

# **Social Protection of the Unemployed**

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## Foreword

The hardest part of any journey is definitely the first step – after that you just roll with the unknown, eyes on the goal, fingers crossed and see where the experience will lead you. If your lucky it will be one of many adventures to come!

First and foremost, I would like to thank my eternal mentor Prof. László Nagy, even though he passed away quite many years ago, he is still with me in my scientific journey.

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József Hajdú



## Introduction

The hazard of unemployment is one of the most serious problems confronting wage earners in an industrial society. As economic life becomes more complex and industry more interrelated, economic maladjustments are felt more and more deeply throughout the countries. All available information indicates that no year in the past century was free from unemployment. Even in good times a large number of employable persons are unemployed each year. Unemployment is a continuing problem of modern society and must be met by a continuing program.<sup>1</sup>

Unemployment compensation is a method of safeguarding individuals against distress for a short period of time after they become unemployed. Originally, it was designed to compensate only employable persons who are able and willing to work and who are unemployed through no fault of their own. Instead of making the individual get along on a steadily descending level of living until he/she has exhausted the last shred of his/her savings, credit, and the generosity of his/her relatives and friends, thus reaching a point of destitution at which he/she is eligible for relief, unemployment compensation sets aside contributions during periods of employment and provides the individual with benefits as a legal right when he/she becomes unemployed. During the periods of prosperity an unemployment fund is built up, to be available for the payment of benefits in the periods when industry fails to maintain employment.<sup>2</sup>

Unemployment compensation offers a number of advantages to employers, employees, and the government. From the employer's point of view, the existence of such a plan is a means of maintaining a reserve of workers, who cannot be continuously employed, in the various industries. It results in more stabilized markets for the goods produced and, by removing the fear of insecurity from workers, tends to create more efficient employees. From the point of view of government, unemployment compensation results in a more efficient industrial system, the removal of the violent swings of the business cycle, a reduction in relief costs, and the removal of many of the causes of social unrest. To the employee, unemployment compensation means removal of the fear of insecurity and its consequent impairment of self respect and efficiency, and the establishment of a right to benefit when unemployed through no fault of his/her own.

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<sup>1</sup> ILO, (2013), *Global employment trends 2013: Recovering from a second jobs dip* International Labour Office. Geneva pages 9-13

<sup>2</sup> <http://www.thefeeherytheory.com/2010/07/13/unemployment-insurance/>

Beside the historically well based passive unemployment compensation schemes (both statutory and private), the concept of activation has gradually gained prominence across Europe in last years, and is today an important key concept of the EU and the Member State's labour market policy. More narrowly, it involves developing tighter links between unemployment protection policies and active labour market policies. More broadly, activation is about increasing labour market entry and participation, and phasing out temporary labour market exit options for working age claimants (early retirement, disability, etc.). In its narrow and sometimes also its broad meaning, activation implies making established welfare rights more conditional on job seeking efforts.<sup>3</sup>

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<sup>3</sup> <http://www.tsj.gov.ve/informacion/miscelaneas/congresoeuropeo/03%20Tercera%20ponencia/300%20J%C3%93ZSEF%20HAJD%C3%9A.pdf> (02.02.2013)

# Chapter 1

## Definitions and types of unemployment

There are different definitions of unemployment in the practice. As a starting point, we use the definition of unemployment and employment which is launched by the ILO.<sup>4</sup>

### 1. Definition of unemployment

The international standard definition of unemployment<sup>5</sup> adopted by the 13th International Conference of Labour Statisticians (ICLS) is based on three criteria, which have to be met simultaneously.<sup>6</sup> According to this definition, the unemployed comprise all persons above the age specified for measuring the economically active population who during the reference period were:

- A) **“without work”**, i.e. were not in paid employment or self-employment as defined by the international definition of employment,
- B) **“currently available for work”**, i.e. were available for paid employment or self-employment during the reference period, and
- C) **“seeking work”**, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment.<sup>7</sup>

According to the priority rules of the labour force framework, unemployment takes precedence over economic inactivity. Therefore, students, homemakers, pensioners and other persons mainly engaged in non-economic activities during the reference period, who satisfy the above mentioned criteria of the definition of unemployment, should be regarded as unemployed on the same basis as other categories of unemployed persons.

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<sup>4</sup> Sengenberger, Werner, (2011), “Beyond the measurement of unemployment and underemployment: the case for extending and amending labour market statistics“ Debbie Budlender International Labour Office. Geneva: ILO, 2011 1 v. p. 7. ISBN: 9789221247432;9789221247449 (web pdf) (12.02.2013.)

<sup>5</sup> The international definition of unemployment is intended to refer exclusively to a person's particular activities during a specified reference period. As a result, unemployment statistics based on the international definition may differ from statistics on registered unemployment.

<sup>6</sup> 15th ICLS (1993): Resolution concerning the International Classification of Status in Employment (ICSE); in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, pages 20-23.

<sup>7</sup> Ralf Hussmanns, (2000), Measurement of employment, unemployment and underemployment – Current international standards and issues in their application, ILO Bureau of Statistics, p. 13-15  
[http://www.geostat.ge/cms/site\\_images/\\_files/georgian/methodology/socialuri/Measurement%20of%20employment,%20unemployment%20and%20underemployment%20-.pdf](http://www.geostat.ge/cms/site_images/_files/georgian/methodology/socialuri/Measurement%20of%20employment,%20unemployment%20and%20underemployment%20-.pdf) (12-02-2012)

They should however be identified separately, where possible. On the other hand, employed persons looking for another or additional job are excluded from the unemployment.

#### **A) Without work**

The “without work” criterion serves to draw the demarcation line between employment and non-employment and to ensure that employment and unemployment are mutually exclusive, with precedence given to employment. Thus, a person is to be considered as without work if he/she did not work at all during the reference period (not even for one hour), nor was temporarily absent from work. The other two criteria of the standard definition of unemployment, i.e. “current availability for work” and “seeking work”, serve to distinguish among the non-employed population those who are unemployed from those who are not economically active.

#### **B) Current availability for work**

According to the international standards, persons should be available for work during the reference period in order to be considered unemployed. Availability for work means that, given a work opportunity, a person should be able and ready to work. When used in the context of the standard definition of unemployment, a purpose of the availability criterion is to exclude persons who are seeking work to begin at a later date.<sup>8</sup>

The availability criterion<sup>9</sup> also serves to exclude other persons who cannot take up work due to certain impediments, such as family responsibilities, illness, or commitments to community services. Furthermore, it may be usual practice that employers do not expect newly recruited employees to start work before the forthcoming first or fifteenth of the month.

#### **C) Seeking work**

In accordance with the activity principle of the labour force framework, the “seeking work” criterion is formulated in terms of active search for work. For being considered as seeking work, a person must have taken specific steps in a specified recent period to obtain work. A general declaration of being in search for work is not sufficient.<sup>10</sup> The recent period specified for job search activities need not be the same as the basic survey reference period of one week or one day, but might be longer.

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<sup>8</sup> Such may be the case of students who are already seeking work to be taken up after completion of the school year. In this situation, use of the availability criterion serves as a test of the current readiness to start work.

<sup>9</sup> In countries of the European Union, for example, current availability for work is interpreted as availability during the survey reference week or the subsequent two weeks. This is to account for the fact that not everyone who is seeking work can be expected, or is expected, to take up a job immediately when it is offered. Persons may be temporarily sick at that moment, or may have to make arrangements concerning childcare, transport facilities, etc., before being able to start work.

<sup>10</sup> This formulation of the criterion is meant to provide an element of objectivity for measurement.



In practice, most countries define the job search period in terms of the last month or the past four weeks. The purpose of extending the job search period somewhat backwards in time is to take account of the prevailing time lags involved in the process of obtaining work after the initial step to find it was made. During these time lags persons may not take any other initiatives to find work. In particular, this may be the case of persons who can only apply for employment with one potential employer (e.g. judges) and are awaiting the reply to their application for a job.

The examples of active steps to seek work include: registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish one's own enterprise; arranging for financial resources; applying for permits and licenses, searching on internet, etc. Some of these examples refer to rather formal methods of seeking work (e.g. registration at an employment exchange),<sup>11</sup> while others are more informal (e.g. seeking assistance of friends or relatives).<sup>12</sup> However, the notion of seeking work is independent from the type and duration of employment sought, including self-employment, part-time employment, temporary, seasonal or casual work, and, in general, any type of work considered as economic activity.

### *1. Seeking self-employment and self-employment activity*

The notion of seeking self-employment requires particular attention, as for self-employed persons the dividing line between seeking work activities and the self-employment activities themselves is often difficult to draw (see in the Chapter of self-employment). In many situations, activities such as looking for potential clients or orders, or advertising the goods or services produced, are an essential component of the self-employment activity itself. One may also need to clarify, when new enterprises are set up, at what point the process of seeking self-employment turns to become a self-employment activity itself.<sup>13</sup>

Having discussed the subject, the distinction between seeking self-employment and the self-employment activity itself should be based on the point when the enterprise starts to

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<sup>11</sup> Concerning "registration at a public or private employment exchange", should be considered an active step to seek work only when it is for the purpose of obtaining a job offer, as opposed to cases where registration is merely an administrative requirement for the receipt of certain social benefits.

<sup>12</sup> 14th ICLS (1987): Guidelines on the implications of employment promotion schemes on the measurement of employment and unemployment; in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, pages 24-28.

<sup>13</sup> For example, it is not obvious whether the activities of buying an initial stock of raw materials or merchandise, or of acquiring the necessary equipment for opening a shop, should still be regarded as a search activity or already as self-employed work.

exist formally, e.g. when the enterprise is registered.<sup>14</sup> For situations where enterprises are not necessarily required to formally register in order to operate, it was recommended to draw the dividing line at the point when the enterprise is ready to receive the first order, when financial resources have become available, or when the necessary infrastructure is in place.<sup>15</sup>

## *2. Future starters*

There is one particular category of persons, for whom an exception is made from the general rule that all three criteria [1) without work, 2) currently available for work, and 3) seeking work] have to be satisfied simultaneously for being considered as unemployed under the standard definition. These are persons without work who have already made arrangements to take up paid employment or undertake self-employment activity at a date subsequent to the reference period (future starters). Such persons, if currently available for work, are to be considered as unemployed, whether or not they continue to seek work. It may be useful to set a time limit within which the employment is to be started.

Between the alternative of considering future starters as unemployed or employed (with a job or enterprise but not at work), the 13th ICLS has opted for unemployment. This is because being currently available for work these persons would probably already have started work if the job had begun earlier, and as such form part of the currently underutilised labour resources. Moreover, their classification as temporarily absent from work would not be in line with the requirement that a person temporarily absent from work must have worked already in the job in question.<sup>16</sup>

## *3. Relevance of the seeking work criterion*

Seeking work is essentially a process of search for information on the labour market. In this sense, it is particularly meaningful as a definitional criterion in situations where the bulk of the working population is oriented towards paid employment, and where channels for the exchange of labour market information exist and are widely used.<sup>17</sup>

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<sup>14</sup> As for demarcation line, the activities taking place before the registration of the enterprise would be regarded as search activities, while activities taking place after registration would be considered as self-employment itself.

<sup>15</sup> 14th ICLS

<sup>16</sup> 13th ICLS (1982): Resolution concerning statistics of the economically active population, employment, unemployment and underemployment; in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, pages 86-87.

<sup>17</sup> In rural areas and in agriculture, because of the size of the localities and the nature of the activities, most workers have a more or less complete knowledge of the employment opportunities in their areas at particular periods of the year, making it often unnecessary for them to take active steps to seek work. Even in industrialised countries and in urban labour markets of developing countries similar situations may exist.

#### 4. Relaxation of the seeking work criterion

Since it was recognised that the standard definition of unemployment, with its emphasis on the seeking work criterion, might be somewhat restrictive and might not fully capture the prevailing employment situations in many countries, the 13th ICLS introduced a provision which allows for the relaxation of the seeking work criterion in certain situations. This provision is confined to situations where “the conventional means of seeking work are of limited relevance, where the labour market is largely unorganised or of limited scope, where labour absorption is at the time inadequate, or where the labour force is largely self-employed”.

Formulating a definition of unemployment under the relaxation provision does not necessarily mean that the seeking work criterion should be completely relaxed for all categories of workers. The relaxation may be only partial. One would then include among the unemployed, in addition to persons satisfying the standard definition, certain groups of persons without work who are currently available for work but who are not seeking work for particular reasons.<sup>18, 19</sup>

## 2. Definition of the employment

The international definition of employment adopted by the 13th ICLS distinguishes between A) ***paid employment*** (employees including apprentices or trainees and members of the armed forces) and B) ***self-employment*** (employers, own-account workers including producers of goods for own final use, members of producers' co-operatives, and contributing family workers). According to the definition, the “employed” comprise all persons above the age specified for measuring the economically active population (e.g. 15 years) who, during a specified short period of either one week or one day, were in the following categories:

### A) ***paid employment.***

a) *at work*: persons who, during the reference period, performed some work (i.e. at least one hour) for wage or salary, in cash or in kind;

b) *with a job but not at work*: persons who, having already worked in their present job, were temporarily not at work during the reference period and had a formal attachment to their job.

*Employed persons looking for another or additional job.* The priority rules of the labour force framework, which give precedence to employment over unemployment, imply

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<sup>18</sup> An example, would be seasonal workers awaiting the start of the next season due to the lack of any current work opportunities, persons waiting to be recalled to work with their former employer, and the so-called “discouraged workers”.

<sup>19</sup> <http://www.ilo.org/public/english/bureau/stat/download/articles/2007-1.pdf> (10.03.2011)

that employed persons seeking other or additional work should be classified as employed.

**B) self-employment:**

*a) at work:* persons who, during the reference period, performed some work (i.e. at least one hour) for profit or family gain, in cash or in kind;

*b) with an enterprise but not at work:* persons with an enterprise (which may be a business enterprise, a farm or a service undertaking) who were temporarily not at work during the reference period for any specific reason.<sup>20</sup>

## 2.1. The one-hour criterion

For operational purposes, the notion of “some work” should be interpreted as work for at least one hour during the reference period. This means that engagement in an economic activity for as little as one hour is sufficient for a person to be classified as employed on the basis of the labour force framework. There are several inter-related reasons for the use of the one-hour criterion in the international definition of employment. One is to make this definition as broad as possible, in order to cover all types of employment that may exist in a given country, including short-time and part-time work, casual and temporary employment, stand-by work, employment in the informal sector and other types of informal employment, etc.<sup>21</sup>

## 2.2. Temporary absence from self-employment

Accordingly, the 16th ICLS recommended that seasonal employers, own-account workers and members of producers’ cooperatives, who are not engaged in any kind of work during the off-season, should be considered as unemployed or not economically active, depending upon their current availability for work, recent job-search activity and, possibly, the reason for not seeking work.<sup>22</sup> There are, however, also enterprises which continue to exist during the off-season, and whose owners continue to do some work in them (e.g. farms which are operated all year round though the bulk of their activities are carried out seasonally). In such cases, a self-employed person not at work

<sup>20</sup> 13th ICLS (1982): Resolution concerning statistics of the economically active population, employment, unemployment and underemployment; in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, pages 56-57.

<sup>21</sup> Hussmanns R.-Mehran F. – Verma V.: Surveys on economically active population, employment, unemployment and underemployment, An ILO Manual on concepts and methods, International Labour Office, Geneva 1990. p. 71.

<sup>22</sup> For example, enterprises like fruit kiosks, ice cream shops or beach restaurants are generally not in operation during the off-season, and therefore the operators of such enterprises should not be classified as employed when they are not at work during the off-season.

during the off-season could be classified as employed (with an enterprise but not at work) provided the duration of the absence from work falls within an acceptable limit.<sup>23</sup>

## 2.3. Unpaid workers

### 2.3.1. Contributing family workers

a) *Contributing family workers not at work.* Contributing family workers, though participating in the activities of a household enterprise, are not considered to have an enterprise of their own. Accordingly, contributing family workers cannot be “with an enterprise but not at work”. Therefore, contributing family workers not at work during the reference period should not be included among the employed. They would be considered as unemployed or not economically active, depending upon their recent job-search activity and/or availability for work during the reference period.

b) *Contributing family workers at work.* The International Classification of Status in Employment (ICSE-93) defines a contributing family worker as a person who works for family gain in an unincorporated market enterprise operated by a related person living in the same household, but who cannot be regarded as a partner because the degree of his/her commitment to the operation of the enterprise, in terms of working time or other factors, is not at a level comparable to that of the head of the enterprise. Where it is customary for young persons, in particular, to work without pay in an unincorporated market enterprise operated by a related person who does not live in the same household, the requirement of “living in the same household” may be eliminated.

According to the present international standards contributing family workers at work are to be considered as employed irrespective of the number of hours worked during the reference period, i.e. they are treated in the same way as other categories of workers.<sup>24</sup>

### 2.3.2. Producers of goods for own final use by their household

Another category of unpaid workers to be considered for inclusion among the employed are persons engaged in the production of goods for own final consumption or gross fixed capital formation by their household. The international standards mention, however, that these persons should be considered employed only if such production comprises an important contribution to the total consumption of the household.

This provision conforms to the practice in many countries of excluding negligible non-market production activities from the national accounts. The important contribution

<sup>23</sup> 16th ICLS (1998): Resolution concerning the measurement of underemployment and inadequate employment situations; in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, p. 36.

<sup>24</sup> Principles and Recommendations for Population and Housing Censuses, Revision 1, United Nations, New York, 1998, para. 2.82. <http://stats.oecd.org/glossary/detail.asp?ID=443>

provision also serves to exclude from the employed population persons who may, for example, be growing some vegetables in their backyards but whose subsistence does not significantly depend on it.<sup>25</sup>

### 2.3.3. Volunteers

Volunteers and other persons providing unpaid labour inputs, who produce goods for any enterprise, government unit, non-profit institution or other household, or who produce services for a market enterprise, should be considered as employed.

By contrast, persons providing unpaid services to other households, non-profit institutions or the community as a whole should not be considered employed, as such services fall outside the SNA<sup>26</sup> production boundary.<sup>27</sup>

### 2.3.4. Apprentices and trainees

a) The **apprentices**<sup>28</sup> (or in early modern usage “prentices”) or protégés build their careers from apprenticeships.<sup>29</sup> Most of their training is done while working for an employer who helps the apprentices learn their trade, in exchange for their continuing labour for an agreed period after they become skilled.

The apprentices, who receive pay in cash or in kind, should be considered in paid employment and be classified as “at work” or “not at work” on the same basis as other persons in paid employment. Unpaid apprentices, who fulfil the conditions for inclusion among contributing family workers, should be classified as employed if they were at work for at least one hour during the reference period. The inclusion among the employed of other unpaid apprentices may be determined on the basis of the apprentices’ association with the productive activities of an enterprise. If the apprentices contribute to the production of goods and services of an enterprise, they should be classified as employed person. Otherwise, they should be classified as unemployed or not economically active, depending upon their recent job-search activity and current availability for work.

b) **Trainees**<sup>30</sup> should be classified as employed if their activity can be considered as work, or if they have a formal job attachment. When the training takes place within the context of an enterprise, it can be assumed that the trainees are associated with the

<sup>25</sup> 15th ICLS (1993): Resolution concerning the International Classification of Status in Employment (ICSE); in: Current international recommendations on labour statistics, 2000 edition, ILO, Geneva, 2000, pages 15-17.

<sup>26</sup> System of National Accounts.

<sup>27</sup> <http://www.oecd.org/redirect/dataoecd/9/20/1963116.pdf> (13. 02. 2013.)

<sup>28</sup> In addition to apprenticeships, there are various other types of job-training schemes, organised directly by enterprises to train or retrain their staff, or subsidised by the government as a way to promote employment.

<sup>29</sup> Apprenticeship is a system of training a new generation of practitioners of a skill.

<sup>30</sup> Trainee (stagiaire) is someone who is still in the process of being formally trained in a workplace.

production of goods and services of the enterprise, at least for one hour during the reference period. In this case, the trainees should be considered as “at work” and be classified as employed, irrespective of whether or not they receive a wage or salary from the employer.

When the training does not take place within the context of an enterprise (e.g. training outside the enterprise, or inside the enterprise but without association with the production activity of the enterprise), the statistical treatment should depend on whether or not the trainees were employed by the enterprise before the training period (including cases classified as employed as mentioned above):

(a) If employed by the enterprise before the training period, the trainees should be considered as employed but not at work while on training, if they maintain a formal job attachment.<sup>31</sup> To establish whether or not a formal job attachment exists, the criterion of assurance of a return to work<sup>32</sup> should be considered to be the essential one. In situations where such assurance of a return to work does not exist, formal job attachment should be assessed on the basis of the criterion of continued receipt of wage or salary. This criterion should be considered as satisfied if the employer paid directly all or a significant part of the wage or salary. The third criterion, i.e. elapsed duration of the absence, might also be used in particular situations, e.g. in connection with long-term training schemes.

(b) If the trainees were not employed by the enterprise before the training period, they cannot be considered as “with a job but not at work” and the notion of formal job attachment does not apply.<sup>33</sup>

### 3. Definition of unemployment insurance

Unemployment insurance, a form of social insurance designed to compensate certain categories of workers for unemployment that is involuntary and short-term. Unemployment insurance programs were created primarily to provide financial assistance to laid-off workers during a period deemed long enough to enable them to find another job or be rehired at their original job. In most countries, workers who have been permanently disabled or who have been unemployed for a long period of time are not covered by unemployment insurance but are usually covered by other social security scheme.<sup>34</sup> Weekly/monthly unemployment benefits<sup>35</sup> are paid to eligible workers as a matter of right, according to benefit schedules or formulas stipulated in the law. Benefit eligibility and amounts are related to previous contributions by or on behalf of the worker.

<sup>31</sup> An example is training schemes where periods of training in a specialised institution alternate with periods of work in the enterprise.

<sup>32</sup> To be interpreted as assurance of a return to work with the same employer.

<sup>33</sup> <http://www.ilo.org/public/english/bureau/stat/download/articles/2007-1.pdf> (10.03.2012)

<sup>34</sup> <http://www.britannica.com/EBchecked/topic/614393/unemployment-insurance> (14 March, 2012)

<sup>35</sup> Some countries – for example Hungary – they call the unemployed persons for job-seekers.

In addition to the primary purpose of providing employees with a measure of economic security through wage-loss compensation, unemployment insurance helps to cushion economic slumps by supplying consumer purchasing power. It can therefore serve as an important “automatic economic stabilizer”. Also, unemployment insurance may preserve work skills and training by reducing pressures on the unemployed/job-seeker to accept lower-level jobs, and it may provide additional incentive, through differentiated employer taxes, for managements to regularize their employment.

As for methods, most national systems of unemployment insurance are compulsory, in the sense that coverage is required by law and the taxing power is used for financing benefits. However, there is an emerging demand for private (voluntary and/or supplementary) unemployment insurance (see later). In the Scandinavian countries the program consists of funds voluntarily organized and administered by trade unions and subsidized by the state from tax monies.<sup>36</sup>

From the historical point of view, unemployment has been the last major economic risk of workers to be covered by social insurance. Programs on a national scale began with state subsidies to voluntary schemes in France (in 1905), Norway (in 1906), and Denmark (in 1907). The first national law establishing a compulsory program on a country-wide basis was enacted by Great Britain in 1911. The second was enacted by Italy in 1919. Germany adopted a compulsory program in 1927, Japan in 1947, and Canada in 1955.<sup>37</sup>

There are some disagreement concerning objectives, mechanisms, and effects helps to explain the delayed development of unemployment insurance programs. Sharp differences of opinion have arisen on a number of issues.

1. Both individual and total unemployment are unpredictable, yet they are subject to various influences and controls.
2. Government monetary, fiscal, and foreign-trade policies affect the volume of unemployment.
3. It is also claimed that workers and managements are, in some measure, responsible for joblessness.
4. Unemployment benefits may have an impact on wage levels and on worker incentives and mobility.
5. Tests of availability for work and of willingness to accept a *suitable* job present practical difficulties.

For such reasons, at least in the early stage, the unemployment insurance has not seemed to be a risk suitable for private underwriting, and no insurance company has sought such business.

<sup>36</sup> [http://www.encyclopedia.com/topic/Unemployment\\_insurance.aspx](http://www.encyclopedia.com/topic/Unemployment_insurance.aspx) (14. 03. 2011)

<sup>37</sup> <http://www.tsj.gov.ve/informacion/miscelaneas/congresoeuropeo/03%20Tercera%20ponencia/300%20J%C3%93ZSEF%20HAJD%C3%A9.pdf> (11.01.2013.)



The different aspects of unemployment insurance (coverage, benefit level and duration, eligibility, disqualifications, financing, and level of policy determination) are interrelated parts of a coordinated scheme. Flat rate benefits go with flat rate contributions; liberal benefits stimulate restricted eligibility and severe disqualifications. Views on any aspect of the program are affected by one's conception of the purposes of unemployment insurance and one's philosophy of economics and of government.<sup>38</sup> There are at least six interconnecting basic policy issues to bear in mind when the unemployment insurance is discussed:

*1) Insurance versus need.*

Whether the unemployment program should be strictly one of compensation for wage loss from short-term joblessness or should make allowance for need factors (family size, cost of living, difficulty of re-employment, training needs, etc.) is a basic philosophical issue in unemployment insurance. Generally, under the state laws, unemployment benefit amounts vary directly with the individual's previous earnings.

*2) Adequacy of benefits.*

No consensus exists with respect to the criteria for adequacy of a) ***benefit level*** or b) ***duration***.

a) One suggested test is that *benefit level* should be sufficiently large to enable workers to meet all non-deferrable expenses for necessities (variously defined) throughout the period of their unemployment.

b) The *duration* of benefits raises the question of the types of unemployment that the insurance program is designed to meet. Of course, pressures build up for special extension of benefits in periods of heavy unemployment, in the absence of a satisfactory program of unemployment relief and proper arrangements for worker retraining and relocation.

*3) Financing.* In almost all countries, unemployment insurance is financed by equal employer and employee contributions, with either a contribution by the state or some state subvention for administrative costs.

*4) Coverage, eligibility, disqualifications.* Unemployment insurance is faced with several difficult problems of administration and definition. In addition to their technical aspects, such problems involve questions of social insurance philosophy. A strict insurance viewpoint may result in more restricted coverage and tighter eligibility requirements than in stress on need for benefit protection.

Particularly where the tax is levied completely on the employer, small businesses with two or three employees and non-profit institutions of all sorts may resist inclusion in coverage. In addition, administrative difficulties may preclude inclusion of migratory

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<sup>38</sup> [http://www.encyclopedia.com/topic/Unemployment\\_insurance.aspx](http://www.encyclopedia.com/topic/Unemployment_insurance.aspx) (11.01.2013)

farm workers and other casual labour. Nevertheless, coverage has tended to expand gradually.

5) *Waiting period and/or deduction.* An unemployed worker who is discharged for misconduct, or who voluntarily quits, even for good personal or economic reasons, or who refuses a job offer considered suitable will have his/her *benefits postponed, reduced, or canceled*. The nature of the penalty and the restriction of good cause for leaving to employer responsibility have reduced benefit eligibility.

6) *Decentralized versus national systems.* Most countries have a single, national system with nationwide pooling of reserves. In Scandinavia, the Netherlands, and Switzerland there are separate regional, industrial, or occupational funds.<sup>39</sup>

#### 4. Typology of unemployment

Unemployment is an economic condition where an individual or individuals seeking jobs remain un-hired. According to my evaluation, basically there are five basic types of unemployment.

1. Frictional unemployment
2. Structural unemployment
3. Classical unemployment
4. Cyclical unemployment
5. Natural unemployment

##### 4.1. Frictional unemployment

Frictional (or search) unemployment is a temporary condition. This unemployment occurs when an individual is out of his/her current job and looking for another job. The time period of shifting between two jobs is known as frictional unemployment. Frictional unemployment is a result of imperfect information in the labour market. For instance, a person who is looking for a job first time may not be equipped with resources for finding a job and hence remains unemployed. Frictional unemployment also takes place for an organization, which stops hiring on the belief that they are unable to find employees who may qualify for the post although in reality such employees do exist.<sup>40</sup>

<sup>39</sup> [http://www.encyclopedia.com/topic/Unemployment\\_insurance.aspx](http://www.encyclopedia.com/topic/Unemployment_insurance.aspx) (14.01.2013.)

<sup>40</sup> <https://www.boundless.com/economics/unemployment/process-matching-jobs-with-people/government-policies-to-reduce-frictional-unemployment/> (12.01.2013.)

The probability of getting a job is high in a developed economy and this lowers the probability of frictional unemployment. There are employment insurance programs to tide over frictional unemployment.

It generally requires some time before a person can get the next job. During this time he/she is frictionally unemployed. The fact that some people are unemployed does not necessarily mean that there are no jobs available. Many times when people are looking for jobs, there are also job vacancies – that is, jobs looking for people. Even in a well-functioning economy, it may take many weeks for people and suitable jobs to find each other. An unemployment rate of zero (0) % could only happen if everyone who wants a job always takes one immediately – within a week. Not only is this unlikely, this is also in some ways undesirable. Taking the first job offered is often not the best thing for the person looking for the job, nor for the economy as a whole. Everybody benefits if people take the time to find good job “matches” – places where their skills and talents can be put to valuable use. Because information about job openings takes time to find, and employers may want to spend time interviewing and testing applicants, making a good job match is not an instantaneous process.

For the most part, economists don't worry too much about frictional unemployment, because some amount of frictional unemployment – say, 2-3% – is inevitable and much of it tends to be short-term. Things like innovative web technologies for matching job offers to job seekers may reduce frictional unemployment by reducing search time.<sup>41</sup>

Many job seekers rely on state unemployment insurance programs to ease their income needs while they spend time searching for work.

Frictional unemployment may be a result of the following reasons:

- a) *Mobility of labour*. People generally seek another job either because they are fired from the existing job or because they want to get a better job. In the transition period they are unemployed.
- b) *Expansion of the labour force*. Every year more and more individuals join the labour force. During the phase of their job search they are unemployed.

Many economists have termed frictional unemployment a sign of economic well being. Frictional unemployment can exist only in a fast growing economy where the labour force is expanding, mobile, flexible and adaptable.<sup>42</sup>

The problem of frictional unemployment is minimized with the development of efficient labour markets. The time period of shifting from one job to another is almost zero. However, imperfect information may aggravate the problem of frictional

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<sup>41</sup> <http://www.economywatch.com/unemployment/types/> (12.02.2011.)

<sup>42</sup> <http://www.economywatch.com/unemployment/types/> (16. 02.2011)

unemployment. The more developed an economy is, higher is the probability of getting a job faster and lower is the probability of frictional unemployment.<sup>43</sup>

#### 4.2. Structural unemployment

Structural unemployment arises in an economy when a mismatch occurs between the kinds of jobs being offered by employers and the skills, experience, education, and geographical location of potential employees. Structural unemployment arises when the qualification of a person is not sufficient to meet his/her job responsibilities. One important cause of structural unemployment is sectoral shifts, where employment in some sectors falls while employment in other sectors rises. Structural unemployment takes place in response to a structural change in an industry. An industry can shift from a labour-intensive technology to a capital intensive one.

