer organisations disagree with a workfare approach to activation, while the unions consent to the conditionality of benefit entitlement on acceptance of job offers.

In a more recent Joint Opinion (OKE 2008) that draws heavily on a special report of the Ombudsman (Ombudsman, 2007), the social partners argue that adequate income protection against unemployment depends on:

- a) The extension of unemployment insurance to currently excluded groups of workers (the self-employed, workers on service contracts, home workers, teleworkers, family members working as employees in personal family businesses etc.)
- b) The expansion of unemployment assistance to groups of workers who either cannot achieve the required insurance record for eligibility to benefits (e.g. workers on consecutive fixed-term contracts) or who have exhausted unemployment benefit before finding a job.
- c) The introduction of a minimum guaranteed income that would also operate as a safety net for the unemployed.

These proposals could improve insurance coverage and overcome the fragmentation and gaps in unemployment assistance. However, they seem to ignore the impact on coverage of the full range of structural factors analysed in the previous section.

Last but not least, although the social partners are positive about the 'activation' of unemployment benefits through their transformation into wage subsidies for private sector employers, the GSEE has strongly opposed the recent law allowing their use for access to public sector jobs. This criticism is based on the further erosion of permanent employment in the public sector, and fears of political exploitation of the relevant schemes by the ruling party through clientelistic networks.

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(G) = in Greek



## **Poland**

### **Unemployment benefit: haunted by a lack of legitimacy**

Stéphane Portet\*, Karolina Sztandar-Sztanderska\*\*

For many years, Poland held the European record for the highest level of unemployment. However, even in the darkest years, there was never any genuine political conflict over the issue of unemployment. The trade unions put up with - and some even accepted - the liberal solutions that were presented as miracle cures, while politicians generally remained silent and ministers drew up plans that were not backed up by genuine resources. Unemployment seemed to be the price to be paid for transformation, and efforts were needed to limit the devastating impact on family incomes.

The Polish benefit system is thoroughly imbued with this welfare rationale, although it remains fundamentally an insurance-based system. Nowadays activation policies are a dominant feature, but as there is invariably a mix of approaches, the provision of financial windfalls still frequently takes precedence over efforts to improve employability.

In fact, the Polish benefit system suffers from the fact that support for the jobless is not considered legitimate unless their situation is due to age or disability. It is difficult to imagine a coherent system of support for the unemployed in a society where work is so central in terms of the time devoted to it, the proportion of income it generates and its social value. Hence the politicians, unable to gain legitimacy for welfare assistance and with responsibility for managing the jobs shortage, have attempted to disguise financial assistance by introducing controls and an obligation for the unemployed to undertake training or to work – thus legitimising what is not considered legitimate.

In Poland, therefore, unemployment insurance has turned into welfare assistance, and active policies often obscure what is no more than

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financial support. The complexity of the Polish system goes substantially beyond the regulatory frameworks, only revealing itself fully in social practices and the interplay of the parties involved.

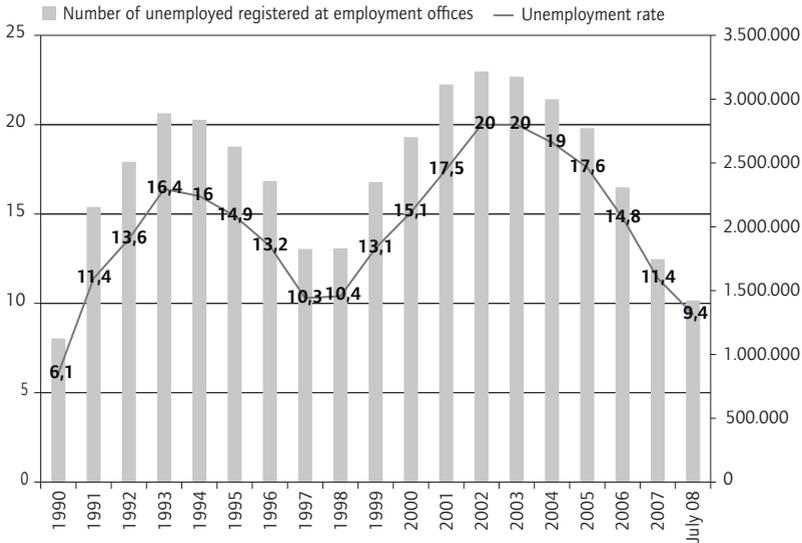
## Characteristics of unemployment

In July 2008, employment offices reported an unemployment rate (i.e. the number of job-seekers at the end of the month) of 9.4% (Graph 1). The economic crisis, prompting a slowdown in economic growth in the first quarter of 2009 (equivalent to an annual rate of +1.9%), led to an increase in unemployment. This was nonetheless a limited rise, and in April 2009 unemployment stood at 11% (1,719,900 people). Poland, which for many years had the highest level of unemployment in Europe, finally gave up this position in 2007. After topping 20% during 2003, unemployment began to fall rapidly as a result of renewed economic growth, but also and above all due to the mass emigration that followed the opening of the borders of several European countries (Ireland, the UK, Sweden, etc.)<sup>1</sup>. However, it would be wrong to consider emigration to be solely responsible for the drop in Polish unemployment. Between the second quarter of 2003 and the last quarter of 2008, 2,348,000 jobs were created against a backdrop of strong economic growth<sup>2</sup>. Nevertheless, the first quarter of 2009 saw the cutting of 299,000 jobs.

The impact of this drop in unemployment, however, varied enormously for different social groups and regions. In geographical terms, the unemployment rate varied from 7.5% in Wielkopolskie to 18.4% in Warmińsko-Mazurskie. The regions most affected by unemployment today have been the hardest hit since the beginning of the economic transformation. These are principally the western and northern regions of the country, where state farms were of particular importance under the previous regime. In fact, the drop in unemployment has led to a marked increase in inequality of access to employment, thus further widening an already gaping social divide.

1. In 2002, 786,000 Polish people worked abroad. In 2005, the number had risen to 1,450,000 and in 2007 to 2,270,000 including 1,860,000 in Europe (GUS 2008a). The number of people working abroad has thus increased by 1,270,000 since 2004, a figure comparable to the fall in unemployment between 2004 and 2007 (1,253,000 - job-seekers at end of month).
2. There is also a significant statistical bias here in that many emigrants remain registered as unemployed in Poland.

Figure 1 Number of people unemployed and unemployment rate (job-seekers at end of month)



Source: Employment Office

Women are more affected by unemployment than men, a discrepancy that tended to worsen when job creation resumed from 2003 onwards. In June 2005, women accounted for 53.4% of the unemployed, 59.4% in August 2008 and 48.7% at the end of the first quarter of 2009, when it was men who bore the brunt of redundancies in the industrial sector. According to the employment survey, female unemployment stood at 7.7% in the second quarter of 2008 compared with 6.5% for men. For the first quarter of 2009, the figures are 8.9% and 7.7% respectively.

In Poland, the main problem connected with unemployment remains the large number of young people out of work. In December 2007, young people under 25 who were registered at employment offices represented 19% of all unemployed, rising to 26.3% in the last quarter of 2008<sup>3</sup>. Young people are particularly targeted by support programmes, and indeed a large number of them are not included in the unemployment

3. This figure has fallen substantially over the past few years. In the last quarter of 2004, 38.9% of those aged 15 to 24 were unemployed, compared with 17% in the second quarter of 2008 according to the findings of the employment survey.

figures due to participation in work experience or training programmes organised by employment offices.

Long-term unemployment is the other area of concern. Despite economic recovery from 2003 onwards, the average period of unemployment remains long (13.1 months in the second quarter of 2008). In July 2008, long-term unemployment (over a year) affected 42% of job-seekers. Finally, 29% of those out of work have been unemployed for over two years.

### The crisis serves to promote partial unemployment

Prior to the 2008 economic crisis, there was, strictly speaking, no system of partial unemployment in Poland. Under labour law, an employer was permitted to use the so-called 'downtime' system (*czas przestoju*). However, it was not legitimate to use **downtime** where a drop in production required a work stoppage. The system of downtime relates to periods during which an employee is unable to work, either through his/her own fault (e.g. because he/she has broken a machine) or through the fault of the employer (e.g. due to a power failure or lack of raw materials). Where an employee is at fault, he/she does not receive any pay. If an employee is not responsible for the situation, he/she receives remuneration equivalent to his/her basic hourly wage or monthly salary (without any bonuses, apart from those associated with his/her position, rather than his/her work activity – Supreme Court rulings of 30/12/1986, II PZP 42/86 and 16 November 2000, I PKN 55/00) or 60% of his/her usual pay if there is no distinction between the basic wage, supplements and bonuses. The remuneration paid must not be less than 60% of the minimum wage. In addition, the employer may ask the employee to carry out other duties appropriate to his/her level of skills during the period not worked.

When there is a fall in production, the period not worked is considered merely to be **'a break in work due to difficulties encountered by the employer'** (stipulated in Article 81-1 of the Labour Code). Nevertheless, remuneration for this period must be the same as for downtime. An employer is entitled to ask an employee who is unable to work due to a lack of orders to work in a different post in accordance with Article 42 of the Labour Code. An employer may also ask employees to take their paid leave. There is no additional compensation (e.g. from the State) for the loss of pay resulting from a drop in production. However,

in many companies, periods of partial unemployment are regulated by company agreements and compensation is generally higher than set out in the Labour Code. Thus a company such as the ArcelorMittal Group, which made use of partial unemployment in 2008 and 2009, pays compensation amounting to 80% of the usual wage or salary, while Volkswagen pays 100% (with a system of annualised working hours).

The economic crisis and the difficulties facing Polish companies (particularly in the manufacturing industry) have reawakened the interest of the social partners in developing a system of partial unemployment, aiming to avoid the massive job losses that occurred during the last crisis in the early 2000s. In March 2009, the Polish employers' organisations and the three trade union confederations (Solidarnosc, OPZZ and FZZ) adopted a package of 'anti-crisis' measures, in particular the establishment of a partial unemployment system subsidised by the public purse and the annualisation of working hours, with in return a limit on the maximum length of fixed-term contracts (currently unlimited). Flexible arrangements were to be limited to companies in difficulties and for a maximum period of two years. This 'anti-crisis' plan was submitted to the government, which only accepted some of the proposals, was reticent about government funding of partial unemployment and extended the option of annualising working hours to all companies. The proposal was discussed in Parliament at the end of June and triggered lively protest from the trade union organisations, who said that the government proposal completely altered the initial agreement between the social partners. On partial unemployment, the government proposal permits its use by companies showing a 30% drop in turnover compared with 30 June 2008. Under the system of partial unemployment, companies will be entitled to coverage of a proportion of lost pay equivalent to unemployment benefit (or approximately 1/5 of the average wage) for a maximum period of one year. Total pay must not be less than the minimum wage and the period not worked must not exceed the equivalent of a part-time post. For the period of one year, companies receiving this assistance must not make anyone redundant on economic grounds. Compensation payments will be made by the Labour Fund (the agency responsible for paying unemployment benefits). The period of partial unemployment may be used for the training of employees, in particular by taking advantage of easier access to the European Social Fund. According to government simulations, around 300,000 employees are expected to benefit from this system.

## Debate about the unemployment figures

In Poland, as in many other countries, there is ongoing debate about the validity of the unemployment figures. This debate is particularly encouraged by the existence of a sizeable underground economy - which in any case undermines the reliability of official statistics - but above all by a view of unemployment that largely focuses on the personal characteristics of those concerned (lack of qualifications, alcoholism, attitude to work, etc.).

Criticism of statistical methodology is thus often accompanied by classic references to the existence of voluntary unemployment and in particular to false unemployment. The latter is said to apply to people who are registered as unemployed but 'are not out of work', mainly because they are doing work that is undeclared. Such people are said to have registered as unemployed solely in order to benefit from the sickness insurance available to the unemployed.

It is an open secret that unemployed people in Poland are economically active. Indeed, how could it be otherwise when merely 15.4%<sup>4</sup> of the unemployed receive benefit and welfare assistance is virtually non-existent?

At the same time, it is difficult to see welfare assistance as providing a disincentive to the unemployed, even if this argument is sometimes used in the public debate, which focuses mainly on the 'genuine' and 'false' unemployed as opposed to the 'voluntarily unemployed'. Robust criticism of official statistics from a number of leading experts should be understood in the context of public policy. Indeed, Polish labour law - already very lax, in any case - underwent thoroughgoing liberalisation in the first half of the 2000s. Experts presented this as the inevitable route to combating unemployment, based on the well-known principle that 'the more protection for jobs, the fewer new jobs created' (Góra, 2004:131). Eventually the majority of those involved in public debate were convinced of the virtues of deregulation - politicians, experts and researchers, but also a number of trade unions such as the OPZZ, which negotiated this extreme dilution of the Labour Code. Against all expectations, the liberalisation of the Labour Code did not slow down the growth in unemployment but quite the opposite, for it increased even more rapidly.

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4. Source: Employment Office, July 2008.

This upward trend would only be curbed by the mass emigration that followed the accession of Poland to the EU and the resumption of strong economic growth.

## **The benefit system: from universal allowances to unemployment insurance**

The benefit system in Poland was established in the 1990s in response to the mass unemployment that occurred during the initial years of economic transformation. The system was set up hastily and had to deal with a much larger number of unemployed people than any projections had foreseen. Managing unemployment therefore represented a major challenge for those in government, who mainly concentrated on macroeconomic policies not followed up by any substantial social programmes (Spieser, 2007).

From the start, the benefit system was characterised by the availability of a multiplicity of allowances (unemployment benefit, early retirement allowance, disability benefit, etc.) combined with highly flexible eligibility criteria. According to Pieter Vanhuysse (2003), this political strategy – which consisted of ‘dividing’ the mass of people out of work into separate groups (the unemployed, pensioners, the disabled, etc.) and of ‘pacifying’ each group with a minimum level of financial resources – allowed the authorities to buy relative industrial peace during the initial years of economic transformation. However, given the extent of unemployment and the deepening public deficit, the eligibility criteria were subsequently to become more stringent.

In 1989, unemployment benefit was granted within seven days of registration for an indefinite period to all those registered as unemployed at an employment office, if the employment office had not found them a job. This system was based neither on the concept of unemployment insurance (no period of employment was required) nor that of welfare assistance<sup>5</sup>. Young graduates, including those in search of their first job, received benefit equivalent to 200% of the minimum wage.

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5. Benefit was calculated on the basis of the last wage or salary – initially 70% of it, with the minimum level of benefit equivalent to the minimum wage and maximum benefit equivalent to the national average wage – and was reduced from the third month onwards depending on the length of unemployment.

From 1991 and the vote on the law on employment and unemployment, major restrictions were introduced. The first measure consisted of generally limiting the maximum period for the receipt of benefit to 12 months, with a possible extension to 18 months in regions severely affected by unemployment or on the basis of criteria relative to a person's individual circumstances. Benefits were reduced (a minimum of 33% of the minimum wage and a maximum equivalent to the minimum wage). In 1992, unemployment benefit was standardised at a flat rate. Subsequent changes were to shore up the insurance concept by restricting entitlement to unemployment benefit to those who had paid contributions over a sufficiently long period and at a minimum level. From then on, entitlement to unemployment benefit required an increasingly lengthy contribution period. The benefit period was reduced several times, and today stands at six months with a possible extension in regions affected by high unemployment. As a consequence, the number of people entitled to this benefit has been considerably reduced, from 79.2% of the registered unemployed in 1990, to 30.5% in 1997 and 15.4% in August 2008.