Some of the causes of the structural unemployment are geographical immobility (difficulty in moving to a new work location), occupational immobility (difficulty in learning a new skill) and technological change (introduction of new techniques and technologies that need less labour force). Structural unemployment depends on the growth rate of an economy and also on the structure of an industry.<sup>44</sup>

Stated alternatively, structural unemployment arises when the marginal revenue product of a person falls short of the minimum wage that can be paid for the concerned job. The minimum wage is set by law or by negotiations in the trade union. Structural unemployment can also accompany a situation of zero minimum wages. The extent to which structural unemployment takes place depends on a number of parameters. Higher the mobility of labour across different jobs, lower will be the structural unemployment. Along with the mobility of labour, structural unemployment also depends on the growth rate of an economy as well as the structure of an industry. This may release the surplus labour and generate structural unemployment. Structural unemployment may also be due to a change in the tastes and preferences of the consumers. Certain goods or services may not be in demand due to technological advancements that might have taken place.<sup>45</sup>

The extent to which structural unemployment takes place is influenced by a lot of factors some of which are explained below:

1) *Speed of change in the economy.* If the change in the tastes and preferences of individuals take place fast, the industries have to change faster to match up to the

<sup>43</sup> [http://www.eoearth.org/article/Types\\_of\\_unemployment](http://www.eoearth.org/article/Types_of_unemployment) (16.02.2011)

<sup>44</sup> Benedikt Herz – Thijs van Rens: Structural Unemployment ECB/CEPR/IFWLabour Market Workshop on “Wages in a time of adjustment and restructuring” Frankfurt am Main, European Central Bank, 13-14 December 2011 pages 2-6

<sup>45</sup> <http://www.economywatch.com/unemployment/types/structural.html> (18.03.2013)

demand. This will further lead to an increase in the structural unemployment of the economy.

2) *Labour mobility*. In the presence of perfect information and mobility of labour, people out of job can easily find in an industry, which is in need of labour. This way, structural unemployment may be reduced.

3) *Structure of the regional economy*. If certain industries are closing down then it may so happen that industries may get concentrated in a certain part of the nation. This may make employment difficult and increase the resulting structural unemployment. However, high Gross Domestic Product, it is seen, is not indicative of a low structural unemployment.<sup>46</sup>

On the positive side, structural unemployment arises from what economist Joseph Schumpeter (1883-1950)<sup>47</sup> called “creative destruction.”<sup>48</sup> Schumpeter thought this was a good and necessary thing for capitalist economies. Technological and entrepreneurial innovations have often contributed to improved living standards, even though they cause some job opportunities to dry up. People skilled in outdated technologies – buggy-whip manufacturing is a classic example – necessarily become unemployed. Society could have tried to prevent unemployment in buggy-whip manufacturing by banning the introduction of the automobile, but the cost in economic growth would have been immense. If someone, today, begins to move away from internal combustion engines due to their negative environmental impacts, the conventional auto industry will decline just as the buggy-whip industry declined at the end of the horse-and-buggy era. New technologies, new markets, and new concerns create new opportunities.<sup>49</sup>

On the negative side, shifts in employment patterns by sector and industry are very disruptive, and often very painful, to the people who work in the declining sectors and to their families and communities. People in the declining sectors see the value of their specialized human capital depreciating rapidly. Whole towns and cities may become economically depressed when a major industry closes down, since the unemployed workers spend less at local businesses and property values plummet. Displaced workers may be able to train for a new career – especially if they are young and able to move to wherever the new jobs may be. But many displaced workers, particularly older ones, may never find the kind of pay and satisfaction that they had at their earlier occupations. Older displaced workers are more likely than younger ones to stay unemployed for long periods, or exit the labour force.

Governments at all levels have tried various policies to prevent or alleviate structural unemployment. The governments of some countries, notably Germany and Japan in the 1980's and 1990's, have followed industrial policies through which they directly

<sup>46</sup> Leonard, Jonathan, (1987), “Technological Change and the Extent of Frictional and Structural Unemployment“ *Working Paper Series*, Institute for Research on Labor and Employment, UC Berkeley, pages 1-3

<sup>47</sup> [http://www.newworldencyclopedia.org/entry/Joseph\\_Schumpeter](http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter). (03.04.2011)

<sup>48</sup> <http://www.investopedia.com/terms/c/creativedestruction.asp> (02.04.2011)

<sup>49</sup> <http://transcriptions.english.ucsb.edu/archive/courses/liu/english25/materials/schumpeter.html> (03.04.2011)

encourage the development and retention of certain key industries through loans, subsidies, and tax credits. During negotiations on international trade, one sensitive issue is always the impact that increased trade might have on the employment levels in various industries in each country.<sup>50</sup>

#### 4.3. Classical unemployment

Classical unemployment is also known as the real wage unemployment or disequilibrium unemployment. This type of unemployment problem arises when the wages rise above the equilibrium full employment level.<sup>51</sup> In such a situation the wages are not flexible downwards which will imply that unemployment would persist for long. This type of unemployment occurs when trade unions and labour organization bargain for higher wages, which leads to fall in the demand for labour.

According to “classical economic theory” originally developed by Adams, Ricardo, Malthus and others in late 18th century unemployment is explained simply by the real wages being higher than the market-equilibrium wage. In modern economics unemployment is seen as a more complicated phenomenon, and the term classical unemployment is used to refer to the component of overall unemployment caused by too high wage expectations. This kind of situation is suggested to arise e.g. as a result of a too generous minimum wage law or labour law influence.<sup>52</sup>

There can be “Keynesian” and “classical” unemployment. Indeed there can be both at the same time: the real wage might be too high to allow full employment with existing capital stock, while at the same time aggregate demand is inadequate to take off the market what firms would wish to produce. Changes in the real wage could have demand-side and supply-side effects.<sup>53</sup>

In the standard fix-price model of price-taking competitive firms, Keynesian and classical unemployment are separate states according to whether notional product supply exceeds or falls short of market demand at the prevailing wage and price configuration, so that labour demand is either output constrained and determined by the inverted production function (Keynesian unemployment), or firms are on their notional product supply and labour demand functions but the real wage exceeds the Walrasian full-employment level (classical unemployment). Thus labour demand is independent of

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<sup>50</sup> Neva R. Goodwin, Julie A. Nelson, Jonathan Harris, (2009), *Macroeconomics in Context*, M.E. Sharp Inc. New York, pages 155-156.

<sup>51</sup> Classical unemployment is the result of real wages being above their market clearing level leading to an excess supply of labour. (Geoff Riley, Head of Economics, Eton College, Sept. 2006)

<sup>52</sup> [http://www.encyclopedia.com/topic/Classical\\_economics.aspx](http://www.encyclopedia.com/topic/Classical_economics.aspx) (01.04.2011)

<sup>53</sup> Nobel laureate Robert M. Solow in his prize lecture on Dec 8th, 1987.

the real wage in the Keynesian state and depends only on the real wage in the classical state.<sup>54</sup>

#### 4.4. Cyclical unemployment

Cyclic unemployment occurs when there is a recession,<sup>55</sup> downturn in an economy, the aggregate demand for goods and services decreases and demand for labour decreases. At the time of recession, unskilled and surplus employees/workers become unemployed.

Cyclical unemployment is unemployment due to macroeconomic fluctuations – specifically, unemployment which occurs due to a drop off in aggregate demand. During recessions, unemployment rises as demand for the products of business falls off. During recoveries, this kind of unemployment should decrease.

Not surprisingly, given that the field of macroeconomics was born out of the problems of the Great Depression, cyclical unemployment is of major concern to macroeconomists. While structural unemployment affects only some sectors of the economy and some amount of frictional unemployment seems inevitable, cyclical unemployment is spread broadly through the economy and can cause considerable economic hardship. For this reason, it seems that avoiding or minimizing cyclical unemployment should be an important goal of economic policy.<sup>56</sup>

Cyclical unemployment goes hand in hand with the business cycle or the ace of the economy. In the peak stage of the business cycle i.e. a very high GDP is matched with low unemployment rate. Again when the economy is passing through a recession the unemployment rate is very high. Hence cyclical unemployment may be alternatively defined as the negative correlation that exists with Gross Domestic Product.

When the economy is in a recession, the aggregate demand for goods and services is low. Consumer expenditure is also less. Production is lowered to match with the low aggregate demand. Lowering production entails downsizing the work force.<sup>57</sup>

#### 4.5. Seasonal unemployment

A type of unemployment that occurs due to the seasonal nature of the job is known as seasonal unemployment. The industries that are affected by seasonal unemployment are hospitality and tourism industries, hotel and also the fruit picking and catering

<sup>54</sup> Robert M. Coen and Bert G. Hickman, (1988), "Is European Unemployment Classical or Keynesian?" *The American Economic Review*, Vol. 78, No. 2, pages 188-193

<sup>55</sup> Traditionally, a recession has been defined as a case where gross domestic product (GDP) falls for two consecutive calendar quarters.

<sup>56</sup> <http://www.buzzle.com/articles/cyclical-unemployment.html> (21.03.2011)

<sup>57</sup> <http://www.eonguru.com/what-is-cyclical-unemployment/> (21.03.2011)

industries. An elevated level of unemployment that is expected to occur at certain parts of the year. For instance, amusement parks may experience seasonal unemployment during the winter months because less people will visit the parks during this time.<sup>58</sup>

Seasonal unemployment is a type of working arrangement in which a person is employed routinely for part of the year, but spends the remaining months or weeks without a job. This situation is most commonly associated with temporary, weather-dependant jobs like lifeguarding and some construction work. Tourism jobs related to specific seasons, as well as more sporadic employment in seasonal groups like theater companies, may also fall into this category. These sorts of jobs usually revolve around fixed calendars such that employees both know and understand exactly when they will be out of work. In many cases, seasonal employees can collect government-sponsored unemployment benefits in their off-seasons.

#### *Structured and generally predictable schedule*

The defining characteristic of seasonal unemployment is its predictability. In nearly all cases, workers accept these sorts of jobs with full knowledge that they are only temporary.

Employees are typically laid off on a pre-arranged date, but the arrangement is designed to be cyclical. Most of the people who hold these jobs know that work will be waiting for them at certain future points, and reapplication is not usually required. Once the season picks back up, the jobs return.

#### *Weather-related joblessness*

Jobs that are dependant upon certain weather conditions are some of the most common candidates for temporary unemployment. Snow plow operators, ski slope staff, lifeguards and beach managers are but a few examples. Some types of construction work and exterior painting jobs also fit into this category.

#### *Tourism and seasonal travel scenarios*

A number of tourism-related jobs are limited to a certain location's "busy" season, which can subject them to seasonal unemployment, as well. Many of the world's most sought-after travel destinations have certain times of year that are much busier than others. Some of this has to do with the season – summer is almost always a busy time – but much is also related to weather patterns. Regions subject to rainy seasons or stifling heat are often less popular during these periods. Most hotels and resorts will keep some staff employed during these "low" times, but they rarely operate at full capacity.

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<sup>58</sup> [http://www.eoearth.org/article/Types\\_of\\_unemployment](http://www.eoearth.org/article/Types_of_unemployment) (11.03.2011)



*Theatrical and other limited-run employees*

Actors, performers, and professional athletes often experience seasonal unemployment for certain portions of the year. Some theaters launch shows on a continuous basis, but most have certain scheduled “dark” periods. The same is true with ballet companies and other performing arts groups.

Those who play professional sports also typically have an off-season, which can lead to temporary joblessness. This is rarely a problem for very high profile athletes, whose paychecks during game-time are usually very generous. For amateurs or those who have yet to break into national leagues, however, necessary periods of rest during the off-season can be financially challenging.

*School employees*

Teachers are one of the biggest exceptions to the seasonal unemployment rule. Most schoolteachers work only during the academic year, and enjoy summers that are basically free. Teachers are not laid off before the summer months, however, nor are they considered “unemployed” during this time. Many school districts space out teacher paychecks so that they are actually being paid over the summer months, even though they may not be actively involved in the classroom.

Other school employees – school bus drivers, cafeteria workers, and librarians, to name a few – do not usually come within this umbrella, however. Many of these sorts of jobs are subject to seasonal unemployment, though much depends on the district and the local rules.

*Possibility of unemployment benefits*

Seasonal employees are often eligible to collect government-sponsored unemployment benefits for the periods of time in which they are not working. Whether or not benefits are available is entirely dependent upon the government. In some places, seasonal employees are not eligible to collect anything; in others, money is available but in smaller amounts than for the long-term unemployed.<sup>59</sup> Most governments try to keep

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<sup>59</sup> In USA a growing number of member states are saying that seasonal workers shouldn’t be allowed to collect unemployment checks in their downtime. From school bus drivers to ballet dancers to lifeguards, many workers whose jobs only last for a portion of the year have traditionally been eligible for jobless benefits. But now states across the country are starting to crack down, trying to save money and rescue insolvent jobless funds.

US federal law gives each state the option to decide whether or not to allow seasonal workers to take benefits. Now strapped for funds, many states are stripping some workers of their eligibility. For example, in 2012, New Jersey Republicans introduced a bill that would require the state to identify specific seasonal industries that operate about nine (9) months of the year or less, and deny those workers unemployment benefits in the off-season. In all, about 15 states currently restrict the payment of unemployment benefits to workers who

seasonal unemployment and regular unemployment allocations separate for reporting purposes, usually to ensure that unemployment rankings reflect only those people with no job at all.<sup>60</sup>

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earned some or most of their wages in seasonal jobs. They all define seasons differently, some based on time frames and others based on industries.

US federal law already prohibits professional athletes from accessing unemployment benefits between two seasons. Similarly, teachers who work directly for school districts have been ineligible to take unemployment during the summer, ever since Congress amended federal law in the 1970s. But for other workers, it's up to the states to decide. For example, private educational contractors -- like bus drivers, crossing guards, janitors and cafeteria workers -- have been entitled to unemployment benefits in many states, any time school is out of session. Landscapers and construction workers can often apply for unemployment in the winter. Entertainment workers like actors, stagehands, television producers, ballet dancers and opera singers sometimes collect between seasons. And in some states, even workers in the hospitality industry can submit claims when the tourist season ends. (<http://money.cnn.com/2012/05/31/news/economy/seasonal-unemployment-benefits/index.htm>)

<sup>60</sup> <http://www.wisegeek.com/what-is-seasonal-unemployment.htm>

## Chapter 2

### Private unemployment insurance

#### 1. The emerging importance of private social schemes

In many countries the future of the welfare state is under scrutiny. The debate focuses on the scope and role of the public sector in providing social security and highlights issues including: the changing responsibilities of the state, the market and the family, improving benefit delivery, etc. Adapting social security to a more flexible labour market and the new challenges posed to social security provision by the emerging group of socially excluded persons. There is concern about the feasibility of maintaining a welfare state that can continue to provide for those with specific needs.<sup>61</sup> In this context, policy-makers in some continental European countries frequently refer to high national levels of public social spending, particularly in comparison with other industrialised “non-continental-European” economies.

Because of this concern with “public social spending overload”, there is growing interest in the role of the private sector in providing social benefits.<sup>62</sup> Some countries are searching for alternative means of securing social support other than through the public delivery system.<sup>63</sup> Furthermore, the private sector can also provide social benefits voluntarily which top-up government regulated provisions (e.g. pensions, sickness, disability and rarely unemployment benefits). Frequently these benefits are related to collective labour contracts and are subject to favourable tax treatment.

Nowadays, there are researchers<sup>64</sup> who proposed to introduce a system of individual unemployment savings accounts as an alternative to traditional public unemployment

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<sup>61</sup> OECD, *Family, Market and Community: Equity and Efficiency in Social Policy*, Social Policy Studies, No 21, Paris, 1997. pages 6-9.

<sup>62</sup> OECD, “Social Expenditure Statistics of OECD Member States – Provisional Version“, Labour Market and Social Policy Occasional Paper, No. 17., Paris, 1996 pages 13-15.

<sup>63</sup> For example, recent policy initiatives concerning the provision of sickness payments in the Netherlands and the United Kingdom involved a shift from public to private provision. In such cases, governments determine benefit entitlements but leave the provision to the private sector.

<sup>64</sup> Orszag, Michael J., and Dennis Snower, (1997), “Expanding the Welfare System: A proposal for reform” *European Economy*, No. 4. and Feldstein, Martin, and Daniel Altman, (1998), “Unemployment Insurance Savings Account“ *NBER Working Papers*

insurance. The feasibility of individual accounts as a possible alternative route to address the equity-efficiency trade-off of public benefit systems and increase labour force participation in Europe is debated. Under a system of individual accounts, workers save a share of their wage in special accounts to draw unemployment compensation from these accounts when they are laid off. Individual accounts reduce the adverse incentives of traditional unemployment insurance because individuals internalize the costs of unemployment. The system might have negative consequences for labour market dynamics and restructuring, as it may harm the migration function of unemployment benefits for the economy, when workers would be too willing to accept inefficient jobs, just to save on withdrawals from their accounts. Another adverse effect of individual accounts is that it may introduce dual labour markets and decrease solidarity between workers with a high and a low unemployment risk.<sup>65</sup>

Social benefits to households and individuals can be a) publicly or b) privately provided. Social benefits are regarded as public<sup>66</sup> when relevant financial flows are controlled by general government (that is central, state, and local governments, including social security funds)<sup>67</sup> All social benefits not provided by general government are within the private domain.

## 2. Typology of private social benefits

Private social benefits can be provided by a) individuals, b) employers or c) non-profit organisations. They can be categorised in two broad groups of benefits:

### 1. Mandatory benefits

- a) Mandatory individual private social benefits;
- b) Mandatory employer-provided social benefits to a group of employees.

### 2. Voluntary benefits

- a) Voluntary fiscally advantaged individual private social benefits;
- b) Voluntary employer-provided social benefits to a group of employees;
- c) Social benefits provided by non-profit organisations.<sup>68</sup>

<sup>65</sup> Udo Kock and Frank A. G. den Butter, (2001), "Can individual unemployment savings accounts resolve Okun's equity-efficiency trade-off?" *Research Memorandum*; <ftp://zappa.ubvu.vu.nl/20010026.pdf> (16.02.2011)

<sup>66</sup> Thus, social security contributions paid by employers to social security funds (receipts) are within the public sphere. Social benefits provided by governments to their own employees are also considered to be public.

<sup>67</sup> Social security funds are social insurance schemes covering the community as a whole or large sections of the community that are imposed and controlled by government units.

<sup>68</sup> Adema Willem and Marcel Einerhand, (1998), "The Growing Role of Private Social Benefits", *OECD Labour Market and Social Policy Occasional Papers*, Paris No. 32, pages 14-23. <http://dx.doi.org/10.1787/804013113766> (18.03.2013.)

Most of these benefits are provided under influence of government actions: the legislation of benefit provision or the fiscal stimulation of insurance take-up. Governments sometimes also influence the collective bargaining process. To a large extent, intervention by government determines the scope of private social support. However, in some cases other benefits which are not mandatory or fiscally advantaged are also included in the domain of private social support. Relevant arrangements often concern private insurance by the self-employed, or union-managed plans.

### ***2.1. Mandatory private social benefits***

Employers, the self-employed and other individuals can be forced by governments to make social provisions by legal stipulations. Relevant benefits differ from public benefits in that financial flows are not channelled through the public system as defined above. Nonetheless, governments exercise control over the terms – level, coverage and duration – under which such private benefits are provided.<sup>69</sup>

a) Private social benefits are only considered as mandatory if benefit provision by employers or individuals is statutorily enforceable. These mandatory benefits can be directly provided by employers to households, including their former and current employees.

b) The government can also force individuals and/or employers to make regular contributions of a specified amount (often related to the earnings of an employee) to a private fund.<sup>70</sup> Similarly, employers can be forced to make contributions to a private fund on behalf of their employees. The accrued contributions will at a certain point in time lead to benefit payments to households which are derived from mandatory contributions.

### ***2.2. Voluntary private social benefits***

All social support which is not public or mandatory private is defined as *voluntary private* social support. Hence, voluntary private social benefits concern those private benefits that are delivered outside the public delivery system and whose provision is not legally stipulated. Thus, all non-mandatory private social benefits are defined as voluntary private social benefits. That is not taken to mean that government does not affect the provision of voluntary private benefits. However, the extent to which public

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<sup>69</sup> For example, in Germany employers are legally required to continue wage payments at a specified rate during the initial weeks of sickness.

<sup>70</sup> For example, individuals in the United Kingdom who opt out of the State Earnings Related Pension Scheme (SERPS) are forced to make guaranteed minimal pension payments towards their own personal pension plan or an occupational pension plan.

influence prevails varies from programme to programme. The government can affect the provision of voluntary private benefits through the tax system. Tax advantages often apply to private pension plans, but can also concern health insurance.<sup>71</sup> These tax breaks for social purposes concern both employer-provided plans and individual insurance policies. Public support for charitable organisations can take the form of tax concessions and public funding of their activities.

Basically, pensions (old-age cash benefits and survivors pensions) and health insurance involve the largest aggregate benefit payments. Other examples of private social benefits concern severance pay, *supplementary unemployment compensation*, sickness benefit, child care, or maternity pay (parental leave).

Voluntary employer-provided private benefits in Europe are often based on collective agreements between employers and unions. Such collective labour contracts that stipulate social benefits can apply nationally, by sector or industry, or at enterprise level.<sup>72</sup> Voluntary private social benefits also cover benefits provided by individual employers to all their employees, or specific sub-groups of employees (e.g., white collar workers), even though such arrangements are not part of a collective agreement.

a) Employers may provide social support because of stipulations in collective agreements, established at national, industry or enterprise level. Such *voluntary employer-provided private* social benefits often top up public and mandatory private benefits. Participation by employers and employees in these collective agreements is mostly voluntary, although there are borderline cases. In the absence of collective agreements, employers may also provide such benefits voluntarily to their workforce or part thereof.<sup>73</sup> Such voluntary benefits often receive tax advantages. Tax advantages can also be given towards the take-up of individual private pension plans.

b) Benefits deriving from these tax-advantaged provisions are considered to be private social benefits. Thus, *voluntary private* social benefits are either provided directly to households by employers or contributions are made by self-employed persons and other individuals to private funds and employers leading to benefits being paid by private funds to households.

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<sup>71</sup> Gruber, Jonathan, and James M. Poterba, (1995), "Tax Subsidies to Employer-Provided Health Insurance" *NBER Working Papers* No. 5147, National Bureau of Economic Research, Cambridge MA. p. 56

<sup>72</sup> Adema Willem and Marcel Einerhand: "The Growing Role of Private Social Benefits", OECD Labour Market and Social Policy Occasional Papers, Paris, 1988 No. 32, p. 5.  
<http://dx.doi.org/10.1787/804013113766> (18.03.2013.)

<sup>73</sup> This happens quite frequently in the United States where employers often take out group-health insurance on behalf of their employees.

c) Private social benefits can also be provided by Non-Profit Organisations<sup>74</sup> (NPOs).<sup>75</sup> The NPOs usually give social support in the context of helping the poor, provision of houses and other social services. Governments often stimulate such activities through direct funding and through tax concessions.<sup>76</sup>

Private sector enterprises can also be significant contributors to NPOs. There is increasing interest in the role of NPOs as a complement to the public authorities in providing community services. Available information suggests that voluntary benefits in the field of social services and housing provided by NPOs do not concern huge amounts. However, these data abstract from the value of time of volunteers which could be considerable.<sup>77</sup>

### 3. The scope of private benefits

The scope of private social support is determined by the purpose of benefits (support towards circumstances which adversely affect the welfare of the individuals concerned), their collective character and government intervention through legal and fiscal regulations. The factors determining the scope of private social support establish the distinction between:

- A) remuneration and private social benefits (relevant in the context of employment-related benefits);
- B) private social benefits and private non-social benefits.

These demarcation issues are particularly important for cross-country analysis, where, apart from measurement issues, comparability is affected by significant variation in institutional arrangements across countries. Therefore, demarcation must be done with care, otherwise the analysis might lead to inappropriate conclusions.<sup>78</sup>

#### *A) Remuneration and private social benefits*

The first demarcation issue concerns the distinction between social benefits and wage-payments. Social benefits do not include remuneration (wages and salaries) for work, as they do not cover market transactions, i.e., payments in return for the simultaneous

<sup>74</sup> Organisations such as the Red Cross or the Salvation Army provide benefits to people who for one reason or another do not receive sufficient support through the national social protection system, such as the homeless, drug addicts, and other people with a multitude of social problems.

<sup>75</sup> OECD: Taxes, Benefits and Incentives, Paris, 1998. pages 23-26.

<sup>76</sup> In Germany for example, the non-profit sector draws more than half of its revenue from the public sector. Tax concessions can also be significant.

<sup>77</sup> <http://www.oecd-ilibrary.org/docserver/download/5lgsjhvj7skc.pdf?expires=1361654509&id=id&accname=guest&checksum=7FD5F90849DC0D1718F8F131DD19D6A5>

<sup>78</sup> Adema Willem and Marcel Einerhand: "The Growing Role of Private Social Benefits", OECD Labour Market and Social Policy Occasional Papers, Paris, 1988 No. 32, p. 11.  
<http://dx.doi.org/10.1787/804013113766> (18.03.2013.)

provision of services of equivalent value. Employer costs such as allowances for transport costs, holiday pay, etc. are part of remuneration in this sense.<sup>79</sup> Employers may also directly provide in-work benefits to an individual employee on an individual and voluntary basis. This may be done to attract or keep high quality labour and reduce firm adjustment costs.<sup>80</sup> Those payments which do not concern a group of employees are not regarded as social. For example, an employer may contribute to the pension provision for a particular employee independently of what other employees may receive. Such payments are not regarded as social contributions as they are made on an individual and voluntary basis.

In contrast, collectively provided *employer-provided* benefits such as sickness payments are included in social support, as are old-age pensions to former employees. Thus, the collectively provided benefits towards a social risk by employers on a voluntary basis are here always regarded as within the scope of private social support, even though some of these benefits (e.g. sickness benefits) are not tax-advantaged.

### ***B) Private social benefits and private non-social benefits***

Take-up of individual insurance, even if it is against a “social” risk is a matter for the persons covered, and premiums are based on the individual preferences and the individual “risk profile”. Therefore, in contrast to collective arrangements, individual arrangements are generally not regarded as social support. For example, individuals may make their own pension arrangements or take up health insurance packages or unemployment arrangements. Such individual contracts, where contributions and the ensuing benefits are determined by market prices and the individual risk profile, are here considered as “individual private” and are outside the social domain.<sup>81</sup> In theory this benchmark provides a clear distinction between what is social and what is not. In practice, however, this distinction is not that easily made.

Governments can – and often do – stimulate take-up of individual policies through the tax system. In these cases, the take-up decision is not fully determined by the individual risk-profile (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis). Hence, premiums are not fully determined by market prices. As such there is a high degree of similarity between these arrangements and mandatory individual arrangements. In a methodological context we

<sup>79</sup> The domain of social support does also not include contributions by employers to tax-advantaged saving plans with a limited contract period. Because of the favourable tax regime in comparison to wage payment, such saving plans in the Netherlands gained significant popularity.

<sup>80</sup> Nickell, Stephen J., (1986), “Dynamic Models of Labour Demand” in O. Aschenfelder and R. Layard (eds) *Handbook of Labor Economics* Vol. 1., North-Holland, Amsterdam. p. 48.

<sup>81</sup> Life-insurance policies have a clear social purpose when such policies are paid out to survivors. However, in practice such policies are often marketed as a savings instrument (such policies can also be linked to individual mortgage-policies). Generally, pay-outs of life-insurance policies take place at the moment of policy-expiration rather than in case of death. Separate data on the “survivors component” are not available and therefore all benefit payments and relevant tax-expenditures have been omitted from the analysis.



have therefore taken the view that if, and only if, the individual-risk profile fully determines insurance take-up the relevant benefits are not within the social domain.

To illustrate the point, consider the case where the government fiscally stimulates individual pension provision at a digressive rate:

- for an individual to pay his/her first 1000 units into his/her individual pension plan, the government provides a fiscal deduction of 200 units;
- for the second 1000 units paid in by the individual the government provides a fiscal deduction of 100 units;
- there is no fiscal stimulus regarding any contribution over and above the 2000 units threshold.

The government's fiscal "subsidy" (or revenue foregone) is considered social if it was intended to serve a social purpose.<sup>82</sup> These tax breaks for social purposes are here regarded as being within the scope of public social support. The relevant private benefit payments are considered social if they were not fully determined by the individual risk profile at going market prices.

Sometimes self-employed individuals belonging to the same occupation insure themselves within an occupational framework against social risks. Similarly, groups of employees can take out insurance, possibly under union-management. Governments often mandate or fiscally stimulate relevant provisions, but it is possible that such arrangements which are based on individual contracts are completely voluntary without government intervention as described above. Nonetheless, through risk sharing, this type of "group insurance" is likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices. This also applies to individual insurance through a mutual benefit society. Therefore, payments towards social risks by relevant institutions are regarded as within the scope of voluntary private social support.<sup>83</sup>

#### 4. Private unemployment insurance

Private unemployment insurance is a type of insurance protection that provides a stream of revenue in the event that the insured party's full-time employment is terminated for any reason covered in the terms and conditions of the insurance contract. This type of

<sup>82</sup> Fiscal measures to stimulate savings in general or savings by specific groups such as young persons are not considered as tax breaks for social purposes.

<sup>83</sup> Seeleib-Kaiser, Martin, Adam Saunders and Marek Naczyk, (2011), "Shifting the Public-Private Mix: A New Dualization of Welfare" in Emmenegger, Patrick, Bruno Palier, and Martin Seeleib-Kaiser (eds) *The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies*, New York: Oxford University Press

insurance plan often provides benefits that are above and beyond any unemployment compensation that employee may be due through some type of governmental program, and often covers circumstances that tender the employee ineligible to receive benefits from the state. Premiums for private unemployment insurance are relatively affordable, based on the scope of the coverage that is included in the agreement.

The provisions found in a private unemployment insurance plan often cover a wide range of possible events that could lead to unemployment. These include voluntary as well as involuntary events. For example, the employee may be able to obtain benefits should the employer choose to eliminate his/her job position, close the facility in which the employee works, or shut down the business altogether. Depending on the terms of the policy, the employee may also be able to receive compensation if he/she chooses to sever the relationship with the employer under certain circumstances, including illness or some legal issue pending between the employee and employer. Since the scope of covered events will vary, it is important to look at the terms in each private unemployment insurance plan and determine just how much cover in different situations is provided.

Securing private unemployment insurance is similar to acquiring any other type of coverage. Evaluating different plans and choosing the one with the best possible scope of coverage for the individual, while also taking into account the amount of the monthly premium, is very important. Care should be taken to make sure the benefits can help to offset any gaps in compensation provided by other plans, such as disability insurance or the unemployment compensation provided in accordance with the employment laws relevant to the jurisdiction in which the employee resides. Since the regulations for receiving unemployment compensation do vary from one area to the next, using the private unemployment insurance as a source of revenue even if the individual is considered ineligible for state unemployment benefits can be a great way to make sure there is still money to pay monthly expenses like the mortgage and the car payment.

As with any type of insurance plan, providers must be authorized to offer private unemployment insurance by a state regulatory agency. These agencies will often provide listings of providers who currently offer this type of coverage with the approval of the state. Using this listing to obtain specific information on the scope of coverage offered by each provider, and comparing rates between different plans will make it easier to identify the right insurance package and enhance the employee's ability to manage his or her expenses even if employment is interrupted for some reason.

There is a slightly different approach, when under individual savings accounts, sometimes popularly referred to as "backpacks", workers accumulate capital from compulsory contributions paid from their wages. Unemployment benefits are paid to individual workers from these accounts and if a positive balance remains when the worker retires, it may be added to the individual's old age pension. An element of risk solidarity based on public insurance will remain, as a negative balance will be forgiven

when the worker retires (or possibly prior to retirement as a specific policy measure to promote labour force participation).

An important advantage of this reform strategy for unemployment benefit systems is that existing institutional characteristics of unemployment insurance schemes, notably the benefit level and duration, can remain unchanged. On the other hand it can be seen that Okun's trade-off remains and that individual accounts, while significantly improving labour market incentives, reduce risk-solidarity among workers. However this does not automatically imply that workers with a high unemployment probability will be worse off or in other words, that those who need accounts. As the benefit level and duration do not need to change, changes in the income distribution, in terms of lifetime income, will depend on the exact structure of the new benefit system, how to deal with negative account balances and what exactly will be the impact of improved labour market incentives. Still, the reduction in risk-solidarity is an important aspect, given the prominence of equity and solidarity in the social choice function of European societies.

The most significant advantage of this way to finance unemployment benefits is that it generates better incentives for workers to prevent unemployment and to strive for rapid outflow from unemployment than traditional public unemployment insurance schemes. Under individual accounts risk solidarity cannot and will not be eliminated completely.<sup>84</sup>

In some countries there is a public debate whether the existing public social security systems with defined benefits should be replaced by individual accounts with defined contributions.<sup>85</sup>

#### 4.1. The forgotten role of insurance in risk

In assessing this situation what is lost is that insurance has a much greater role to play than just the benefits received when exercising an insurance contract. Insurance also serves as a mechanism to internalize many risks and costs, and incentivize prudent behaviour.<sup>86</sup> Here we deal briefly with some uncertainty of the private unemployment insurance.

<sup>84</sup> David Honigman & George C. Lee, J.D.: It's time to privatize unemployment insurance <http://www.thefreemanonline.org/featured/its-time-to-privatize-unemployment-insurance/> (26.02.2011)

<sup>85</sup> Orszag, J. Michael, Peter R. Orszag, Dennis J. Snower, and Joseph E. Stiglitz, (1999), "The impact of individual accounts: Piecemeal versus comprehensive approaches" *Paper presented at the Annual Bank Conference on Development Economics*, World Bank: Washington DC, p. 32.

<sup>86</sup> Let us use the example of car insurance. The premiums you may pay for your car insurance factor in many different variables; your driving record, your age, education, the model of the car, even the colour to assess the risk of you getting into an accident or having your car stolen. If you buy a Red Ferrari, the chance someone may want to steal your car increases and so does your insurance premium which creates a financial

#### 4.1.1. *The moral hazard of unemployment insurance*

Under the government provided system of unemployment the employer and/or employee pays the costs of insurance, very similar to the situation in retirement and healthcare, etc. The contribution the employer and/or employee pays is based on a percentage of the taxable salary of the employee (which is an incentive to give smaller salaries), and is not keyed in any way into other risks such as:

- does the employer run a sustainable company that is fiscally sound (if not, the risk is greater),
- does the employee have a stable work history (if not, the risk is greater),
- what is the background/education/skills of the employer/employee,
- what is the turnover rate of the employer (higher, the greater the risk),
- how difficult is it to find a similar job.

Since these things are not priced into the premium, the premium may be below market or above market depending on the employer and their employee. Since the employee does not pay the premiums directly, they have no incentive to take a sustainable job at a company that is well run, because the unsustainable company will probably pay higher salaries, which makes it harder for good companies to compete with reckless companies in purchasing talent. The reckless company may go out of business a year later but the unemployment benefit as a percentage of the higher salary may outweigh the smaller salary at the sustainable job which makes it hard for modest growth sustainable companies to compete.<sup>87</sup>

All this does not take into consideration the political ramifications of having government run unemployment insurance.

#### 4.1.2. *The virtue of a private unemployment insurance*

If people could and would purchase their own private unemployment insurance, or employers voluntarily provided it from private insurance companies, all the factors that

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incentive to choose a safer car which will less likely be stolen. Also, if you were to get into an accident and file a claim, the next time you purchase insurance your premiums will be higher, which again creates an incentive to be a safer driver. Overall, the premium mechanism is arguably vital to having a safety net like car insurance not cause moral hazard. Let us pretend the government provided quality car insurance free or at a uniform fee versus what you would have paid in the private markets. The incentive not to buy the Ferrari or drive safely are now diminished, because you either did not pay or did not have a differential in what you would pay depending on your behavioural choices. So it is not only about the benefit, but cost to have the benefit that helps regulate the abuse of the benefit. So now let us apply this concept to unemployment insurance.

<sup>87</sup> This is similar to deposit insurance and the savings rate, the more reckless banks will generally have a higher savings rate but since depositors do not pay their deposit insurance directly, they will deposit their money in the higher savings rate bank which more than likely has some liquidity problem causing a whirlpool of good resources into bad places.

were not calculated into the premium now would. The insurance company would investigate the employer and the employee to assess the risk they both present in the risk of the employee becoming unemployed. So more risk would equal high premiums leading to a lot of good incentives such as:

- An employer running a sustainably well run company who cannot afford lavish salaries will be more competitive. The higher salary at the reckless company would also carry higher premiums, internalizing the risk of which is the more sustainable job. This would also be an incentive to be sustainable, because it will be hard to attract talent if working for the company generates high insurance premiums.
- The company would be incentivized to have a pleasant and safe work environment, because not having one would increase their turnover rate which would increase unemployment premiums.
- The employee would have an incentive to be more prudent in choosing jobs, and to pursue more education and skills. Having a stable work history and lots of credentials and skills will only help them lower their unemployment premiums.
- If working in a niche industry that may take a year or two to find a similar job, the employee can choose to buy benefits beyond what is currently mandated (6 1/2 months), this allows the freedom for those who need more to get more and those who need less to get less.<sup>88</sup>

#### 4.2. Pros and cons to purchasing private unemployment insurance

Purchasing private unemployment insurance can provide coverage when state unemployment insurance does not apply. It can also supplement other unemployment insurance provided by the former employer. Naturally, not everyone needs these types of policies, but for those in situations where a private unemployment policy makes sense, it might be a good solution.<sup>89</sup>

Here we underline the following four reasons why it might be a good idea to purchase private unemployment insurance: A) critical illness, B) temporary injury, C) no entitlement for statutory unemployment system and D) paying mortgage.

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<sup>88</sup> Alex Merced: Labor Economics #4 – Unemployment Insurance (2010)

<http://mises.org/community/blogs/alexmerced/archive/2010/08/15/labor-economics-4-unemployment-insurance.aspx>

<sup>89</sup> There is a slightly different approach of private unemployment insurance by Bill Graham, a lawyer in North Carolina (see: <http://www.wallacegraham.com/>). He wants to solve a problem that begins when the unemployed finally find another job: they are often making much less than they were in their last position. His solution: *salary gap insurance*. Individuals pay a premium, and then get a percentage of the difference between their old pay and their new compensation for up to two years, as long as they left their old job involuntarily. This service is now available in the Netherlands and will soon be offered in Britain.

#### A) Critical illness

For example, an employee is going for a routine check-up and is told that he/she has cancer. His/her employer may be sympathetic to tolerate the new situation and try to accommodate the sick employee within the workplace, but eventually, an employer's generosity will run out if the illness turns to be serious and needs to be treated by chemotherapy or other treatment that requires the employee to be away from work for an indefinite period of time. Sooner or later he/she will not be able to hold on to the job. The employment relationship will be terminated. In such case the statutory unemployment system will not cover the whole period, therefore the private unemployment policy would provide benefits.

In addition to the stress and trauma of going through treatment for cancer, the person is also faced with the prospect of having no means to pay his/her monthly bills, loans, etc. If he/she is not entitled or exhausted the benefits paid by statutory or employer sponsored unemployment system, the private critical illness unemployment policy will be a possible solution. These types of policies might pay a lump sum once the diagnosis has been confirmed. The settlement is based upon the size and amount of the contracted former policy and can be used in any way the policy holder deems appropriate. There are also several shortfalls to this type of policy. For example, the pre-existing conditions are not covered, or not all critical illnesses are covered or used risk assessment and if the person has a family history of certain illnesses or diseases, he/she may not be able to get coverage or he/she will be forced to pay higher premiums.

#### B) Temporary injury

It also often happens that somebody suffers an injury in the workplace or outside of it. For example, if somebody breaks his/her leg or hurts his/her back while he/she is away from work, he/she may not be able to return to work for several months. The financial strain of not having a pay check for two or three months can be alleviated if the person concluded beforehand a private unemployment insurance. It can provide enough money to get by while the person is recovering and he/she is able to return to work.

#### C) No entitlement for statutory unemployment insurance system

As mentioned earlier, there are a number of different groups of workers that simply do not qualify for traditional employer-sponsored unemployment insurance benefits. Part time workers are usually excluded from the unemployment policies of their companies. Similarly, temporary workers are not covered by the firms they are working for unless they become permanent employees. Perhaps the group that needs private unemployment insurance the most is the self employed. The private unemployment insurance policy could be a good solution for them. However, there is a negative effect of private unemployment insurance for casual workers. Many times it is very difficult to prove sufficiently that the person is not working because he/she cannot work or cannot find work. Therefore, if somebody is in a casual business at home such as doing occasional

contract work, he/she may not be able to get a private unemployment policy to cover times when he/she is not working.<sup>90</sup>

#### D) Paying the mortgage

In many countries the biggest monthly expense that most people have is the mortgage.<sup>91</sup> Mortgage is a long-term commitment to pay a debt, not knowing whether the borrower will always have a job. Basically, there are *three main types of mortgage protection*: 1) protection against death (mortgage life insurance), 2) protection against disability (mortgage disability insurance), and 3) protection against unemployment (mortgage unemployment insurance).<sup>92</sup> Here we shall introduce the main elements of the last one. This can be understood as a supplementary element of the private unemployment insurance.

The mortgage unemployment insurance offers a policy to make safer the period of unemployment. This insurance policy was introduced first in the USA, but there is similar option in some European countries as well. In Europe it comes under umbrella of mortgage protection system.<sup>93</sup> Approximately 15% of mortgage borrowers are enrolled in private unemployment insurance schemes in France. The lender closes a group contract with one of the four insurance companies that offer the product and acts as the originator for the insurance policy. Through the group contract the lender acquires the right of making calls to the insurance. Unemployment insurance policies feature widely varying guaranty forms with differing financial conditions. A typical example is the unemployment insurance scheme offered by Credit Lyonnais. Another example from Belgium: there is compulsory privately provided insurance against losses in mortgage debt service capacity caused by unemployment in the regions of Brussels and Wallonia.<sup>94</sup>

As a basic principle in USA, the job-loss mortgage insurance policies pay all or part of a mortgage payment if the borrower involuntarily loses a job. Some pay if the borrower becomes disabled.<sup>95</sup> Policies vary on how many mortgage payments they will make over a certain period. Many policies will make six months' worth of payments during a 12-month period. Policies begin paying after a specified period of unemployment, usually 30 days.

The policies have other qualifications and caveats. Most have maximum monthly benefits, so if somebody has a \$3,000 monthly mortgage payment, he/she might not be

<sup>90</sup> <http://www.gettingmoneywise.com/2011/05/4-reasons-to-buy-unemployment-insurance.html> (12.02.2013)

<sup>91</sup> Nowadays student loans are also becoming a very difficult problem in case a loan holder is out of work.

<sup>92</sup> <http://www.mortgageprotectionhelper.com/> (12.04.2011)

<sup>93</sup> <http://ezinearticles.com/?Mortgage-Protection-Against-Unemployment&id=1315129> (12.04.2011)

<sup>94</sup> [http://www.housingfinance.org/uploads/Publicationsmanager/9806\\_Wes.pdf](http://www.housingfinance.org/uploads/Publicationsmanager/9806_Wes.pdf) (12.04.2011)

<sup>95</sup> <http://www.insurelog.com/unemployment-mortgage-protection-insurance.htm> (12.04.2011)

able to find a policy that will pay all of it. Some pay only principal and interest; others pay principal, interest, taxes and hazard insurance.

Generally, the policies don't pay benefits if the borrower becomes unemployed within six months of getting the policy. That prevents people from buying a policy when they know they'll be laid off soon. Some policies will refund premiums to people who lose their jobs during the six-month vesting period.<sup>96</sup>

Members of labour unions should ask whether the policies pay in the event of a strike. Some do. Some policies pay benefits only to people collecting unemployment benefits. Generally, the policies aren't available to the self-employed or to seasonal or temporary workers.

Customers can renew these policies annually or cancel coverage. In this way, these policies differ from single-premium credit insurance, a type of product that increasingly has come under scrutiny by opponents of predatory lending. Single-premium policies have a one-time, upfront payment, usually financed as part of the loan. Regulators and consumer advocates have been pressuring lenders to stop selling single-premium credit insurance, and companies have responded by offering policies that are renewable annually.

Financial advisers tend to question the value of job-loss mortgage insurance, pointing out that it's wiser to save at least six months' worth of expenses in a rainy-day fund. It's not that simple for many first-time home buyers, who deplete their savings to meet the down payment and closing costs.

Borrowers have several choices of coverage, and pricing varies depending on loan size and type of coverage. Coverage kicks in 60 days after the loan closes, and the policy will pay up to 12 payments of principal and interest.

Customers can buy policies that will pay half or all of the monthly mortgage payment, with a maximum benefit payout period of six or nine months. It costs about \$45 a month for coverage that will pay all of a \$1,000 mortgage payment for a maximum of six months.<sup>97</sup>

#### **4.3. Supplementary unemployment insurance (SUI)**

In most European countries, the supplementary unemployment insurance benefits are supplements to the weekly earned income for persons working part-time. The minimum

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<sup>96</sup> <http://www.houserecovery.org/unemployment-insurance.php> (17.03.2013)

<sup>97</sup> <http://www.iosco.org/news/pdf/IOSCONEWS266.pdf>



requirement to receive supplementary benefits is membership in an unemployment insurance fund and working part-time during a week.

The European approach of supplementary unemployment insurance fundamentally differs from the US and Canadian systems. In Europe, supplementary unemployment insurance (SUI) is closely interlinked with part-time work and supplementary of unemployment benefit and it is paid out for partially unemployed persons. Its main function is to cover the gap between the benefit provided to the full time unemployed person, who receives the full amount of unemployment benefit and the part-timer, who receives proportional unemployment benefit. The logic behind the system is that part-timers receive pro rata wage/salary, therefore the basis of the unemployment benefit and the benefit itself will be calculated on the pro rata basis.<sup>98</sup>

The economic background of this phenomenon is based on the increasing popularity of the European flexicurity concept<sup>99</sup>. Flexibility in labour markets has become a key issue in Europe in the wake of persistently high unemployment rates. A number of strategies have been pursued in order to increase labour market flexibility, ranging from flexicurity systems, aimed at increasing flexibility directly, to temporary work contract schemes, aiming at increasing flexibility in inherently inflexible labour markets. Interestingly, in both types of regimes, the same types of policy instruments are used to some extent, e.g. active labour market policies, and supplementary unemployment benefits in some form. Thus, several forms of supplementary or partial unemployment benefits have emerged in almost all European countries and in North America, aimed at making it more attractive for otherwise unemployed workers to accept part-time or short-term employment (atypical jobs), and hence increase overall employment and production. Supplementary benefits are specifically aimed at supplementing the income of part-time workers who are looking for full-time work and to improve the unemployed workers' incentives to accept such employment. However, the presence of the supplementary unemployment benefits may produce disincentives or in some cases facilitate forms of moral hazard behaviour. Specifically, such benefits could discourage workers from searching for regular employment due to the relatively high replacement rates and/or prolonged benefit periods associated with working part-time and receiving supplementary benefits. Thus, the potential for both positive and negative consequences of supplementary benefits implies that the desirability of such a policy is an empirical question, which needs to be answered empirically.<sup>100</sup>

<sup>98</sup> <http://ideas.repec.org/p/iza/izadps/dp3920.html> (22.03.2013)

<sup>99</sup> Ton Wiltthagen Frank Tros: The concept of "flexicurity": a new approach to regulating employment and labour markets <http://trs.sagepub.com/content/10/2/166.abstract> (12.02.2013)

<sup>100</sup> Tomi Kyyrä, Pierpaolo Parrotta and Michael Rosholm, (2009), "The Effect of Receiving Supplementary UI Benefits on Unemployment Duration" *Department of Economics, Working Paper*, p. 3; ISBN 9788778824042 (online) [http://pure.au.dk/portal/files/4914/WP\\_09-1](http://pure.au.dk/portal/files/4914/WP_09-1) (17.01.2013)

A study which examined the situation of Denmark and Finland<sup>101</sup> provides results that do not encourage a general implementation of supplementary unemployment insurance benefits, such as is the case in e.g. Denmark and Finland. The sign and magnitude of this effect vary with individual characteristics and with the timing and length of receipt of supplementary unemployment insurance benefits. On average, workers receiving supplementary unemployment insurance benefits while working part-time reduce unemployment duration. However, due to the presence of a severe lock-in effect, longer spells of subsidized work tend to prolong unemployment duration, even though the post-treatment effect also increases with respect to the treatment duration. Moreover, it tends to increase unemployment duration for married women, white collar workers and manufacturing workers. This can be treated as a moral hazard effect and free-riding behaviour within these groups.

However, the effects are much better for certain other groups of workers, particularly those with short subsidized working periods. Young workers and first generation Non-Western immigrants typically benefit from the receipt of supplementary unemployment insurance benefits in terms of reduced expected unemployment duration.

This implies that, at least for some types of workers, subsidized part-time jobs may work as stepping stones to regular employment. Specifically, it makes sense that young workers and immigrants can benefit from short part-time jobs since they need (a) to develop their work experience and skills, (b) to enlarge their network among employed workers, and (c) to signal their motivation and knowledge in order to increase the number of job offers and ultimately improve upon their labour market career prospects.

A general outcome of this Danish and Finnish research is that the current uniform scheme of supplementary unemployment insurance benefits on average works well, but it may still be improved. Specifically, the large degree of impact heterogeneity implies some potential policy improvements. More intensive monitoring of job search efforts could be used to mitigate the adverse effects found for some groups. The supplementary unemployment insurance scheme could – to some extent – be targeted at the groups that are most likely to benefit from it. If all groups of unemployed applicants have to be covered, the maximum duration and compensation level could be varied across the groups.<sup>102</sup>

According to what has been argued, it would be interesting to test a reduction in the generosity of these income compensation schemes, in terms of coverage, wage

<sup>101</sup> Tomi Kyyrä, Pierpaolo Parrotta and Michael Rosholm: The Effect of Receiving Supplementary UI Benefits on Unemployment Duration, Department of Economics, Working Paper 09-1, p. 3; ISBN 9788778824042 (online) [http://pure.au.dk/portal/files/4914/WP\\_09-1](http://pure.au.dk/portal/files/4914/WP_09-1) (17.01.2013)

<sup>102</sup> Per Kongshøj Madsen: A new perspective on labour markets and welfare states in Europe Centre for Labour Market Research (CARMA), CARMA Research Paper 2006:03, Aalborg, 2006 pages 7-12. [http://www.epa.aau.dk/fileadmin/user\\_upload/conniek/Dansk/Research\\_papers/3-Flexicurity\\_A\\_new.pdf](http://www.epa.aau.dk/fileadmin/user_upload/conniek/Dansk/Research_papers/3-Flexicurity_A_new.pdf) (19.03.2013)

percentage amount and duration of benefits. In the case of such a policy change, it would be possible to estimate more accurately the causal effects associated with this change and potentially identify structural behavioural models among workers. It could lead to more targeted unemployment insurance instruments and a notable saving of public expenditure to eventually devote towards other social priorities.

From a cost-benefit perspective, the fact that the policy overall reduces unemployment duration almost surely implies that a cost-benefit analysis would favour it. Workers who would otherwise be unemployed are 1) contributing to the aggregate production, and 2) requiring fewer unemployment insurance benefits than full-time unemployed workers. Specifically, even a certain increase in unemployment duration might still support the policy, since the reduction in unemployment insurance benefits at least to some extent outweighs the loss of production. Naturally, there may be various substitution effects, but in the sense that this policy increases effective labour supply, and that it may fill a gap in ensuring labour supply for (part-time) jobs that would not be filled otherwise, it is hard to see how a cost-benefit analysis would be unfavourable towards it. Still, the outcome of a cost-benefit analysis might be even more beneficial, if some of the improvements discussed above were implemented.<sup>103</sup>

#### 4.4. The Swedish private unemployment insurance model

In recent years, new private unemployment insurance schemes administered by unions have developed rapidly in Sweden. In these schemes, union membership has for the first time been made obligatory. This development has at least three consequences. *First*, making membership mandatory can help unions combat the decline in membership rates.<sup>104</sup> *Second*, this shift could change unions' incentives in relation to the public insurance system moving from support of high quality insurances towards unions being indifferent or supporting retrenchment. *Third*, this development is likely to exacerbate dualization trends in so much as these union schemes are likely to only cover labour market insiders due to smaller, sector-based, insurance pools.<sup>105</sup>

For a long time, unemployment insurance has been synonymous with publicly provided unemployment insurance since it was first incorporated into the public social-insurance system during the early-to-mid nineteenth century. In fact, private provision has more or less been ruled out as an alternative as the risk of unemployment has been regarded as

<sup>103</sup> Tomi Kyrrä, Pierpaolo Parrotta and Michael Rosholm: The Effect of Receiving Supplementary UI Benefits on Unemployment Duration, Department of Economics, Working Paper 09-1, pages 19-22; ISBN 9788778824042 (online) [http://pure.au.dk/portal/files/4914/WP\\_09-1](http://pure.au.dk/portal/files/4914/WP_09-1) (17.01.2013)

<sup>104</sup> Scruggs, L. (2002). The Ghent System and Union Membership in Europe, 1970-1996. In *Political Research Quarterly*, 55(2): 275-297.

<sup>105</sup> Clasen, Jochen, and Elke Viebrock, (2008), "Voluntary Unemployment Insurance and Trade Union Membership: Investigating Connections in Denmark and Sweden" *Journal of Social Policy*, Vol. 37, No. 3, pages 433-452.

uninsurable by market providers. The existence of highly developed public insurance schemes has also more or less crowded out private alternatives.

It is surprising then to see a sharp rise in privately provided unemployment insurance in Sweden, a country with arguably one of the most generous public systems. One of the explanations for this development can be found in the continuous decline in the quality of the public unemployment insurance system.

The spread of private unemployment insurance is the result of unions deciding to supply their own supplementary insurance in response to the decline in the quality of the public system – a majority of workers are now covered by private insurance.

Unions in Sweden have argued for increasing the level of the unemployment benefit ceiling during the 1990s and 2000s.<sup>106</sup> However, when it reached a critical level and when the government introduced absolute cuts in the ceiling, unions shifted their attention to potential alternatives and began introducing a new and supplementary form of insurance. This insurance is tied to union membership. The effective tying of unemployment insurance to membership is an important policy innovation.

A lot has been written on the relationship between Ghent systems of unemployment insurance and union membership recruitment.<sup>107</sup> In that literature, it is argued that the unions' position in the administration of the unemployment insurance functions as a recruitment device. Since the unemployment insurance is voluntary and administered by unions, workers are argued to have incentives to join unions as members. However, such ties are weak since there most often has been no requirement of insurance takers to join the unions as members.

*The Ghent system and union membership.* In most countries, the unemployment insurance is mandatory for all workers and administered by the state. However, some countries have retained the so-called Ghent system, which was more widespread in the early 20th century. The Ghent system can be characterized as a state-subsidized insurance with voluntary membership and union administration. Today, the Ghent system can be found in Denmark, Finland and Sweden. In Belgium, the unemployment insurance was made compulsory in 1944, but the unions still have a role in its administration through the payment of benefits.<sup>108</sup>

<sup>106</sup> Davidsson, J. B., (2011). *Unions in Hard Times. Labour Market Politics in Western Europe: Two Patterns of Reform*. PhD Thesis, European University Institute, Florence, Italy.

<sup>107</sup> Kjellberg, Anders, (2006). "The Swedish unemployment insurance – will the Ghent system survive?" *Transfer: European Review of Labour and Research*, Vol. 1, No. 6.

<sup>108</sup> Vandaele, Kurt, (2006), "A report from the homeland of the Ghent system: the relationship between unemployment and trade union membership in Belgium." *Transfer: European Review of Labour and Research*, Vol. 4, No. 6.

The institutional variation that exists between countries in terms of unemployment insurance systems has been argued to account for differences in the rates of union membership in the workforce (union density), where Ghent systems produce higher union membership rates. Scruggs (2002) has shown a correlation between unemployment insurance institutions and union density.<sup>109</sup> The Ghent countries are not immune to the overarching trend of decline in union density; in fact they have seen quite important losses in recent years.<sup>110</sup>

However, nowadays unemployment insurance funds are no longer run by unions, but by agencies that are financially separate from but linked to unions<sup>111</sup>. In addition, it is job agencies, run by the state, local authorities, or by private companies, that have the responsibility to ensure that benefit receivers live up to the demands for job search activity and acceptance of suitable jobs.

The rise of private union-run supplementary insurance provides for the first time a clear link between union membership and membership in the unemployment insurance. In a way, the rapid rise of such insurance in Sweden can be referred to as the creation of the first real Ghent system.

The diminishing quality of the public unemployment system is a general phenomenon in many countries, including Sweden as well. Therefore, all countries, with the exception of Belgium, have retained the Ghent system of unemployment insurance with a voluntary and union administered insurance. The other dimensions of the insurance have gone through considerable changes. Most importantly the quality of the insurance, in terms of its capacity to replace previous earnings, has been undermined.

For example, in Sweden, the change of the replacement rate has been minimal, from 90 per cent of previous earnings in the 1980s to 80 per cent in the period after the economic crisis of the 1990s. However, in the early 1990s, during the crisis years, the government decided to de-couple the ceiling in the insurance from wage increases. The sharp rise in unemployment made the government weary of not being able to control prospective increases in costs. The effect was a hollowing out of the earnings-related character of the insurance – today a worker with an average wage will only have a

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<sup>109</sup> There is quite an extensive literature that supports the correlation between Ghent systems and high union density (e.g. Western 1993; Blaschke 2000; Scruggs 2002). However, the causal link has been quite weak since trade union membership is never really tied to membership in the unemployment insurance. The causal argument is based on Olson's (1965) theory of "selective incentives", which holds that participation in collective action presupposes that some benefits are available only to active participants. If not, and if the outcome of collective action is a public good, there are too strong incentives to free ride.

<sup>110</sup> Lind, Jens, (2009), "The End of the Ghent System as Trade Union Recruitment Machinery?" *Industrial Relations Journal*, Vol. 40, No. 6, pages 510-523.

<sup>111</sup> Davidsson, J. B., (2011). *Unions in Hard Times. Labour Market Politics in Western Europe: Two Patterns of Reform*. PhD Thesis, European University Institute, Florence, Italy.

replacement rate of about 50 per cent. This development represents a clear break with the Swedish universal model of welfare.<sup>112</sup>

The qualification requirements are also stricter in the private insurances than they are in the public system. The development of private insurance might also change the political dynamic in such a way as to decrease the support for universal public insurance. The universal system was built on the premise that it is essential to include the middle-class, or labour market insiders, in the system in order to safeguard political support<sup>113</sup>. If insiders become reliant on private insurance, and no longer need the public system, it is likely that their support for the public system would diminish, leading to lower quality public insurances. This in turn would produce negative effects for labour market outsiders as they are likely to be restricted to the public system for social protection. If the public system lowers quality by reducing the ceiling in the unemployment insurance, there will also be a larger gap to cover for the private insurance funds, which in turn could reinforce their need to offset risks, leading to less coverage and stricter qualification requirements.<sup>114</sup>

This political dynamic has already begun to emerge in Sweden. As mentioned above, the conservative coalition has both decreased the quality in the public insurance and publicly endorsed the development of private insurance. It is quite clear that they envision the public unemployment insurance to gradually be transformed into a sort of low-level flat-rate insurance making it necessary for those with average to high wages to insure themselves on the private market. This dynamic can be reinforced if the unions withdraw their support for a high-quality public insurance in favour of their own private insurances.<sup>115</sup>

#### 4.5. Supplementary unemployment insurance in USA

Supplemental Unemployment Benefits, also briefly called SUBs, are private funds set aside by the employer to provide additional unemployment compensation to employees in case of lay-off or termination not due to the employee's own doing or reasons.

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<sup>112</sup> For universality to be meaningful, the replacement rate and the ceilings had to be high in the social-insurance system. To ensure the universal nature of the unemployment insurance, the replacement rate was successively increased and the ceiling was coupled to wage increases.

<sup>113</sup> Korpi, Walter, and Joakim Palme, (1998), "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries", *American Sociological Review*, Vol. 63. No. 5, pages 661-687.

<sup>114</sup> Sjöberg, Ola, (2011), "Sweden: Ambivalent Adjustment." in Clasen, Jochen, and Daniel Clegg (eds) *Regulating the Risk of Unemployment: National Adaptations to Post-Industrial Labour Markets in Europe*. Oxford: Oxford University Press.

<sup>115</sup> Johan Bo Davidsson: "The First Real Ghent System, Unions and the Rise of Private Unemployment Insurance in Sweden" *Presentation at the ESPAnet Anniversary Conference*, Edinburgh, 6-8 Septe  
[http://www.espanet2012.info/\\_data/assets/pdf\\_file/0003/89472/Davidsson\\_-\\_Stream\\_17.pdf](http://www.espanet2012.info/_data/assets/pdf_file/0003/89472/Davidsson_-_Stream_17.pdf)

Explaining supplemental unemployment benefits to employees largely includes providing information about its funding and the tax liabilities of the laid-off worker as the recipient. It is also different from Extended Unemployment Benefits.

A supplementary unemployment benefit usually emanates from an agreement between the employer and a labour union during a labour dispute negotiation, wherein a trust fund will be organized and put up as part of employer-union agreement. Employers will then contribute regularly to the special unemployment fund, based on a specifically agreed amount computed on per-hour and per-employee bases.

Similar to the Federal-State Unemployment Compensation benefit, employees who were terminated for good cause or who voluntarily resigned from the company are not eligible as recipients of supplemental unemployment benefits.