The eligibility criteria (see Box) are fairly restrictive and extremely unfavourable to part-time employees and those with alternating periods of work and unemployment, especially people employed on short fixed-term contracts. Only 18% of the unemployed who registered in July 2008 were eligible for unemployment benefit.

#### **Access to unemployment benefit**

The conditions for entitlement for unemployment benefit are set out in the law on the promotion of employment and labour market institutions adopted on 20 April 2004 (and amended several times).

#### **Eligibility criteria**

- to have worked for a minimum of 365 days during the last 18 months under a contract of employment or any other contract, with pay at least equivalent to the minimum wage (which in effect excludes former part-time workers in the lowest-paid jobs);

- to have been made redundant (resignation does not confer entitlement to the immediate payment of benefit, but only after 90 days of unemployment or 180 days where an employee has deserted his/her post;
- to have paid all social security contributions on the basis of pay that is at least equivalent to the minimum wage;
- to be registered at an employment office and to be available to take up full-time employment.

### **Benefit period**

- 6 months: if the unemployment rate in the area covered by the local employment office did not exceed 125% of the average unemployment rate in Poland in the June prior to registration;
- 12 months: if the unemployment rate in the area covered by the local employment office exceeded 125% of the average unemployment rate in Poland in the June prior to registration or if the unemployed person is over 50 years of age and has worked for a minimum of 20 years;
- 18 months: if the unemployment rate in the area covered by the local employment office exceeded 200% of the average unemployment rate in Poland in the June prior to registration and if the unemployed person has worked for a minimum of 20 years; or in the case of an unemployed couple with at least one child aged under 15, where one of the couple has already lost their entitlement to unemployment benefit after its expiry.

### **Level of unemployment benefit**

Benefit is paid (in theory) from the 7<sup>th</sup> day of unemployment onwards; in practice it is paid after approximately one month. The level of benefit is not linked to the reference wage and varies in accordance with the length of time worked: unemployed people who have worked for less than 5 years receive 80% of the basic amount, those who have worked for between 5 and 20 years receive the basic amount, and those who have worked for over 20 years receive 120% of the basic amount. The basic level of benefit on 1 September 2008 was PLN 551.80 (€ 162) or 48% of the gross minimum wage and 18.7% of the average wage. The replacement rate shows a marked decline. In 2004, the standard rate of unemployment benefit was equivalent to 61.1% of the gross minimum wage and 22.6% of the gross average wage.

The benefit system is managed by the Labour Fund, which in 2008 had a budget of approximately 2.35 billion euros and is largely financed by social security contributions (94.8% of the budget in 2008) and the European Social Fund (3.8%). Although the lion's share comes from social security contributions, the Labour Fund is a state fund under the direct control of the Minister of Labour. The social partners have no part whatsoever in its management. In general, the social partners do not play a major role in the unemployment debate, although the employers' organisations constantly object to the way in which unemployment benefit competes with the minimum wage. Consequently they are calling for the level of benefit to be reduced. Nonetheless, in May 2008, the social partners as a whole opposed the Polish government's attempt to use unemployment insurance surpluses to finance health service reforms by means of an amendment to the 2004 law that aimed to extend the remit of the Labour Fund to public health.

Unemployed people who are not entitled to unemployment benefit can contact the public social welfare organisations. They are likely to receive a temporary allowance if their income does not exceed a nationally defined threshold<sup>6</sup>. In October 2008 this threshold was € 140 (PLN 477) for a person living alone and € 100 (PLN 351) for a person living in a family. In 2006, the average amount of temporary benefit was approximately € 40 (PLN 164) per month and the average benefit period was six months (*Ministerstwo Pracy i Polityki Społecznej* and *Departament Analiz Ekonomicznych i Prognoz*, 2007). The social welfare system can provide other kinds of benefit, but these are only of marginal importance. The granting of assistance is also contingent upon the beneficiary 'co-operating' with social workers. Refusing a job (even an unsuitable one) or refusing to take part in an activation programme can often lead to payments being suspended.

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6. Under the law, social workers have substantial discretionary powers. If they consider that the individual or family in question possesses sufficient additional resources, it is possible that the temporary allowance will not be granted.

## **Lack of legitimacy for the unemployed and social control: the burden of suspicion**

In public debate, unemployment benefit is not viewed as an entitlement obtained by contributing to an insurance scheme. At a symbolic level, the payment of a flat-rate amount owes more to the concept of social welfare than insurance. Unemployment benefit is linked with the situation of being unemployed but with no reference to an individual's past working life, apart from a very general reference to their total years of service.

The social stigma of unemployment is strengthened by the uncoupling of the reference wage and the level of unemployment benefit. According to Polish sociologist Mirosława Marody, such uncoupling is common to other types of benefits including retirement pensions (Marody, 2002). She says that the social image of pensioners is the same as that of the unemployed: they are seen as having transformed their 'social handicaps' (such as age, lack of work, etc.) into resources that enable them to meet the eligibility conditions for various types of benefit. The implicit normative vision is of a society in which the only legitimate way of earning a living is through work.

In this situation, there is strong criticism of unemployment benefit and an almost complete lack of legitimacy for unemployed status: in the collective unconscious and according to politicians and experts, an unemployed person does not receive an income justified by the payment of contributions (2.4% of their net salary paid by the employer), but is purely and simply taking money from other workers.

The lack of legitimacy surrounding unemployment benefit provides a pretext for over-meticulous control and monitoring of the unemployed themselves. They must prove that they are actively seeking work, and if they refuse 'suitable work' (Box 2) or refuse without good reason to take part in an activation programme (work experience, training, socially useful work, etc.), they are struck off the unemployment register for a period of 90 days. Besides losing unemployment benefit for this period, an unemployed person also loses the social security entitlement (health insurance) that is associated with unemployed status and is no doubt the main reason why people register with the employment offices.

### Suitable work

Suitable work is defined in accordance with the following criteria:

- paid employment or work on which social security contributions are paid and for which an unemployed person has sufficient professional experience or qualifications or which he/she could carry out subsequent to training;
- which a person's state of health allows him/her to carry out;
- which requires a total of not more than 3 hours' return journey time and is accessible by public transport.

The statutory definition of suitable work gives officials in local employment offices a great deal of latitude in its interpretation.

While the social treatment of the unemployed remains very poorly developed, the opposite is true of their treatment for administrative and statistical purposes. In July 2008, only 33.7% of the unemployed people who were taken off employment office registers were removed after they had found a job (6.6% subsidised jobs and 2.2% seasonal employment). For 34.5% of those removed this was for administrative reasons, largely because they had refused job offers from the employment office. In 2007, almost one million of the unemployed (949,210) were thus removed from the registers on administrative grounds.

## **A turning point: accession to the EU and impact of the European funds**

The idea of combining passive and active policies to manage unemployment has been in currency since the first employment laws (1989 and 1991). At the very start of the transformation period, a sizeable number of unemployed people benefited from these active policies in the form of training or start-up support for new companies. Nearly 60% of the unemployed benefited in 1992 (Spieser, 2007).

However, as mass unemployment took hold and the public finances declined, active policies soon became thinly spread, reaching less than 20% of the unemployed between 1993 and 1996. Until 2002, active policy

measures were to remain essentially limited to subsidies for socially useful work, besides the special programme for young graduates set up in 1995 following the abolition of the general benefit scheme for young graduates without a job. The real turning point came in 2002 with the introduction of the 'First Job' programme, which aimed to enhance labour market participation of people aged 15-25. The 2004 law on employment promotion and later the structural programme on human resources formed a basis for the ESF and established specific schemes for numerous groups such as the over-50s, women and the disabled.

The dominant slogan of the time was 'activating the inactive'. This approach underpinned policies during the 2004-2008 period<sup>7</sup>, seeking a shift from welfare to workfare. This new direction was in line with the development of social policies in Europe and at the heart of the European Employment Strategy.

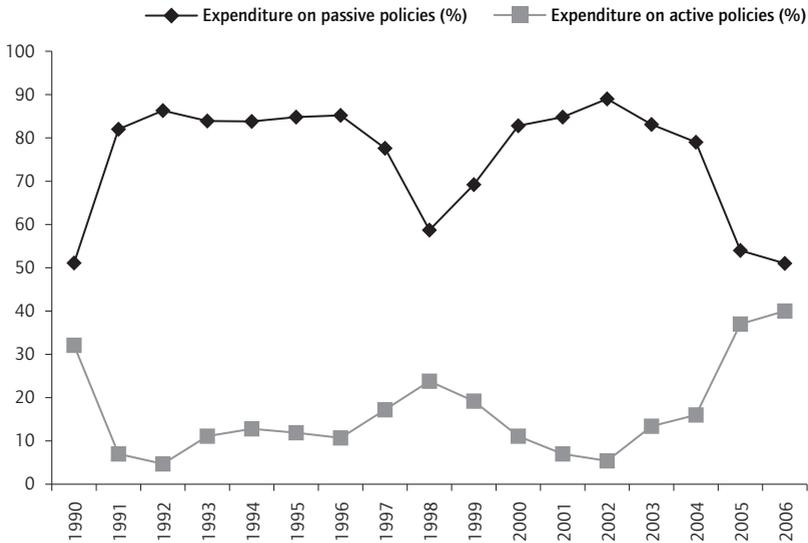
Recommendations to increase labour force participation among the unemployed and pensioners by reducing social security benefits are common to all international organisations – the OECD (2004:1), the International Monetary Fund (International Monetary Fund, 2004:19), the World Bank (World Bank, 2004:41) and of course the European Commission (Commission of the European Communities, 2004:16). Indeed, these organisations wield considerable influence in the political debate, due particularly to the fact that independent debate among local experts is of extremely poor calibre.

For a long period, expenditure on activation programmes remained insignificant, representing less than 20% of total expenditure of the Labour Fund between 1991 and 2004 (with the exception of 1998). From 2005, the structure of expenditure changed radically as a result of new financial resources from the European funds, but also due to falling expenditure on unemployment benefit in a context of economic recovery, growth and mass emigration. In 2008, the Labour Fund budget allocated 35% of its revenue to the benefit system and 52.6% to so-called active policies.

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7. As evidenced in this extract from the Action Plan for Social Integration: 'Hitherto, social policy on people suffering from exclusion has been inadequate and has resulted in greater passivity on the part of the beneficiaries. There has been a lack [...] of targeted financial support for very specific situations. As a consequence, this amounted only to low-level support to satisfy educational and vocational activation needs, but did not allow people to overcome poverty or exclusion.' (*Ministerstwo Polityki Społecznej*, 2004: 11).

Figure 2 Labour Fund expenditure



Source: Sprawozdanie o dochodach i wydatkach FP (MPiPS-02) za lata 1990-2002, Sprawozdanie z wykonania FP za 2003 rok, MGiP 2004 (Szytko-Skoczny, 2004, p. 117).

For the employment offices, which are subject to benchmarking of the number of people trained, programmes established, job placements for the unemployed and a whole range of quantitative criteria, activation policies soon also became a means to improve the unemployment figures. Indeed, those taking part in activation programmes are no longer included in the unemployment registers. However, it would be mistaken to view such policies purely as a means of statistically managing the unemployment figures. In 2006, 444,760 unemployed people were removed from the registers due to participation in an activation programme, representing merely 14% of all those removed from the register in this period. Nevertheless, the impact of such measures in terms of increasing employability also seems to be very limited. In 2006, 434,096 of the unemployed were re-registered after taking part in a support programme.

Table 1 Active policies for the management of unemployment figures

	July 2008	
	in 1000s	%
<b>Unemployed people removed from registers</b>	<b>245.3</b>	<b>100.0</b>
Reasons:		
<b>Found a job</b>	<b>82.6</b>	<b>33.7</b>
of which:		
<b>Non-subsidised</b>	<b>66.3</b>	<b>27.0</b>
<b>Subsidised</b>	<b>16.3</b>	<b>6.6</b>
of which:		
Intervention jobs	3.5	1.4
Public works jobs	3.4	1.4
Support for company start-up	5.5	2.2
Subsidised private-sector employment	3.4	1.4
Other	0.3	0.1
<b>Training</b>	<b>15.0</b>	<b>6.1</b>
<b>Work experience</b>	<b>17.8</b>	<b>7.3</b>
Apprenticeship/On-the-job training	7.1	2.9
Socially useful work	4.6	1.9
Did not provide proof of availability for work	84.6	34.5
Left voluntarily	15.2	6.2
Attained retirement age	0.5	0.2
Became entitled to retirement pension or disability benefit	1.8	0.7
Became entitled to early retirement allowance	1.1	0.4
Others	15.0	6.1

Source: Employment Office

In fact, it appears that the considerable momentum behind active policies is due to the fact that those embarking on activation programmes are entitled to payment of a replacement income for a longer period and, most importantly, to a higher amount. Thus passive and active policies are closely interwoven, and indeed a large proportion of active measures aim solely to provide an income for people who have no other entitlements. This is especially true of public works jobs and intervention jobs, which are often jobs in local authority departments that offer relatively little in terms of labour market integration, since they generally lack any real prospects.

Table 2 The role of social security assistance in active measures

Active policy type	Impact on unemployed status	Impact on the income of unemployed person	Impact on the unemployment benefit period
Training	The beneficiary remains officially unemployed, but is not included in the unemployment figures.	The beneficiary can claim unemployment benefit (if he/she fulfils the formal conditions) and the training supplement at the same time. The standard supplement ( <i>dodatek szkoleniowy</i> ) is 20% of unemployment benefit, and the supplement for those under 25 ( <i>stypendium</i> ) is 40% of unemployment benefit.	No impact
Work experience	The beneficiary remains officially unemployed, but is not included in the unemployment figures.	The beneficiary of work experience cannot claim unemployment benefit. He/she receives a work experience allowance ( <i>stypendium</i> ) equivalent to 140% of monthly unemployment benefit.	Payment of unemployment benefit is suspended during work experience. It may be resumed on completion, but the benefit period is reduced by a period equivalent to the duration of the work experience.
On-the-job vocational training ( <i>przygotowanie zawodowe</i> )	The beneficiary remains officially unemployed, but is not included in the unemployment figures.	The beneficiary cannot claim unemployment benefit. He/she receives a vocational training allowance equivalent to 140% of monthly unemployment benefit.	Payment of unemployment benefit is suspended during training. It may be resumed on completion, but the benefit period is reduced by a period equivalent to the duration of the training.
Public works jobs ( <i>roboty publiczne</i> ) and intervention jobs ( <i>prace interwencyjne</i> )	The beneficiary loses unemployed status because he/she has a contract of employment.	The beneficiary receives a wage or salary.	The duration of a public works job is considered as a period of employment and is not counted as a period giving entitlement to unemployment benefit. If, during the year following a public works job, the beneficiary again becomes unemployed, he/she can claim benefit that is at least equal to the amount of benefit entitlement remaining at the time he/she accepted the public works job, minus the period worked.

The promotion of active policies and the law of 2004 brought sweeping changes to the sphere of unemployment management in Poland by encouraging the establishment of private employment agencies. In October 2008, 3,712 private agencies were thus registered in the national register of employment agencies, of which 2,517 acted as intermediaries on the national labour market and 2,269 abroad (and many both at once). Others focused on personal development counselling (1,749) or career coaching (1,029). It is interesting that temping agencies (2,108) are also officially counted as employment agencies. In fact, since 2004, intermediary services on the Polish labour market along with advice and support for the unemployed have been largely privatised, with the public employment offices retaining merely a small number of responsibilities such as the management of benefit funds, the provision of start-up funding and recruitment subsidies, and the management of so-called public works and intervention jobs. While private employment agencies only rarely receive subsidies from the public purse, they have, in contrast, benefited substantially from ESF funding. The social partners, and particularly the Solidarnosc trade union, have attempted to gain a footing on the private agency market, but so far without any real success. With the drop in unemployment, a considerable proportion of these private agencies has disappeared.