In addition, payment of supplementary unemployment benefit to a laid-off worker will not affect the employee's eligibility for state unemployment compensation benefits; hence, its essence as supplemental or additional unemployment assistance in case of involuntary separation from the company is upheld.<sup>116</sup>

Supplemental unemployment benefits are different from unemployment compensation (UC) in terms of administrator and tax liability. Whereas UCs are collected by the federal and state governments in the forms of taxes, the supplementary unemployment benefits are put up as trust funds managed by the employer.<sup>117</sup>

Another point of emphasis is the matter of distinguishing supplemental unemployment benefits from extended unemployment benefit. Supplementary unemployment benefits should not be confused with the Extended Unemployment Benefits, inasmuch as the latter are additional federal financial aid derived from Unemployment Compensation fund programs implemented through the Federal Unemployment Tax Act (FUTA). The granting of extended federal aid to eligible unemployed employees has to meet certain conditions and requirements.<sup>118</sup>

To qualify the supplemental unemployment benefit exempt from Social Security, Medicare, and FUTA tax purposes, all of the following conditions should be met:

- a) The SUB is for the benefit of laid-off employees.
- b) The employee has complied with all the conditions to qualify the person as eligible to receive the supplementary unemployment benefit.
- c) The supplementary unemployment benefit is not received in lump sum but will be paid out in the form of weekly benefits.

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<sup>116</sup> [http://www.law.cornell.edu/wex/unemployment\\_compensation](http://www.law.cornell.edu/wex/unemployment_compensation) (15.03.2013)

<sup>117</sup> <http://www.contractorsprevailingwage.com/supplemental-unemployment-benefits-sub-plans-davis-bacon-california-prevailing-wage-compliant> (17.03.2013)

<sup>118</sup> <http://www.bankrate.com/financing/insurance/private-unemployment-insurance/> (14.02.2013)

- d) The amounts of SUB weekly benefits to be received are in compliance with the same rules prescribed under the state unemployment benefits or similar compensation allowed under state laws; consideration for compliance includes the amount of regular weekly pay to be doled out.
- e) e) There is no prescribed period to be observed in the granting of the benefit.
- f) f) There are no task or service performances attributed as conditions to receive the benefits.
- g) g) There are no conditions that allow the employee to receive the benefits subject to pending compliance to the requirements for the person's eligibility.

### Conclusion

Unemployment Insurance like insurance against any unforeseen risk is a healthy institution to have, but the role this institution plays in the economy is far greater than just providing benefits but also pricing in the risks of every actor into premiums internalizing many otherwise external costs. When the government gets involved in the insurance business, it often distorts this mechanism causing the externalities of these risks to remain external causing moral hazard and an economic drain from the increased claims from this moral hazard.<sup>119</sup>

The main economic rationale to replace or supplement public unemployment insurance schemes with a system of individual accounts is based on Okun's well-known argument<sup>120</sup> about the trade-off between equity and efficiency.<sup>121</sup>

Through a number of mechanisms on individual accounts are expected to lower unemployment. A system of individual accounts reduces the disincentives caused by collective unemployment insurance as workers take into account the costs of unemployment. Worker's search effort and job acceptance probability will increase, which will lower average unemployment duration and the unemployment rate. Although individual accounts are primarily aimed to increase unemployment outflow, it can be expected that unemployment inflow will also slow down.

In brief individual accounts are expected to improve incentives and hence increase ex ante utility. The reverse is that a system of individual accounts could increase inequality

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<sup>119</sup> Alex Merced: Labor Economics #4 – Unemployment Insurance (2010)  
<http://mises.org/community/blogs/alexmerced/archive/2010/08/15/labor-economics-4-unemployment-insurance.aspx> (18.03.2011.)

<sup>120</sup> His argument is that transfer payments for social benefits end up in a "leaky bucket" because the welfare loss of those who pay the social premiums is larger than the welfare gains of the benefit recipients. The bucket's leak is due to the fact that premiums and taxes distort incentives, causing macroeconomic inefficiencies such as high and persistent unemployment rates, a large share of long-term unemployment and lower labour force participation.

<sup>121</sup> Arthur M. Okun: Equality and Efficiency The Big Tradeoff, Brookings Institution Press 1975.



among workers with a high and a low probability of (long-term) unemployment. A substantial part of the risk solidarity incorporated in public benefit schemes, vanishes. Risk solidarity involves the danger of moral hazard and this can only be reduced by splitting up the uniform pool of insured into smaller pools with different risk profiles and premiums. Experience rating is one way to do so: premiums are being positively related to past claims. In the United States experience rating is present in unemployment insurance, in most European countries it is not, although policy proposals to introduce experience rating are common.

Another way to reduce moral hazard is to grant insured persons the option to leave the public insurance scheme and obtain private insurance. "Opting out" introduces a form of competition in social insurance. Here the reverse is that the problem of adverse selection arises. Insurers will try to select clients with the lowest probability that the contingency arises and in fact these clients are most likely to opt out of the public scheme. The trade-off between moral hazard and adverse selection is at the core of every public benefit system.<sup>122</sup> In a way, under individual accounts, this trade-off is evaded because there is no insurance mechanism involved. Every worker bears his/her own unemployment risk by accumulating private savings to pay for personal unemployment benefits. Risks cannot be shifted and moral hazard is limited because the worker must carry the financial consequences of such behavior, as unemployment benefits are withdrawn from his/her personal account. Adverse selection is not an issue here because there is no risk pooling, as under a system of public unemployment insurance. It is important to note that since there is no insurance principle involved, the gains that risk adverse individuals get from insurance are also partly lost.

For European countries, some of them struggling with benefit system reforms, individual accounts deserve serious attention as this form of institutional innovation addresses the key problem of their benefit systems: low outflow from unemployment and a high level of (hidden) inactivity. Individual accounts could also make a contribution to accommodating the social benefit system to the social-economic trends of individualization, and the demand for more individual options and responsibilities. Finally, an advantage is that individual accounts can be incorporated in the present benefit system in a gradual and flexible way.<sup>123</sup>

Despite the disadvantages, the idea of individual accounts deserves serious attention as this form of institutional innovation addresses the key problem of contemporary benefit systems in many European countries: low unemployment outflow rates and a high level of (hidden) labour inactivity.

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<sup>122</sup> Boone, Jan & Bovenberg, A Lans: "Unemployment versus In-work Benefits with Search Unemployment and Observable Abilities, 2001." CEPR Discussion Papers 3043,

<sup>123</sup> <ftp://zappa.ubvu.vu.nl/20010026.pdf> (12.04.2011)



## **Chapter 3**

### **Brief history of unemployment insurance in Europe**

#### **1. Introduction**

The history of the unemployment insurance dates back to the middle of the nineteenth century when trade unions first began to pay benefits to workers when they were out of work. From 1890 to 1905 several cities in continental Europe established voluntary unemployment benefit plans. The first plan of this kind was started in 1893 in Berne, Switzerland, and was followed by similar plans in other Swiss, German, and Italian cities. In 1901 the Belgian city of Ghent established a system of municipal subsidies to trade union funds. Known as the “Ghent system,” it spread widely from the beginning of the twentieth century until the World War II.

In the early part of the 20th century many provinces or cantons began to add their subsidies to those of the cities. Some national governments also made annual grants. At the outbreak of the World War II these voluntary systems had a considerable coverage and yielded a wide distribution of unemployment benefits in bad years, but in no country did they cover even half the industrial wage earners.

Following the establishment of the voluntary plans, a movement began to develop for national unemployment insurance. As early as 1894 an attempt was made to establish a compulsory unemployment insurance system in the Swiss canton of St. Gall, but it soon failed. The first real achievement was made by Great Britain in 1911 when the first national compulsory system in any country was established. No other country followed Great Britain until eight years later when Italy established compulsory insurance. Germany enacted a compulsory unemployment insurance law in 1927.<sup>124</sup> (See Table 1)

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<sup>124</sup> Tim Lambert: A brief history of unemployment <http://www.localhistories.org/unemployment.html> (16.04.2011)

**Table 1.**  
**Coverage of foreign countries with compulsory unemployment insurance laws**

Country <sup>1</sup>	Date of law	Number insured <sup>2</sup>
Australia (Queensland)	Oct. 18,1922	175,000
Austria <sup>3</sup>	Mar. 24,1920	1,012,000
Bulgaria	Apr. 12,1925	280,000
Germany	July 15,1927	13,472,000
Great Britain and Northern Ireland	Dec. 16,1911	14,753,000
Irish Free State	Aug. 9,1920	380,000
Italy	Oct. 19,1919	4,500,000
Poland	July 18,1924	957,000
Switzerland (13 Cantons)	Code of Obligations (CO) of 30 March 1911	245,000
Yugoslavia	Dec. 15,1935	<sup>4</sup>
<b>Total number insured by compulsory systems</b>		<b>35,774,000</b>
<sup>1</sup> A compulsory law was passed in the U. S. S. R. in 1922, but benefit payments were suspended in 1930. <sup>2</sup> These are the most recent figures available. <sup>3</sup> Although the Austrian system is in many respects similar to unemployment insurance systems of other European countries, it is distinguished from them by requiring a means test of applicants for benefits. <sup>4</sup> Data not yet available.		

Source: <http://www.larrydewitt.net/SSinGAPE/UI1937book2.htm>

In addition, 10 countries and 12 Cantons of Switzerland with a coverage of approximately 4,161,000 persons have voluntary systems. (See Table 2)

**Table 2.**  
**Coverage of foreign countries with voluntary unemployment insurance laws**

Coverage of foreign countries with voluntary unemployment insurance laws		
Country	Date of law	Number insured <sup>1</sup>
Belgium	Dec. 30,1920	899,000
Czechoslovakia	July 19,1921	1,407,000
Denmark	Apr. 9,1907	375,000
Finland	Nov. 2,1917	15,000
France	Sept. 9,1905	192,000
Greece	<sup>2</sup>	46,000
Netherlands	Dec. 2,1916	564,000
Norway	Aug. 6,1915	54,000
Spain	May 25,1931	62,000
Sweden	June 15,1934	240,000
Switzerland (12 Cantons) <sup>3</sup>	Oct. 17,1924	307, 000
Total number insured by voluntary systems		4,161,000
<sup>1</sup> These are the most recent figures available. <sup>2</sup> There is no information available on the date of the law. Data from “Industrial and Labour Information,” Nov. 18, 1935, vol. 56, no. 7, indicates that insurance funds were in existence in the tobacco, milling, and baking industries and the Athens newspaper staffs. <sup>3</sup> Nine of these Cantons specify that communes may enforce compulsory insurance within their borders.		

Source: <http://www.larrydewitt.net/SSinGAPE/UI1937book2.htm>

*Compulsory vs. Voluntary* At the very beginning two main types of systems – compulsory or voluntary – spread largely along the lines of economic ideology. English-speaking states adopted the British system, in which compulsory contributions were made by all employers and wage earners. Australia, the United States, New Zealand and independent Ireland all held more staunchly to free-market liberalism and had their own versions of this basic model. Nordic states like Finland, Norway, Sweden, Denmark as well as states favoring strong labour unions and socialist ideology, like

Czechoslovakia, Spain and others followed the voluntary (according to labour union membership) model.<sup>125</sup>

At the turn of the 20th century, unemployment insurance in Britain, Germany, Denmark, and Sweden was arranged by trade unions which thereby provided an alternative to the existing Poor Laws. The union schemes in the four countries typically related benefits to contributions and length of union membership. Like trade unionism, coverage was most widespread among industrial workers and craft.

There was a general growth in the spread of schemes after the turn of the century. Government action concerning unemployment started to be considered in all four countries from the turn of the century and onwards in the context of considerations of more general social security reforms. With increasing government involvement highly diverse forms of provision for the unemployed emerged in the four countries. In Britain and Germany the basis of unemployment insurance in trade unionism disappeared while in Denmark and Sweden trade union schemes were strengthened as a result of policy.<sup>126</sup>

In the following section public action towards unemployment insurance is analyzed, starting with the Belgian, British case, followed by the German one and ending with the Scandinavian case.

## 2. The Ghent system

The “Ghent system” is the name given to an arrangement in some countries whereby the main responsibility for welfare payments, especially unemployment benefits, is held by trade/labour unions, rather than a government agency. The system is named after the city of Ghent, Belgium, where it was first implemented. The Ghent municipal authority first opted to subsidize trade union programs with public funds in 1901.<sup>127</sup>

Because workers in many cases need to belong to a union to receive benefits, union membership is higher in countries with the Ghent system. Furthermore, the state benefit is a fixed sum, but the union benefits depend on previous earnings.<sup>128</sup>

This system, or those very similar to it, spread through countries in Europe that made extensive use of strong labour unions. Sweden, Norway<sup>129</sup>, Finland, Belgium, Denmark and others used this system. These mainly Scandinavian countries have in common the

<sup>125</sup> [http://www.ehow.com/about\\_6392851\\_history-employment-insurance.html](http://www.ehow.com/about_6392851_history-employment-insurance.html) (21.03.2011)

<sup>126</sup> *European Economic Review* 39 (1995) pages 565-574.

<sup>127</sup> <http://www.jrank.org/business/pages/655/Ghent-system.html> (16 April, 2011)

<sup>128</sup> Petri Böckerman and Roope Uusitalo, (2006), “Erosion of the Ghent System and Union Membership Decline: Lessons from Finland” *British Journal of Industrial Relations*, Vol. 44, No. 2, pages 283-303. <http://www3.interscience.wiley.com/journal/118725626/abstract> (16. April, 2011)

<sup>129</sup> N.B.: Norway abolished the Ghent System in 1938.

presence of a so-called “Ghent system”. A Ghent system can be defined as state-subsidised, but voluntary unemployment insurance administered by unions.

When workers are displaced, they are provided benefits via the trade union they were a member of it. Because they must be a member of a union in order to receive benefits, this had the effect of bolstering union membership. Though trade unions in Sweden were among the first to provide benefits in this manner (in the 1870's), governments were generally not involved until Ghent.<sup>130</sup>

In all of the above countries, unemployment funds held by unions or labour federations are regulated and/or partly subsidised by the national government concerned.<sup>131</sup>

According to Mancur Olson’s well-known theoretical framework, a Ghent system may act as a valuable “selective incentive” for union membership because it reduces free-rider tendencies.<sup>132</sup> While the historical partisanship of government and the combination of centralised collective bargaining and direct union access to the workplace may count as well, there is overwhelming empirical evidence that a Ghent system contributes to a high union membership rate and largely explains the persistent cross-national divergence of union density.<sup>133</sup> Especially when unemployment in most post-industrialised countries increased to doubledigits during the last quarter of the 20th century, the positive effect of the Ghent system upon unionisation became clear.<sup>134 135</sup>

Nowadays, union-managed unemployment insurance (UI) schemes are under pressure in Denmark, Finland and Sweden.<sup>136</sup> These countries have recently seen the emergence of independent unemployment funds that provide UI without requiring union membership. In Sweden, the legitimacy of the traditional Ghent system is further undermined by the hollowing-out of unemployment benefits and the introduction of additional forms of insurance.<sup>137</sup> This gradual weakening of the close relationship

<sup>130</sup>Jens Lind (2007) “A Nordic Saga? The Ghent System and Trade Unions” *International Journal of Employment Studies* (<http://www.encyclopedia.com/doc/1G1-171535932.html>) *International Journal of Employment Studies* (16 April, 2011)

<sup>131</sup>Scruggs, Lyle, (2001), “The Ghent System and Union Membership in Europe, 1970-1996” *Political Research Quarterly* Vol. 55, No. 2

(<http://www.vu.uconn.edu/scruggs/prq.pdf>) University of Connecticut Website (16 April, 2011)

<sup>132</sup>Holmlund, Bertil and Per Lundborg, (1999), “Wage bargaining, union membership, and the organization of unemployment insurance”, *Labour Economics*, Vol. 6, No. 3, pages 397-415.

<sup>133</sup>Checchi, Daniele and Jelle Visser, (2005), “Pattern Persistence in European Trade Union Density A longitudinal analysis 1950–1996” *European Sociological Review*, Vol. 21, No. 1, pages 1-21.

<sup>134</sup><http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf> (16 April, 2011)

<sup>135</sup>Scruggs, Lyle, and Peter Lange, (2001), “Unemployment and Union Density” in Nancy Bermeo (ed) *Unemployment in the New Europe*, Cambridge University Press, pages 145-171.

<sup>136</sup>Jokivuori, Pertti, (2006), “Trade union density and unemployment insurance in Finland.” *Transfer: European Review of Labour and Research* Vol. 12, No. 1, pages 83-87.

<sup>137</sup>Kjellberg, Anders, (2006). “The Swedish unemployment insurance – will the Ghent system survive?” *Transfer: European Review of Labour and Research*, Vol. 1, No. 6, pages 87-98.

between UI and the unions largely explains the fall in union membership, particularly among young employees. Although union density is still very high, the Danish, Finnish and Swedish unions must be wary of a further erosion of the Ghent system. Belgium may be an interesting case for them because the Belgian UI system, as a compulsory scheme, continues to provide an incentive for union membership.<sup>138</sup>

## 2.1. The development of the Ghent system

In response to unemployment, which was a basically new phenomenon in the 19th century, typographers' unions were the first in Belgium to establish unemployment funds. Other unions set up funds to insure their members against unemployment in return for a regular contribution. However, largely because of their limited financial strength, most funds ran into difficulty. In Ghent, a city with a long tradition of worker organisations, in 1895 the unions turned to the city council with requests for additional financial support. The council appointed Louis Varlez, a liberal lawyer and social researcher, to study the unemployment problem. Having studied experimental voluntary UI schemes at home and abroad Varlez conceived a scheme based on the ethos of "self-help" and individual responsibility. The resulting communal unemployment fund came into force on 1 August 1901.

The purpose of the communal unemployment fund was not to encourage unionisation, but only to ease the consequences of unemployment. The supplement that the fund provided to the unemployed was unconditional on union membership and oriented to the individual insured worker. Non-union members could register with the city council and, in case of unemployment, receive the same supplement as that paid out to union members. Moreover, the role of the unions was incidental and instrumental. If the unemployed worker was insured at a union unemployment fund, the municipal supplement was granted through the local union.<sup>139</sup> However, since the supplement was given irrespective of the union's ideology, the principle of "self-help" stimulated the unions to lobby the city council to increase the supplement for everyone.<sup>140</sup> At the same time, the authorities helped the unions as private organisations to carry out their own activities through subsidies. As a result, the principle of *liberté subsidée* – subsidised liberty – encouraged unions to establish unemployment funds affiliated to a municipal

<sup>138</sup> <http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf> (16 April, 2011)

<sup>139</sup> As an alternative form of public intervention on unemployment, the so-called "Liège system" directly supplied grants to the union unemployment funds in 1897. The provincial government had the explicit purpose of stimulating the unions involved in UI. This socialist initiative was unsuccessful because Catholics and liberals favoured the Ghent system whose basic principles were more in line with their respective ideologies.

<sup>140</sup> Strikwerda, Carl, (1997), *A house divided. Catholics, socialists, and Flemish nationalists in nineteenth-century Belgium*, Lanham: Rowman and Little-field



unemployment fund and stimulated workers to join unions and to remain union members when they were unemployed.

Hence, very few workers were members of the non-union-affiliated unemployment funds. Other cities soon followed the practice in Ghent, but the quantitative impact remained quite limited before World War I. As “an expression of the national life in which it functions”,<sup>141</sup> the Ghent system was a clear Belgian example of a synthesis between Catholic paternalism’s emphasis on coping for oneself, the individual liberty of traditional liberalism and socialist pragmatism. Probably because of its compromise character, the Ghent system, adapted in one way or another, became a model for much of Europe and it may therefore be considered as the real originator of UI.<sup>142</sup>

France was the first country to establish a Ghent system at national level in 1905. Norway and Denmark adopted a national voluntary unemployment scheme in the next two years. Over the next three decades, similar union-led unemployment schemes were in use in the Netherlands, Finland, Switzerland and Sweden. In Belgium, the Ghent system was institutionalised at national level and extended in 1920.<sup>143</sup> A new government institution, the Nationaal Crisisfonds/ National Crisis Fund, was created to manage the state’s new benefit system. The UI remained a voluntary system largely based upon the autonomous union unemployment funds. Non-unionlinked funds remained inferior. Moreover, the unions were able to make their services for the unemployed more attractive.

Apart from central government support and union benefits, various benefits for the unemployed remained mostly intact at the municipal and provincial level, especially where socialist or Christian Democratic political parties were in the majority. Because the unions paid out all benefits, most unemployed union members were probably unaware of the real source of the payments, which, among other factors, contributed to the further rise in union membership in the interwar years.

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<sup>141</sup> Kiehel, C. A., (1932), *Unemployment insurance in Belgium. National development of the Ghent and Liège systems*, New York: Industrial Relations Counsellors: 3.

<sup>142</sup> Ebbinghaus, Bernhard, and Visser, Jelle, (1999), When institutions matter: Union growth and decline in Western Europe, 1950–1995. *European Sociological Review*, Vol. 15, No. 2, pages 135-158; Strikwerda, Carl, (1997), *A house divided. Catholics, socialists, and Flemish nationalists in nineteenth-century Belgium*, Lanham: Rowman and Little-field: 51-55; Alber, J. (1981), “Government responses to the challenge of unemployment: the development of unemployment insurance in Western Europe” in P. Flora and A. J. Heidenheimer (eds.), *The development of welfare states in Europe and America*, London: Transaction books; ILO (1955), *Unemployment insurance schemes*, International Labour Office Geneva: ILO: 15.

<sup>143</sup> Vanthemsche, G. (1990), “Unemployment insurance in interwar Belgium”, *International Review of Social History*, Vol. 35, No. 3, pages 349-376.

## 2.2. The Ghent system under pressure in the interwar years

To break the union monopoly in UI, employers set up their own unemployment funds, but they had little success. Employers' or public sector unemployment funds insured about 3% of workers in 1930.<sup>144</sup> In fact, conservatives and the main employers' federation preferred a compulsory UI system. But such a system stood little chance immediately after World War I because of union opposition. Employers' displeasure with the Ghent system re-emerged when the unemployment question was brought to the surface by the economic crisis in the 1930s.<sup>145</sup> They basically criticised the fact that, through their hold on the UI system, the unions had control over the labour market.<sup>146</sup> During the first half of the 1930s, supported by the employers, conservative Catholic-liberal coalition governments launched an array of initiatives intended to restrict the Ghent system, but the almost exclusive role of the unions remained unaffected.

However, economic depression caused severe organisational and financial problems for the unions, with some of them even on the verge of bankruptcy in 1932 and 1933.<sup>147</sup> Owing to these problems, compulsory insurance against unemployment was (again) placed in the foreground by some unions, particularly by the national leadership of the socialist trade union federation.<sup>148</sup> The labour movement was deeply divided, however. The majority opposed an extension of "state intervention" in the UI scheme, especially the Christian trade union confederation, the Algemeen Christelijk Vakverbond/ General Confederation of Christian Trade Unions which took a firm stand on retaining union participation in the administration. Only the national leadership of the socialist union confederation favoured abolition of the union-run unemployment funds and replacing them with a state-administered system.<sup>149</sup> Most of their affiliated unions, especially those in Flanders, were opposed because they feared a drop in membership. So, different socialist union congresses voted against the ending of the union-administered unemployment scheme but differences of opinion continued to exist. In 1936 the Catholic-liberal-socialist government appointed a royal commissioner for unemployment to write a report that would be used as the basis for a debate in

<sup>144</sup> Kiehel, C. A., (1932), *Unemployment insurance in Belgium. National development of the Ghent and Liège systems*, New York: Industrial Relations Counsellors: 148.

<sup>145</sup> Goossens, Martine, Stefaan Peeters, and Guido Pepermans (1988), "Interwar unemployment in Belgium", in Eichengreen, Barry, and Timothy J. Hatton (eds) *Interwar unemployment in an international perspective*, Dordrecht: Kluwer Academic Publishers, pages 289-324.

<sup>146</sup> According to the employers, unemployment benefit was too high, and, as a result, a wage-deflationary policy was obstructed.

<sup>147</sup> Vanthemsche, G. (1990), "Unemployment insurance in interwar Belgium", *International Review of Social History*, Vol. 35, No. 3, page 368

<sup>148</sup> Immediately after World War I the unions had in mind the replacement of voluntary UI by a compulsory system, but with preservation of the pivotal role of the union-run unemployment funds.

<sup>149</sup> Apart from a Weberian rational bureaucratic viewpoint, the socialist union leadership wanted to encourage the class struggle that was being neglected, in their view, due to union involvement in the UI system. Albeit for very different reasons, they therefore stood alongside the employers, who also wanted to abolish the Ghent system.

parliament on the introduction of a compulsory UI system.<sup>150</sup> In his final report the commissioner made a plea for the abolition of all autonomous unemployment funds and their replacement with a government agency jointly managed by workers' and employers' representatives. Furthermore, UI would be financed by mandatory contributions from both workers and employers. Their contributions would be paid in advance and deposited in a central public fund.

The psychological and financial link between workers and trade unions would be diminished through this collection system. Still, the unions would retain their involvement in benefit administration by paying out unemployment benefits.<sup>151</sup> City councils or regional offices of the government agency would also be able to disburse the benefit. However, no parliamentary compromise could be reached on the report and UI reform was still in an impasse when World War II broke out.<sup>152</sup>

### 3. The United Kingdom

The United Kingdom developed its own program in 1911. Initially, this program only covered certain industries that were prone to high unemployment. Later, more industries were added and, in 1920, the program was overhauled to cover all wage earners. The first system was financed wholly by the state, while later incarnations had state contributions in proportion to contributions made by employers and deducted from workers' wages. Unlike Ghent, the UK system did not, and still does not, place priority on trade union membership.<sup>153</sup>

#### 3.1. National Insurance Act 1911 in UK

The *National Insurance Act 1911* is an Act of Parliament of the United Kingdom. The Act is often regarded as one of the foundations of modern social welfare in the United Kingdom and forms part of the wider social welfare reforms of the Liberal Government of 1906-1914. The increasing influence of the Labour Party among the population had put the Liberals under pressure to enact social legislation.

Britain was not the first country to provide insured benefits. The Bismarckian Germany had provided compulsory national insurance against sickness from 1884. After visiting Germany in 1908, the Chancellor of the Exchequer, David Lloyd George said in his

<sup>150</sup> Vanthemsche, G. (1990), "Unemployment insurance in interwar Belgium", *International Review of Social History*, Vol. 35, No. 3, pages 368-371.

<sup>151</sup> The royal commissioner for unemployment argued that the beneficiary must not be treated uncaringly, which would probably be the case at the office window of a public service.

<sup>152</sup> <http://www.newunionism.net/library/organizing/Transfer%20-%20Special%20Focus%20on%20the%20Ghent%20System%20-%202006.pdf>

<sup>153</sup> [http://www.ehow.com/about\\_6392851\\_history-employment-insurance.html](http://www.ehow.com/about_6392851_history-employment-insurance.html)

1909 Budget Speech, that the United Kingdom should aim to be “putting ourselves in this field on a level with Germany; We should not emulate them only in armaments.” In 1908 David Lloyd George, the Chancellor of the Exchequer in the Liberal government led by Herbert Asquith proposed the 1911 National Insurance Act. This measure gave the British working classes the first contributory system of insurance against illness and unemployment. The bill was introduced mainly to protect the two point five million workers in manual trades who along with their employers were required to pay into a central fund to cover the claims. The payments were calculated on a sliding scale up to a maximum of seven shillings a week.

The cover period for which claims could be drawn was limited to one fifth of the period of contributions. In other words worker had to be in work and paying contributions or premiums for five years before he/she would be covered for unemployment that lasted a year. The unemployed who did not qualify for cover or who had not been in work long enough had recourse to the Poor Law authorities which inevitably at this time still meant the workhouse for many unfortunates.

High premiums and poor cover, not a very good effort for the first Government led insurance scheme, but it did offer some protection to those in work, and coupled with the social change of the Edwardian period led to a new sense of Government social responsibility and a working class mentality that became the foundations of the Labour Party and eventually led to other social provisions such as the National Health System (NHS).

This National Unemployment Insurance scheme proved to be inadequate to provide for the large numbers of unemployed and returning demobilised military, that followed the end of the First World War in 1918.

A temporary scheme of unemployment relief was designed to combat the suffering, which was known as the “Out of Work Donation”. This enabled a much larger payment of 29 shillings a week for men and 24 shillings for women to be made to claimants, with additional allowances for dependents, to most adults who registered as unemployed. This was available for a strictly limited period, but the Government was forced to grant extensions as more and more servicemen were demobilised.

The Act was not immediately popular. Employers were seldom happy about their forced contribution. The same was true of many workers about their compulsory four pence contribution. Fine ladies joined mass meetings with their servants to protest about having to lick insurance stamps. However, it came to be accepted by the three major parties and by the population as a whole.

Sections of the Conservative party opposed the Act considering that it was not for taxpayers to pay for such benefits. Some trade unions who operated their own insurance schemes and friendly societies were also opposed. The Act was important as it removed the need for unemployed workers, who were insured under the scheme, to rely on the

stigmatised social welfare provisions of the Poor Law. This led to the end of the primacy of the Poor Law as a social welfare provider, resulting in the Poor Law finally being abolished in 1926. The Law consisted two parts: Part I Health and Part II Unemployment.<sup>154</sup> We shall deal with only the relevant Part II on unemployment.

### **3.2. The National Insurance Act 1911 (Part II)**

Part II of the Act dealt with unemployment and had originally been designed for Churchill by a civil servant, William Beveridge, at the same time as the labour exchanges. Beveridge was deeply concerned about unemployment and had made the journey to Germany to see how their system worked and from 1908 was well placed in a post in the Board of Trade, to urge ministers to act.

He found that Winston Churchill, the board's president, was easily persuaded to take up the cause of the casual labourer who is lucky to get three or four days work in a week, who might be out of work for three or four weeks at a time, who in bad times goes under all together and who in good times has no hope of security; this poor man is here as a result of economic causes which have been for too long unregulated. Part II was immediately popular and, in 1914, the government was considering extending it to other trades.

Trade Unions that gathered in savings from members to pay out again in times of unemployment offered help to around one and a half million men; the rest of the country's workforce simply could not save for hard times. Workers in industries like shipbuilding, construction and engineering, in which unemployment swiftly rose and fell, paid a weekly premium. In return they would get unemployment pay of 7 shillings per week for 15 weeks if laid off. The National Insurance Act accepted that the State had responsibility for improving people's lives, especially the lives of the poorest workers. At the same time it insisted that people needed to take some responsibility for themselves. Hence the combination of contributions from the State, the employer and the individual. While, to begin with, the benefits in the 1911 Act were small and available only to a limited section of the population, its principles became an important feature of British social legislation for the rest of the twentieth century.

The key figures for the 1911 Insurance Act, unemployment benefit were weekly contributions from the employer, 2.5p, from the employee 2.5p and from the state 1.5p. The benefits paid would be seven a week for up to fifteen weeks on the basis of one weeks benefit for every five weeks contributions. No extra payments were made for dependants.

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<sup>154</sup> [http://www.ehow.com/about\\_6392851\\_history-employment-insurance.html](http://www.ehow.com/about_6392851_history-employment-insurance.html)

Through a network of labour exchanges information could be spread about the needs of employers for particular workers, and the skills that particular workers could offer. A labour exchange Beveridge argued may do what in a single firm is done as between different departments. It may become the headquarters of a compact, mobile reserve of labour covering the enormous stagnant reserve which drifts about the streets today’.

In 1910, 83 labour exchanges opened their doors to the public under the general direction of Beveridge. Their numbers increased rapidly, but workers did not have to register there when unemployed, nor did employers have to notify the exchange about vacancies for workers. The exchanges were made attractive to the out of work by providing in them facilities for washing and clothes mending as well as refreshments. Their services seem to have been of considerable value to skilled workers, for the unskilled they had far less to offer.