## **Criticism of early retirement allowances and disability benefit**

As well as being the target of strong criticism, disability benefits and early retirement allowances have long been significant tools for managing unemployment in both social and statistical terms. They have been used on a massive scale by the public authorities to curb the growth of unemployment, particularly in the restructuring of collectivised agriculture and large enterprises. Large numbers of employees with apparently very low employability (possessing few qualifications and with complex family circumstances, for instance) were thus offered an alternative to unemployment benefit in the form of an early retirement pension or disability allowance. At the same time, many companies used early retirement in particular to bring in new blood and/or to facilitate smooth restructuring of the workforce. A study carried out in 2005 demonstrated that 73% of Polish companies offered their employees early retirement plans, one of the highest rates after the Czech Republic and Finland (Riedmann *et al.*, 2006: 45).

Early retirement pensions and disability benefit have a clear advantage over unemployment benefit in that they pay more – at least 120% of unemployment benefit – and are virtually permanent, while unemployment benefit is usually paid for 6 months only. An amendment to the law in 2004 rendered the eligibility conditions for early retirement more stringent, and since then the number of new entrants to the system has shown a downwards trend. The same is true for disability benefit, which became more difficult to access from 1999. However, despite these constraints, in 2007 pensioners still made up 36.9 % and the disabled 20.9 % of the non-working population aged over 15. Of inactive men aged between 55 and 65 years (the retirement age), 36 % were retired and 40.5 % unfit for work (GUS, 2008d). In 2006, those in early retirement represented 2.46% of the entire working population compared with 2.92% in 2005 (OECD, 2008).

Besides having a very high number of people in early retirement, Poland is also characterised by a particularly large population of disabled people. In the last quarter of 2007, the country had 3,814,000 people who were unfit for work among the population of working age. Only 16% of these disabled people are active in the labour force and 13.8% are employed. These figures are in constant decline, despite numerous attempts at labour market activation of the disabled.

Whilst early retirement has mainly been used to facilitate economic restructuring, particularly at the start of the transformation period, disability benefit has since become a major tool for the social (and statistical) management of unemployment. Moreover, maps showing the distribution of unemployment rates and disability rates are very similar. Disability rates are thus highest in the regions where the large state farms were located before 1989. Following the closure of these farms, thousands of people became unemployed with very slim chances of finding work. Many of them, finding it difficult to enter the labour market, thus benefited from disabled status and the allowance that accompanied it.

In September 2008, the Polish government set out a plan to limit access to early retirement by stipulating the strenuous nature of work as a condition of entitlement. This plan, fiercely criticised by the trade union organisations, aimed to reduce the number of people eligible for early retirement to 250,000. It was accompanied by the adoption of a new plan to promote employment among the over-50s. This provided for reductions in social security costs and for training programmes, with the

objective of increasing the proportion of Polish young seniors in work by 50% by 2030. This reform involved considerable strong-arm tactics by the liberal government of Poland. It marked a turning point that revealed a broader challenge to the right to unemployment benefit in favour of remuneration for work whatever its nature, but work at any cost - and this in a country that had succeeded in resisting compulsory work for all citizens under communism...

## **Conclusion**

Similar to most aspects of social policy and labour law in Poland, the current unemployment benefit system is a product of the hasty action taken at the beginning of the transformation period. It also bears the stamp of the ultra-liberal trend of the 1990s and of the adjustment programmes inspired by international recommendations - the Washington Consensus, the Lisbon Strategy, doctrines of the European Commission and the decisive intervention of the European Social Fund, the instrument fundamental to the success of such doctrines.

The result is essentially a hybrid system, the broad lines of which are difficult to discern. For behind the grandiose statements giving top priority to active labour market measures lies a system that is unambitious in the extreme. Its principal features consist of continual disengagement by the State and a lack of interest among the political class, trends that for the moment are masked by falling unemployment and support from the European funds.

Indeed, the principal change that is apparent is the fall in unemployment: without this, the apparent transformation of unemployment management policies would doubtless be much less substantial. What is certain is that structural developments are as significant as any changes in political strategy.

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# Hungary

## A continuous shrinking of the unemployment benefit system

Béla Galgóczi\*

### Introduction

Unemployment was an unknown phenomenon under state socialism; being without an official job was even seen as criminal and was subject to sanctions. In reality, ‘unemployment’ was kept hidden behind the company gates in the form of over-employment. Correspondingly, unemployment benefit, as with any other labour market policy instrument, was non-existent before 1989 in Hungary.

The collapse of the state socialist regime in 1989 resulted in a disintegration of the regional political economy by the early 1990s. In Hungary, as in most Central and Eastern European countries, this period was marked by a huge decline in GDP and by a collapse of industrial output. As a result of rapid market liberalisation, Western products started to flood the market, pushing a large number of domestic products out. This situation was further aggravated by an early privatisation of trade, the food industry and other industries producing consumer goods.

Emerging mass unemployment and rapidly declining purchasing power of wages came as a huge shock for the population. The rise in the number of people unemployed in Hungary from 10,000 to 600,000 (corresponding to a 12% unemployment rate) between 1989 and 1992 had in some respects a harsher impact than the Great Depression.

This dramatic emergence of mass unemployment was a new experience and the hastily established labour market institutions were totally unprepared to deal with a problem of this scale and nature. The establishment of fully fledged labour market policy measures and institutions was completed by 1991. Although unemployment had

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stabilised below the level of 10% from the mid 1990s onwards, employment rates remained persistently low until very recently.

This article focuses on labour market policy measures and institutions in Hungary, and reviews past and current practices. It also gives a short background on labour market developments specific to Hungary, and briefly addresses the impact of the recent economic crisis on employment, examining specific labour market policy tools to deal with the repercussions of the crisis on employment.

## General labour market trends in Hungary in the past decade

In the past decade the Hungarian labour market has been characterised by persistently low employment rates. Table 1 shows the development of the employment rate over the last ten years in Hungary. Average growth rates of 4% in the period 1997-2006 were not sufficient for job creation as most of the growth was generated through an increase in productivity. The declining growth rate in 2007 and 2008 was accompanied by a slight decrease in the employment rate mainly due to job cuts in the public sector.

The employment rate of around 57% of the population aged 15 to 64 falls substantially short of the corresponding EU27 average of 65.9% for the last year. The female employment rate lags behind male employment by 13 percentage points over the whole period, making the gender gap in employment larger than the EU average and showing similar patterns to most southern European countries.

Table 1 Employment rate (%) by gender for the population aged 15-64 between 1997 and 2008 in Hungary

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
HU total	52.4	53.7	55.6	56.3	56.2	56.2	57.0	56.8	56.9	57.3	57.3	56.7
- Men	59.7	60.5	62.4	63.1	62.9	62.9	63.5	63.1	63.1	63.8	64.0	63.0
- Women	45.4	47.4	49.0	49.7	49.8	49.8	50.9	50.7	51.0	51.1	50.9	50.6
EU27 (total)	60.7	61.2	61.8	62.2	62.6	62.4	62.6	63.0	63.6	64.5	65.4	65.9

Source: Eurostat (2009)

Another weakness of the Hungarian labour market lies in the low employability of older people. Disability pensions and a variety of early

retirement schemes have absorbed a large proportion of individuals leaving the labour force. In the 45-60 age group, over 40% of the unemployed receive disability benefit (*Bálint and Köllő, 2007*).

The very low participation and employment rate of individuals in the 15-24 age group is also a factor behind the overall low employment rate. The activity rate of the Hungarian 15-24 age group lags behind the EU15 average by 20 percentage points. The reason for the low activity rate is that very few students – at least according to statistical observations – are willing to enter the labour market during their studies and even fewer find a job (*OECD, 2007*).

Table 2 Unemployment rate (%) by gender in Hungary between 1997 and 2008

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
HU total	9.0	8.4	6.9	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4	7.8
- Men	9.7	9.0	7.5	7.0	6.3	6.2	6.1	6.1	7.0	7.2	7.1	7.6
- Women	8.1	7.8	6.3	5.6	5.0	5.4	5.6	6.1	7.4	7.8	7.7	8.1
EU15 (total)	9.8	9.3	8.5	7.7	7.2	7.6	7.9	8.1	8.1	7.7	7.0	7.1

Source: Eurostat (2009)

The unemployment rate fluctuated within a relatively narrow range around 7% in the last decade, as Table 2 shows. It was slightly below the EU15 average until 2007 and used to be much more favourable than in most Central and Eastern European new member states (CEE NMS), where double digit unemployment rates were more the rule than the exception until 2006. On the other hand, Hungary did not see an improvement in unemployment between 2006 and 2008, when NMS with previously high unemployment, such as Poland, the Baltic states and Slovakia, experienced a spectacular decrease in unemployment rates. It was, in fact, the opposite as the unemployment rate had even increased slightly due to lower growth rates caused by the government's stabilisation measures. There were no substantial differences between the male and female unemployment rates for the whole period, although the previously lower female unemployment rate changed to a slightly higher level than male unemployment from 2005, as the austerity measures primarily affected the public sector, where are women traditionally overrepresented.

While unemployment among young people in Hungary was slightly lower than the EU15 average until 2006, by 2008 the unemployment rate of

the 15–24 age cohort had risen to 3 percentage points higher than the EU15 average.

The duration of unemployment in Hungary is long. In 2006 only 4.3% of the unemployed succeeded in finding a job within one month following their job loss. In 2007 this increased slightly to 4.5 per cent. The proportion of those looking for a job for more than one year, however, increased between 2006 and 2007 from 41.2% to 44.1%.

Over half of the unemployed population does not receive unemployment benefit. The proportion of job-seekers quickly decreases with age over the age of 40 – the majority of those who receive unemployment benefit but are in fact inactive are found in this age group.

## **The impact of the crisis on the Hungarian labour market**

The deepening crisis, caused primarily by the sharp drop in exports and aggravated by falling investments and household demand due to tight fiscal policy and the credit crunch, had shown its effect on the Hungarian labour market within a short time (for more details on the effects of the crisis in CEE, cf. Galgóczi, 2009). In contrast to the rest of Europe, the Hungarian labour market was already showing signs of contraction in 2007.

Compared to 2008, the number of persons employed has decreased by 85,000, bringing the already low employment rate down further to 55.3% by April 2009. The number of unemployed people grew by 88,000 between May 2008 and May 2009, an increase of 32%. The unemployment rate increased from 7.5% to 10.2% in this period, as Table 3 shows. The proportion of men has increased among the unemployed, as male unemployment grew by 2.8 percentage points, while female unemployment rose by 1.3 percentage points. At the same time the average duration of unemployment has decreased somewhat.

The highest decrease in employment was observed in the manufacturing industry, where it fell by 9.3%, representing 76% of total job losses in Hungary between May 2008 and May 2009. Public administration and public services which had suffered substantial job losses in the previous years were only slightly affected in this period.

Table 3 Unemployment rate (%) in Hungary between May 2008 and May 2009

	May 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009
HU	7.7	8.1	8.4	8.8	9.2	9.7	10.0	10.2
EU27	6.8	7.5	7.6	8.0	8.3	8.5	8.7	8.9

Source: Eurostat (2009-1), (seasonally adjusted monthly figures)

## A review of Hungarian labour market institutions and employment policy with particular regard to passive measures

### The legal background of labour market regulations in Hungary

After labour market policy measures were hastily introduced in 1989, the legal foundations of a comprehensive system were established by the Employment Promotion Act in 1991. Legislation on employment relationships consists of three major parts; the Labour Code covers the competitive sphere; the Civil Servants Act covers public administration employees; and the Public Servants Act covers employees in public services (education, health, etc.).

The Civil Servants Act and the Public Servants Act contain detailed and rigid prescriptions on job classification, wage scales and promotion. The relatively low level of pay in the public sector is compensated by better protection against lay-offs and by guaranteed promotion.

The Labour Code regulates the market sphere and follows a free market philosophy: the employment relationship is based upon individual and/or collective bargaining between employees and employers, with government intervention limited to setting minimum standards.

Working hours are fixed at eight hours per day. Overtime, special working hours, multiple shifts, work on public holidays, paid leave and the protection of minors and women (pregnant or with a child under a year old) are also regulated by the Labour Code. The Labour Safety Act provides for health and safety, and physical conditions at work.

It can be concluded that labour market regulations are rather liberal in Hungary, particularly in the private sector. Dismissal costs and severance payments are also regulated in a rather liberal manner. Laid-off

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employees are provided with a period of notice and a severance payment. The employer is required to justify the lay-off and employees have the right to defend themselves against the reasons stated. Notice periods and severance payments are dependent on tenure within the firm.

## **Labour market policy institutions**

### Government bodies

Most labour-related issues were integrated under the authority of the Ministry for Employment and Labour, although the Ministry of Social and Health Affairs and the Ministry for Education retain some labour-related responsibilities.

### Public Employment Service

The Public Employment Service (PES) consists of the Labour Office and a regional network of labour market centres, and operates under the authority of the Ministry for Employment and Labour. The Labour Office is responsible for ensuring the professional background and direction of the regional centres (in terms of methodology, information and statistical background, etc.). These centres operate both passive (the unemployment benefit system) and active (e.g. re-training) labour market instruments. Financial resources are provided by the Labour Market Fund, which succeeded the Employment Fund and The Solidarity Fund in 1996. The legal foundations of this system are given in the 1991 Employment Promotion Act.

The social partners can participate in the application of employment policy, and its adaptation to specific and regional conditions via the tripartite Labour Market Fund (LMF) Steering Committee. This forum was created in 1997 and is responsible for managing the Labour Market Fund. The right of disposal over the Fund is formally granted to the Minister of Employment and Labour Affairs (previously, the Minister of Labour) but, according to the law, the Minister exercises this right jointly with the LMF Steering Committee. This means that the Fund is actually managed by the tripartite body. The Committee has extensive powers with regard to the financial issues of the LMF, such as drafting its annual budget; deciding on re-allocation between the sub-funds; and deciding

on the co-financing of national programmes for economic and regional development.

At the decentralised level, the county employment offices and labour councils bear the same joint responsibility over the decentralised funds. The extent of decentralisation varies. In the case of the Employment sub-fund it is almost 90% of the total. In 1997, the Labour Mediation and Arbitration Service was established to assist in firm-level wage conflicts or other labour-related disputes.

## Employment policy measures

Labour market policy in Hungary is based on the same instruments as in most of the EU15 countries, consisting of active and passive labour market policy instruments (here we will discuss passive instruments only).

Labour market policy is based on combined financing: unemployment benefit and the active measures are insurance-based, while income support and social assistance are budget-financed.

Contributions are paid by both employers and employees. The levels of contributions gradually increased until the mid 1990s, but have decreased somewhat since then (with a further decrease from July 2009).

Expenditure on employment policy decreased significantly in terms of its share of GDP throughout the whole period (from 2.81% of GDP in 1992 to 0.64% of GDP by 2006). This very low level is still among the highest in the CEE NMS. In comparison, labour market policy expenditure in the EU15 was on average 2% of GDP in 2006.

Table 4 Public employment policy expenditure 1992-2006 as % of GDP

	1992	1995	1998	2000	2006
Total expenditure in % of GDP	2.81	1.33	1.01	0.86	0.64

Source: Hungarian Ministry of Labour, 2005, Eurostat 2009.

The three most important passive instruments are unemployment benefit, income support and early retirement. The system of unemployment benefit is earnings-linked (an insurance device), but the latter two measures are provided as social assistance.

## Unemployment benefit

This form of assistance is available if an unemployed person is not entitled to a pension, is both capable of and available for work, cooperates with the labour office (i.e. visits the centre within given time limits and accepts job offers made by the centre) and has made contributions to the Labour Market Fund (for at least 360 days over the last four-year period). Job offers made by the labour office must correspond either to the qualification level of the job-seeker, or to the qualification level acquired through the training programme offered by the labour office, or to the qualification level of the job in which the person was employed at least six months before unemployment. The job offered must be accessible by public transport, and involve no more than a three-hour daily commute, (in the case of job-seekers with children under 10, a two-hour daily commute).

The unemployment benefit system has gradually become less generous: in 1993-94, the entitlement period became one year instead of two years, and it decreased to nine months in 1998. On the other hand, unemployed people can become eligible for benefits again after certifying 180 days of work. In those days the level of unemployment benefit was between 65% and 75% of previous earnings, with a maximum level of twice the minimum old-age pension. From 2002 the duration of unemployment benefit was reduced from nine months to 180 days and at the same time its maximum level was adjusted to double the national minimum wage (otherwise 60% of previous average wage). The current national minimum wage is 71,000 HUF (approximately 250 Euro) and is exempt from personal income tax.

## Income support for the unemployed

After exhausting unemployment benefit, income support for the unemployed is 40% of the national minimum wage for a further 90 days. The entitlement period for this support was also reduced in two stages from an initial two years to the current 90 days.

This support is jointly financed by local government (25%) and the Labour Market Fund (75%). It must be emphasised that this measure is only available to those who are long-term unemployed and that it also

differs from general social assistance because it is mainly financed from the Labour Market Fund.

## Early retirement

Since retirement ages have changed and early retirement had some disincentive effects, it was replaced in 1998 by pre-retirement unemployment benefit. Employees with at least 20 years of service are entitled to this support until they become eligible for an old-age pension, or participate in a disability pension scheme (but for a maximum of 5 years). This provides the same amount as income support and can be seen as a continuation of income support for unemployed people for a maximum of five years before they reach retirement age.

## Job market entrants

Young unemployed school leavers were entitled to receive unemployment benefits at 75% of the minimum wage until 1995. In 1996, this type of assistance was replaced, also on the grounds of its potential disincentive impact, by wage subsidies for their employment. The scheme is in fact a combination of wage subsidies and on-the-job training. In this case, therefore, a passive measure was exchanged for an active one.

## Specific labour market policy tools to tackle the effects of the crisis

Although Hungary did not launch a large-scale discretionary stimulus package for the economy due to the fiscal constraints in line with the IMF-EU agreement, there are a few measures available for the actors involved in the real economy to cushion the immediate effects of the downturn.

As a general measure to stimulate employment, the government has decreased the level of social security contributions paid by employers by 4 percentage points and the personal income tax level for employees on low to average incomes from July 2009, but has offset these measures through an increase in VAT to keep the fiscal discipline within external constraints.

Hungary was the only new member state (except Bulgaria) to hastily adopt a specific labour market policy measure to cope with the impact of the crisis on employment. In January 2009, following western European examples, the Labour Ministry developed a public labour market policy instrument to support reduced working time in companies affected by the crisis. The job creation pillar of the Labour Market Fund (previously used to subsidise firms that made major investments involving job creation) was redesigned into a pillar for ‘maintaining employment’. Companies applying for this support can run production on a four-day week basis, while compensation for the lost working hours is financed by the Labour Market Fund, providing up to 80% of the lost income with a maximum level of double the statutory minimum wage. The initial expectation of the government was that this support measure could save around 20% of threatened jobs during the crisis. According to media reports and anecdotal evidence, the use of this support scheme has been popular among enterprises and the special fund devoted to its financing will soon be exhausted. The Labour Minister has promised to extend the fund in the future. There is no statistical information available on the number of employees covered by the scheme up until now.

## **The role of the social partners in formulating employment policy**

The regular institutions of social dialogue are the most important terrain for the involvement of the social partners in policy formulation, including employment policy issues in Hungary.

The key institution of national-level tripartism is the Interest Reconciliation Council (IRC), established in 1988 by the then Reform Communist government, which went through several institutional and organisational changes over the two decades but has remained the key institution of national-level social dialogue until today. Depending on the actual political climate it had a varying impact, not only on employment-related public policy formulation and legislation, but also on the whole process of political and economic transformation.

The social partners are also central actors in the implementation of employment policy, and its adaptation to specific and regional conditions, through their role in the tripartite Labour Market Fund Steering Committee. As mentioned before, the Fund is actually administered by

the tripartite body and the Committee has extensive powers with regard to the Fund's financial management.

Within and besides their institutional role, the social partners and especially trade unions have had an impact on the formulation and application of labour market policy. Although they have managed to influence decisions, they have not been able to counteract the successive cuts (as described above) in the unemployment benefit system. It counts as a partial success, however, that the severe austerity measures of the 2006-2008 period did not seriously affect social welfare and labour market policy provisions. The current debate is, however, aimed precisely at the alleged negative impacts of this policy. There is a consensus among experts, media analysts and politicians that the current social welfare system in Hungary is too generous and has adverse effects on the level of employment. This view is widely supported by the European Union and the International Monetary Fund. There is mounting pressure for further streamlining and targeting of benefits and welfare provisions with a focus on activation and promoting employability while eliminating perceived disincentives of a 'generous' welfare system for employment. The likely victims of such a policy would be groups in society with multiple disadvantages. The trade unions are fighting against this process on all levels; their capacity to have a successful impact, however, seems to be rather limited.

## **Conclusions**

Hungary introduced the whole range of labour market policy instruments that are common in the EU15 at the beginning of the 1990s. As far as the general situation of the labour market is concerned, unemployment has never reached alarming levels; it was slightly below the EU15 average for most of the period under consideration. The real problem has been and continues to be the low participation and employment rate.

Labour market policy measures were cut back from relatively generous levels in the early 1990s in successive stages over the period under consideration, in line with a continuously shrinking share of GDP expenditure. Cutbacks mostly affected the entitlement period for unemployment benefit, its level having in fact been increased over time.

The tightening of passive measures has aggravated the situation of the long-term unemployed and led to the growing social exclusion of the social strata most affected by long-term unemployment (low-skilled employees, people living in structurally weak regions, and the Roma minority).

Beside the low employment rate in general, this is the most serious problem affecting the labour market in Hungary.

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# **Bulgaria**

## **Unemployment benefit: reforms, policies and security**

Katia Vladimirova\*

### **Introduction**

Unemployment benefit is a monetary payment received by people who are entitled to social security after job loss and loss of earnings. It is an individual entitlement provided by the social security system in accordance with domestic legislation, and is distributed depending on certain conditions. Entitlement to unemployment benefit is usually determined by the social security agreement in an individual's employment contract.

Like any other kind of social security measure, unemployment benefit provides a certain degree of security that substitutes the basic income lost; however, unlike other benefits such as pensions, unemployment benefit is limited in duration and can be claimed only once during an individual's working life - after job loss, and if they are entitled to social security.

Social security during employment and unemployment is determined by domestic legislation, political debate and active policies; by the cycles and characteristics of economic, social and demographic developments and government responses to them. The social security of employees determines both temporary and long-term security of workers, their families and society as a whole, including the extent to which the national social security system is built on principles of solidarity and equality.

Key factors in determining unemployment benefit are the employment and unemployment rates; the amount and duration of unemployment benefit; the population's economic activity rate; and the extent of informal employment and the grey economy.

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Social security systems can generate substantial funds, especially those related to voluntary social security. In that sense, they are a tool for investments and various social and other policies. The funds can be used to prevent the risk of unemployment and to shorten the periods of unemployment, i.e. to reduce the amount and duration of benefit received. They can be used for lifelong training and learning, especially for people in older age groups, where the risk of unemployment grows and re-employment becomes more difficult.

Unemployment benefit has specific features that are different from the other forms of social security. It is directly linked to the labour market and is more or less determined by the labour market situation. These and many other aspects stimulate debate, a range of reforms, and use of past experience in determining the most appropriate policies and practices.

Unemployment benefit is often the basic income of those who receive it, and sometimes of their whole families. In that respect, it is or can be a mechanism for public social policy. On the other hand, the amount and duration of the benefit are important factors in terms of beneficiaries' attitudes and activity on the labour market; personal choice of job; receiving various social allowances related to unemployment; creating socially disadvantaged or unfavourable situations and encouraging social exclusion.

## **The reforms in Eastern Europe and unemployment benefit**

In Eastern European countries including Bulgaria, unemployment benefit was not part of social practice and political debate, because officially for a period of 50 years unemployment did not exist, and in fact, until after 1990 working people did not have any unemployment insurance (unlike social security for old-age pension and employment records).

Since the late 1980s, Bulgaria and other Eastern European countries have embarked upon a process of radical political, economic and social change. The transition to a market economy and related reforms created different dynamics, approaches and social consequences. Generally, the early 1990s were a period of economic reform for the creation and development

of markets, including the labour market; for changing employment patterns and forming adequate policies for coping with the social problems resulting from privatisation; structural reforms and new processes for addressing unemployment and poverty levels. The political debate on these new concepts and related social security measures began in the early 1990s. On that basis, new laws and rules were adopted, taking into account research about the experience of EU Member States, the USA, and Latin American states and seeking World Bank assistance. Each country decided upon its own social security provisions, including unemployment benefit.

Unemployment benefit in contemporary Bulgaria is directly related to unemployment, its origins and rapid growth; to nascent processes of economic crisis, mass lay-offs and increasing insecurity. For a long time, unemployment benefit was considered as compensation; a social allowance after job loss; an important part of social policy in providing assistance to individuals in difficulty, in this case people who lost their jobs through no fault of their own. It could be said that for a long time no distinction was made between unemployment benefit and social allowances for the unemployed; for that reason, the role of social security was underestimated and expectations of the state's role and responsibilities regarding unemployment and its consequences increased. That was particularly typical of the first stage (1990s), when the foundations of the market economy and labour market were laid.

Generally, two major stages in the development of the social security system and unemployment benefit can be defined. The first encompasses the 1990s, when unemployment grew and reached high levels. There was no legislative framework establishing social security and unemployment benefit; the accumulated social security contributions in special funds were used for both employment policy and social assistance.

The second stage was marked by the adoption of special legislation regulating labour protection, social security and the promotion of employment, and later by the separation of social security and unemployment benefit from labour market policy, and social security from the responsibilities of the institutions working for their implementation.

Prior to the reform of the social security system in Bulgaria, which began in the mid 1990s with the separation of social security funding from the

State budget, the funding and payment of benefits was formalised through legislation<sup>1</sup>.

## **Political and economic reforms in the 1990s: benefits as a social policy tool regulating the labour market and social assistance**

The amount of unemployment benefit and social allowances form part of social policy regulating earnings (minimum wages, and minimum and maximum pensions among others).

In the first years of the transition, benefits were considered to be a State obligation, as compensation for its inability to maintain existing jobs and/or to provide new jobs. That predetermined the selected model of benefits in the beginning: a gradual decrease in the amount received<sup>2</sup>. The entitlement period was equal for all, regardless of age, employment history, and social security contribution records. Unemployment benefit was earnings-linked, and therefore did not encourage job-seeking in the first months after job loss, particularly for those on higher salaries. Initially, benefits were even higher than net earnings. They were only received by people who were forced out of a job through no fault of their own, for example dismissal as a result of redundancy, liquidation or bankruptcy. Those who resigned, left by mutual consent or were dismissed for breach of contract were not entitled to unemployment benefit, although their employers were obliged to contribute to the newly created Vocational Training and Unemployment (VTU) fund on their behalf. Individuals who were not entitled to unemployment benefit, but were registered at the Labour Offices, were entitled to other social benefits (social allowances for young experts and young skilled workers, allowances for long-term unemployment, and for families with two or more children when both parents were unemployed). These regulations were developed during the debate with the newly created and legally recognised social partners, their institutions and organisations. The conditions and requests from each party (state representatives, employers and trade unions) were pre-determined by their objectives, interests and strategies. In fact, comparatively generous unemployment

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1. Decrees of the Council of Ministers Nos. 56 of 1989, 110 of 1991 and others.
  2. From 100, 90, 80, 70, 60 to 50% of earnings prior to job loss for the first 6 months, and in the following 3 months the country's average minimum wage (for unskilled work).

benefit and social allowances (for the country's capacity) were achieved by the leading trade unions, taking advantage of the under-representation of employers' interests, and the "guilt" and "fear" of the government (with regard to the deep economic crisis, mass dismissals and poverty).

Later, as a result of debate, it was agreed that unemployment benefit should be earnings-linked, but subject to minimum and maximum thresholds. The period of benefit entitlement was determined by the individual's age and employment history, to range from 4 to 12 months, according to the length of their social security contribution record, and recognising that older workers have more difficulties in finding work, and therefore need a longer entitlement period.

The amount of unemployment benefit was in direct relation to the minimum wage; the specific amounts, however, have been changed many times (from 80% to 150%). The minimum amount is not determined by the loss of earnings (otherwise it would be too low) but by the income level (per person in the household), under which they are entitled to a social allowance, i.e. when they live below the official poverty threshold. Thus, the definition of unemployment benefit as different from a social allowance (a rather popular notion by then) was enshrined. Unemployment benefit is a compensation linked to job loss and social security contributions record. This approach was needed in order to create interest and incentives, and to establish the necessity of permanent labour contracts and mandatory social security for all social risks, including unemployment (at that stage, working without a permanent labour contract and social security, for unemployment in particular, was typical). Thus, the concept of benefits linked to previous earnings, and to some degree with living standards achieved, was maintained, while decreasing the difference in entitlement, to recognise that all unemployed persons do not work, i.e. they are in similar situations in that they do not produce goods and value.

The Vocational Training and Unemployment (VTU) fund established immediately before the registered unemployment scheme (mid 1990s) gradually increased its resources (with contributions at 0.5% to 7% of gross pay), was funded solely by employers, while the contribution amount was determined by tripartite debates among the social partners at a national level. In the first years, a rather high amount was estimated in order to provide resources for the expected "leap" of unemployment in the latter half of the 1990s due to reforms launched for the liquidation

and restraint of inefficient industries, and mass privatisation. That policy ensured an opportunity to manage the high unemployment rate (19% according to official data for registered unemployment) in the late 1990s, without changing the model for the amount of benefit and duration of entitlement. The selected model for accumulation of resources under a specialised fund (VTU) allowed not only the financing of unemployment benefit and social allowances, but also the establishment of labour market institutions and labour market policy. In the first years, resources were mostly used for “passive” labour market policies, mainly covering unemployment benefit and allowances, informing and managing the administrative processing of job-seekers and job-providers at the newly established public institutions (the National Employment Agency and its regional and local labour offices). The share of expenditure for that policy in Bulgaria varied from 93.7% (1991) to 78.6% (2000)<sup>3</sup>. National policy for regulating labour markets was gradually restructured in the late 1990s with a growing share of funds directed to “active” policies, aimed at promoting a return to employment and encouraging employers to create jobs or hire particular groups among the unemployed.

The accumulation of resources in the VTU Fund allowed for provision of zero-interest loans for the pensions of the ageing and early-retired population<sup>4</sup>. That and the use of resources for different employment measures and programmes and various social allowances raised the question of how effectively and purposefully funds were being used.