For unemployed people the government also planned a system of weekly payments. The idea of an insurance to which workers would contribute money and upon which they would draw in time of need was felt by both Lloyd George and Churchill to be the right one. Such a plan meant that people who did not qualify because they were not part of an insurance scheme, or who had used up all they had saved through an insurance scheme, would not get any pension and would have to turn to the Poor Law. Churchill was quite clear on this point saying “You qualify, we pay. If you do not qualify, it is no good coming to us. “ The Liberals believed that an insurance fund was welcome to workers who would feel they were taking back what they had earned; it was also a lot cheaper than simply paying money out of rates and taxes to help the unemployed. By 1914 there was a surplus of £25 million in the insurance fund that was first set up in 1911.

To the House of Commons Churchill explained his very limited proposals: *“Our insurance scheme will involve contributions from the workpeople and from the employers; these contributions will be added to by the state. What trades ought we as a beginning to apply our system of compulsory contributory unemployment insurance? They are trades in which seasonal unemployment is not only high; but chronic; marked by seasonal fluctuations; house building and works of construction; engineering; machine and tool making; ship and boat building; sawyers and general labourers working in these trades. They comprise 24 million workers. We propose to follow the German example of insurance cards to which stamps will be attached each week”.*

Churchill defended the scheme as providing a lifebelt for those in temporary trouble; it did not cope with the long term unemployed and it left out many occupations where there was short term unemployment. Beveridge hoped that even more would be done.

Although the Act was successful in many ways it did leave some problems unaddressed. After using up their 26 week entitlement, ill workers had to rely on the Poor Law medical facilities. Only the person who earned money was entitled to these benefits. The family got no benefits if they fell ill. The Act was not always appreciated by those

it was intended to help. Many workers were angry at being forced to contribute money from their wages to this fund. It reduced the size of their wage packet.<sup>155</sup>

### **3.3. Important amendments**

In *1920 the Unemployment Insurance Act* was passed amid a mini economic recovery. The Act extended the provision of the 1911 Act to most workers earning less than £250 per year. The period in which money could be claimed was shortened to one sixth of the period of payment contributions and for the first time a maximum cover period, during which benefits would be paid was set to 15 weeks.

The UK Economy changed radically for the worse early in 1921 and by the middle of the year unemployment exacerbated by the coal strike, was close to 20 per cent. Under these conditions, the contributory system and the one in six rule were untenable given the threat of political instability and civil unrest among the unemployed.

The Unemployment Insurance Act of March 1921 relaxed the “one in six” rule by providing for the payment of “uncovenanted” benefit without previous contributions. The intention was that benefits would be paid for a maximum of 32 weeks. The 1921 Act also introduced for the first time what were effectively “policy conditions” a “seeking work” test for those claiming benefit. Claimants had attend a labour exchange and show that they were genuinely seeking work and were obliged to accept any work paying a “fair” wage – whatever that means.

In February 1922 further conditions were introduced by way of a means test, aimed at restricting benefit payments. Some groups, such as single adults living with relatives, could be excluded unless it would cause serious hardship.

The large-scale unemployment of the inter-war years killed off the old poor law. The Poor Law Guardians were disbanded in 1929 and in 1930 the workhouse test was abolished, as was the term “pauper”. An important Unemployment Act in 1934 tackled the problem of subsistence for those who were not covered by the 1911 Insurance Act by establishing the Unemployment Assistance Board with its own scales of relief. By 1937 the able-bodied maintained by the Poor Law were absorbed into the new scheme. Indoor relief remained as a specialised form of institutional care for children, the old or the sick. Only 13% of those in receipt of poor relief on 1<sup>st</sup> January 1936 were in institutions. The rest were receiving help in their home in the form of cash, kind or service.<sup>156</sup>

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<sup>155</sup> [http://www.ehow.com/about\\_6392851\\_history-employment-insurance.html](http://www.ehow.com/about_6392851_history-employment-insurance.html)

<sup>156</sup> [http://www.thepotteries.org/local\\_history/010.htm](http://www.thepotteries.org/local_history/010.htm)

#### 4. German unemployment insurance

Germany became the first nation in the world to adopt an old-age social insurance program in 1889, designed by Germany's Chancellor, Otto von Bismarck. The idea was first put forward, at Bismarck's behest, in 1881 by Germany's Emperor, William the First, in a ground-breaking letter to the German Parliament. William wrote: “. . . *those who are disabled from work by age and invalidity have a well-grounded claim to care from the state.*”

Bismarck was motivated to introduce social insurance in Germany both in order to promote the well-being of workers in order to keep the German economy operating at maximum efficiency, and to stave-off calls for more radical socialist alternatives.

The German system provided contributory retirement benefits and disability benefits as well. Participation was mandatory and contributions were taken from the employee, the employer and the government. Coupled with the workers' compensation program established in 1884 and the “sickness” insurance enacted the year before, this gave the Germans a comprehensive system of income security based on social insurance principles.<sup>157</sup>

The German unemployment insurance system, established in 1927, differs from the British in a number of important ways:

- a) Contributions are paid only by employers and employees and, instead of flat amounts, vary with wages. These rates have changed since the first schemes, but since 1930 have amounted to 6 per cent of wages not exceeding 300 marks a month (\$120) and are payable in equal shares by employers and employees.
- b) The benefit is not a flat sum to all classes of workers but is graded according to wages received, with additional benefits for dependents.
- c) In 1932 the one benefit scale for the entire country was changed to three scales, varying with the size of the community.<sup>158</sup>

When the German plan was established, 16 years after the first British act, it was felt that some arrangement should be made to take care of the employable population who would exhaust their rights to benefit and still be unable to obtain employment. To supplement the insurance system, provision was made for establishing an emergency benefit system in times of depression financed four-fifths by the Federal Government and one-fifth by the local government. Payments from this fund were to be made to a person who did not qualify for insurance benefits or who had exhausted his rights to them, only after a test of need. This test, however, was to be less strict than that applied

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<sup>157</sup> <http://www.ssa.gov/history/ottob.html>

<sup>158</sup> [http://www.mongabay.com/history/germany/germany-unemployment\\_insurance.html](http://www.mongabay.com/history/germany/germany-unemployment_insurance.html) (15.03.2011)



for local poor relief. The duration of emergency benefits was fixed by executive order from time to time. These benefits were payable up to a period of 38 weeks or, in exceptional cases for persons over 40 years old, for a period of 51 weeks.

If the worker remained unemployed after having drawn the maximum amount of ordinary and emergency benefits, his/her only resort was to poor relief. Originally emergency benefits were to be financed from the general funds of the Federal Government, the local government sharing in the cost to the extent of one-fifth. With the onset of the depression it became necessary to levy, in addition to the regular contributions to the insurance fund, a wage tax to help the Federal Government bear the cost of these emergency benefits. In 1933, however, largely as a result of political considerations, the source of income for emergency benefits was changed, and workers' and employers' contributions carried that burden as well as that of the insurance scheme.

The German unemployment insurance system, like the British, has also had to borrow from the Government. Industrial conditions were bad in 1929, and in 1931 an even more severe financial crisis faced the country, brought about by the withdrawal of foreign credit, large reparations payments, and reduced export trade. Uncertainty concerning the political stability and financial solvency of the country created a panic and resulted in curtailments of the protection given, by decreasing benefit rates and increasing the waiting period. As a result of the economies effected, the year ending 31 March 1933, showed a surplus in the resources of the Federal insurance fund. Not only is the fund now on a self-sustaining basis, but it is also carrying the full burden of emergency benefits, a risk it was never designed to carry.<sup>159</sup>

## 5. Unemployment insurance and state action in Denmark and Sweden

In contrast to German and British approaches to social insurance, which replaced voluntary insurance with compulsory insurance, the evolution of Danish and Swedish social insurance was based on a system of public subsidies to voluntary funds covering sickness and unemployment. As in Britain and to a lesser extent Germany, there was a close link between the frameworks which were adopted towards sickness and unemployment. Voluntary sickness organizations were the first type of insurance organizations to develop and legislation regulating<sup>160</sup> the activities of these organizations developed in both countries in the early 1890s.<sup>161</sup> State action towards unemployment insurance developed later, in Denmark in 1907 and in Sweden in 1934. Public policy consisted in providing a legal framework and in providing a government

<sup>159</sup> [http://www.ehow.com/about\\_6392851\\_history-employment-insurance.html](http://www.ehow.com/about_6392851_history-employment-insurance.html)

<sup>160</sup> Toft, Christian, (1995), "State action, trade unions and voluntary unemployment insurance in Great Britain, Germany, and Scandinavia, 1900–1934" *European Economic Review*, Vol. 39, No. 3, pages 565–574.

<sup>161</sup> Kuhnle, Stein, (1978) "The Beginnings of the Nordic Welfare States: Similarities and Differences", *Acta Sociologica*, Vol. 21, Supplements, pages. 9–35.

subsidy. Self-governing status was a central feature of both the sickness and the unemployment schemes.

The managing boards were chosen by the insureds and within the general guidelines, the insurance organizations could determine contribution and benefit rates, although a certain minimum provision was stipulated. Voluntary sickness insurance funds had their basis in the local community and people had a choice between membership of the local fund, making private arrangements, or applying for poor relief. Similarly, unions in Denmark and Sweden were organized on the basis of crafts and trades so unemployment insurance adopted the same lines of demarcation and membership was subject to a person having a connection with the trade concerned.

In both countries voluntary unemployment insurance still exists but voluntary sickness insurance was abolished in Sweden in 1955 and in Denmark in 1970 and replaced with a state system. We now consider the Danish case and then the Swedish one. When state action was established in Denmark in 1907 all existing trade union schemes became part of the new system and new schemes were created as a direct result of public subsidy. For example, the legislation enabled the "Unskilled Workers Union" to start an unemployment insurance scheme and from 1907 to 1911 there was an increase in the number of trade union funds from 34 to 51.<sup>162</sup> This growth in the breadth of coverage continued; in 1911 about 50 per cent of eligible craft and industrial workers were members but by 1940 this had grown so that about 95 per cent of the workers in the insured trades and crafts had taken out an insurance.<sup>163</sup> These figures do not take into account white-collar workers who had a much lower propensity to insure. Initially the measure was funded by the insureds and the government but from 1921 onwards employers contributed with a modest amount.

Sweden was comparatively slow in developing comprehensive social insurance schemes. "Up to the 1930s social policy can be said to have been still regarded, on the whole, as an affair for local government".<sup>164</sup> Although trade union unemployment insurance schemes began to receive public support in 1934, a full consolidation of the system was only achieved in 1954. Unlike in Denmark where unions embraced the 1907 legislation, the initial reaction to state involvement in Sweden appears to have been rather hostile. It was described that in 1940 of the 24 unions within the Swedish Federation of Trade Unions which had an unemployment insurance scheme in 1934, only 10 had transferred to the state-subsidized system.

<sup>162</sup> Gosta Esping-Andersen and John Myles: *The Welfare State and Redistribution* (1981), pages 113 [http://dcpis.upf.edu/~gosta-esping-andersen/materials/welfare\\_state.pdf](http://dcpis.upf.edu/~gosta-esping-andersen/materials/welfare_state.pdf) (14.04.2011)

<sup>163</sup> *Socialt Tidsskrift: Social Denmark: A survey of the Danish social legislation*, Copenhagen, 1946, p. 99.

<sup>164</sup> Jorberg and Kranz: *Economic and social policy in Sweden 1850-1939*, in: P. Mathias and S. Pollards eds.: *The Cambridge economic history of Europe vol. VIII. The industrial economies: The development of economic and social policies*, Cambridge University Press, Cambridge, 1989, p. 10871.

A chief explanation for the differences in the reactions of trade unions in the two countries is that the design of the schemes differed. In Denmark the state subsidy was inversely related to earnings but only reflected the risk of unemployment to a limited extent. The legislation allowed for differentiations among unions so that the better off unions could offer cheaper and more generous benefits than poorer unions. The Swedish reformers had mainly workers in agriculture and forestry in mind when the system was arranged and the subsidy was designed so as to give the greatest amount to funds whose members experienced high levels of unemployment. Furthermore, the subsidy was related to benefits so that unions paying generous benefits received only a small subsidy and unions paying low benefits received a generous subsidy.<sup>165</sup>

Hence there was an incentive to under-insure because “an insured who would choose a high benefit class would be penalized by the subsidy regulations”. The established schemes covered high earners who gained little from the 1934 legislation. On the other hand, new funds were established by unions whose members were low earners and experienced high levels of unemployment but it was only as a result of improvements in terms and conditions in 1953-1954 that all union schemes became part of the public system.<sup>166</sup>

### Conclusion

Policy choices depend on a range of factors which differ from country to country. In this chapter we have examined a number of reforms of the structure of governance and the principles of funding and delivery of unemployment insurance which took place in Britain, Germany, Denmark, and Sweden at the beginning of this century. Unemployment insurance constituted an essential part of trade union organization around the turn of the century. By offering insurance unions provided an incentive for workers to join and insurance also helped to preserve membership in the event of unemployment.

Conditions of entitlement varied among unions, but in most cases membership for at least one year was required, with benefit levels related to the duration of membership and the contribution bracket to which the member belonged. Duration of benefit entitlement varied considerably. Insurance was most widespread among skilled craft-unions, although the breadth of coverage was growing. Craft unions could supply insurance because workers of the same craft experienced similar levels of risk, craft workers were among the better paid and also experienced comparatively low levels of unemployment. Insurance was least widespread among unskilled workers and casual

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<sup>165</sup> Toft, Christian, (1995), “State action, trade unions and voluntary unemployment insurance in Great Britain, Germany, and Scandinavia, 1900–1934” *European Economic Review*, Vol. 39, No. 3, pages 565-574.

<sup>166</sup> Toft, Christian, (1995), “State action, trade unions and voluntary unemployment insurance in Great Britain, Germany, and Scandinavia, 1900–1934” *European Economic Review*, Vol. 39, No. 3, pages 565-574.

workers because they tended to be low paid and also experienced frequent spells of unemployment.

State action concerning unemployment insurance followed diverse patterns in the four countries and a variety of objectives can be identified with regard to government policy and union response which help explain the diversity of choices. In Britain, government followed an active interventionist pattern where compulsory unemployment insurance was imposed on trade unions and employers.

Compulsory contributions were seen as a way of financing an increase in the breadth of coverage to those sections of the work force which were not covered by private arrangements. Compulsion was met with objections from workers who preferred their own arrangements. Union members appear to have been worried about the burden caused by compulsory insurance contributions as well as the fact that existing arrangements, negotiated with employers, in many cases were more generous than the new state scheme.

In Germany, state action was to a larger extent a response to a change in union strategies which took place during the First World War. Before the war, unions argued for support and recognition of existing union schemes but central government rejected any financial involvement. In the context of the changes brought about by the First World War, union attitudes changed and the notion of voluntary insurance run by unions was replaced by a notion of compulsory insurance which should be run by employers and unions, covering all workers within one unified system. The unemployment insurance system which was eventually introduced in 1927 followed to a considerable extent the proposal which had been developed by a trade union commission during the war.

The two Scandinavian countries followed a more conservative approach in that government started to subsidize the existing schemes with a view to expand the breadth of coverage. The government subsidy was essential for the creation of schemes among unskilled workers but with financial involvement followed government regulation which was met with some hostility among unions with established schemes, in particular in Sweden.

The policy choices which were made in the historical context between the turn of the century and the middle of the 1930s have had long-term implications for the shape of the unemployment insurance schemes in that the main features of the initial legislation are still a central part of present unemployment insurance policies in the four countries. In Scandinavia, unemployment insurance is still voluntary and run in close cooperation with unions. In Britain, unemployment insurance is totally integrated into the general state social security system and unions have no influence on contribution and benefit rates which are set at the discretion of the party in power. In Germany, unions are represented on the managing board of the Federal Employment Agency which is a semi-

autonomous institution which negotiates the running of unemployment insurance and labour exchanges with central government.

Countries such as Denmark and Sweden, with a voluntary union administered system, have experienced a sharp increase in unionization, while countries such as Germany and Britain, with a compulsory state administered system, have experienced either a stationary or a declining trend in unionization, in particular in the post-war period. A chief reason why trade unions have developed a strong position in Scandinavia is their success in keeping at least some control over unemployment insurance.



## **Chapter 4**

### **International standards of unemployment protection**

#### **1. Social security and human rights**

Social security is generally recognized as a basic human right and a means to foster social cohesion, human dignity and social justice.<sup>167</sup> The term “human rights” had not yet firmly found its way into the international public law dictionary when the ILO was founded. Consequently, the Constitution of the ILO and even the Declaration of Philadelphia (1944) do not mention the term. Instead, they identify “social justice” as the basis for the organization’s work. Article II (a) of the Declaration of Philadelphia states that “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”. This is the basic premise for action by the ILO. The principal right of all human beings to pursue both their material well-being and spiritual development is placed within a framework of broad concepts of human rights (non-discrimination, freedom, dignity, etc.).<sup>168</sup>

Social security is increasingly seen as an integral part of the development process. It is therefore necessary to look for synergies between policies for social protection, employment and development. These synergies exist in various areas of social policy, such as health, education, housing and social welfare, but also in areas of economic policy, such as macroeconomic and sectoral policies (for instance, small-scale enterprise development). However, the potential synergies are probably strongest with regard to employment and labour market policies.<sup>169</sup>

#### **1.1. Right to work**

The right to engage in work is a basic human right. The responsibility of finding work for all who need it is the business of everyone not just the unemployed. It is incongruous for our European societies to view long work hours as desirable when

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<sup>167</sup> ILO, Introduction to Social Security Geneva, 1984, p. 2.

<sup>168</sup> <http://library.fes.de/pdf-files/iez/global/02078.pdf> (12.02.2011)

<sup>169</sup> <http://www.ilo.org/public/english/standards/relm/ilc/ilc89/rep-vi.htm#Unemployment%20benefits%20and%20employment%20promotion> (12.02.2011)

many Europeans do not have access to work and one worker's overtime could well mean another worker's job.

The right to work was then taken up in the 1948 Universal Declaration of Human Rights (Article 23) and the International Covenant on Economic, Social and Cultural Rights (Articles 6 and 7). These documents are part of the International Bill of Rights.

Article 23 of the Universal Declaration of Human Rights says: "Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment." Nobody disputes; they just ignore this cornerstone of the truly civil society. "Work for all who need it" is sound economic sense, admirable and achievable.

The Articles 6-7 of the International Covenant on Economic, Social and Cultural Rights says:

*Article 6* "States Parties to the present Covenant recognize the right to work, which includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts, and will take appropriate steps to safeguard this right. The steps to be taken by a State Party to the present Covenant to achieve the full realization of this right shall include technical and vocational guidance and training programmes, policies and techniques to achieve steady economic, social and cultural development and full and productive employment under conditions safeguarding fundamental political and economic freedoms to the individual."

*Article 7* "The States Parties to the present Covenant recognize the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular:

- (a) Remuneration which provides all workers, as a minimum, with:
  - (i) Fair wages and equal remuneration for work of equal value without distinction of any kind, in particular women being guaranteed conditions of work not inferior to those enjoyed by men, with equal pay for equal work;
  - (ii) A decent living for themselves and their families in accordance with the provisions of the present Covenant;
- (b) Safe and healthy working conditions;
- (c) Equal opportunity for everyone to be promoted in his employment to an appropriate higher level, subject to no considerations other than those of seniority and competence;
- (d) Rest, leisure and reasonable limitation of working hours and periodic holidays with pay, as well as remuneration for public holidays."

However, this highly appreciated Human Rights documents don't mention the right to benefit or compensation for unemployed persons.



## **1.2. Right to activation**

First, must be dispelled some myths, and one – only one – of these myths is that “there’s no work around”. It is necessary to show that there is plenty of work, good work, decent work, needed – sometimes desperately needed – work waiting to be done. If somebody goes into his/her community, be that where he/she lives or where he/she shares interests, with pencil and paper and jot down work that needs to be done. He/she may find some of this work is tangible, like an extra playground to keep the children off the streets, organise dance club, plant some flowers, teaching elderly to use computer, doing housework, helping neighbours to cultivate his/her garden, etc. Some of this work is in services, like a supervisor for that playground. Work for all who need it is a basic feature of maintaining stability in a society at peace.

At this stage, we don’t have to worry about who is going to pay for all this. The point is that someone may find his/her creativity is being engaged; just gently encourage it. However, many of the disputes underway today have economics as one of the basic causes. People may perhaps use, religious or ethnic labels, but often the underlying cause is unemployment. There is more to employment than just acquiring an income. Employment is form of inclusion in society; unemployment is social exclusion. Employment is an entree into society. Social exclusion leads to despair and alienation. If people are excluded from society, then it is no wonder that they turn to violence. There is no civil war in any country which has full employment.<sup>170</sup>

## **2. The ILO standards**

### **2.1. ILO standards on social security**

Over the decades since its establishment, the ILO has promulgated a large body of Conventions which deal with labour and social issues. The general thinking behind these Conventions is that “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions of their own countries.” The Conventions establish benchmarks for all governments in their efforts to establish decent and safe working conditions and can also discourage backsliding. The Conventions on Social Security establish standards for the financing, benefit structure, and administration of social security schemes.

One of the most important conventions is the Social Security Minimum Standards Convention, No. 102 (1952), which brings together all nine branches of social security and sets a basic standard that should be attainable by all countries.

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<sup>170</sup> <http://www.crnhq.org/pages.php?PID=35> (22.03.2011)

Convention No. 102 embodies six general requirements.

- *First*, it stipulates that protection should extend to at least half the national work force or 20 per cent of residents.
- *Second*, it requires that benefits be provided for at least three of the nine contingencies in the ILO definition, at least one of which must be of a long-term nature (i.e., old age, disability, employment injury, or survivors benefits) or unemployment.
- *Third*, it calls for the cost of benefits and administration to be borne collectively by way of insurance contributions or taxation. This requirement excludes benefits which are financed exclusively by a single employer. The portion of contributions paid by workers should not exceed 50 per cent.
- *Fourth*, it requires that cash benefits be periodic, paid throughout a contingency, and set to replace a specified portion of a worker's lost wages. Exceptions are provided for minor employment-related injuries and for specific cases where the administering agency is satisfied that a lump-sum will be used appropriately.
- *Fifth*, it establishes minimum rates of income replacement, set at 50 per cent of lost wages for a worker with a family who is injured on the job, 45 per cent for unemployment and maternity, and 40 per cent for a married worker who retires due to old age, a worker with family who retires due to disability, or the survivors of a deceased worker.
- *Sixth*, it requires that the government assume general responsibility for the operation of a social security scheme. In cases where it delegates this authority, worker representatives should participate in scheme management or be associated with it in a consultative capacity.

The combination of comprehensiveness and flexibility in Convention No. 102 has given it vitality over time. While it has been supplemented by a number of Conventions providing higher standards, it continues to be the most frequently ratified Convention on Social Security.<sup>171</sup>

It is convenient to classify social security schemes in three broad categories: 1) mandatory savings schemes, 2) non-contributory schemes, and 3) social insurance. While some schemes exhibit mixed characteristics, these categories capture the most important distinctions among schemes as they exist around the world. The general features of each category are as follows:

- 1) With *mandatory savings schemes*, a government enacts a requirement that workers set aside a portion of their monthly earnings in an individual account. These accounts may be administered publicly as national provident funds or by private firms under

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<sup>171</sup> The Conventions providing higher standards include number 103, Maternity Convention (1952); No. 121, Invalidity, Old Age, and Survivors' Benefit Convention (1967); number 130, Medical Care and Sickness Benefits Convention (1969); and number 168, Employment Promotion and Protection Against Unemployment Convention (1988).

government supervision (e.g., the Bulgarian, Polish, former Hungarian model). Under the first option, the employer matches the worker contribution, while under the second only the worker contributes. The savings are generally targeted toward long-term contingencies. When the worker reaches a specified age, retires, dies, or becomes disabled, this amount is refunded with interest. It may be paid as a single lump sum, used to purchase an annuity, or taken gradually in a series of phased withdrawals. A distinguishing feature of this approach is that it involves no pooling of risks or resources across the work force. Thus, what a worker receives is equal to what he/she contributed, plus interest, minus administrative expenses.<sup>172</sup> In this sense, these schemes are “fully funded,” meaning that all benefit obligations to a worker are financed by contributions which he/she has paid in advance.

2) In *non-contributory schemes*, the government establishes a system of uniform benefits for all residents of the country. These are normally financed by an annual appropriation of tax revenues from the treasury. The schemes are also of two general types: a) *universal* and b) *means-tested*.

a) The *universal type* scheme provides benefits to all citizens or residents who meet program eligibility criteria – e.g., old age, disability or orphanhood – without regard to the individual’s income, assets, or earnings history. This means that benefits are paid not only to those who were previously working in the formal sector but also to informal sector workers who experience an insured contingency and to the unemployed.

b) The *means-tested* (social assistance type) schemes, has a narrower focus, protecting only the subset of these individuals who are financially needy. Reflecting the financial burden which these schemes pose for governments, non-contributory benefits are frequently set at low levels. Moreover, many countries which originally established universal schemes have restructured them to require means-testing, a measure which has proven only partially successful in reducing burdensome costs.

3) *Social insurance schemes* pool risks and resources across the covered population based on the principle of social solidarity. As a result, some workers receive more in benefits than they pay in contributions (e.g., a worker with children who is disabled at a young age), while others receive less (e.g., a worker who dies just after retiring with no dependent family members). What all workers receive is a guaranteed entitlement to replacement of a set portion of their wages if they experience an insured contingency. Eligibility and benefit levels are determined by the individual’s work history and earnings (exceptions apply to medical care and subsidies for children), and benefits are paid without reference to financial need or unearned income (e.g., interest or dividends on investments). These schemes are typically financed by contributions from employers and workers and may also include a subsidy from the state. They can be either fully funded like mandatory savings schemes, financed on a pay-as-you-go basis – i.e., current contributions are used to pay current benefits – or partially funded – i.e., a

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<sup>172</sup> In national provident funds, the deduction of interest is not actually made but is taken into account in determining the rate of interest applied to member accounts.

middle position in which a reserve is built up but equals less than the full future liability of the scheme. Partially funded arrangements offer governments considerable flexibility: they can be structured so that reserves accumulate at a rate which does not exceed a country's capacity to absorb investments, and they enable the government to schedule contribution increases on a predictable basis.

## 2.2. The ILO standards on unemployment

The International Labour Organization (ILO) has adopted conventions which set international labour standards. Three important conventions on unemployment benefits are: a) *Ensuring Benefit or Allowances to the Involuntarily Unemployed Convention, 1934 (No. 44)*; b) *Social Security (Minimum Standards) Convention, 1952 (No. 102)*; c) *Employment Promotion and Protection (Unemployment) Convention, 1988 (No. 168)* and Recommendation (No. 176).

a) A landmark in unemployment benefits systems was the adoption by the ILO in 1934 of the *Ensuring Benefit or Allowances to the Involuntarily Unemployed Convention, 1934 (No. 44)*. This convention required ratifying states to set up a system for the payments of benefits to the involuntarily unemployed. It laid down minimum requirements as to coverage of the population, conditions of receiving unemployment benefits, and duration of benefits.

b) Detailed provisions regarding unemployment benefits were later laid down in the *Social Security (Minimum Standards) Convention, 1952 (No. 102)*, which specified how the periodical payments were to be calculated.

c) In 1988, the ILO adopted the *Employment Promotion and Protection (Unemployment) Convention No. 168* which provided for benefits in cases of full unemployment and partial unemployment.

The unemployment benefits system should be designed to protect persons who are in paid employment. However, the ILO allows some possible exceptions such as self-employed persons; domestic workers; homeworkers; workers whose employment is of a permanent character in the service of the government; seasonal workers; young workers under a prescribed age; and members of the employer's family. Unemployment benefits should be provided in the form of periodical payments.<sup>173</sup>

The ILO has emphasised that each member state should maintain an unemployment benefits system to protect the persons who are involuntarily unemployed. Each state may determine the method or methods of protection, whether by a contributory or non-contributory system, or by a combination of these two systems.

<sup>173</sup> <http://www.legco.gov.hk/yr99-00/english/sec/library/e14.pdf> (21.05.2011)

However, even if a state protects all residents, whose resources, during the contingency, do not exceed prescribed limits, the protection afforded may be limited, in the light of the resources of the beneficiary and his/her family.

### *2.2.1. Variety of unemployment benefits systems*

According to the ILO standards there are mainly two types of statutory unemployment benefits systems:

- 1) unemployment insurance system and
- 2) unemployment assistance system.

Most of the industrialized countries (e.g. nearly all of the OECD countries) administer unemployment insurance systems. Only a few industrialized countries (e.g. Australia and New Zealand) rely solely on unemployment assistance systems. Some countries operate both systems.

Countries which have unemployment insurance systems also provide unemployment assistance or social assistance to support workers who fail to qualify for insurance benefits or who have exhausted their insurance rights. While unemployment assistance systems cater for the unemployed only, social assistance programmes are open to all who only need fulfil a means-test requirement. The social assistance programme is mentioned because an unemployed person might exhaust the unemployment insurance or unemployment assistance available and his/her last resort would be social assistance.

### *2.2.2. Persons protected*

The unemployment benefits system (including both the unemployment insurance and unemployment assistance systems) should be designed to protect persons who are in paid employment, since they are exposed to the risk of involuntary unemployment. If it is deemed necessary, there could be exceptions in respect of

- a) self-employed persons,
- b) persons employed in domestic service,
- c) homeworkers,
- d) workers whose employment is of a permanent character in the service of the government, a local authority or a public utility undertaking,
- e) non-manual workers whose earnings are considered by the competent authority to be sufficiently high for them to ensure their own protection against the risk of unemployment,
- f) workers whose employment is of a seasonal character, if the season is normally of less than six months' duration and they are not ordinarily employed during the remainder of the year in other employment,
- g) young workers under a prescribed age,

- h) workers who exceed a prescribed age and are in receipt of a retirement or old-age pension,
- i) persons engaged only occasionally in employment, and
- j) members of the employer's family.

### *2.2.3. Benefits to be provided*

In cases of unemployment, benefits should be provided in the form of periodical payments calculated in such a way as to provide the beneficiary with partial and transitional wage replacement and, at the same time, to avoid creating disincentives either to work or to employment creation.

In cases of underemployment<sup>174</sup>, benefits should be payable in a way to be determined by national laws or regulations to unemployed persons whose employment has been reduced.

### *2.2.4. Conditions for payment of unemployment benefits*

The right to receive unemployment benefits may be made subject to compliance by the claimant with the following conditions:

- 1) the unemployed person is capable of work, available for work, and willing to work, and
- 2) the unemployed person seeks work by registering at a public employment exchange or at some other offices approved by the competent authority, and attends there regularly.