A major source of funding for the unemployment contingency policy was the accumulation of employers’ contributions to the Vocational Training and Unemployment fund. Additional sources included the national budget, foreign donors and various international organisations. They were used to finance policies for the creation and functioning of the labour market and mostly for establishing institutions and capacity to register labour supply and demand; to inform and advise young people and older workers on all issues related to career choice and change, and job seeking. They also financed the payment of unemployment benefit and allowances for the long-term unemployed and those ineligible for benefits; assistance in job search and providing recruitment incentives

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3. According to National Employment Agency data.

4. At the age of 55 for women with minimum employment records of 20 years, and 60 for men with minimum employment records of 25 years.

through subsidies for employers and workers. Additionally the funds were used for promoting vocational training through activities for further education, improving qualifications, retraining and other initiatives aimed mostly at specific occupational labour markets; and to attempt to overcome the mismatch between supply and demand for highly-skilled labour; to stimulate and promote job creation and security.

For years, national employment policy was mainly linked to the policy for reducing unemployment, assisting the long-term unemployed, people living below the poverty line and those permanently excluded from the labour market. The stability of the specialised fund (VTU) created opportunities for regular benefit payments and the financing of “active” labour market policies, as well as encouraging the unemployed to re-enter the workplace.

During that phase, unemployment benefit accounted for the majority of expenditure since the proportion of laid-off workers was large; the number of the permanently unemployed grew, as did the cost of social allowances for the unemployed. Only redundant workers were entitled to receive unemployment benefit.

For many years, unemployment benefit amounted to 60% of gross earnings prior to redundancy (not below 80% and not over 150% of the national minimum wage), as determined by the Law for Protection against Unemployment and Promotion of Employment (valid until 2001), while the period of entitlement (from 4 to 12 months) was determined according to employment history and age.

Passive policy generosity was also determined by the numerous social allowances for people who were unemployed, received by many individuals without social security: young people with vocational training who after graduating from college were registered as unemployed with the PES (public employment services), i.e. without any social security records, including unemployment insurance; those who were permanently unemployed; the unemployed with small children and others. In fact, social security entitlement was combined with the entitlement to social allowances, social assistance employment policies financed mainly from the State and local public budgets.

With the adoption of a special law in 1998, social allowances from social security contributions were abruptly limited and reduced. The aim was

to encourage the unemployed to re-enter the job market, and actively participate in training and job seeking.

Increasingly, employers objected to the large amount of contributions and the direct opportunities for them to use those resources<sup>5</sup>. That debate has resulted in reducing the amount of security contributions and increasing the range of contributors.

With the development of reforms to build a functioning market economy and particularly the preparation for EU membership, the national policy emphasis changed. One of the most evident transformations was the restructuring of labour market policy with more focus on active policies and programmes, financed by the State budget, the EU pre-accession funds and currently the Social and Cohesion Funds.

## **The social security reform: unemployment benefit in the system of individual social security rights**

For Bulgaria, a major stage in creating and securing a market economy was the reform of the social security system, which is directly linked to unemployment benefit. The second stage of the reform of unemployment benefit was linked to developing a separate fund for unemployment insurance, different from the general fund for the regulation of labour market policy implementation (VTU fund), its inclusion as a comparatively independent fund in the national social security system; and with the utilisation of its resources mostly for the compensation of socially insured individuals after job loss. Employment, social assistance and social security policies have also changed. The institutions managing the collection and distribution of funds in the “Unemployment Fund” (the National Social Security Institute and its regional offices) have been reformed, and new cooperation has arisen between the National Employment Agency, the National Social Security Institute and the Agency for Social Assistance.

The overall reform of the social security system began in the mid 1990s with the adoption of an Act separating social security from the public

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5. Mostly the subsidy programmes for training and retraining of people at risk of unemployment, technological and industry restructuring, etc., job creation and hiring of the unemployed, etc.

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budget. On that basis, by the end of the 1990s many new laws and acts were adopted, which laid the foundations for the current public social security system with its three “pillars” (public insurance, healthcare insurance and unemployment insurance) in the three possible forms - mandatory, mandatory supplementary, and voluntary.

By the end of 1997, Bulgaria had adopted the Law for Protection against Unemployment and Promotion of Employment and legally enshrined the policies, institutions, rights and obligations, including social security and benefit payments, which had been established by previous legal acts (1989-1997). In the following years, several amendments were made to that Act, two of them major. One (dating from early 2002) reflected the decision to separate unemployment insurance risk and payment of unemployment benefit from the policy regulating the labour market. Unemployment insurance and benefits paid were assigned to the newly established National Social Security Institute, i.e. to social security<sup>6</sup>. With the adoption of the Law for Protection against Unemployment and Promotion of Employment (LPUPE), the basic principle of social partnership in the regulation of labour and social affairs was endorsed, including in the benefit policies. On that foundation, the tripartite structures and institutions such as the National Council for Tripartite Cooperation, and the National Council on Employment (at the Ministry of Labour and Social Policy) were created; along with the Supervisory Council at the Employment Agency; the Supervisory Council at the National Social Security Institute, and Regional Councils on Employment at district or municipal level, etc.

Later, specific laws and acts related to the labour market and regulation policies, social security, social assistance and others were adopted.

With the second amendment (March 2003) to the LPUPE the new employment policy aimed at developing active as opposed to passive policies was included; for example policies and approaches responding to the Employment Strategy and the National Action Plans on Employment, following the major guidelines of the European Employment Strategy and the Lisbon Strategy (March 2000) for achieving higher employment rates, developing public employment services and implementing integrated employment policies.

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6. Accordingly, legislation was transformed with the Employment Promotion Act (EPA).

As a result of the policy adopted on social security and later of the specialised law<sup>7</sup>, unemployment insurance can be mandatory and voluntary. Mandatory social security introduced the principle of paying social security contributions. In the distribution of social security contributions between employer and employee, a transition period was introduced, during which contributions gradually changed until the employer – employee ratio was equal (50%:50%). At present, there are some exceptions to that rule, e.g. for civil servants, whose contributions are completely covered by the State.

The Social Security Code with its latest amendments<sup>8</sup> lays down the ground rules on social security for general illness; accidents at work; occupational illness; maternity; unemployment; old age and death; supplementary voluntary social security for unemployment and/or vocational qualifications. In accordance with that act, social security provides benefits, allowances and pensions for temporary disability, temporarily decreased employability; disability; maternity; unemployment; old age and death.

According to the Mandatory and Voluntary Public Social Security Code, unemployment benefit represents 60% of the average monthly income received for the past nine months, during which the workers were subjected to mandatory social security for all insurance risks and cannot be under the minimum and over the maximum amount of unemployment benefit. The minimum and maximum amount of unemployment benefit has been determined in the past years by the budget of the public social security Act. The recent practice where employers insure employees at minimum wage rates or a little over, leads to unemployment benefit at the minimum rate.

If, while receiving benefits, a person starts paid work – a reason for mandatory social security – that is terminated after less than 9 months, benefits shall be resumed for the remaining period by the date of termination. People who are registered as unemployed with their respective local unit of the Employment Agency and meet the following conditions are also entitled to benefits for long-term unemployment<sup>9</sup>:

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7. The Social Security Code.

8. In force since 2.06.2009, amendments issue 42 of 5.06.2009, compendium of Laws – APIS.

9. “Long-term unemployed” are people with uninterrupted registration in Employment Agency local offices for at least 12 months, EPA, Additional Provisions, § 1, p.2.

after receiving unemployment benefit they remain unemployed, and have maintained their registration regularly in the respective local unit of the Employment Agency for at least 12 months preceding the month of submission of the application; are 60 years and 6 months of age for men and 57 years and 6 months of age for women; the sum of their age and insurance record is up to 60 months less than required; have not been granted a pension; do not undertake paid work for which they are subject to mandatory social security contributions. Benefits for long-term unemployment are the minimum amount, determined in the Law for the Budget of the State Public Insurance for the year concerned. Benefits for long-term unemployment are granted on the basis of an application to the local unit of the National Insurance Institute and are paid monthly from the date of submission of the application for a period not exceeding 30 months.

When unemployment benefit was separately defined in the social security funds system, a major distinction between entitlements based on social security records and reasons for payment of unemployment-related social allowances was made. The latter was covered in the Social Assistance Act. The Act provides for assistance to find employment for the unemployed who meet the requirements for monthly social allowances<sup>10</sup>. The entitlement to monthly social allowances is linked to community service work, except in the event of maternity or when the age and/or health status of the individual preclude this. The decision was made that the unemployed who meet the requirements for monthly social allowances should join employment programmes, jointly established by municipal administrations, state, municipal and private enterprises and other legal entities, Employment Agency local offices and the Social Assistance Agency<sup>11</sup>. Those who refuse to join the employment programmes become ineligible to claim monthly allowances for a period of one year. Thus, the activation-oriented unemployment policy and increase in employment through the temporary decrease of unemployment contribute to the social security records of those in long-term unemployment, and reduce insecurity arising from major social risks (poverty and social exclusion). Debates in that field are related, on the one hand, to a certain imposed choice of “activation” and forced inclusion in programmes; and also to

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10. Social Assistance Act, promulgated in the State Gazette, issue 56 of 19.05.1998, amended issue 14 of 20.02.2009, amended issue 41 of 2.06.2009, in force since 1.07.2009, Article.1 (2), p.4.

11. Article. 12b. (New – SG, issue 120 of 2002. (1)

the fact that their inclusion in such programmes<sup>12</sup>, financed by the public budget, does not facilitate real inclusion in stable employment and continues the vicious circle. Jobs created under those programmes are low-status, low-paid and short-term. In recent years, stricter restrictions have been introduced in the provision of social allowances for people who are unemployed with the aim of encouraging them to return to employment and thus, to the social security system.

The attempts to assess benefit policy use various criteria. Generally, they can be divided between economic and social. The first group covers economic criteria relating to the financial resources utilised for “unemployment services”, including the amounts, scope and period of entitlement to unemployment benefit and social allowances. To that group, the criterion of “collectability” of security contributions and their use is irrelevant. It remains debatable whether the assessment of that policy should encompass events related to the development and maintenance of institutions on the labour market and some of their activities for unemployment services (for example determining and paying benefits and allowances; registering unemployed people and job vacancies, providing information, etc.). Depending on their relation to that policy, their efficiency is evaluated. According to “optimum” criteria, the amount of unemployment benefit and allowances paid in Bulgaria can be considered sufficiently low and generally meets the requirement to promote a return to work.

Another evaluation criterion is the efficiency of money spent on unemployment allowances. It can be achieved by limiting the number of unlawful entitlements and distribution of benefits. With the legislative amendments made and the transfer of unemployment benefit to the newly established Unemployment Fund, social security contributions are collected and distributed based on classic social security principles. In that way, better monitoring and control over the collecting and spending of resources is implemented.

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12. From Social Benefits to Employment.

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## **In conclusion: the new situation and debate on social security in the context of growing labour flexibility**

The main debate in Bulgaria relates to stakeholders in the field of social security. Employers' associations and certain employers insist on reducing the overall social security contribution (including for unemployment insurance) and implicating the public authorities and public budget when paying social security contributions. Their motives are mainly concerned with reducing their tax burden, especially the burden of social security contributions. There are objections for and against from national trade unions and public authorities, the social security institutions and researchers, in particular. The debate considers factors such as the ageing population (the worker – pensioner ratio in recent years is 3.2 : 2.3); the comparatively high proportion of inactive and socially insecure individuals (the proportion of informal employment varies between 16% and 30%); low insurance income levels (actual wages); and now in a time of crisis – the growing number of unemployed and the restrictive employers' policies adopted by the government to curb earnings, full-time employment, etc. The expected change in the country's governance and policy in favour of business, in order to reduce the negative effects of the economic crisis, may limit the capacity of the Unemployment Fund and create difficulties for the distribution of unemployment benefit.

According to domestic legislation, the amount of social security contributions and their distribution between employers and employees is determined at the end of each year with the budget acts of the Social Security Funds, including the Unemployment Fund adopted by the National Assembly (Bulgarian Parliament).

In the period 2001-2008, the official unemployment rate in Bulgaria dropped, reaching its lowest level in 2008 (a little under 6%). The economic and financial crisis in Bulgaria started slightly later than in most Western European countries. In mid 2008, the Bulgarian economy registered late but comparatively high growth; there were many job vacancies, mainly for skilled jobs. The government, in the last year of its mandate, demonstrated optimism and confidence that the crisis would not affect Bulgaria and if it did hit the country, the impact would not be catastrophic, since the country had every necessary resource to cope. That notion dominated the budgets for 2009 and determined the level of social security contributions. The mass redundancies that began in 2009 have

increased the number of people who are entitled to unemployment benefit. In mid 2009, the official unemployment rate exceeded 7% of the country's active population and by the end of the year it will exceed 8%<sup>13</sup>. The earnings growth of the past two years and the fact that many redundancies came from industries with high remuneration rates (metallurgy, chemical industry, real estate, construction) will challenge the capacity of the Unemployment Fund. Some experts have already predicted that the existing funding is rather limited and will not be sufficient to cover the growing number of people entitled to unemployment benefit. We must also consider the problems of individuals who have worked without permanent labour contracts, therefore without social security, and the increasing wave of returning emigrants.

In the past two decades Bulgaria has become a country of emigrants (approximately 10% of the country's population went abroad to search for better jobs). The migrant flows targeted Spain, Italy, Germany, Portugal and other countries that became most affected by the economic and financial crisis and growing unemployment. The immigrants have probably been worst affected by dismissals. Since the beginning of 2009, many of them have been returning to Bulgaria. Some of them were illegal migrants; some were seasonal workers or on temporary contracts; and others were in sectors most affected by the crisis, such as construction. Those who have social security (mostly from EU Member States), transfer their unemployment benefit entitlement to Bulgaria. However, the number of workers who do not have social security records in Bulgaria or in the countries where they have worked in recent years is significant. At the same time, budget resources for social assistance are becoming more restricted, creating insecurity for the near future.

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13. According to the Ministry of Labour and Social Policy

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## Annex

### Social Security Code

Individuals who are subjected to public social security, are insured against the risk of unemployment in the "Unemployment Fund". Public social security is based on the principles of: mandatory and general social security; solidarity of insured people; equality of insured people; social dialogue on the management of the social security system; organisation of insurance funding.

People who fulfil the following conditions are entitled to monetary unemployment benefit: people for whom the social security contributions owing to the Unemployment Fund have been paid for at least 9 months in the past 15 months before termination of social security and who have been registered as unemployed at the Employment Agency; do not have a pension related to their social security history and age or an occupational pension for early retirement; do not exercise labour activity subjected to mandatory social security.

People insured against unemployment under this Code are: workers and employees hired for more than five working days or 40 hours in one calendar month, regardless of job type, manner of payment and source of financing. Insurers shall be every individual, legal entity or association and any other organisation legally obliged to pay social security contributions for third parties.

Social security contributions shall be paid into public social security funds, of which the Unemployment Fund amounts to 1:100 (of calculated gross wage).

The income eligible for social security contributions involves all earnings, including pay calculated and as yet unpaid, and other earned income. The budget of the Public Social Security Act defines the maximum monthly amount of social security contributions in the calendar year; the minimum monthly amount of social security contributions during the calendar year for the self-employed; major economic sectors and groups of occupations, with fixed minimum monthly insurance income for the calendar year by sectors and occupations, and minimum insurance income. Since 1 January 2009, the social security contribution for the Unemployment Fund has been distributed in a ratio of 60:40.

Unemployed people who, under the legal terms of employment have resigned, or have been dismissed due to their misconduct, shall receive the minimum amount of unemployment benefit for a period of four months. Individuals who are unemployed, and who have acquired the right to unemployment benefit within three years of a previous claim to unemployment benefit, will receive the minimum amount of benefit for a period of 4 months.

Individuals hired to work part-time and receiving less than the minimum wage established for the country shall have the right to receive 50% of the entitlement for the remaining period.

Unemployment benefit will be stopped for a period during which an individual receives temporary disability benefit. The individual will be obliged to declare the period of disability, and unemployment benefit will resume from the end date of that period.

Unemployment benefit will be terminated when: the individual starts work for which he/she is subject to obligatory insurance; stops registering at the Agency for unemployment; becomes entitled to a pension based on insurance and age, or to an occupational pension for early retirement; death of the unemployed occurs.

The individual shall be obliged to declare before the respective local division of the National Insurance Institute the occurrence of the abovementioned circumstances within seven days. If, when receiving unemployment benefit, an individual starts paid work, which is terminated after less than 9 months, the payment of benefit shall be resumed for the remaining period after the date of termination.



## **The United States**

### **The unemployment benefit system: a degree of minimal protection, for 'insiders' only**

Catherine Sauviat\*

The American unemployment benefit system is one of a kind. It is, firstly, largely managed by the individual states, albeit under the supervision of the federal government. The system is, moreover, financed exclusively by employers' contributions, the level of which varies according to the company's past record in terms of redundancies, its 'experience rating'. Finally, the benefit payments provided are particularly scant and of short duration. The choice of a low level of benefit was a deliberate one, designed to avoid creating 'disincentives to work' and to limit so-called 'moral hazard' effects, thus reflecting concerns about 'voluntary unemployment' prevalent among US economists<sup>1</sup>. These features arose from a particular historical context. The unemployment insurance system came into being in 1935, following a number of related initiatives, such as the setting up of voluntary company and/or trade union schemes in the 1920s, and the adoption, as of 1932, by certain states such as Wisconsin, of their own legislation (Blaustein, 1993).

The system, designed in the 1930s, as along with the setting up of a public Employment Service, has remained virtually unchanged in terms of its structure and underlying principles, although it has undergone legislative changes and financial tensions several times in the course of its history. It was devised at the outset to cater mainly for people with strong links to the labour market, who are victims of seasonal unemployment resulting from economic cycles (typically people laid off temporarily). Today, therefore, it seems largely unsuited to a labour market which has undergone profound changes. As a result, it offers protection to an ever smaller number of the unemployed (around 1/3 of the total), with no coverage for most part-time and low-paid workers, principally women.

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1. Much research has been done in the United States as to the impact of benefit on the duration of unemployment.

The trade unions remained opposed for a long time to the setting up of a compulsory system, although few of them opted to create their own unemployment funds<sup>2</sup>. The unions played only a very minor part, if any, in the design of the system. They are not at all involved in its management, which has been devolved to the states, leaving these a great deal of freedom as to the form and implementation of schemes (eligibility conditions, duration and level of benefit, etc.). Some reforms have taken place at state level. Nevertheless, no successful attempt has been made at federal level to remedy the main shortcomings of the current regime or to bring about a large-scale reform.

### **The choice of 'experience rating' and of a decentralised system**

The compulsory unemployment insurance system was set up by the 1935 Social Security Act, at the same time as the old-age insurance regime and the social welfare programme for widows with children (Aid to Families with Dependent Children, or AFDC). The Act was adopted in the wake of the Great Depression, when in 1933 the unemployment rate peaked at 25% of the active population. From the outset it was designed as a countercyclical mechanism to support consumption and stabilise the economy, rather than one primarily intended to help provide income security; it was designed as an insurance regime rather than a system of social solidarity. There is in fact no welfare regime in the United States for the long-term unemployed. The decision to create a federal programme under the auspices of the Department of Labor, but managed by the states, was a direct result of the discussions and state legislative initiatives on unemployment insurance which had taken place in the 1910s and 1920s. At the time, there were two main schools of thought. On the one hand, there were the views of John Commons, an institutional economist working at the University of Wisconsin, who advocated an unemployment insurance system based on the principle of modulation of contributions by 'experience rating', as well as the constitution of reserves by employers. On the other were the ideas of the Ohio

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2. Unlike their counterparts in Europe, few US trade unions have set up unemployment funds. In 1931, three national craft unions and 45 local union sections did so. A few joint employer/trade union funds were established in the 1920s, while about 30 large companies, including Procter & Gamble, General Electric and Eastman Kodak, created their own unemployment insurance regimes, cf. Blaustein (1993).

Commission on Unemployment Insurance, led by I. Rubinow, which, on the contrary, were in favour of a single contribution system (employer and employee) based on risk mutualisation at national level and the setting up of a common unemployment fund (Becker, 1972). Ultimately it was the influence of Commons and his team which prevailed in the final design of the system created by the Social Security Act (Baicker *et al.*, 1997).

At the time, a few standards were set at federal level, but a great deal of freedom was left to individual states in working out the details of their own programmes. One of the federal standards was that the system should be based on a set-rate contribution from employers only. A tax credit would be granted to employers, providing that the state laws respected a certain number of minimum rules set out at federal level. Some measures were included in the legislation to provide particular protection for beneficiaries, allowing an individual, notably, to turn down a job offer if the conditions relating to it were particularly disadvantageous for him/her, or for his/her trade union<sup>3</sup>. This provision was included to reassure the unions, who might worry that the unemployment benefit system would be used to erode standards of employment and pay. It was for this reason that the AFL finally gave its support to the act, having been opposed until 1932 to the setting up of a compulsory system.

The public employment service was created in 1933 by the Wagner-Peyser Act. This Act established a central administration, as well as public employment agencies at state level to provide job search assistance, although these, at the time, provided no training for job-seekers. It sets out the general framework for the unemployment compensation system, granting a key role to the states, which are entitled to determine the eligibility criteria for unemployment benefits, their level, etc. This decentralised form of organisation was chosen by Congress at a time when it was dominated by local interests<sup>4</sup>. President Roosevelt did not dare to

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3. An unemployed person who turned down a job offer could not be refused benefit, or have benefit stopped, if the offer was for a post left vacant by a striking worker during a labour conflict, if the working and pay conditions were markedly less favourable than in his/her previous employment, or if this offer would oblige the person to join a trade union or call into question his/her right to join a union.

4. The Southern Democrats, wishing to maintain their racist ways of managing the workforce and to keep labour costs at the lowest levels, were particularly well represented in Congress at this time and chaired some key parliamentary committees.

oppose these groups on this point, for fear of jeopardising the other programmes contained in the Act (the pension regime and assistance to poor children). The characteristics of the system, and the principles underlying it, have scarcely evolved since its beginnings in the 1930s.

## **Minimal wage replacement and strong incentives to return to work**

The unemployment insurance system was created to meet two objectives: to provide temporary and partial compensation for the loss of wage due to an 'involuntary' loss of employment, and to stabilise the economy during periods of recession. The system was thus designed to limit supposed 'disincentives to work', while remaining anchored in the structural characteristics of the US labour market, i.e. considerable employment flexibility and, apart from during periods of economic recession, a relatively low unemployment rate compared to a number of industrialised countries.

### The financing of unemployment insurance by contributions

The 1935 Social Security Act (SSA) defined the administrative framework and the rules governing the granting of federal subsidies to the states. The 1939 Federal Unemployment Tax Act (FUTA) then set the level of the employer contribution, or tax, (currently 6.2%) and the minimum wage base subject to this tax (\$7,000 since 1973). The possibility for employers to qualify for a tax credit has brought down the real rate of the employer contribution to 0.8% in those states which meet the requirements set by the federal government. The taxable wage base actually chosen, however, varies from state to state. The employer contribution to unemployment insurance also depends on the number of people made redundant by the company over the previous three to five working years. Newly created businesses are subject to a standard rate for between one and three years. For other employers, the state calculates a rate for each company, based on its past number of redundancies. This rate is then compared with a reference scale, which varies according to the overall solvency of the state unemployment insurance fund, in order to ascertain the contribution rate to be paid by the employer. This rate may vary within a range of 0 to 10%, depending on the company's redundancy record and the state in which it is based, hence the term 'experience rating'.

Generally speaking, these unemployment insurance contributions, or taxes, paid by employers are not very high: from the 1960s to the 1990s, the effective national tax rate averaged about 1% of overall payroll (OECD, 1999) ; over the last decade, it fell to 0,65%. They are collected by the states, paid into a Treasury fund (the Unemployment Trust Fund) which in turn feeds into the federal budget. The money is then reallocated between states according to various criteria (population size, estimated number of job-seekers receiving benefits, etc.). It is used to finance the Employment Service and the unemployment benefit regime, both of which are now, since the 1998 Workforce Investment Act, part of a one-stop delivery system, which also includes further benefit programmes and a federal loan account to states in deficit.

### Broad coverage but restrictive eligibility criteria

The tax must be paid by all employers who have at least one employee over a twenty week period, or have paid wages to employees totalling \$1,500 in any quarter of a calendar year. These conditions apply to those working in all sectors, except for certain agricultural labourers, those in domestic service, employees of religious associations and self-employed workers. There are special regimes, set up at the end of the 1930s and in the 1950s, for railway workers, former servicemen and women, and federal civil servants.

The eligibility conditions for receiving unemployment benefit are set by the states. To be entitled to benefit, the claimant must be registered as a job-seeker with a public employment agency, must have worked for a defined period before becoming unemployed (generally for the first four of the last five quarters prior to his/her benefit claim), and must have received a minimum level of earnings during that reference period. The claimant must also prove to the relevant services that he/she is able to work, available for work (registered as a job-seeker) and determined to actively seek work (providing job-seeking reports). Generally speaking, a person may not turn down a job offer or 'suitable work' without a 'good reason'<sup>5</sup>. Most states impose financial penalties if the claimant turns

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5. The criteria used to define "suitable work" also vary from one type of job to another, taking account of effects on the health of the claimant, his/her educational background, experience, previous earnings, the distance between the potential place of work and the claimant's home, etc.

down 'suitable work', and some even go so far as to stop unemployment benefit. Over and above the standards for 'suitable work' set out by the FUTA, the states are free to add other criteria, thus rendering eligibility conditions more restrictive. Several, for example, require claimants to seek full-time employment. Job-seekers may also be excluded permanently or temporarily from access to unemployment benefit by intervention of their previous employer, in particular in the case of a voluntary cessation of employment without 'good cause'.

### A steady decline in the number of unemployed receiving benefit

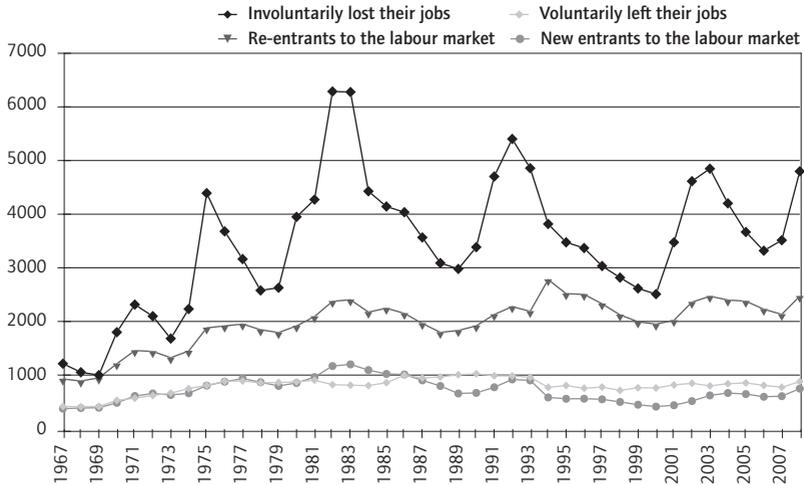
Whilst more than 50% of unemployed persons were receiving benefit in the 1950s, the rate has been declining ever since, reaching its lowest point in the middle of the 1980s (28.5% in 1984). At the end of 2007, only 34% of job-seekers were being paid unemployment benefit (Blank & Kerr, 2008). This rate in fact varies over the economic cycle. It increases during periods of recession, such as the present crisis<sup>6</sup>, because of an increase in the number of lay-offs, and goes down during periods of growth, as companies take on workers again. It also varies a great deal depending on the eligibility criteria used by individual states. Two surveys carried out, one at the end of the 1980s and one at the beginning of the 1990s, confirmed that fewer than 50% of unemployed persons actually claimed benefit (Wander & Stettner, 2000). Those who did so had mainly lost their job through no choice of their own: these make up on average a slight majority, just over half, of the number of people becoming unemployed, as is shown in Table 1.

However, those who have voluntarily left their last job, or are seeking to re-enter the labour market after a period away, as well as new entrants just joining the labour force, are far less inclined to register to receive unemployment benefit. The former believe that they will soon be able to find a job, the latter two groups that they are not eligible, which is generally the case. As a result, most unemployed people do not claim unemployment benefit, and those who do so are mainly adults who have lost their job through no choice of their own, in particular those belonging to a trade union.

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6. During the first quarter of 2009, the rate had increased to 45% on average, cf. US Department of Labor, *Unemployment Insurance Data Summary*, 1st Quarter 2009, Washington D.C., available at <http://workforcesecurity.doleta.gov/unemploy/content/data.asp>.

Figure 1 Reasons for unemployment (in thousands of persons)

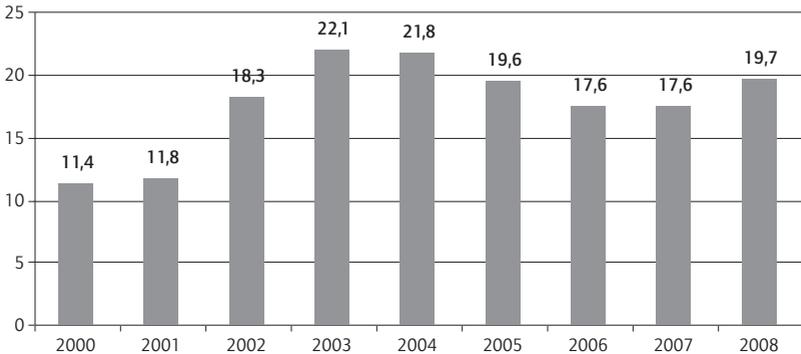


Source: data from the Bureau of Labor Statistics (US Department of Labor).

### The specific problem of the long-term unemployed

Although it seems to perform well, the US labour market shows signs of structural weakness. This can be seen in the fact that since 2002 there has been a persistently high level of long-term unemployment (more than 6 months), in spite of the strategies developed in the 1990s to try and combat this phenomenon (CBO, 1997).

Figure 2 Trend in the % of long-term unemployed, 2000-2008



Source: data from the Bureau of Labor Statistics (US Department of Labor).

In 1993, one such federal law required states to carry out an early identification of those job-seekers on benefit considered to be high risk, so that they might be steered towards specialised programmes and tailored job-search assistance. The job-seekers thus identified are required to participate in these programmes, or lose their unemployment benefit. This use of statistical profiling of the unemployed has helped to reduce the cost to the budget of the public Employment Service, with cost savings estimated at \$143 per person thus identified. Nevertheless, it enables jobs to be found for only a low percentage of job-seekers, fewer than 6% in 2007 (Wandner, 2008). Two other types of experimental system have been tried out to encourage the unemployed to return to work, either by giving them a re-employment bonus, or by offering partial financial compensation where the worker's new earnings were lower than in his/her previous employment. The latter provision is similar to the unemployment (and sickness) insurance programme introduced in 2002 for workers over the age of 50 having lost their job as a result of globalisation, by amendment to the 1962 Trade Expansion Act, which set up a federal welfare programme for workers whose jobs had fallen victim to globalisation (Sauviat, 2007).