### *2.2.5. Conditions for disqualifying the claimants for unemployment benefits*

A claimant may be disqualified for the receipt of unemployment benefits for an appropriate period:

- 1) if the claimant has lost employment as a direct result of a stoppage of work due to a labour dispute,
- 2) if the claimant has lost employment due to misconduct or has left it voluntarily without just cause,
- 3) if the claimant has tried to obtain fraudulently any unemployment benefits, or

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<sup>174</sup> The concept of underemployment has been introduced for identifying the situations of partial lack of work. According to the ILO, the "underemployed" comprise all persons in paid or self-employment, involuntarily working less than the normal duration of work determined for the economic activity, who were seeking or available for additional work during the reference period. Thus, the definition sets forth three criteria for identification of "underemployed": (i) working less than normal duration; (ii) doing so on an involuntary basis; and (iii) seeking or being available for additional work during the reference period. All three criteria must be satisfied simultaneously before a person can be classified as "underemployed". Source: <http://www.legco.gov.hk/yr98-99/english/sec/library/989rp05.pdf> (12.03.2011)

- 4) if the claimant fails to comply with the instruction of a public employment exchange or other competent authority with regard to applying for employment, or if it is proved by the competent authority that the claimant has failed or neglected to avail himself of a reasonable opportunity of suitable employment.

#### *2.2.6. Qualifying period*

The right to receive unemployment benefits may be made conditional upon the completion of a qualifying period, involving:

- 1) the payment of a prescribed number of contributions within a prescribed period preceding the lodge of a claim to benefits or preceding the commencement of the period of unemployment;
- 2) employment for a prescribed period preceding the claim to unemployment benefits, or
- 3) a combination of the above alternatives.

The purpose of the qualifying period is to make certain that the claimant is properly within the scope of the system. The length of the qualifying period proposed by the ILO is twenty six (26) weeks of employment in the past fifty two (52) weeks.

#### *2.2.7. Benefit rates*

If the unemployment benefits are based on the contributions of or on behalf of the person protected or on previous earnings, they should be fixed at not less than 45% of previous earnings or the statutory minimum wage or of the wage of an ordinary worker, or at a level which provides the minimum essential for basic living expenses, whichever is the highest.

The commonly observed rates of unemployment benefits are 50% to 60% of a claimant's previous earnings, within maximum and minimum limits. Most unemployment benefits systems add a supplement for a dependent spouse and children. The ratio of benefits to previous earnings is known as "replacement rate" or "replacement ratio".

#### *2.2.8. Duration of benefits*

In the case of full unemployment, the initial duration of payment of the unemployment insurance benefits may be limited to twenty six (26) weeks in each spell of unemployment, or to thirty nine (39) weeks over any period of twenty four (24) months. In the event of unemployment continuing beyond the initial period of benefits, the duration of payment of benefits, which may be calculated in the light of the resources of the beneficiary and the respective family, may be limited to a prescribed period.

### *2.2.9. Waiting period*

The ILO allows a waiting period of the first seven days in each case of suspension of earnings. This is to reduce the administrative and financial burden caused by short spells of unemployment as the employment exchange office may be able to place the claimant in a suitable job during that time. The waiting period may be waived if a spell of unemployment starts very soon after a previous spell ends. In the case of seasonal workers, the duration of the benefits and the waiting period may be adapted to their conditions of employment.

Almost all national unemployment benefits systems prescribe initial waiting period between the last day of employment and the first day on which benefits are paid. Most waiting periods are three to seven days.

### *2.2.10. Administration of unemployment benefits systems*

The ILO recommends a close liaison between the employment exchange office and the social security office since claimants are required to attend the former to prove their eligibility for benefits and to collect their benefits from the latter.<sup>175</sup>

## **3. European Code of Social Security**

### **3.1. Introduction to the European Code of Social Security**

The European Code of Social Security, its Protocol and the European Code of Social Security (Revised) are the basic standard-setting instruments of the Council of Europe in the field of social security. Although the Code and the Protocol date back to 1964 they have proved to be valuable tools in defining common European social security standards that can be used for orientation in the reform process going on in many European countries, especially in Central and Eastern Europe.

The underlying idea of these instruments is to promote a social security model based on social justice. The state is deemed to be responsible for establishing and maintaining a stable and financially sound social security system. Those who cannot earn their own living because of sickness, unemployment, old age, employment injury, occupational disease, maternity, invalidity, or death of the breadwinner should be guaranteed a decent standard of living; those who have to look after children should be supported by the society. The European Code of Social Security (Revised), the most recent instrument, dating from 1990, reflects some of the developments in social security philosophy towards the end of the century without abandoning the fundamental concepts laid down in the European Code of Social Security and its Protocol.

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<sup>175</sup> <http://www.legco.gov.hk/yr99-00/english/sec/library/e14.pdf> (12.03.2011)



These specialised social security instruments form an essential component of the protection of human rights through the Council of Europe. The “right to social security” is enshrined in one of the basic human rights instruments of the Council of Europe, namely in the European Social Charter. States having ratified the revised European Social Charter and having accepted Article 12, paragraph 2, are obliged to maintain the social security system at a satisfactory level at least equal to that necessary for the ratification of the European Code of Social Security. Therefore, the promotion of the European Code of Social Security is seen as one of the core tasks of the Council of Europe in order to secure common values in the field of social cohesion in its member countries.

It is worth noting that the standards of the Council of Europe in the field of social security are closely linked to the conventions of the ILO. Convention No. 102 (Social Security Minimum Standards) served as a model for the elaboration of the European Code of Social Security. Moreover, the higher standards enshrined in the Protocol to the European Code of Social Security and in the later social security conventions of the ILO also largely coincide. The control of the implementation of the social security standards of the Council of Europe is based on institutional co-operation between the Council of Europe and the ILO. The two organisations work together closely in promoting their standards. The overall aim of this co-operation is to combine the efforts of the two international organisations devoted to the promotion of social justice and to avoid divergences in the interpretation of international social standards.<sup>176</sup>

### **3.2. Provisions on unemployment benefit**

#### *3.2.1. The European Code of Social Security Definition of the contingency and the material scope*

The contingency is defined as the “suspension of earnings, as defined by national laws or regulations, due to inability to obtain suitable employment in the case of a person protected who is capable of, and available for, work”.<sup>177</sup> The first point to note about this definition is the reference to the “suspension of earnings”. This implies that a person need only be covered by these provisions if they already had a job before they became unemployed. This would effectively exclude graduates from school or higher education as well as those who have never worked because of family commitments but now intend to take up paid employment.

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<sup>176</sup> Nickless, Jason, (2002), *European Code of Social Security: Short Guide*. Council of Europe, [http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide\\_en.pdf](http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide_en.pdf) (21.03.2011)

<sup>177</sup> Article 20 of the Code.

What constitutes “suspension of earnings” is left to the national legislation. It should be borne in mind that earnings may be suspended for a number of reasons and in each case the national legislator is free to decide whether or not unemployment benefit should be paid in these circumstances:

- a) Voluntary unemployment: this occurs when the employee leaves of their own accord, either with or without notice;<sup>178</sup>
- b) Involuntary unemployment: this occurs when a worker is obliged by the employer to leave due to no fault of that employee, the most typical example of this is when the worker becomes “redundant” due to the economic situation of the employer;
- c) Dismissal: whereby a worker is forced to leave due to their violation of employment regulations or because they are incompetent;
- d) Constructive dismissal: this takes place when working conditions become so intolerable, perhaps due to deliberate bullying by the employer, that the employee is forced to give their notice and leave;
- e) Industrial action: this may be due to industrial action by employees such as strike or industrial action by employers such as lock outs.

The Code refers to the concept of “suitable work” as opposed to the concept of “any work”. This is an important distinction that often arises in the context of conditions for the entitlement to unemployment benefit. Availability for suitable work takes into consideration a number of factors such as the qualifications of the unemployed person, their experience, age and motivations.<sup>179</sup> Availability for any work does not take into consideration the individual qualities of the jobseeker and obliges them to accept any position offered to them. Of course, the danger of this latter approach is the erosion of skills as well as the impact on the mental health of the person concerned and the potential dissidence created in society as a whole.

### 3.2.2. *The personal scope*

The minimum personal coverage for unemployment benefits in the European Code of Social Security takes into consideration two types of system.<sup>180</sup>

- a) The first is that based upon employment, in which case at least 50% of all employees must be covered;
- b) The second is that based upon means tests applied to residents. In this case, the scheme must cover all those residents who are affected by unemployment as it is defined above and whose means fall below a set level.

<sup>178</sup> In Article 68, the Code cites both voluntary unemployment and strike action as justifiable reasons for the stopping of unemployment benefits.

<sup>179</sup> For example, the concept of suitable work would prevent a university professor being forced to accept a position as a road sweeper.

<sup>180</sup> Article 21 of the Code.

It is worthy to note that no provision of personal coverage is made relating to the economically active population. This is because unemployment benefit at the time of drafting the Protocol was generally unavailable for self-employed persons.<sup>181</sup>

### 3.2.3. The calculation of periodic cash benefits

The Code provides that a periodic cash benefit must be paid in respect of this contingency. The method of calculating periodic benefits respects whether the system is based upon employment or upon means tests applied to residents. The Code provides that qualifying periods of residence, employment or both may be imposed only to the extent that they are necessary to prevent abuse.<sup>182</sup>

The Code applying to the duration of benefits recognise the various different ways in which unemployment benefits may be organised:

- a) For those systems based upon employment the states are allowed to choose between providing benefits:
  - throughout the contingency or over a period of at least thirteen weeks during any period of twelve months; or
  - throughout the contingency or over a period of at least thirteen weeks for each case of suspended earnings.
- b) Systems that are based on means tests applied to residents who suffer from the contingency are obliged to pay the benefit throughout the duration of that contingency or for at least twenty-six weeks in any twelve-month period. It will be recalled that systems based on means tests also have to guarantee non-means-tested benefits to at least 50% of all employees; the minimum duration in respect of these employees must be equal to that established for systems based on employment described immediately above;

Some systems limit the duration of benefits in accordance with how long the claimant has been paying contributions or how much benefit has already been paid to the claimant on a previous occasion. For example, those who have contributed to the system for one to five years are entitled to ten weeks of benefit whereas those who have contributed for five or more years are entitled to sixteen weeks of benefit.

Another example would be a system that declares that those who have received less than EUR 100 of unemployment benefit in the last five years are entitled to sixteen weeks of benefit, whereas those who have received more than €100 during that period are only entitled to benefits for a maximum of ten weeks. Systems that vary the maximum duration of benefits according to periods of contribution or previous payment

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<sup>181</sup> Nickless, Jason, (2002), *European Code of Social Security: Short Guide*. Council of Europe, [http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide\\_en.pdf](http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide_en.pdf) (21.03.2011)

<sup>182</sup> Article 23 of the Code

of benefits shall fulfil their obligations if the average maximum duration of payment is equal to at least thirteen weeks within any twelve-month period.<sup>183</sup>

*The waiting period.* The Code authorises a waiting period of seven days at the most for each period of suspended earnings. It is hoped that if people have to wait seven days for their benefits they will make a real effort to find work during this period. Temporary periods of employment must be disregarded for this purpose, for example if the claimant is made unemployed for seven days so that they are entitled to benefit but is then given a job that lasts for only one week they will not have to go through the seven-day waiting period again. The definition of “temporary employment” is left to the contracting parties and no guidelines are given by which the Code can supervise whether or not this definition is acceptable.<sup>184</sup>

The Code specifically allows the adjustment of qualifying conditions and waiting periods to reflect the situation of seasonal workers.<sup>185</sup>

### 3.2.4. *The European Code of Social Security (Revised)*

Unlike the Code and Protocol, the Revised Code distinguishes between “total unemployment” and “unemployment, other than total”,<sup>186</sup> the latter is sometimes described as “partial unemployment”. Total unemployment covers situations where a person suffers from an “absence of earnings” whilst actively seeking full-time employment. Partial unemployment is defined by the Revised Code as arising in two situations, a contracting party is free to select either one or both of these options:

- a) Where a person who is engaged in full-time work or economic activity faces a “loss of earnings” because they are forced to reduce their working hours through no fault of their own. In other words, they remain employed by the same employer or engaged in the same economic activity but they are no longer able to work on a full-time basis. The reduction in working hours must be beyond their choice and not stem from problems with the person’s health. What constitutes “full-time work” is “the normal or legal working time” in the contracted party concerned which may be based on labour law, the individual’s contract, collective agreement or common custom, etc. In any event it does not include overtime;
- b) Where a person faces a “loss of earnings” because they were previously unemployed and have had to accept a part-time job or economic activity even though they are capable of and looking for full-time work.

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<sup>183</sup> Article 24 of the Code

<sup>184</sup> Article 25 of the Code

<sup>185</sup> Nickless, Jason, (2002), *European Code of Social Security: Short Guide*. Council of Europe, [http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide\\_en.pdf](http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide_en.pdf) (21.03.2011)

<sup>186</sup> Article 19, paragraph 1 of the Revised Code

The Revised Code replaces the concept of a “suspension of earnings” that was used in the Code and the Protocol with the phrase “absence of earnings” in relation to total unemployment and “loss of earnings” in relation to partial unemployment.

This means that the payment of total unemployment benefits can no longer be restricted to people who were employed or economically active in the past. The Revised Code introduces obligatory coverage for certain classes of person that have never been employed or have not been employed for a long time. The Code and Protocol only cover the “suspension of earnings” as a result of unemployment, indicating that the benefit is not available to those who have never worked (such as graduating students) or who have taken lengthy breaks from employment (such as those caring for children). The Revised Code, however, applies to those who face an “absence of earnings” due to total unemployment. Rather than obliging states to recognise all those who have never worked or have not worked lately, the Revised Code allows states to select at least two of the following categories of persons to whom they must provide unemployment coverage.<sup>187</sup> This is similar to the “menu” approach involved in selecting contingencies and is another illustration of the flexibility provided by the Revised Code:

- a) Young persons who have graduated from vocational training;
- b) Young persons who have graduated from other studies;
- c) Young persons discharged from military service;
- d) Parents who have taken a break to care for a child;
- e) Persons whose spouse is deceased;
- f) Divorced persons;
- g) Discharged prisoners;
- h) Disabled persons who have completed a period of rehabilitation.<sup>188</sup>

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<sup>187</sup> Article 20, paragraph 3, of the Revised Code.

<sup>188</sup> Nickless, Jason, (2002), *European Code of Social Security: Short Guide*. Council of Europe, [http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide\\_en.pdf](http://www.coe.int/t/dg3/socialpolicies/source/socialsecurity/shortguide_en.pdf) (21.03.2011)



## **Chapter 5**

### **Unemployment systems in the EU Member States**

#### **1. Differences between UI schemes in EU Member States**

*Beveridge and Bismark:* The most striking difference between the UI schemes across the EU member states lies in the level and schedule of benefits. The basic distinction is between the flat rate and earnings-related UI allowances. In Britain and Ireland, all UI beneficiaries receive the same allowance regardless of the earnings in previous employment. Underlying the flat rate allowance is the Beveridge principle which sets avoidance of poverty as the guiding aim of a social security system. In contrast, in the continental members of the EU, UI allowances are related to earnings in previous employment, which served as the base for calculating the contribution to UI. Generally, earnings-related UI allowances have a minimum, which ensures basic subsistence, and a maximum. The exact ratio between the UI allowance and earnings in previous employment varies widely across countries, ranging between as high as 90% in Denmark and 55% in Belgium. On average earnings-related UI allowances tend to higher than the flat rate allowance and are based on the Bismark principle that regards the social security system as a social insurance system, similar to a commercial insurance system but not identical.

The two principles carry important implications for the financing of UI and other social security schemes. Under the Beveridge principle, the relation between contribution and benefit is weak. In contrast, the Bismark principle implies a comparatively tighter link between contribution and benefit. Broadly speaking, the system that follow the Bismark principle give a comparatively high weight to financing social security schemes through contributions or payroll taxes, because can be attributed to particular individuals. In contrast, systems based on the Beveridge principle are flexible with respect to the mix of financing through general taxes and through social security contributions. The latter allow a greater scope for financing social security contributions.

Contributions, in terms of level, composition and collection method is differ in Member States. For example, the contribution rate for UI varies widely, ranging from 1.31% in Italy (for selected industries only) to 8.25% in Holland.

The variation in the rate is due to a mixture of factors, including, the benefit package provided by the UI scheme, the ratio of recipient to contributors and share of the cost borne by general revenue. In assessing the level of contributions, it has to be kept in

mind that payroll tax, which is what the social security contribution is, is a tax on employment and a high payroll tax may have two effects:

- 1) Impede creation of jobs;
- 2) Provide an incentive to employer and employees to avoid social security contribution by entering into an informal employment.

The second method is common in some EU states such as Italy, Spain and Hungary where informal labour market is substantial. Generally, in EU states, social security contributions are split between employers and employees in some cases equally. But in numerous cases the split is unequal with employers bearing a higher share. In Italy, the whole of social security contribution is paid by employers.<sup>189</sup>

Reducing payroll taxes (social security contributions) in conjunction with measures to get unemployed back to work has become a constant feature in a number of EU states. Total or partial exemptions from social security contributions for hiring particular category of unemployed workers has become an established employment measure in France, Belgium, Spain and Ireland. There are strong arguments for using reduced contribution rate to stimulate the employment of recent graduates and older workers.<sup>190</sup>

## **2. Cross-cutting introduction to unemployment in Europe**

The concept of unemployment in Europe dates from the late nineteenth century when it became increasingly common for experts to recognise that being outside the labour market could be the result of many factors. Those who loose employment or who are unable to secure employment will be entitled to support via either unemployment assistance or unemployment insurance. These arrangements are more long-standing in economies that are industrial in character and where a relatively small proportion of the population are engaged in self-supporting rural or agricultural activities. Entitlement to the former will usually be based upon citizenship, a test of means and assets and increasingly linked to a willingness to engage in a set of prescribed activation (job search) measures. Entitlement to unemployment insurance will be based upon a history of insurance contribution (for a prescribed period), will be restricted to employees and mainly will not include the self-employed<sup>191</sup> – for whom unemployment is regarded as a non-insurable risk.

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<sup>189</sup> Generally, economists would argue that the split between employers and employees does not matter because both the employer and employee share enter into the determination of labour cost. However, employee contributions play a useful role in making employees take account of the cost of social security. A situation where the whole of social security contribution is paid by employers, may lead employees to think of social security benefits as a free service.

<sup>190</sup> [http://www.eucss.org.cn/fileadmin/research\\_papers/policy/Unemployment\\_Insurance/research\\_papers/Unemployment\\_Insurance\\_Comparative\\_Perspective.pdf](http://www.eucss.org.cn/fileadmin/research_papers/policy/Unemployment_Insurance/research_papers/Unemployment_Insurance_Comparative_Perspective.pdf) (23.05.2011)

<sup>191</sup> Nowadays, this trend is under reconsideration, and increasing number of the European states include self-employed persons into the unemployment insurance scheme.



Receipt of insurance based compensation will be time-limited and is usually paid not at a flat-rate but as a proportion of previous earnings (within and certainly below fixed limits). Some schemes are restricted to specific categories of workers (such as those working in agriculture, shipping or railways) and others are generic, available to all employees.

Even for the employed worker, the circumstances leading to becoming unemployed can be significant; for example, voluntary resignation rather than redundancy may be grounds for disbaring entitlement to benefit. Dismissal from employment on grounds of misconduct (but this is often difficult to define) may also result in disqualification from benefit. It is usual for entitlement to be accompanied by a requirement to “signon” or report to a labour exchange or to a jobs office and to agree to engage in job search activity or to undertake vocational training.

There have always been conditions attached to the receipt of unemployment benefit (being “capable, willing and available”) but in recent years there has been widespread and enhanced commitment to the inclusion of “activation measures” which require the claimant to undertake a range of tasks to increase the chance of securing employment. Failure to engage satisfactorily with the activation measures results in being disbarred from benefit. Receipt of contributions based benefits is usually time limited. Conditions for receipt of assistance based benefits are usually more stringent and normally include the application of a residence test, a (family or household) means-test and the requirement for a waiting period before benefit can be paid.

In many countries there is a *de facto* overlap between unemployment compensation, early retirement opportunity and invalidity benefits. Such schemes can ease the transition to retirement, can create opportunities for younger unemployed people or can simply appear to reduce the number of individuals appearing to be unemployed and claiming benefit. Similarly, redundancy payments (lump sum compensation for loss of employment and usually related to previous earnings and length of service) is sometimes regarded as being quite separate from unemployment benefit and sometimes is treated as income *in lieu* of benefit.<sup>192</sup>

### 3. Unemployment systems in the EU Member States

In the EU, the operation and financing of social security schemes, including UI, is a responsibility of the member states (vertical subsidiarity). The role of the EU is restricted to coordinating national social security systems (See Chapter 7) to ensure that people who move across borders and hence come within the remit of different social security systems are adequately protected. More recently, the EU has also started to

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<sup>192</sup> <http://ec.europa.eu/social/main.jsp?langId=en&catId=815> (11.06.2011)

promote a closer cooperation among the Member States on the modernisation of social security systems to face common challenges facing the EU countries. This cooperation is based on two assumptions: first, each country has a social security system with a particular history, institutional structure, system of financing and schedule of benefits and, second, it is not politically feasible to replace the national social security system with an EU system. Nevertheless, it is possible to coordinate national systems by means of a framework, called the “Open Method of Coordination” (OMC).

### 3.1. The changing unemployment systems in Europe

Some kind of unemployment benefit system exists in all European countries. Basically, there are three types of unemployment regimes:

1. Unemployment Insurance (UI),
2. Unemployment Assistance (UA) and
3. Social Assistance (SA) programmes.

In the majority of the EU countries the *unemployment insurance* (UI) scheme is the main unemployment benefit programme providing insured unemployed with some form of replacement income, whether earnings-related or not. However, there are countries – Poland, the United Kingdom – in which these benefits consist in flat-rate and not earning-related allowances.

*Unemployment assistance* (UA) refers to further programmes of protection against unemployment, which may complement the main ones (UI). Unemployment assistance provides the unemployed who do not qualify for UI with either a social minimum, or an allowance based on the recipient’s previous income. While UI is by far the most prevalent solution, the German welfare system, for example, used to be based on UA.

*Social assistance* (SA) refers to a need-based means tested programme of social protection, sometimes but not necessarily linked to the condition of unemployment.

The unemployment systems must follow the messages of the labour market, therefore they are under a continuous change. The majority of the EU countries modified some aspects of their unemployment systems, sometimes substantially, over the last decade. Table 3 indicates the dates on which the main recent changes in Unemployment Insurance (UI), Unemployment Assistance (UA) and Social Assistance (SA) programmes occurred in the countries considered over the last decade. For a synthesis of the contents of these changes, see Table 4 and Table 5.

Table 3 shows that there have been numerous changes throughout the decade, mainly in unemployment insurance (UI), where some kind of change or transformation is recorded in all EU member states, with the notable exception of the UK. Unemployment assistance – which 10 years ago was established in 17 out of 28 of the considered countries – did not undergo relevant change in four countries (Austria, Greece, Portugal,

Sweden), but was changed in the remaining 13, and in three (Germany, Slovenia and the UK) was substantially transformed. Actually, following reforms in Germany in 2003, in Slovenia in 2006 and in the UK in 2012, the previous unemployment assistance (UA) was fully transformed and recombined with SA into a new programme. In these countries unemployment assistance (UA) no longer exists as such.

Finally, changes concerning the social assistance (SA) programmes either directly or indirectly targeted at the unemployed – which are active everywhere, with the exception of Bulgaria, Greece, Italy and Malta – occurred in 11 out of the 24 European countries considered here.

Focusing on unemployment insurance (UI) unless otherwise indicated, Table 4 helps demonstrate the dynamics and content of the observed changes.

An in-depth analysis of all these changes is beyond the purpose of this study. But it is certainly important to underline the following points.

a) The issue of *coverage* – the categories of those who can receive the benefits has been changed in almost half the countries (13 out of 28). These are changes clearly linked to the onset of the economic crisis and increasing unemployment, as indicated by the timing and content of the adopted measures. All were introduced after 2007, with the exception of the Netherlands, Bulgaria and Romania, where changes had been made earlier. Moreover, in nearly all cases the aim was to extend/ameliorate the protection of groups previously not or insufficiently covered (an exception being the Czech Republic where more restrictive measures were introduced). Particularly significant is the case of the Netherlands, where the 2003 and 2006 reforms inspired by restrictive intent, were followed by changes in the opposite direction after 2008.

b) Changes regarding the *eligibility criteria* – in 22 of the 28 countries, and often repeatedly over the decade – appear to be better distributed in the years before and after the crisis. But before 2008 in the majority of cases they were intended to establish more restrictive criteria for admission to the programmes – notable examples being those of Germany with the Hartz reforms, and Austria, Belgium, the Netherlands, Norway, Sweden, Spain, Greece, Malta and Slovenia. Exceptions were some of the Member States that have joined since 2004 (the Baltic states and Romania), in which the unemployment systems were being reorganised in those years. In the subsequent period, the direction of change was somewhat more equally distributed between relaxation of eligibility criteria (Austria, Estonia, Finland, France, Italy, Malta, the Netherlands, Norway, Portugal, Romania, Slovenia) and tightening of criteria (Czech Republic, Hungary, Ireland, Lithuania, Portugal, Romania, Spain), although relaxation was slightly more common.

c) Measures prolonging to some extent the *duration* of benefits were introduced, especially before 2008, in seven countries: four Member States joining since 2004

(Bulgaria, Czech Republic, Lithuania, Romania); Italy, Portugal and Norway. Duration was reduced instead in 10 countries (Denmark, France, Germany, Hungary, Latvia, the Netherlands, Norway, Portugal, Romania, and Slovakia).

d) The *amount of benefit* became more generous in seven cases (Estonia, Lithuania, Latvia, Romania, Slovenia, Italy and Portugal); while, especially after the beginning of the crisis, it was lowered in 10 countries (Greece, Hungary, Ireland, Lithuania, Latvia, Portugal, Romania, Slovakia, Sweden and Bulgaria, where its previous level was, however, subsequently restored).

e) Changes affecting the *financing* of the system occurred in nine countries: in five (Cyprus, Estonia, France, Luxembourg, Sweden) contributions by employers and/or employees were increased; in four (Bulgaria, Ireland, the Netherlands and Romania) they were lowered.

f) Finally, in 17 countries (20, when taking unemployment assistance (UA) and social assistance (SA) into account) the *structure and organisation* of the systems was more or less significantly readjusted – and sometimes more than once – during the decade.

Therefore, the first decade of the new century was characterised by processes of steadily diffused re-adaptation, and in a few cases by more radical transformation of the unemployment systems (especially of unemployment insurance (UI) programmes). Two distinct phases can be distinguished. In the first phase, before the 2008 crisis, change was primarily intended to rationalise/reduce the generosity of specific aspects of the programmes (especially in the countries enjoying a better consolidated welfare system such as the German one with the Hartz reforms<sup>193</sup>),<sup>194</sup> or at ameliorating their quality (in countries with a less consolidated tradition).<sup>195</sup> Subsequently, in more recent years, change appears to be more clearly directed at improving the coverage of unemployment protection, while somehow reducing in one way or another the amount. In other words, attempts were made to extend lighter protection to a greater number of people.

After the changes that took place over the last decade, the current structural configuration of the unemployment systems in the EU Member States and Norway is summarised in Table 6. Since unemployment insurance (UI) programmes – the main unemployment benefit programmes providing insured unemployed with some form of replacement income being it earning related or not – are present everywhere, the countries are only classified according to whether their unemployment regime provides also for unemployment assistance (UA) and/or social assistance (SA) programmes or not.

<sup>193</sup> Jacobi, Lena, and Jochen Kluve. (2006), “Before and after the Hartz reforms: The performance of active labour market policy in Germany.”

[http://doku.iab.de/zaf/2007/2007\\_1\\_zaf\\_jacobi\\_kluve.pdf](http://doku.iab.de/zaf/2007/2007_1_zaf_jacobi_kluve.pdf)

<sup>194</sup> <http://www.guardian.co.uk/commentisfree/2013/jan/01/germany-hartz-reforms-inequality>

<sup>195</sup> <http://www.dw.de/ten-years-on-hartz-labor-reforms-aid-germany/a-16170080>

**Table 6.**  
**Structural configuration of UB regimes in the EU Member States and Norway**  
**(2012)\***

		Unemployment assistance (UA)	
		YES	NO
Social Assistance (SA)	YES	AT, EE, FI, FR, HU, IE, LV, NL, PT, ES, SE	BE, CY, CZ, DK, DE, LT, LU, NO, PL**, RO, SK, SI, UK
	NO	EL, IT, MT	BG

\* *Forms of Unemployment Insurance (UI) programmes have been introduced in all countries. They are constant and therefore not considered in the classification.*

\*\* *in PL the classification of UB not always consistent; in view of the definition adopted here, the Polish situation is that UI exists but UA does not.*

*Sources: EIRO 2007; EIRO national reports for this study.*

According to Table 6, currently two main types of unemployment benefit regimes appear to prevail in Europe:

A) The *three-pillar system*, in which unemployment insurance (UI) – the insurance-based type of protection against involuntary unemployment, in the two variants of the occupational “Bismarckian” welfare systems<sup>196</sup> and the Nordic<sup>197</sup> or “Ghent” ones<sup>198</sup> – is complemented by both a general programme of protection against unemployment with reduced requirements unemployment assistance (UA) and a social assistance (SA) programme of social protection also covering the unemployed not eligible for the other programmes. This describes 11 countries out of 28, mainly EU15 countries and two Baltic states (Estonia and Latvia).

B) The other system is based on a *two-pillar system*, where the insurance-based type of protection against involuntary unemployment (UI) is directly combined with a general assistance type programme of social protection (SA). This describes 12 Member States and Norway, five countries from the EU12, six from the EU27 and Norway.

The two other configurations – one based on the combination of UI and UA, and one based on UI only – appear to be marginal in quantitative terms.

<sup>196</sup> Palier, Bruno, (2010), *A long goodbye to Bismarck?: the politics of welfare reform in continental Europe*. Amsterdam: Amsterdam University Press.

<sup>197</sup> Kjellberg, Anders, (2006). “The Swedish unemployment insurance – will the Ghent system survive?” *Transfer: European Review of Labour and Research*, Vol. 1, No. 6, pages 87–98.

<sup>198</sup> Vandaele, Kurt, (2006), “A report from the homeland of the Ghent system: the relationship between unemployment and trade union membership in Belgium.” *Transfer: European Review of Labour and Research*, Vol. 4, No. 6, pages 647–657.

It has to be noted that the picture is rather different from that of only a decade ago, when the combination of the unemployment insurance (UI) and unemployment assistance (UA), and social assistance (SA), was typical of most of the well-established systems of the EU Member States. As indicated in Table 7, the structural configuration of unemployment regimes in two thirds of the then 15 Member States was indeed characterised by a three-pillar system.

**Table 7.**

**Structural configuration of UB regimes in the EU15 Member States and Norway (2002)\***

		Unemployment assistance (UA)	
		YES	NO
Social assistance (SA)	YES	AT, DE, FI, FR, IE, NL, PT, ES, SE, UK	BE, DK, LU, NO
	NO	EL, IT	

\* Unemployment Insurance (UI) programmes have been introduced in all countries. They are a constant and therefore not considered in the classification.

Sources: EIRO 2007; EIRO national reports for this study.