### A low level of benefits, generally time-limited

As a rule, the states provide weekly benefit for a basic maximum period of 26 weeks. When unemployment rates are particularly high, a federal programme (the Federal-State Extended Benefits Program), financed equally by the federal government and the states, allows for supplemental unemployment benefit of between nine months and a year. This programme was adopted in 1970 and amended at the beginning of the 1980s to make it more restrictive. It is now, as it stands, largely ineffective: the relevant legislation is often implemented too late, after the recession is over, and, besides, few states manage to meet the criteria to bring it into play<sup>7</sup>. These flaws have led Congress to vote through an emergency legal text with the same fundamental content as the aforementioned permanent legislation, to be implemented during

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7. To benefit from the programme, the state unemployment rate must be at least 120% of its historical average over the reference period (2 years) and at least 5% higher in absolute value over a 13 week period, or exceed 6% in absolute value. Claimants must also have worked full-time for at least 20 weeks or have earned a certain amount before their period of unemployment.

exceptional periods of economic recession. This occurred in 2002, with the voting through of Temporary Extended Unemployment Compensation (TEUC), and once again in 2008 with the Emergency Unemployment Compensation (EUC).

From the very beginnings of the unemployment insurance system, it was generally agreed that the wage replacement rate should stand at around 50%, striking a balance between the two objectives of maintaining purchasing power and avoiding any disincentive to returning to work. Unemployment benefit, which has been fully taxable since 1987, is set at a statutory rate representing between 50 and 59% of pre-tax earnings, subject to a ceiling which varies from state to state. However, the actual replacement rate, as estimated by the Department of Labor, basing itself on the relationship between the average benefit received by the unemployed and the average weekly earnings of workers covered by the scheme, has in fact fluctuated between 30 and 40%, as a national average, since the end of the Second World War. In 2008 it stood at 35%, when the actual weekly benefit received was then close to \$300, for an average effective duration of benefit of nearly 15 weeks<sup>8</sup>.

As well as this publicly funded regime, private unemployment insurance schemes were set up from the mid 1950s, as part of company collective agreements in the automotive sector in particular (Gordon & Amerson, 1957). They provide unemployed trade union members with benefit payments for around a year. When added to the compensation received under the general regime, beneficiaries receive a total replacement income of around 70 to 75% of their gross earnings, subject to a ceiling. This top-up compensation has always been included in the taxable wage base.

## **Worsening unemployment protection**

Originally, the system was designed to support the income of private sector workers working full-time (generally in the manufacturing industry), who had been temporarily laid off for economic reasons (recession or just a slow-down) and would be taken on again when the economy began to recover. It was not intended, then, to combat poverty,

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8. Cf. *UI Data Summary, 1<sup>st</sup> Quarter 2009*, US Department of Labor, *op. cit.*

an objective covered by various social welfare programmes which are generally means-tested. Thus the system was at that time geared solely to adult male bread-winners. This group also happened to correspond to typical US trade union members. This is why union members are still more likely to receive unemployment benefit than other workers (Budd & Mc Call, 2004).

Changes in the labour market since the 1980s have rendered this safety net ineffective for a large number of workers falling victim to unemployment, especially women, who suffer several disadvantages, often occupying a succession of part-time, poorly paid jobs. Loss of employment, on the one hand, has become a lasting, if not permanent, fact of life for a growing number of workers. Periods of unemployment have also grown longer since the 1950s, and there has been a parallel increase in the number of long-term unemployed. Finally, women, whose activity rate has gone up from 37.7% in 1960 to 59.9% in 2000, have reason to leave their jobs more often than men to care for dependent family members. They also work more frequently on a part-time basis and tend to swell the ranks of the lowly paid (US GAO, 2007). For these reasons, women are particularly vulnerable to unemployment but cannot generally meet the criteria entitling them to receive benefit.

The unemployment insurance system is also particularly ineffective in helping people who have just left the main US social welfare programme, set up in 1935 and renamed TANF (Temporary Assistance to Needy Families) in 1996, the beneficiaries of which are, once again, mainly women. This social welfare programme has, for a long time, acted as a safety net against unemployment for poor jobless women, providing them with income support. The 1996 reform, however, tightened up conditions for accessing the regime and thus undermined its role vis-à-vis this particularly vulnerable group. Those women, in particular, who have come to the end of the five years of assistance to which they are entitled, and who find themselves without a job, are usually unable to meet the financial eligibility criteria for unemployment benefit, because of their low past earnings and intermittent employment record (Boushey *et al.*, 2003).

Because of the difficulties in accessing this regime, those people most at risk of unemployment are increasingly addressing claims to the Social Security Disability Insurance scheme instead. It is striking, for example, that the number of claims put to this programme increases or decreases

in line with the unemployment rate, especially since the 1980s, when the disability insurance programme made its eligibility criteria more flexible (Autor & Dugan, 2006). The scheme also has the advantage of opening up access to the Medicare health insurance regime for older people, whereas the unemployed, even those receiving benefit, have generally lost this entitlement at the same time as their job.

## **Resistance to reform despite the crisis**

The unemployment benefit system has never been the object of large-scale reforms at federal level. Neither its structure nor the principles on which it is based have ever been significantly questioned. One reason for this is probably the low cost of this programme compared to other social programmes such as Medicare or the state pension scheme. Another is the fact that the unemployed are particularly poor at lobbying members of Congress, and that the trade unions have never thrown their weight behind the fight to modernise the system, since they are able to negotiate top-up benefits for their members during company collective bargaining sessions.

The system has, however, come under fire from many economists. During the 1990s, Martin Feldstein, Chairman of the Council of Economic Advisers to President Reagan at the beginning of the 1980s, and known for his arguments in favour of privatising the social security system, proposed the abolition of the current system, based as it is on modulated employer contributions, and seen by him as ineffective and liable to affect the reservation wage of the unemployed. He suggested that it be replaced by personal savings accounts, to be used to cover the temporary risk of unemployment (Feldstein & Altman, 1998). The current crisis, which officially struck the US economy from December 2007, and which has resulted in a rapid increase in the unemployment rate, has clearly altered the terms of the debate. At the end of 2008, Congress voted twice to activate the Emergency Unemployment Compensation programme, designed to come into play in the event of recession. The adoption of this programme meant that those people whose entitlement to benefit had run out were entitled to firstly a further thirteen weeks, then another twenty. However, as the crisis worsened, and the repeated lowering of interest rates by the Federal Reserve was seen to fail, a newly installed President Obama proposed a budgetary recovery plan, the American Recovery and Reinvestment Act, on a scale (\$787 billion) unprecedented

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since the Second World War. This plan was adopted by Congress in February 2009.

One notable feature was a boosting of the assistance to be given to the unemployed. This improvement took various forms: a \$25 increase in the amount of weekly benefit; a further extension to the period for receipt of benefit, starting at twenty extra weeks and reaching thirty-three extra weeks in certain cases<sup>9</sup>; and assistance to states to allow them to improve their coverage of workers most at risk of unemployment (part-time and poorly paid workers<sup>10</sup>). The Trade Adjustment Assistance programme, for workers particularly affected by globalisation, was extended to workers in service sectors, who find themselves increasingly unprotected, and a state subsidy was granted to workers losing their jobs, enabling them to pay 65% of their health insurance premiums for a nine month period, under the health coverage provided by their former employer.

The recovery plan, however, is struggling to achieve its expected effects on the labour market, and the unemployment rate is still getting worse, having reached 9.8% in September 2009. Ten or so states have refused to implement the reforms required in order to qualify for federal assistance to extend unemployment insurance to part-time and low-paid workers, for fear of having to raise taxes when this aid is no longer available after 2011. Other states have not yet received all the funds available, since their reform process is not completed. There has in fact been no other measure in the recovery plan more controversial than the assistance given to states to modernise their unemployment insurance regime. The controversy shows the extent to which the ideas behind and founding principles of this system, dating back to the New Deal, still resonate and how they have been able to withstand economic pressures. Unless the crisis deepens still further, it is unlikely that the unemployment benefit regime will undergo many major changes. The system has always been effective, as planned, as a countercyclical force

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9. A twenty week extension was granted to all unemployed people receiving benefit, plus thirteen further weeks to those living in states where the unemployment rate had reached 6.5%.
  10. The reference period used by the states to assess job-seeker earnings tends to omit the period of work just before the person becomes unemployed (three to six months, depending on the case). Although several states have reconsidered this policy, more than half had not done so before the plan came into force. Moreover, the states have, over the years, gradually tightened up the eligibility criteria for unemployment benefit, thus competing with each other to attract and retain businesses on their territory. This is an unfortunate effect of the decentralised structure of the unemployment insurance system, and of the absence of minimum criteria set by the federal government.

during periods of economic recession, backed up where necessary by the voting through of emergency measures. Up until now, it must be said, no more has been required of it.

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# Canada

## From Unemployment Insurance to Employment Insurance: the disengagement of the state

Mouna Viprey\*

There has been a steady rise in employment in Canada over the last fourteen years, with over 3.8 million more people in work during this period. In 2008, the average annual unemployment rate fell to 6.1%, marking a thirty-year low.

Table 1 Unemployment rate

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2008
Total	7.5	7.5	7.6	7.1	6.6	6.2	6.1
Men	7.9	7.9	8.0	7.4	6.8	6.5	6.6
Women	7.0	7.1	7.2	6.8	6.4	5.9	5.7

Source: Statistics Canada. Labour Force Survey

According to surveys of the working population by Statistics Canada, a total of 82,600 jobs had been lost by February 2009 - mostly full time jobs -, which propelled the unemployment rate to 7.7%. In June 2009 the unemployment rate continued to rise, reaching 8.6%. Statistics Canada affirmed in a press release that 'this drop in employment exceeds any monthly decline during the previous economic downturns of the 1980s and 1990s'. There are now 1,592,000 people out of work in Canada. The total number of unemployed has risen by 440,000 since October 2008, representing an increase of 38.3%. Young people between the ages of 15 and 24 have been most affected by this rise in unemployment, with 15.9% now jobless, the highest rate in 11 years.

Fewer than half of all unemployed workers receive benefit due to the laws, regulations and impediments set out in the Employment Insurance Act. In Canada, the reasons for losing a job can affect access to unemployment benefit.

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Unemployment Insurance (UI) represents one of the largest income security programmes in Canada. In 1994 the scheme paid out almost C\$16 billion to some 3.1 million unemployed workers. That same year, 93% of Canadian workers were paying premiums and as such were eligible for unemployment benefit on certain conditions. Likewise, up until 1989, 90% of all unemployed workers were eligible to receive UI benefit, whereas nowadays only 42% receive pay-outs.

Since the Unemployment Insurance Act was introduced nationally in 1940, there has been a change in the logic of state intervention, namely financial disengagement on the part of the federal government. Over two periods of disengagement (1976-1980 and 1990-1997) the favoured approach has in fact been to adopt a number of restrictive measures each year aimed at reinforcing labour market mechanisms while pulling away from the aim of income security for the unemployed.

## **The establishment of Unemployment Insurance**

In Canada, as in other highly industrialised countries, unemployment has long been seen as an individual responsibility. Up until the Depression of the 1930s, the idea of establishing a social security system was by no means unanimously accepted. For many years Ottawa and the provinces left it entirely up to the municipalities to provide unemployment benefit<sup>1</sup>. It was not until August 1940 that an Unemployment Insurance Act was adopted nationally.

In 1941, under this new Act, 42% of the working population was eligible to claim unemployment benefit, although some occupational groups - including farmers, fishermen, teachers and civil servants - were excluded. The fund established under the UI Act was financed by equal contributions from employees, employers and the state. Furthermore, the government contributed a supplementary sum equivalent to 20% of total employee and employer contributions, and covered the costs of implementing the scheme. The UI Act stipulates that the fund must be used exclusively to pay out benefits.

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1. In 1918, in an unprecedented move, the federal government passed a law on the creation of a national network of public employment offices. Meanwhile, trade unions were beginning to call for the establishment of an unemployment insurance scheme.

However, over the years the UI scheme moved away from its initial principles and began to be used more as a mechanism for social redistribution. This shift in the aim of the scheme was effected by way of two main reforms. First came the reform of 1955 which, although it did not change the substance of the scheme, expanded it to include seasonal fishermen and agricultural workers, meaning that 75% of the labour force was now covered. Following the Act of 1971, the second reform placed the role of unemployment insurance into a global social and economic context. The situation in the different regions was henceforth taken into account in order to determine eligibility and calculate the duration of benefits. Claimants in regions with high rates of unemployment enjoyed more advantageous conditions than those in other regions. For instance, the eastern provinces benefited more from the scheme than they had contributed to it, while other provinces contributed more than they received in benefits.

96% of the labour force was now covered by the scheme. Special benefits were introduced, notably sickness and maternity, although only those who had worked for more than 20 weeks were eligible. The changes brought about by these two reforms, together with an upsurge in inflation and an appreciable increase in unemployment, led to a sharp rise in the cost of the scheme. Between 1970 and 1975, UI costs increased fivefold, from C\$730 million to C\$3.3 billion<sup>2</sup>.

The federal government adopted a series of restrictive measures between 1976 and 1980<sup>3</sup>, namely a reduction of the benefit rate, an extension of the period of disqualification, a reduction in the duration of benefit, the establishment of partial benefit repayment provisions for high earners and restricted eligibility for new workers. Because of this, during the 1980s successive governments were forced to limit the changes made to the UI scheme<sup>4</sup>, for fear of the political backlash that severe cuts to unemployment benefit would trigger.

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2. The Canada Employment and Immigration Commission. Annual reports, 1970-71 to 1975-76.
  3. In 1975, Bill C-69 abolished the benefit rate set at 75% of net earnings for claimants with dependants. In 1977, Bill C-27 introduced 'variable entrance' requirements. It was at this time that the government began to use money from the fund for purposes other than the payment of unemployment benefits, going against what had been set out when the UI Act was introduced. In 1978, Bill C-14 tightened entrance requirements, meaning that from then on claimants had to work more weeks to be eligible. The benefit rate was lowered to 60%.
  4. At this time, the employers were calling for a major overhaul of the UI scheme, as the cost of unemployment benefits was skyrocketing and the scheme itself was contributing to the unemployment crisis by creating a culture of 'dependency'.

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## **Disengagement of the state in terms of unemployment insurance**

As in the majority of developed nations, the recession of the early 1990s caused the public sector deficit to worsen and sparked major reforms in respect of UI. In 1990, the government decided via Bill C-21 to withdraw from financing the UI fund with a view to making the scheme autonomous. Prior to this, financing of the fund had always been split three ways between employees, employers and the state<sup>5</sup>.

This government withdrawal, together with the increase in benefit claims brought about by the recession of the early 1990s, led to a deficit of several billion dollars in the UI fund. This deficit was used to justify a drastic reduction in benefits and to increase obligatory employer and employee contributions. At the elections of October 1993, the Liberal Party of Canada (left of centre) was voted into office by promising job creation and economic growth. It was open about the fact that the stabilisation of public finances was essential in order to create jobs. The public deficit then stood at 8.7% of GDP. Legislative and budgetary measures aimed at reducing the cost of the welfare state and the burden of public debt were swiftly put into place.