The majority of the new EU Member States (2004 and 2007) had not established a pure second pillar of unemployment Assistance (UA) programmes. Furthermore, it is important to mention the strategic decisions made by the Germans, the British, and the Slovenian governments to supersede their existing unemployment assistance (UA) programmes and concentrate on only the other two, unemployment insurance (UI) and social assistance (SA). Table 7 provides a summary, showing a distinction between unemployment insurance (UI), unemployment assistance (UA) and social assistance (SA) systems, where relevant.

In this combination, unemployment insurance (UI) and social assistance (SA) programmes are clearly differentiated according to the dual distinct principles of insurance and assistance: the former providing an inner circle of eligible workers with strong protection – workers and many times employers contributing to the insurance fund and complying with the requirements established by the insurance system; the latter providing a lighter “safety net” of means-tested benefits for a looser circle of unemployed persons, not eligible for the principal programme. In terms of the general design of unemployment regimes, the concentration on these two pillars amounts to a simplification and rationalisation of protection systems, and possibly a reduction of the overall welfare expenditure. See Table 8 in Appendix.

### 3.1.1. Coverage

As far as *coverage* is concerned, country systems differ mainly according to the ways in which the first pillar – unemployment insurance (UI), the insurance-based one – is designed to protect against the risks connected to being unemployed; and, perhaps more importantly, the extent to which some “new” categories of workers are included or excluded.

There are two ways in which the first pillar is designed to protect against the risks of unemployment. The main distinction here is between the systems in which coverage is substantially based on workers’ 1) *voluntary decision* to become members of one of the unemployment insurance (UI) funds – traditionally established and managed by the trade unions on a sectoral basis, but more recently complemented by a few cross-sectoral independent ones (the so called Ghent system) – and 2) those in which a general obligation for employees to be covered by *statutory unemployment insurance* (UI) has been introduced.

The first type is typical of the Northern countries, which is usually called the Scandinavian model (Denmark, Finland, Sweden, Norway). The second, the so-called Continental model (Ferrera, 2005), is the one prevailing in the other countries, although with many variants (as in the UK) and exceptions.

In the first case, voluntary unemployment insurance (UI) coverage is defined and measured by the persons belonging and contributing to the UI funds; in the second, coverage is rather indicated for the categories of workers that are compulsorily insured, according to a more universalistic orientation.

Moreover, if we also take in consideration the coverage provided by the other one or two pillars – unemployment assistance (UA) and/or social assistance (SA) where relevant – all distinctions become somewhat blurred, as the second (UA) or third (SA) pillar may compensate more or less efficiently for the limits and weaknesses of the first (unemployment insurance). What becomes more important is the overall capacity of the systems to reach an efficient equilibrium between their consolidated tradition and the aim of extending coverage to the new categories of risks.

### 3.1.2. The coverage of “new” categories of workers

On the inclusion/exclusion dimension, the main difference is between systems in which the 1. self-employed, 2. those on non-standard contracts, 3. the partially unemployed, or 4. civil servants and public employees are excluded from protection and those where they are included.

Focusing on unemployment insurance (UI), in some countries (as in Austria, Germany, Greece) civil servants and public employees are not included in the insurance-based

programme, as they generally enjoy other forms of protection against the risk of unemployment, while in others (e.g. Estonia, Netherlands; Spain, Hungary) they are included.

Similarly, the self-employed appear to be excluded in some countries (Czech Republic, Netherlands, Estonia, Greece, Slovakia), and included in others, but generally under specific conditions or programmes, or with specific limitations – for instance in Austria, Bulgaria, Denmark, Hungary, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovenia and Spain.

Moreover, there are countries in which partially unemployed workers – that is, working for only a quite limited number of hours – can also be covered by the programmes, as is the case in Germany, Finland, Ireland, Netherlands, Norway, Slovenia and the UK, while workers on fixed-term contracts are covered in Spain and Slovakia.

In addition, coverage was extended in quite a number of cases in consequence of the crisis. In some countries provisions were extended to temporary lay-offs (Finland, Netherlands, Norway), in others to the self-employed (Spain), or other non-standard forms of employment (short-term job-holders in Malta, lower-income workers in Romania).

In conclusion, one may observe a certain tendency towards an expansion of the categories of persons/workers covered by the unemployment insurance (UI) programmes. In a majority of countries, however – namely in Austria, Estonia, Finland, France, Greece, Ireland, Italy, Latvia, Malta, Netherlands, Portugal, Spain and Sweden, and in the UK and Germany albeit within transformed systems – the coverage provided by the main insurance-based programmes has to be complemented by those of the unemployment assistance (UA). These programmes cover those unemployed people whose insurance-based protection against unemployment expired or who are not eligible for it. Here a distinction can be drawn between the unemployment assistance (UA) programmes that are primarily designed to extend (reduced) benefits to claimants who are no longer (or not yet) entitled to the main programmes, and those that are substantially designed to furnish some kind of reduced benefit to the unemployed for whom appropriate unemployment insurance (UI) programmes have not been introduced. In other terms, while the former may compensate for the lack of the required subjective conditions to be eligible for unemployment insurance (UI), the latter may make up for more objective limits of the unemployment insurance (UI) system, extending coverage to categories of workers who are in fact not included in these programmes.<sup>199</sup>

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<sup>199</sup> In Italy, until the recent reform of the labour market, this applied to the special programmes covering workers with non-standard contracts (such as freelancers and economically dependent self-employed), to which the measures introduced autonomously by the social partners through the operation of bilateral bodies in small firms in the artisanal sector or of agency work can be added (Salvatore, 2010). Other examples are provided by cases in France, Hungary, Latvia and Sweden.



Finally, the picture is completed by reference to the social assistance (SA) programmes that in all countries – with the exception of Bulgaria, Greece, Italy and Malta – provide a minimum safety net on universal principles, further enlarging protection.

### *3.1.3. Eligibility criteria*

With respect to eligibility criteria, it is generally assumed that applicants should be involuntarily unemployed, should have accumulated a minimum amount of contributions or recorded employment, and be available to participate in the active labour market measures provided by the employment offices. National systems differ, however, in the ways these general principles are actually implemented.

There are countries in which people who left a job voluntarily (France, Poland), or even lost it through negligence (as in Estonia and Lithuania) may be admitted to unemployment insurance (UI), although with specifications and restrictions.

Differences in the minimum amount of contributions that must have been paid, or of the minimum time in employment, for claimants to be eligible for UI are relevant, and constitute one measure of the different degrees of rigour and generosity of the systems. It is obviously not as generous if a claimant must have been insured for 52 weeks out of the last two years, as in Austria, rather than 52 weeks out of the last six years, as in Spain. The amount of benefit will also be different, as will duration, and the way it is financed. There are also cases (Norway, but also Slovenia for the partially unemployed) in which the eligibility criteria include minimum previous income, rather than minimum contribution or work record. Further differences across countries provide exceptions to the general rule. There are cases in which different requirements or special criteria are provided to ease transition from education to employment (Belgium, Romania, Luxembourg) or from child-care to the labour market (Poland), or to admit the self-employed (Luxembourg, Spain) or temporary workers (Slovakia) to benefits. All such differences are built into the social, political, economic and institutional history of each country and cannot be easily compared in a straightforward way.

Changes in the eligibility criteria that did take place, perhaps more than once, in 15 of the EU Member States and Norway as a consequence of the crisis, also exhibit variable patterns. As seen earlier, we can in fact distinguish between cases in which after 2007 the eligibility criteria became somewhat relaxed (Austria, Estonia, Finland, France, Italy, Malta, the Netherlands, Norway, Portugal, Romania and Slovenia) and those in which they were on the contrary tightened (Czech Republic, Hungary, Ireland, Lithuania, Portugal, Romania and Spain). In some countries, changes had already occurred before the crisis to different degrees, as in Austria and Belgium, or reforms, as in Germany, Netherlands, Norway, Sweden.

It should be noted that variations can be found not only between but also within unemployment insurance (UI) national systems. In Denmark, for instance, there are

special provisions for part-timers, in Luxembourg for the self-employed, in Slovakia for those with fixed-term contracts, in France for the over-50s, in Hungary for persons reaching pensionable age within five years.

In all cases, finally, claimants to unemployment insurance (UI) benefit must commit themselves to comply with the required active measures designed to help them re-enter the labour market. In a majority of countries, indeed, this requirement has become very explicit, sometimes particularly stringent, examples being Denmark, Finland, Germany, Luxembourg, Netherlands, UK, Ireland, Sweden, Portugal, Cyprus, Czech Republic, Latvia, Lithuania, Malta, Poland, and, recently, Italy.

In the case of unemployment assistance (UA) or social assistance (SA) programmes complementing the insurance-based main pillar, the eligibility criteria can consist of some combination of reduced contribution/work record requirements, commitment to participate in active labour market measures, and some means-testing. However, the country systems – and specific programmes within the national systems – differ largely according to the criterion or criteria that tend to be prevalent.

Further differences regard the provisions of exceptions intended to extend a minimum coverage to specific categories of persons (the young, school-leavers and on-training persons, seasonal workers, part-timers or casual workers, ageing unemployed).

#### *3.1.4. Duration of benefits*

Systems differ substantially as to the duration of benefit, be it the one provided by the insurance-based pillar or by unemployment assistance or social assistance ones.

Focusing on unemployment insurance (UI), while no fixed limits appear to have been established in Belgium, most cases are characterised by the definition of a maximum duration that can vary between the three months of Hungary (the shortest one) and the two years of Denmark, France and Germany, or even the three to four years for beneficiaries taking part in active policies in Austria.

Beneath the definition of the maximum allowed duration in general, systems differ as to the way the actual maximum duration for individual applicants is determined. Criteria may be defined as the length of insured period (as in Austria, Estonia, Ireland, Latvia, Romania, Slovenia and Spain), length of service or working record (Bulgaria, Greece, Hungary and the Netherlands), the applicant's age (Czech Republic, France, Italy, Luxembourg) or a combination of them (Germany, Lithuania). The social and economic characteristics of the environment where the applicant lives (Italy, Poland), or the applicant's family conditions (Sweden, Poland) may also be taken into consideration.

Turning to unemployment assistance (UA) (eventually integrated with SA, as in Germany and the UK), often no limits appear to have been set to the duration of the programmes, as is the case in Austria, Germany, Hungary, Ireland, Malta, the

Netherlands and the UK. These are cases in which these programmes are primarily intended to extend universally reduced benefits to claimants who do not qualify for the main programmes.

On the contrary, limits have been set in other cases: in Estonia, Finland, Portugal and Sweden; in Spain and France, where the provisions vary according to the programme; in Greece and Italy where benefit is provided as a single lump-sum. These are often cases in which unemployment assistance (UA) is intended to furnish some kind of reduced benefit to the unemployed for whom appropriate unemployment insurance (UI) programmes are not available.

### *3.1.5. Amount of benefit*

Also the amount of the unemployment insurance (UI) benefit varies significantly across the national systems and within them.

In the majority of cases it is determined as a proportion of the applicant's previous earnings – mostly around 50–60%. Such proportions may however differ according to specific criteria. It may be higher for low wage earners (Austria, Denmark), and/or be modified or kept under control through the definition of minimum and/or maximum levels (Austria, Belgium, Bulgaria, Estonia, France, Hungary, Italy, Luxembourg, Netherlands, Norway, Portugal, Slovenia, Spain and Sweden).

The amount may also be determined with reference to the average wage or earnings in the national economy (the Czech Republic), or the national minimum wage or other general indicator (Greece, Malta, Romania), or as a flat-rate contribution (Poland, the UK) with variations according to previous earnings (Ireland), or combining a flat and a variable component (Lithuania, France).

Sometimes the amount is integrated by family supplements, or modified according to family considerations, as in Austria, Belgium, Cyprus, Germany, Greece, Luxembourg, Malta, Spain and Sweden. It may be higher for those entering retraining programmes (the Czech Republic). In most systems the initial level is subject to progressive reduction, to incentivise quick re-entrance into the labour market.

The levels and the ways in which unemployment assistance (UA) benefit is determined are heterogeneous. Its amount can be defined as a proportion of unemployment insurance (UI) (Austria), or of the minimum wage (Estonia, Hungary, Malta) or of the social minimum level (Netherlands, Portugal, Spain), or of the beneficiary's earnings in the previous year (Italy). It can be a flat-rate contribution (Finland, Germany, the UK), or be variable according to the specific programme (France, Greece). In most cases the amount is modified according to various criteria, including age, family conditions, household income and participation in retraining programmes. However, the social assistance (SA) is generally a means-tested flat-rate benefit.

### 3.1.6. Funding

Finally, unemployment insurance (UI) systems differ according to the ways in which they are funded. The main differences are who pays for such systems – whether the employees, the employers or the state, either alone or in varying combinations – and the amount of contributions required. According to this approach, four main configurations or models can be distinguished.

The *first*, typical of the Northern tradition, is the one in which the costs are substantially paid by the employees who join, voluntarily or compulsorily, the various unemployment insurance funds traditionally controlled by the unions, eventually with contributions by the state or the employers, and it includes Denmark and Sweden (in both cases with subsidies by the state), Estonia, and Finland and Belgium (in both cases with contributions also by employers).

The *second* is one in which the costs are met jointly, although to varying proportions, by employers and employees, sometimes with supplements by the state, through contributions to a central insurance institute or fund. This is the most widespread model, including Austria, Bulgaria, Cyprus, France, Germany, Hungary, Portugal, Slovakia, Slovenia, UK, and Ireland, Greece, Malta, Romania, Spain.

A *third* model is one in which the contributions to the insurance institute are paid by the employers, as is the case in the Netherlands, Italy and the Czech Republic – and where the self-employed also contribute.

In a *fourth* model, the system is mainly financed by the state, as in the cases of Norway, Luxembourg (where funds derive from the combination of a solidarity tax and an annual contribution by the state), and Poland (where the state main contribution is supplemented by minor variable contributions paid by the employers).

As to the contribution amount, generally defined as a percentage of the insurable income, the differences between the systems are considerable. Actually, the range varies between 0.2% of gross wages in Slovenia to over 6% in France, with a great number of positions between.

Finally, the criteria according to which costs are subdivided among the concurrent parties are variable, where this applies. In the most common situation, where employers and employees pay jointly for the programmes, costs are sometimes equally divided between the two parties, but in most cases the two parties pay set contributions in differing proportions.<sup>200</sup>

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<sup>200</sup> [http://www.eurofound.europa.eu/eiro/studies/tn1206018s/tn1206018s\\_2.htm](http://www.eurofound.europa.eu/eiro/studies/tn1206018s/tn1206018s_2.htm)

Finally, while the costs of social assistance (SA) programmes are generally afforded through general taxation, in the case of the second pillar, the unemployment assistance (UA), this can be funded in several ways; intervention by the state budget (as in Estonia, Finland, France, Malta, Sweden, UK), joint contribution also by employees and employers (as in Austria, Greece, Hungary, Ireland, Portugal), or a combination of the two (in Italy).

In conclusion, even from this quick overview it should be evident that the current characteristics of the unemployment regimes in the EU countries and Norway continue to be highly differentiated, notwithstanding some common trends towards improving the coverage of unemployment protection while somehow reducing its generosity as a result of the crisis, and a more general trend towards encouraging rapid re-entrance into the labour market.

### **3.2. Similarities in UI schemes in EU Member States**

A comparison of the UI schemes in EU countries brings out a striking contrast. Generally, the schemes share in common similar or same broad or structural features but differ greatly in details.

*Compulsory Participation:* With two notable exceptions, in the EU participation in UI is compulsory for all workers in full-time employment. As a result, in many EU member states a large majority of the labour force is covered by UI. The exceptions to compulsory participation in UI are Denmark, where participation is voluntary, and Luxembourg, where participation is not an issue because the Luxembourg UI scheme is entirely financed from general taxation. In Denmark, however, the percentage of the active labour force participating in the UI scheme is high because of two reasons, first, the 2/3rd of the total cost of the UI scheme is financed from general taxation and, second, relative to the low contribution rate the UI allowance is high. It can be as high as 90% of the wage in employment. However, rules concerning the participation of part-time employees, the self-employed and apprentice vary across countries. This section of the labour force is becoming important with a steady shift of employment away from full-time regular jobs to employment on short-term or informal contract with variable hours of work.

*Financing of UI:* Although employer and employee contributions for UI are a general norm in the EU member states, it is only in three countries that UI is entirely financed by contributions. These three exceptions are the Czech Republic, Hungary and Holland. In the rest of 24 out of 27 member states, the government makes a significant contribution towards the cost of UI, including family support, retraining and career guidance. Government contribution takes a variety of forms. The most common is that the government covers any deficit in the UI budget. Besides, the government may cover the cost of assistance to the unemployed who for a variety of reasons are not entitled to UI benefits. For example, in Germany the Federal and territorial governments jointly cover the cost of basic security

benefits for job seekers (Grundsicherung fuer Arbeitsuchende). Similarly, in the UK the government covers the cost of “job seekers’ allowance”.

Recent years have seen a trend towards an increase in the share of the cost financed by the government through general taxation. This has been especially true in countries with high rates of unemployment. Apart from the ones listed above, a common form of government contribution towards UI and the service for the unemployed is a reduced UI contribution rates for firms located in depressed regions and for particular category of the unemployed such as the long-term unemployed and older workers.

*Conditions for Receiving UI Benefit:* In all cases where UI is partially or totally financed by contribution, the receipt of UI allowance is conditional on the payment of contribution for a period prior to being unemployed. The exception is Luxembourg, which has an entirely tax-financed UI scheme. The participation record is just one of the numerous conditions. Among the rest, three are notable:

- Involuntary unemployment, i.e. not left the previous job voluntarily.
- Actively seeking employment and not engaged in paid work.
- Resident in the country in question.

In a number of EU member states, the second condition has in recent years been strengthened and made more demanding. The benefit recipients not only have to register as “job seekers” but they also have to formulate an individual action plan to find a job, which may include retraining. This action plan has to be formulated in consultation with a career adviser or employment counsellor and reviewed at intervals to check progress in implementing the plan. Further, the conditions under which a UI recipient may refuse to take up a job without losing entitlement to UI benefit have been made more restrictive.

Fraudulent claim for UI benefit while engaged in paid work is a perpetual problem confronting UI schemes. In all cases, a fraudulent claim is regarded as a serious violation and attracts a penalty. The usual forms of penalty include an immediate suspension of UI benefit and proceedings to recover fraudulently claimed benefit. The third condition is aimed at keeping fraudulent claim for UI benefit in check, because residence in a country other than where the claim is made would make policing particularly difficult. However, in all EU member state unemployment benefits are portable within the country<sup>201</sup>. Further, to facilitate the mobility of labour, the EU rules allow a migrant worker to claim UI benefit in the destination country on the strength of the record of contribution to UI scheme in the country of origin.

*Means Test:* None of the EU member states requires a means test as a condition for receiving UI benefit. Most of them have means-tested a social assistance scheme to provide a cash allowance to those whose per capita household income falls below a subsistence line. Such persons may include unemployed workers with an insufficient

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<sup>201</sup> See more detailed information in the chapter deals with the EU social security coordination.

contribution record or unemployed workers who have exhausted entitlement to UI benefit or members of UI benefit recipients' households. No means test for contributory UI schemes is an almost universal rule.<sup>202</sup> The general point is that because of various preconditions for receiving UI benefits, in most countries, including those with a high participation rate in the UI schemes, UI allowance is payable to only a small percentage of of the unemployed.

*Maximum Duration and adjustment of the UI allowance:* Except in the notable case of Belgium, all EU countries have a maximum period for the receipt of UI benefits. In most countries, the maximum duration is a period defined independently of the characteristics of benefit recipients.

However, in some countries, e.g. Spain, the maximum duration varies is longer for the long-term unemployed above the age of 45. In most EU countries, the UI allowance is adjusted to take account of the number of dependents in the claimant's household. In countries where UI allowance does not take into account family circumstances of recipients, the task of ensuring that household with unemployed workers do not slip into poverty falls to a social assistance scheme.<sup>203</sup>

#### 4. Open method of coordination

The Open method of coordination (OMC) rests on soft law mechanisms such as guidelines and indicators, benchmarking and sharing of best practice. This means that there are no official sanctions for laggards. Rather, the method's effectiveness relies on a form of peer pressure and naming and shaming, as no member state wants to be seen as the worst in a given policy area.

Generally, the OMC works in stages: First, the Council of Ministers agrees on (often very broad) policy goals. Second, Member states then transpose guidelines into national and regional policies. Third, specific benchmarks and indicators to measure best practice are agreed upon. Finally, results are monitored and evaluated. However, the OMC differs significantly across the various policy areas to which it has been applied: there may be shorter or longer reporting periods, guidelines may be set at EU or member state level and enforcement mechanisms may be harder or softer.

The OMC involves the following:

- Agreeing to common objectives and higher-level goals;
- Agreeing to a set of common indicators to ascertain progress towards the agreed goals and objectives;

<sup>202</sup> The notable exception is Australia, which requires a means test for receiving some contributory benefits.

<sup>203</sup> [http://www.eucss.org.cn/fileadmin/research\\_papers/policy/Unemployment\\_Insurance/research\\_papers/Unemployment\\_Insurance\\_Comparative\\_Perspective.pdf](http://www.eucss.org.cn/fileadmin/research_papers/policy/Unemployment_Insurance/research_papers/Unemployment_Insurance_Comparative_Perspective.pdf) (23.05.2011)

- Preparing a national strategic plan to meet the common objectives over a specified period;
- Jointly evaluating the implementation and outcome of the strategic plan with the European Commission and the Member States.

The analytical account of unemployment insurance schemes in various EU economies that follows is provided in terms of the following:

- Minimum period of contribution to qualify for unemployment insurance benefits (minimum affiliation)
- Maximum duration of unemployment insurance benefits (maximum duration)
- Contribution rate and unemployment insurance benefit scale

Generally, the OMC is more intergovernmental in nature than the traditional means of policy-making in the EU, the so-called community method. Because it is a decentralised approach through which agreed policies are largely implemented by the member states and supervised by the Council of the European Union, the involvement of the European Parliament and the European Court of Justice is very weak indeed. Formally, at least, the European Commission has primarily a monitoring role; in practice, however, there is considerable scope for it to help set the policy agenda and persuade reluctant Member States to implement agreed policies. Although the OMC was devised as a tool in policy areas which remain the responsibility of national governments (and where the EU itself has no, or few, legislative powers) it is sometimes seen as a way for the Commission to “get a foot in the door” of a national policy area.

The OMC was first applied in EU employment policy, as defined in the Amsterdam Treaty of 1997, although it was not called by this name at the time. It was officially named, defined and endorsed at the Lisbon Council for the realm of social policy. Since then it has been applied in the European Employment Strategy (EES), social inclusion, pensions, care, immigration, asylum, education and culture and research, and its use has also been suggested for health as well as environmental affairs. The OMC was also frequently debated in the European Convention.<sup>204</sup>

The European social dialogue is not institutionally integrated into the open method of coordination (OMC) on employment as enshrined in the TFEU (Articles 148 to 150) and implementing the European Employment Strategy (EES). The social partners are consulted on both the drafting of employment guidelines and on their annual assessment by the European Employment Committee, which is a committee composed of Member State representatives assisting the Commission and the Council in the OMC procedure. They are also involved through the Tripartite Social Summit which prepares the Spring European Council. In addition, Article 146 TFEU also states that in coordinating their national employment policies, Member States should have “regard to national practices related to the responsibilities of management and labour”.

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<sup>204</sup> <http://www.jrank.org/business/pages/1534/soft-law.html> (23.05. 2011)



Historically, the OMC can be seen as a reaction to the EU's economic integration in the 1990s. This process reduced the member states' options in the field of employment policy. But they were also weary of delegating more powers to the European institutions and thus designed the OMC as an alternative to the existing EU modes of governance.<sup>205</sup>

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<sup>205</sup><http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/OPENMETHODOFCOORDINATION.html> (23.05.2011)



## **Chapter 6**

### **Unemployment and self-employment**

#### **1. Definition of self-employment**

There are twofold relationship between self-employment and unemployment. *First*, self-employment is a possible solution in many countries for the problem of unemployment. *Second*, the situation when self-employed persons become unemployed (unemployment insurance for self-employed persons). Both segments are discussed in this book, but first the definition of self-employed/self-employment will be introduced briefly.

There are different understandings and definitions of the term of self-employment/self-employed across the European countries, with a number of different subcategories defined: for instance, according to the legal status of the enterprise, whether the business has employees or not (employers versus own-account workers) and/or the sector in which the business operates (e.g. agriculture). Some countries also make the distinction between self-employed status and the status of “dependent self-employed” (e.g. Spain, Italy), where the self-employed person works for only one client. Others distinguish self-employment which is carried out in addition to paid employment (e.g. Belgium). In the United Kingdom, there is a clear definition but there are also a number of different types of self-employment (see later). For example, according to the Bulgarian legislation the self-employed persons are: a) persons, registered as free-lance professionals and/ or craftsmen; b) sole entrepreneurs, proprietors and co-proprietors of companies; c) registered farmers and tobacco planters.

#### **Definition and types of self-employment in the United Kingdom**

There is a more sophisticated definition of self-employment in the United Kingdom. In the UK, in order to be legitimately considered self-employed, the following criteria must be fulfilled:

- a) the person must run their own business and take responsibility for its success or failure;
- b) they must have several customers at the same time;
- c) they can decide how, when and where to work;

- d) they are free to hire other people to do the work for them or help them at their own expense and
- e) they provide the main items of equipment to do the work.

Self-employment can take a number of legal forms in the United Kingdom, the three most common of which are as follows:

1. sole trader, where the self-employed person works on their own account;
2. partnership, where two or more persons are involved in the business;
3. limited company, where the company is registered and has at least one shareholder.

In addition, self-employed status can also be accommodated under the following arrangements:

- a) cooperative, where the business is collectively owned and controlled by the people who work in it and
- b) franchise, where the person(s) have a right to run a branch of a business that is owned elsewhere.

These different categories are important as they also have tax and national social insurance implications.<sup>206</sup>

According to the mainly accepted European context, self-employed person is defined as an independent worker, who works independently of an employer, in contrast with an employee, who is subordinate to and dependent on an employer. However, insofar as the concept of employee implies an element of economic dependence, in that employees are dependent for subsistence paid by the employer, self-employed workers may be little different, as no less dependent economically on their work for subsistence, though paid by their clients or customers.

The self-employed are generally recognised as being concentrated in a number of occupations: farmers, professionals, shopkeepers, helper-spouses and construction workers. There is thus a wide range of categories of self-employed persons, and there are significant differences among them; e.g. between liberal professionals, workers in hotels and restaurants, and female helper-spouses.

The diversity of self-employed persons has attracted diverse forms of regulation. In the EU, self-employed persons have been the subject of attention especially in the sphere of employment law, mainly in narrowly specific areas, such as free movement, equal treatment, and in the European Employment Strategy. The pillar on entrepreneurship of the European Employment Strategy aims to increase the numbers of self-employed

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<sup>206</sup>[http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche\\_rapporti/EEO\\_self\\_empl\\_October10.pdf](http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche_rapporti/EEO_self_empl_October10.pdf) (23.04.2011)

persons in the EU, particularly by encouraging the Member States to reduce tax and social security obstacles to this form of economic activity.<sup>207</sup>

According to the author's view self-employed person could be everybody who is not engaged in formal – either private or public – employment relationship and in civil law contract (e.g. mandate, etc.). Usually the definition and criterions of the formal employment relationship and work/activity under civil law contract is well known by lawyers. These are bilateral contract/obligations (employer – employee, mandatee – mandator, etc.). Hence, it is easier and more exact to define who are the persons involved in formal employment or civil law contract/relationship. And accordingly, everybody who is not engaged in organised working activity (employment or civil law contract) can be treated as a self-employed person.

According to the Commission's *Employment in Europe* report 2002, the share of self-employment in total employment has increased in many countries (e.g. in Sweden where it has almost doubled from 4.5% in 1980 to 8.9% in 2000) while in a few others it has actually decreased (e.g. in Greece, from 30.9% in 1980 to 25.9% in 2000).<sup>208</sup>

In many countries, there are concerns associated with the use of self-employment by employers to avoid making social security or tax contributions on wage costs. This is the case in Belgium, Cyprus, Czech Republic, Germany, Greece, Spain, France, Italy, Latvia, Malta, Netherlands, Austria, Poland, Portugal, Slovakia, the United Kingdom and Norway.<sup>209</sup>

## 2. Self-employment as a possible solution for unemployment

### 2.1. Legal and statistical background

Self-employment is an important driver of entrepreneurship and job creation and thus contributes to the European Union's goals of more growth and better jobs. Small and Medium-sized Enterprises (SMEs) make up 99% of companies in the EU and two thirds of total employment. Moreover, European level data indicate that the self-employment sector has shown a degree of resilience to the economic crisis, as the relative employment decline has been more moderate in comparison with paid work. The year 2009 proved to be a year of stabilisation for self-employment, with a fall in the number of self-employed of 1%, compared to a 2% drop in the number of dependent employees.

<sup>207</sup><http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/selfemployedperson.htm> (22.04.2011)

<sup>208</sup>[http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche\\_rapporti/EEO\\_self\\_empl\\_October10.pdf](http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche_rapporti/EEO_self_empl_October10.pdf) (23.04.2011)

<sup>209</sup>[http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche\\_rapporti/EEO\\_self\\_empl\\_October10.pdf](http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche_rapporti/EEO_self_empl_October10.pdf)

In recent years, a number of European policies and programmes have been put in place to support self-employment and SMEs. In 2000, the European Charter for Small Enterprises,<sup>210</sup> a self-commitment from the Member States to improve the business environment for small enterprises, was approved by EU leaders at the Feira European Council on 19 and 20 June. Later, in 2005,<sup>211</sup> addressing the needs of SMEs was identified as a way of achieving the Lisbon strategy for growth and jobs, in the communication on Modern SME policy for growth and employment. The Small Business Act for Europe (SBA), adopted in 2008, provides a policy framework for SMEs and is based around 10 key principles to guide the conception and implementation of policies both at EU and Member State level. In 2009, the European SME Week<sup>212</sup> was launched, which aims in part to promote entrepreneurship so that “more people, especially younger people, seriously consider becoming an entrepreneur as a career option”. There are also several specific initiatives to promote self-employment among women, who are identified as a key target group in the SBA, due to the current gender imbalance among the self-employed.

In response to the economic crisis, the European Investment Bank (EIB) stepped up its lending capacity in favour of SMEs in 2009 as part of the European Economic Recovery Plan<sup>213</sup> and a “European Progress Microfinance Facility”<sup>214</sup> which has recently been approved will make it easier for people who have lost or risk losing their jobs to get credit to start-up small businesses.