For the first time, the plan was not to make marginal cuts to federal financial commitments, but rather to completely overhaul the system. All sectors of the welfare state were affected, but the most important measures were the restructuring of the federal UI scheme, the elimination of the Canada Assistance Plan and the creation of Canada Health and Social Transfer.

### **Employment Insurance: fewer unemployed workers eligible for benefit**

Between 1990 and 1995, the federal government adopted a set of restrictive measures, without directly calling regional transfers into

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5. In 1989, the government's contribution represented 21% of total contributions and amounted to ca. C\$ 2.4 billion. However, by the end of 1990, the federal government had put an end to its financial contribution to the scheme. As a result, the money that the government would have disbursed under the tripartite funding protocol was thereafter covered by the employers and employees.

question. During this period, the government tightened entrance requirements and imposed harsher penalties on claimants who left their job without valid reason, as well as on those who refused a job or were dismissed for misconduct. It also reduced the benefit rate for new claimants and the duration of benefits.

In 1990, the government significantly cut the benefit period and expanded disqualification periods for voluntarily leaving a job and for 'dismissal for misconduct'. In April 1993, the introduction of Bill C-113 meant that those known to have voluntarily left their jobs for no good reason or to have been dismissed for 'misconduct' were no longer eligible to receive benefit. Bill C-17, introduced in 1994, reduced the duration of benefit by between 9 and 16 weeks, depending on the region, and lowered the replacement rate from 57% to 55% of earnings.

The UI reform of May 1996 (Bill C-12) was radical from both an institutional and a quantitative point of view. The term 'Unemployment Insurance' was replaced by 'Employment Insurance' (EI), and the new scheme divided benefits into two clear-cut categories: income benefit (unemployment compensation) and employment benefit aimed at getting jobseekers back into the labour market. Employment benefit was henceforth implemented and managed by the provincial governments. The main aim was no longer to ensure social support for unemployed workers, but rather to facilitate their transition into the labour market.

Thus the longstanding role of Unemployment Insurance in the Canadian political system was revisited. The aim of the reform was to significantly reduce redistribution between the provinces, with the duration of benefits and contributory periods being adjusted depending on the structural rate of unemployment in each province. This major change was met with resistance from the provincial governments<sup>6</sup>.

For the first time, the decision to use measures such as the 'denominator' and the 'base period' reduced the benefit rates calculated. This measure

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6. Under the EI scheme, Canada is divided into economic regions so that people living in areas with similar unemployment rates are subject to similar EI regulations in terms of eligibility and duration of benefits. The EI regulations stipulate that EI regional boundaries must be checked every five years to ensure that they reflect the current labour market conditions and the geographical representation of the communities of Canada. The 58 current EI economic regions were established on 9 July 2000 and their boundaries were confirmed in 2008. The next assessment will take place in 2013.

hit hardest the most vulnerable groups on the labour market, namely those who worked intermittently, that is to say workers in insecure employment, part-time workers, seasonal workers, etc. In fact, the new Employment Insurance no longer took into consideration the number of previous jobs held or the number of weeks worked, but rather the number of hours worked during a given period. The number of hours required to qualify for benefit was more than doubled. Those with low job security now found it difficult to qualify for benefit due to the fact that the minimum number of hours had been increased. The number of recipients rapidly decreased from 80% to around 40% of contributors.

One of the changes that had the greatest impact on the lives of unemployed workers has been the method of calculating benefits, known as the 'intensity rule'. Before this change was made, unemployed workers received a percentage of their weekly pay, but afterwards they received between 50% and 55% of their average earned income over the previous 26 weeks. The federal government gradually reduced the amount of benefit paid out to eligible claimants. It also reduced the maximum duration of benefit, which between 1971 and 1994 decreased from 51 weeks to 14 weeks. The total amount of benefits paid to the unemployed as replacement income was also reduced considerably.

In 1998, a report published by Human Resources and Skills Development Canada revealed that only 42% of Canadian unemployed workers were now receiving EI benefit, compared to over 80% who received UI benefit prior to 1990. Furthermore, only 26.1% of young unemployed workers were eligible to claim unemployment benefit.

Hence the new scheme did not aim to improve benefits by ensuring an income between jobs; instead it stepped up the pursuit of aims other than that of providing income security for the unemployed. The scheme placed more emphasis on funding re-employment measures (training, work sharing, job creation and self-employment assistance). Spending in this area rose from 3.6% of all benefits in 1971 to 12.3% in 1995.

The aim of Employment Insurance, albeit unofficially, was to cut spending, that is to say to reduce the entitlements of working people in order to free up surpluses from social security premiums and allocate them to the reduction of the federal deficit and debt. The Labour Force Development Strategy for Canada was introduced, which made provisions to use Unemployment Insurance in order to increase

workforce attachment. With the halving of the number of EI claimants, the fund started to produce a surplus. This surplus has continued to accumulate since 1996, reaching C\$50 billion in 2005.

Since 1996, while coverage of the unemployment risk by the EI scheme has continued to shrink in terms of both duration and 'generosity', the fund's surplus has been used to reduce the government's budget deficit. As such, the initial aim of the Unemployment Insurance Act has been distorted, insofar as contributions to the unemployment fund have now in part been 'expropriated' by the government.

Due to the changes to unemployment benefits, many unemployed workers have had to turn to the provincial programmes for last-resort financial assistance<sup>7</sup>, which assume that recipients have spent a large part of their savings before being able to claim assistance. Meanwhile, the federal government has not held back from transferring the social cost of unemployment to the provincial budgets. It has also abolished the Canada Assistance Plan (CAP), through which most of the provincial assistance programmes had until then been financed. The CAP was replaced by the Canadian Health and Social Transfer (CHST) fund, the result being that the federal government completely disengaged from the funding of programmes<sup>8</sup>. The creation of the CHST was accompanied by a C\$7 billion reduction in federal funding. These changes forced the provinces to reform their own social assistance systems<sup>9</sup>, while having to

7. Up until the Depression of the 1930s, people in need of assistance were usually told to go to charity organisations run by the parish or municipality. At the beginning of the 20<sup>th</sup> century the federal and provincial authorities began to play a part in income support, and in the 1940s and 1950s certain groups, including unemployed workers, received benefits from financial assistance programmes. In the mid 1960s, however, negotiations between the federal government and the provincial governments led to the adoption of the Canada Assistance Plan (CAP). During the 1970s, the federal government implemented several programmes aimed at providing short-term employment to unemployed workers during the period of rapid labour force growth that prevailed at the time, in order to support 'socially useful work'. Nevertheless, in the 1980s, due to the growing number of Canadians capable of work who were receiving welfare benefits, the federal government and the provincial governments introduced new methods of administering social assistance.
8. The 1996 and 1997 cuts equalled around 90% of the 1995 transfers for the former CAP. Transfers as a whole fell by 23.6% over those two years, putting federal expenditure on a par with its average level in the 1960s, that is to say a fall of more than 50% compared to the 1960s and 1970s.
9. The CHST has not maintained the terms for the financing of income security introduced by the CAP, which included the right to an adequate income; the right to assistance in case of need and without being forced into work or training programmes; and the right to appeal against the social services' decisions.

deal with a growing number of recipients, shrinking budgets and increased responsibility. In April 2004, the CHST was replaced by two new funds: Canada Health Transfer and Canada Social Transfer.

## Reactions to the Employment Insurance Act

The Unemployment Insurance fund, financed by contributions from the entire working population, did not meet the needs of all unemployed workers because some contributors were not eligible to receive benefit, which sparked fierce objections from trade union organisations. Thus the leaders of the main trade unions, CSN<sup>10</sup>, CSQ<sup>11</sup> and FTQ<sup>12</sup>, as well as the spokesperson for the organisation for the unemployed *Le Conseil National des Chômeurs et Chômeuses*, called on the political parties to take a stand with regard to their demands for:

- greatly increased access to Employment Insurance;
- a significantly higher benefit rate;
- a longer benefit period;
- abolition of the waiting period;
- creation of an ‘autonomous fund’ aimed at preventing surpluses from the Employment Insurance fund being used for purposes other than those set out by the Law, to the detriment of the protection that the scheme should provide to its contributors.

According to Claudette Carbonneau, President of the Confederation of National Labour Unions (CSN), nobody can hold up a lack of funds as a reason for opposing these changes which would, to a large extent, allow EI to fulfil its original function, namely to protect workers by ensuring them economic security between jobs. She added that, with a cumulative surplus of C\$57 billion (at 31 March 2008) diverted to other uses, any such opposition would border on indecency.

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10. Confederation of National Labour Unions

11. Quebec House of Labour

12. Quebec Federation of Labour

The Canadian Council of Chief Executives, for its part, advocates a comprehensive reform of the EI scheme. The scheme should, in its opinion, be managed by an independent body and contributions should be paid into a segregated account, which in turn would be used to pay out benefits. Premiums should be set at a level designed to break even over the course of a business cycle. Furthermore, the employers want the scheme to focus principally on protecting Canadian workers against the specific risk of temporary job loss (lay-offs).

## **A more flexible Employment Insurance scheme?**

Since the EI reform of 1996, the inefficiency of a system which discriminates against various categories of unemployed workers has been vehemently criticised. As a result, measures have been taken. In June 2000, Bill C-32 relaxed the eligibility criteria governing special benefits, reducing the number of hours required from 700 to 600, and increased the duration of parental benefits. Bill C-2 of May 2001 eliminated the intensity rule and re-established the benefit rate at 55% of earnings.

Furthermore, in June 2004, some 'pilot projects'<sup>13</sup> were introduced which increase the duration of benefits for unemployed workers in regions with an unemployment rate of 10% or over. In September 2008, the government announced the continuation of three EI pilot projects in order to further assess their effects, the aim being to 'help Canadians participate in the labour market, which is performing well overall. The actions we are taking demonstrate our record of measured improvements to the EI program to be more responsive to changing economic conditions,' according to Minister Solberg, who added that 'the continuation of these pilots will allow the government to fully assess the effectiveness of these approaches'.

Due to the economic crisis and the effect it has had on the unemployment rate, in March 2009, within the framework of its Economic Action Plan, the Canadian government increased the maximum duration of benefit entitlement for claimants by five weeks. This change means that all

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13. The aim of the EI pilot projects is to assess, over a given period, new approaches to assisting the unemployed. The EI pilot project on employment while in receipt of benefit will test whether an increased earnings threshold will provide a greater incentive for beneficiaries to accept all available work while receiving EI benefits.

regions will be able to benefit from the current pilot project whereby EI benefits are payable for an additional five-week period, which until now had only been available in those regions with the highest rates of unemployment. This change, which came into effect on 1 March 2009, will apply to all active claims for regular benefit until 11 September 2010. The estimated cost of the national five-week extension to EI benefits is C\$1.15 billion.

Table 2 Recipients claiming ordinary Employment Insurance benefits

April 2008	April 2009	% Change
523,760	816,250	55.8

Source: Canada Statistics

Table 3 Employment Insurance benefits: coverage and eligibility for the unemployed

	2008	
	Number	% of unemployed workers
Unemployed <sup>1</sup>	1,094,600	100.0
Contributors	767,100	70.1
Non-contributors	327,500	29.9
Potentially eligible <sup>2</sup>	571,800	52.2
Not potentially eligible <sup>3</sup>	522,800	47.8
Eligible as a proportion of EI contributors who had a job separation that met the program criteria <sup>4</sup>	469,700	82.2

1. Average number of unemployed individuals for the months of March, June, October and December.
2. Individuals who contributed to EI and had a valid job separation.
3. Unemployed workers are 'not potentially eligible' mainly if they have not been in paid employment for the 12 months preceding unemployment. This group represents just over a quarter of all unemployed workers, that is to say 25.5%. Others, 17.9% of the unemployed, left their employment for reasons judged by the EI programme to be invalid.
4. Individuals who contributed to EI and had a valid job separation and enough hours of work to meet the EI programme requirements. The number of insurable hours required to be eligible for regular benefits varies from one region to the next. Depending on the unemployment rate of the region, the requirement can be between 420 and 700 hours. The higher the unemployment rate, the fewer the hours required for eligibility.

Source: Canada Statistics (<http://www.statcan.gc.ca/daily-quotidien/090723/t090723a1-fra.htm>)

## **The Canada Employment Insurance Financing Board: a step forward?**

On 25 June 2009, the Minister of Human Resources and Skills Development, Diane Finley, announced the appointment of directors to the Canada Employment Insurance Financing Board (CEIFB). The role of the CEIFB is to oversee the governance and management of the EI account. Officially speaking, this Board, which is a Crown corporation that acts independently of the government, must implement an improved EI premium rate-setting mechanism in order to ensure that Employment Insurance revenues and expenditures break even over time. It is also in charge of administering a separate EI bank account, where any excess premiums from a given year will be held and invested until they are needed to cover the cost of the Employment Insurance scheme. And it must maintain a \$2 billion cash reserve as a contingency fund in order to encourage relative premium rate stability.

This new Board must ensure that there is a balance between the premiums paid and the cost of the scheme. In the words of Finance Minister Jim Flaherty, 'with this reform, Canadian workers and communities can be confident that EI will be managed on a truly break-even basis'.

The announcement of the creation of this Board has been well received in business circles. The *Conseil du Patronat* (Quebec employers' association) has applauded this measure, commenting that the fact that premiums will be used exclusively for this programme was very good news. According to the vice-president of the Canadian Federation of Independent Businesses (CFIB), small businesses have for years yearned for a solution to the scandal of employment insurance and this change should herald improvements to the current system.

Trade union representatives, however, have been a lot more critical. They believe that the federal government should have relaxed the rules and raised the level of EI benefits before putting the scheme on 'autopilot', especially after years of budget cuts. Furthermore, some unions, such as the Quebec Federation of Labour (FTQ) have cast doubt on the autonomy of the new CEIFB because the government retains all regulatory powers. In fact, the Bill explicitly prohibits the Board from intervening to alter the level of benefits or introduce any new programmes. These powers still fall within the competence of the minister.

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According to Mr. H. Desgagné, coordinator of the Quebec network for the unemployed *Mouvement Autonome et Solidaire des Sans-Emploi (Masse)*<sup>14</sup>, contrary to the claims made by the trade unions in particular, the creation of an EI financing board lays down firm rules irrespective of the cumulative surplus. In fact, he says, no measures have been taken to increase protection of the scheme and, furthermore, the cumulative surplus of the EI account is not taken into account.

Pierre Céré, of the *Coalition des Sans-Chemise*, a network which brings together groups for the unemployed and trade unions, has said that he thinks the reserve fund will disappear, commenting that when the United States sneezes, Canada usually catches a cold, and that the economic recession means fewer people are paying premiums; with more people unemployed, the C\$2 billion reserve fund is insufficient.

Successive governments have therefore opted to use EI premiums for purposes other than unemployment benefit. Now, the government has said that it wants to put an end to this situation, but without necessarily reconsidering the main loopholes of the current system with regard to the replacement rate or even the number of EI recipients. The role of the CEIFB will be to maintain EI protection at its current level, that is to say a third of what it was in 1990, but on a more general level the new legislation represents the final step in the disengagement of the state from its dealings with the unemployed.

Nevertheless, given the economic crisis and the rise in the rate of unemployment, many people are urging the government to improve EI benefits and increase the number of beneficiaries in order to stimulate the economy. As the president of the Canadian Labour Congress has said, 'we know the unemployed spend every dollar that they receive directl into the local community. Improving EI is the best and easiest way to kick start the economy'.

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14. Masse groups together fourteen organisations for the unemployed in Quebec.

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