Most recently, the June 2010 Directive on self-employed workers and assisting spouses<sup>215</sup> gives better social protection to the self-employed, including the right to maternity leave for the first time. The new rules will also serve to promote entrepreneurship in general and among women in particular. There is currently a major gender gap in this area – only 30% of entrepreneurs in Europe are women.<sup>216</sup>

There were 32.5 million self-employed, including employers, in the EU-27 in 2009, accounting for nearly 15% of total employment (more than one job in seven). Until 2008, self-employment (the total number of self-employed) was on the increase, due to, inter alia, new communication technologies and more favourable business conditions for the services sector. However, the EU’s average self-employment rates (a comparison

<sup>210</sup> <http://ec.europa.eu/enterprise/policies/sme/best-practices/charter/> (15.05.2011)

<sup>211</sup> [http://www.europarl.europa.eu/summits/fei1\\_en.htm](http://www.europarl.europa.eu/summits/fei1_en.htm) (15.05.2011)

<sup>212</sup> [http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/sme-week/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/sme-week/index_en.htm) (15.05.2011)

<sup>213</sup> [http://ec.europa.eu/economy\\_finance/publications/publication13504\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf) (15.05.2011)

<sup>214</sup> <http://ec.europa.eu/social/main.jsp?langId=en&catId=836> (15.05.2011)

<sup>215</sup> The Directive on self-employed workers and assisting spouses (Directive 2010/41/EU) repeals and replaces an earlier law (Directive 86/613/EEC) and improves the social protection rights of millions of women in the labour market, boosting female entrepreneurship.

<sup>216</sup> <http://www.eubusiness.com/news-eu/self-employed-benefits.706/> (17.05.2011)

of self-employment figures to total employment) declined almost continuously from 15.8% in 2000 to 14.8% in 2008.

Self-employment is dominant in the southern Member States of the EU, which have stronger agricultural sectors. In Bulgaria, Cyprus, Greece, Italy and Portugal for instance, self-employment is more prevalent than in the EU-27, reaching 30% of total employment in the case of Greece. This is also the case in Romania. Regional differences can also be identified in Italy, where self-employment is more widespread in the southern regions, where labour market conditions are worse and self-entrepreneurship represents a way out of unemployment.

In fact, agriculture is a key sector for self-employment in Europe. Nearly 19% of the self-employed work in agriculture, followed by 17.5% in wholesale and retail trade, 13.6% in construction and nearly 10% in professional, scientific and technical activities (2008 figures).

In France too, agriculture is important but self-employment is also notable in construction, local services, or the liberal professions. In contrast, the vast proportion of the self-employed in Germany work in the services sector; while in Slovakia, the dominant group among self-employed persons is tradesmen (operating based on a trade license) with a share of almost 95% of the total number of entrepreneurs. In Luxembourg the majority (45%) of self-employed workers carry out liberal professions, followed by agriculture (26%) then commercial activities (19%).

EU-level data show that the typical self-employed person in Europe is male (69.6% in 2009) and falls within the higher age groups (37.5% are aged over 50). The majority of national articles observe the prevalence of older men in the self-employment sector. The gender imbalance is particularly notable in Ireland and Malta, for example, where 81 and 82% of the self-employed respectively are male, a share considerably higher than that of the general working population.

It is also observed (e.g. Czech Republic, Germany, Luxembourg, Netherlands, Austria, Finland, Sweden, and Croatia) that the self-employed are more likely to work for longer (in Germany, beyond the age of 60, for instance) than paid employees.<sup>217</sup>

*False or clandestine work and self-employment activity* is a very important problem. There are some countries, where the “false employment” and clandestine work appear. During the EU enlargement period, a number of migrant workers were registered as a quasi self-employed person. For example, the *Norwegian* trade union Fellesforbundet successfully challenged the self-employment status of 19 Polish construction workers

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[http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche\\_rapporti/EEO\\_self\\_empl\\_October10.pdf](http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche_rapporti/EEO_self_empl_October10.pdf)  
(21.05.2011)

who were actually working as regular employees. In **Austria**, new Member State nationals working on construction sites opt for self-employed status to circumvent the temporary arrangement restricting the free movement of labour.<sup>218</sup>

*Reasons for moving into self-employment: opportunity versus necessity.* According to the Flash Eurobarometer No 283 “Entrepreneurship in the EU and beyond”,<sup>219</sup> 55% of respondents who had started up a business or were currently taking steps to start one, stated that they were doing so because they saw an opportunity and 28% were doing so out of necessity. Thus, in addition to the prospects of a higher income, greater flexibility and other reasons for moving into self-employment, the question of “opportunity versus necessity” is important. Recent trends also suggest that among those who take up self-employment out of necessity, there may be an element of pressure from their employer to do so (this phenomenon is referred to in various ways across the national articles, from “false” or “forced”, to “pseudo” or “bogus” self-employment).

Respondents to the Eurobarometer survey in Denmark and the Netherlands were the most likely to say they had started or were starting a business because they had seen an opportunity (81 and 78%, respectively) while in Estonia, Bulgaria and Greece, less than 4 in 10 responded in that way (36–39%).

For example, in the Czech Republic and Hungary, there is a semilegal use of (trade-licensed) self-employment as a flexible alternative to regular salaried employment — the so-called *Švarc* system. Under this scheme, a regular employment relationship is replaced with. Named after an employer who first started using it, but phonetically identical to Schwarz, i.e. “black” system.<sup>220</sup>

## 2.2. Countries’ practice to encourage unemployed persons via self-employment

Many of the countries promote self-employment as a route out of unemployment. Some more country-based examples are described below.

There are several initiatives in **Austria** to assist the unemployed into self-employment. The key measure is the *Unternehmensgründungsprogramm* (UGP) (business start-up programme).<sup>221</sup> The programme comprises business advice and counselling from external business consultants, training programmes and, under certain conditions, financial support to cover the costs of living.

<sup>218</sup> [http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche\\_rapporti/EEO\\_self\\_empl\\_October10.pdf](http://www.lex.unict.it/eurolabour/documentazione/altridoc/ricerche_rapporti/EEO_self_empl_October10.pdf)

<sup>219</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/eurobarometer/fl283\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/eurobarometer/fl283_en.pdf) (15.05.2011)

<sup>220</sup> <http://www.fucik.cz/en/professional-articles/14/svarc-system-%E2%80%93-development-after-a-half-year-of-functioning-of-the-new-legal-regulation/#.UWHWJTe2brQ> (17.05.2011)

<sup>221</sup> <http://www.startupoverseas.co.uk/starting-a-business-in-austria> (16.05.2011)



Complementary to the business start-up programme is a micro-credit pilot which is to support the foundation process with access to finance. There is also a subsidy for Sole Trader Businesses (STBs) that are willing to hire an employee. STBs which hire a registered unemployed person or a person in vocational training or a university graduate up to a maximum age of 30, receive a subsidy from the Public Employment Service Austria (AMS). The subsidy, which makes up a quarter of the gross wage, is granted for up to one year.

The **Austrian** Business start-up programme (UGP) has shown a continuous increase in the number of participants. While in 2001 about 3 500 unemployed people entered the programme, the number of participants reached 8 500 in the year 2009. This is the opposite trend to a general decline in business foundation in Austria. Nevertheless, self-employment cannot be seen as a general alternative to unemployment, as only 3% of the unemployed participated in the programme. About three out of four participants set up their own businesses and five years after start-up, 73% of all business founders were still running their own businesses and 6% were also in other forms of employment.

In **Belgium**, there are a number of measures to enable unemployed people to become self-employed. Measures include training courses, a preparatory support period, and a start-up loan. In addition, to help the self-employed cope with the difficulties caused by the economic crisis, the Belgian Government has adopted two measures in favour of self-employed workers whose circumstances have greatly deteriorated owing to the crisis. One of these extends the deadline for applying for social insurance payments in the event of bankruptcy from three to six months. The other enables self-employed people in difficulty to receive an allowance for six months. Moreover, fully self-employed persons who experience cashflow problems as a result of the economic crisis may, before the end of 2010, request a deferral of the payment of their social security contributions.

A business start-up subsidy has been provided to the unemployed in **Estonia** since 1991. During 2010, the amount of start-up subsidy has been increased up to approximately EUR 4,500, offered as a lump sum allowance with no requirement for financing by the unemployed person. This increase has helped to raise interest in, and take up of, the measure. In addition to financial assistance, some supporting measures are provided, including entrepreneurship training for people who have no prior economic training or who have no experience with entrepreneurship, counselling upon applying for the start-up subsidy as well as after receiving the support, mentoring for those who have already started their business, etc.

The introduction of the new “auto-entrepreneur” status in **France** has helped a large number of people to increase their income through self-employment activities. It was conceived to help employees, students and retired people to build their income through establishing a small activity. Registrations reached 452 700 in April 2010. Half of the

new business start-ups in 2009 selected the new status and one third of “auto-entrepreneurs” were unemployed prior to registration. However, only 40% of the auto-entrepreneurs declared a positive turnover by 2009 and average monthly income is only EUR 775. The NACRE (New Accompaniment for Business Creation and Restart) initiative has also been successful in helping 7,000 previously unemployed people to start a new business and, as a result of all measures to support the unemployed into self-employment, 115,000 businesses were started in France in 2009 by previously unemployed people, representing a total of 40% of the new businesses in 2009.

In **France**, the new “auto-entrepreneur” status has been abused by some employers so that they can pay less tax for employees who are pushed into accepting the new status. In different Member States, including the Netherlands and Belgium, there is “false self-employment”, referring to supposedly self-employed workers whose status (self-employed or employees) is unclear. In theory, they are self-employed (the employer only pays a lump sum of which the worker has to pay his own insurance and other expenses), but, in practice, there is no difference between them and any other employee doing the same work. A judge may then rule that the self-employed worker is in fact an employee and should enjoy the protection offered by labour and social security law. Cases of false self-employment may also appear when foreign workers undertake assignments for only one employer. There are, however, little data on the number of false self-employed in the different Member States.

In **Germany**, for example, measures to support people into self-employment have seen a steady decrease in people being successfully assisted over the period between 2004 and 2009, reducing from around 350,000 to 150,000. However, in 2009, the Business foundation allowance assisted 137,000 people, the highest level in recent years. Total expenditure on measures by the Federal Agency of Labour totalled EUR 1.64 billion in 2009. The Start-up grant was most successful in 2004 with 168,000 people assisted into self-employment, and the Transition allowance, likewise, assisted 183,000 people. The business survival rate after two and half years for these two schemes was 67% for women and 68% for men.

Many of those called an “entrepreneur” in **Hungary** today are self-employed out of need and not because of the desire for innovation. Although recent systematic analysis is missing, it appears that self-employment is partly an alternative to unemployment but also a means of minimising tax payments.

In **Iceland**, the Directorate of Labour offers various labour market measures that are intended to activate the unemployed, one of which is the development of a business idea. To qualify, the individual in question must be entitled to unemployment benefits and have been registered unemployed for at least a month. Further, they must demonstrate that they possess the necessary knowledge about establishing and operating a business. Jobseekers developing business plans may receive basic unemployment benefits for up to six months.

In **Ireland**, the Back to Work Enterprise Allowance<sup>222</sup> is designed to encourage disadvantaged groups to take up self-employment opportunities. There are two measures offering financial incentives to the unemployed to start a business in Ireland. The Back to Work Enterprise Allowance (BTWEA) is designed to encourage the long-term unemployed (i.e. those unemployed for at least one year) and other specified welfare beneficiaries (including those receiving One-parent Family Payment, Disability Allowance, Blind Person's Pension, Carer's Allowance, Farm Assist, etc.) to take up self-employment opportunities by allowing them to retain a reducing proportion of their social welfare payment (and secondary benefits) for a fixed period.

A beneficiary can retain 100% of the unemployment payment in the first year and 50% in the second. To qualify, applicants must be setting up a self-employment business, the plan for which must be approved by a departmental jobs facilitator. BTWEA beneficiaries can also obtain financial support, through the Jobs Facilitator, from a Departmental Technical Assistance and Training Fund (TAT).<sup>223</sup> This assistance can offset some of the costs associated with starting a business such as training, handling accounts, mentoring and public liability insurance (for which there is a specific grant).

The Short-Term Enterprise Allowance (STEA)<sup>224</sup> has also been recently introduced by the DSP as an incentive for the unemployed. It is similar to the BTWEA but is restricted to those who are contributors to PRSI, the State Social Insurance system. The short-term enterprise allowance (which is not conditional on unemployment duration) is paid for a maximum of one year and ends when entitlement to jobseeker's benefit ends (i.e. at either 9 or 12 months). As with the BTEA, applicants must first obtain approval for their self-employment business plan from a jobs facilitator, and they are entitled to seek further financial support from the TAT Fund as described above.

While the BTWEA measure was originally introduced as part of a larger scheme in 1999 (the Back to Work Allowance (BTWA)), it was reorganised in April 2009 as part of the government package of "Measures to aid recovery". This involved refocusing the supports entirely on the promoting enterprise (i.e. self-employment); the employee strand of the measure was at that point closed to new applicants and the measure was renamed as indicated. The number of participants currently being supported by the two schemes is about 8 900, of which 7 500 are in the BTWEA. This compares with a total of nearly 8 200 in the corresponding measures prior to the 2009 reorganisation, bearing in mind that the latter total included some 3 600 who were being supported as paid employees. The change, therefore, gave rise to a notable increase in support for self-employment.

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<sup>222</sup> [http://www.welfare.ie/EN/OperationalGuidelines/pages/btw\\_eall.aspx](http://www.welfare.ie/EN/OperationalGuidelines/pages/btw_eall.aspx) (16.05.2011)

<sup>223</sup> [http://www.welfare.ie/EN/OperationalGuidelines/pages/btw\\_eall.aspx](http://www.welfare.ie/EN/OperationalGuidelines/pages/btw_eall.aspx) (16.05.2011)

<sup>224</sup> [http://www.welfare.ie/EN/OperationalGuidelines/Pages/btw\\_stea.aspx](http://www.welfare.ie/EN/OperationalGuidelines/Pages/btw_stea.aspx) (16.05.2011)

In **Latvia**, there is a measure targeted at those unemployed people who already have some sort of business related education, professional or higher education, or some other formal or informal educational courses in those subjects. Its purpose is to develop entrepreneurship and, thereby, actually create new jobs for the unemployed. Within the context of the programme, consultations (a total of 20 over three months) and advice are offered to programme participants as they develop their own business plans. These are evaluated afterwards and each business plan that is approved and chosen to be implemented receives start-up financing of up to LVL 4,000 (EUR 5,645 in 2009), coupled with a stipend to the entrepreneur equal to the minimum wage for the first three months of implementation.

In **Luxembourg**, jobseekers receive financial support to set up or take over a company if they design a realistic company business plan. The scheme is open to jobseekers who have received unemployment benefits for at least six months (at least three months for jobseekers over 40).

In the **Netherlands**, there are a number of arrangements that support self-employment as an alternative to unemployment or inactivity. This includes the assessment of business plans by a so-called *Werkbedrijf* (work-coach), the payment of unemployment benefits in advance as a start-up business loan, or payment of lower unemployment benefits instead of a start-up business loan.

In **Portugal**, several surveys indicate that the degree of involuntary self-employment is small. A recent study by the Business Creation Observatory shows that new firms are usually created by former salaried workers or by individuals who had previously been employers, while the unemployed represented just 13% of the overall number of self-employed. The 2004 Global Entrepreneurship Monitor (GEM)<sup>225</sup> findings point in the same direction, whereby, according to their data, 75% of Portuguese entrepreneurs are opportunity-driven and not necessity-driven, data which are confirmed by the Eurobarometer survey.

In **Romania**, figures show that the number of individuals registering as self-employed in activities other than agriculture increased from 208,000 in 2006 to around 260,000 in 2008, as a result of both fiscal incentives, as well as the provisions of the new Labour Code, enacted in 2003.

In **Serbia**, since 2007 the National Employment Service checks the survival rate of start-up grant beneficiaries' businesses six months after the expiration of their contractual obligation to remain self-employed and it is always above 80%. Three years after the contractual obligation expired it was over 50%.

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<sup>225</sup> [http://www.gemconsortium.org/about.aspx?page=pub\\_gem\\_global\\_reports](http://www.gemconsortium.org/about.aspx?page=pub_gem_global_reports) (16.05.2011)

In **Slovakia**, the new Employment Services Act in 2004 introduced a financial contribution for jobseekers to become self-employed and a parallel contribution for disabled persons. This measure proved to be particularly successful in attracting vulnerable groups, mainly the long-term unemployed, and is considered by government to be the most efficient PES tool for new job creation. The two contributions have supported the creation of 65,000 jobs since 2004, which is more than half of all self-employment jobs started in the given time. Post-programme employment is one of the highest in the PES scheme and reached approximately 50% in the given period.

In **Slovenia**, many enterprises, especially in construction, transport, cleaning and courier services tried to reduce costs and become more competitive by forcing their own workers to become self-employed (even helping them by loans) and contracting out some of their activities.

Organisations lowered their costs by maintaining the competition among self-employed providers, but with the economic crisis and the solvency problems of many organisations, the status of many self-employed contractors worsened considerably.

In the **United Kingdom**, there have been few specific labour market measures providing direct encouragement to self-employment. The small number that have been introduced have tended to be geared to the unemployed and form part of general programmes aimed at helping people to get back into the labour market. The current support measures are New Deal Plus and Flexible New Deal<sup>226</sup> where the unemployed aged over 50 who have been claiming the Jobseeker's Allowance (JSA) for at least 12 months can get help to become self-employed in the form of advice and guidance and some financial assistance, mainly in the form of the government self-employment credit. This credit is aimed at helping the newly self-employed when they have been used to receiving JSA. It is available at around GBP 50 (EUR 59 in 2009) per week provided that the activity of self-employment lasts at least 16 hours per week and this is backed up with advice and guidance in the first few months of going solo.

The self-employment programme in the **former Yugoslav Republic of Macedonia** aims to reduce poverty and unemployment. It provides two days of basic business training to interested jobseekers. The participants with the strongest business ideas receive 13 hours of business planning consultancy to work on preparing a sound business plan. Those participants with the most potential then receive a grant for equipment and materials and do not have to pay statutory employment and social contributions for the first three months of the company's operations.<sup>227</sup>

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<sup>226</sup> [http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG\\_180442](http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_180442) (15.05.2011)

<sup>227</sup> The Former Yugoslav Republic of Macedonia: Employment Generation for the Socially Excluded and Women, United Nations Development Programme, United Nations Capital Development Fund, 2010, p. 1. [www.content.undp.org/go/cms-service/download/asset](http://www.content.undp.org/go/cms-service/download/asset) (22.05.2011)

### **3. Unemployment benefit for self-employed persons**

#### **3.1. Unemployment insurance for self-employed: cross-cutting introduction**

The self-employed persons are protected against periods of unemployment in some countries (e.g. Denmark, Hungary, Spain, Sweden and Iceland), although this is sometimes on a voluntary basis (Austria).

Those who loose employment or who are unable to secure employment will be entitled to support via either unemployment assistance or unemployment insurance. These arrangements are more long-standing in economies that are industrial in character and where a relatively small proportion of the population are engaged in self-supporting rural or agricultural activities.

Entitlement to the former will usually be based upon citizenship, a test of means and assets and increasingly linked to a willingness to engage in a set of prescribed activation (job search) measures. Entitlement to unemployment insurance will be based upon a history of insurance contribution (for a prescribed period), will be restricted to employees and will not include the self-employed for whom unemployment is regarded as a non-insurable risk. Receipt of insurance based compensation will be time-limited and is usually paid not at a flat-rate but as a proportion of previous earnings (within and certainly below fixed limits). Some schemes are restricted to specific categories of workers (such as those working in agriculture, shipping or railways) and others are generic, available to all employees.

Even for the employed worker, the circumstances leading to becoming unemployed can be significant; for example, voluntary resignation rather than redundancy may be grounds for disbaring entitlement to benefit. Dismissal from employment on grounds of misconduct (but this is often difficult to define) may also result in disqualification from benefit. It is usual for entitlement to be accompanied by a requirement to “signon” or report to a labour exchange or to a jobs office and to agree to engage in job search activity or to undertake vocational training. There have always been conditions attached to the receipt of unemployment benefit (being “capable, willing and available”) but in recent years there has been widespread and enhanced commitment to the inclusion of “activation measures” which require the claimant to undertake a range of tasks to increase the chance of securing employment. Failure to engage satisfactorily with the activation measures results in being disbarred from benefit. Receipt of contributions based benefits is usually time limited.

For receipt of assistance based benefits are usually more stringent and normally include the application of a residence test, a (family or household) means test and the requirement for a waiting period before benefit can be paid.

In many countries there is a *de facto* overlap between unemployment compensation, early retirement opportunity and invalidity benefits. Such schemes can ease the transition to retirement, can create opportunities for younger unemployed people or can simply appear to reduce the number of individuals appearing to be unemployed and claiming benefit. Similarly, redundancy payments (lump sum compensation for loss of employment and usually related to previous earnings and length of service) is sometimes regarded as being quite separate from unemployment benefit and sometimes is treated as income *in lieu* of benefit.<sup>228</sup>

### 3.2. Unemployment insurance for self-employed persons in European states

**Austria** used to have a comprehensive special scheme both for farmers and for craftsmen and retailers until 31 December 2004. On 1 January 2009 the new scheme for voluntary unemployment insurance entered into force. Self-employed persons can choose to be insured against unemployment or not and thereby further improve their social protection. Self-employed keep their entitlement to unemployment benefit, which they earned previously as non self-employed, for the duration of their self-employed activity, even without being member to a voluntary unemployment insurance, i.e. for free. That was already the case so far.

The following groups of self-employed persons are eligible for voluntary unemployment insurance: self-employed, who are covered for old-age in accordance with the Act on Social Insurance for Persons engaged in Commercial Activities (*Gewerbliches Sozialversicherungsgesetz (GSVG)*) or in accordance with the Act on Social Insurance for Self-Employed (*Freiberufliches Sozialversicherungsgesetz (FSVG)*), as well as self-employed lawyers and civil engineers. No possibility for membership to the voluntary unemployment insurance exists for persons having reached the age of 60 or the age for early retirement or if an old-age pension or an old-age benefit has already been granted. The entitlement to benefits corresponds to that for compulsorily insured persons.

In **Belgium** a special system covers *all self-employed persons* against all traditional risks, with the exception of employment injuries, occupational diseases and unemployment, and also provides for national insurance in case of bankruptcy.

In **Cyprus** there is a General Social Insurance Scheme which covers every person gainfully occupied either as an employed or a self-employed person. Persons who are working in their own business or are working in any occupation for their own account e.g. agriculturist, stock farmer, industrialist, shopkeeper etc. are compulsorily insured under the Social Insurance Scheme as self-employed persons. However, the self-employed are not covered for Unemployment benefit

<sup>228</sup> <http://ec.europa.eu/social/main.jsp?catId=815&langId=en> (14.05.2011)

The **Czech** social security system is in principle uniform for employees and the self-employed. The foundations of the current insurance system applicable to the self-employed were laid in 1990 by adopting the definition of the self-employed (until then, a special category incorporated farmers, people providing services under a special licence issued by local governments, and artists) and the payment of the premium (for social security and the state employment policy) by the self-employed (until then, only farmers paid premiums). Special rules are applicable for the self-employed concerning the assessment base for the social security premium and the state employment policy contribution.

However, the self-employed persons are divided into two groups: 1) “*full time*” *self-employed* and 2) “*part time*” *self-employed* (since 1 January 2004). “Part-time” self-employed person works at the same time as a self-employed and an employee (earning at least minimum wage) or it is a self-employed person receiving invalidity or old-age pension. The other self-employed are “full time” self-employed.

The self-employed are also protected in case of unemployment.

In **Denmark** the social protection system is based on the principle of national insurance. Persons covered are not defined according to their social situation and the general system does not operate on the principle of distinction between the employed and the self-employed. Consequently, self-employed persons receive the social protection of the general system.

In **Estonia**, self-employed persons are not covered by the unemployment insurance scheme (neither on compulsory base nor may they join the scheme voluntarily). In respect of unemployment, the self-employed are however covered by the non-contributory State unemployment allowance scheme. The other non-contributory schemes are also universal and cover all residents.

In **Finland** the self-employed are covered by the same social security schemes based on residence as employed persons and any other person residing permanently in Finland. They are entitled to health care, benefits for sickness and maternity, family benefits, basic unemployment benefits and national pension (old age, invalidity and survivors' pensions) under the same conditions as all residents. Self-employed persons are covered by the Self-employed Persons' Pensions Act (YEL), farmers are covered by the Farmers' Pensions Act (MYEL). Special rules apply to employment accident insurance and earnings-related unemployment benefits.

In **Germany** there are special provisions for self-employed craftsmen and retailers within the scope of the general system, and there are independent social security systems for farmers (including assisting family members), self-employed artists and publicists and the special schemes for the members of the professions, which have the right to form associations.



Persons who have been compulsorily insured against unemployment as employees for at least 12 months during the 24 months preceding the self-employed activity or persons who have received unemployment allowances during this period, may benefit from optional continued insurance, on request to the Federal Employment Agency.<sup>229</sup>

In **Greece** there exists a strictly contributory basic system for farmers (OGA) since 1 January 1998. Self-employed persons (craftsmen, retailers, professional motorists, hotel owners and others) are insured with the Social Security Organisation for the Self-Employed (OAEE, *ΟΡΓΑΝΙΣΜΟΣ ΑΣΦΑΛΙΣΗΣ ΕΛΕΥΘΕΡΩΝ ΕΠΑΓΓΕΛΜΑΤΙΩΝ*). Members of the liberal professions (medical personnel, doctors, pharmacists, engineers, lawyers, notaries etc.) are insured with the Insurance Fund for Independent Professionals (ETAA, *ΕΝΙΑΙΟ ΤΑΜΕΙΟ ΑΝΕΞΑΡΤΗΤΑ ΑΠΑΣΧΟΛΟΥΜΕΝΩΝ*). However, they are not covered by unemployment insurance system.

In **Hungary**, in principle all self-employed persons are covered for all the branches of social security in the general system, consisting of health and sickness schemes (covering health care, sickness, maternity and the specific treatment of work incapacity related to an employment injury or a professional disease) and pension scheme (covering old-age, survivorship, invalidity and the specific treatment for employment injuries or professional diseases) and a mandatory unemployment insurance.

In **Iceland** the system of social protection is founded fundamentally upon the principle of national insurance. The general system therefore does not make any distinction between employees and self-employed. Self-employed persons are thus covered by the social protection of the general system.

**Ireland.** There is no protection system for the self-employed. Share-fishermen who pay optional contributions are covered for cash benefits for unemployment (payable for a limited duration of 13 weeks in any one year).

**Italy.** Generally speaking, no social protection system exists for the unemployed self-employed person.

In **Liechtenstein**, no independent special system for the self-employed has been set up. According to the insurance branch, self-employed persons may either be insured on a voluntary basis or are subject to compulsory insurance on account of their place of residence or economic activity in Liechtenstein.

In **Luxembourg**, social protection of the self-employed is regulated under the general system, but with certain particular features which take account of the specific situation of the self-employed. Social protection covers all risks; this includes unemployment for

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<sup>229</sup> Bundesagentur für Arbeit.

the self-employed who had to cease their occupation and who are looking for a salaried job.

Self-employed agricultural entrepreneurs have to pay all the contributions on the basis of the national minimum wage, except if their annual turnover did not exceed HUF 8 million (EUR 29,646) in the preceding year.

The Social protection system in **Malta** is a general scheme that covers both employed and self-employed persons. Self-employed persons are eligible to all benefits, pensions and allowances with the exception of unemployment benefit. In such a scenario however, a self-employed person is entitled to social assistance if he/she satisfies the capital/income means test.

The general protection system applies as a rule to all residents of the **Netherlands**, therefore, there are only few special regulations for self-employed persons.

In **Norway**, all categories of self-employed are compulsory members of the general scheme of universal coverage. Some special and more favourable provisions apply to fishermen, entitling them to benefits very similar to those of employed persons. They also enjoy a lower rate of member's contributions compared to other self-employed persons. This lower rate of contributions also applies to farmers, and is the same as that paid by employees.

**Poland.** The Law of 13 October 1998 on the system of social insurance (*Ustawa o systemie ubezpieczeń społecznych*) reshaped the social security landscape. From 1 January 1999 onwards the self-employed persons who perform non-agricultural activities and their co-operating persons are part of the general social insurance system. In case of unemployment the same rules are applied as for the employed persons.

In **Portugal**, all self-employed persons are compulsorily covered by the social protection system (general system of social security for self-employed persons). However, there is no unemployment protection system exists for the self-employed.

**Romania** has opted for the incorporation of self-employed in the existing universal or general social protection schemes. Commonly, social insurance schemes have self-employed specific rules with regard to coverage, financing and impact of non-compliance, whereas they enclose similar rules for self-employed and other groups of population with regard to covered risks and benefits. There is only voluntary unemployment insurance for self-employed.

In **Slovakia**, the protection of the self-employed in the areas of benefits-in-kind for sickness and maternity, as well as benefits-in-cash for sickness, maternity, invalidity, old-age, survivors, unemployment and family benefits is achieved within the general system.

**Slovenia.** Self-employed: those engaged in an independent gainful activity as their sole and principal occupation (as independent contractors, craftsmen or private traders, persons engaged in artistic or other cultural activity, an activity in the field of media, in the field of health care or social security, persons engaged in clerical or any other religious office, have their own private practice as lawyers or notaries public or persons engaged in any other activity permitted by law) and thereby generate income equal to at least the minimum salary.

**Spain** has a special scheme (R.E.T.A.) for the self-employed in crafts and commerce. The special scheme for maritime workers comprises also self-employed workers. Since 1 January 2008, the special scheme (R.E.A.) for self-employed agricultural workers has been incorporated into the R.E.T.A., in a Special System. No provisions for unemployment insurance exist under the Special System.

In **Sweden** the social protection system is fundamentally founded on the principle of national insurance. The group of people protected is thus not defined according to a certain social status, and no distinction is made between employees and the self-employed. Self-employed persons have the option of joining the unemployment insurance fund responsible for their occupational branch and consequently acquire entitlement to the basic amount and the income-related benefit.

In **Switzerland**, there is no special unemployment scheme for the self-employed. They are insured for all risks either on a compulsory basis (due to their domicile or gainful employment in Switzerland) or may be insured on a voluntary basis. Only unemployment insurance excludes them.

A self-employed person is unemployed if the profit from his/her activity has not exceeded the amount of the minimum salary compensation, or if a person is an owner or co-owner of companies, whose profit in the last calendar year prior to occurrence of unemployment, reduced by payment of compulsory social security contributions, has not exceeded the amount of the minimum salary compensation.

Self-employed may be engaged in voluntary insurance for the case of unemployment. They are therefore entitled to unemployment financial benefits, reimbursement of transport and relocation costs, the right to health care and the right to pension and disability insurance.

Contribution rate for unemployment for the self-employed is 0.20% gross wage (0.14% as employees and 0.06% as employers).

In the **United Kingdom** the general protection system basically includes the self-employed. For individual regulations, special requirements apply for the self-employed; but there are no further distinctions made within the group of self-employed persons itself. No protection system exists for self-employed persons. If they become

unemployed, they can claim income-based Jobseeker's Allowance (which is means-tested).<sup>230</sup> See Table 9 in Appendix.

### **3.3. Unemployment benefit or early retirement option for self-employed: the Danish case**

Here we shall deal with the retirement transitions of the self-employed and self-employment transitions around retirement age. One of the most striking example is Denmark. Denmark is one of the very few countries where both wage earners and self-employed workers can choose to become members of UI funds, which cover income loss during unemployment. In addition, being enrolled in a UI fund opens up the possibility of participating in an Early Retirement (ER) program.

As OECD countries face the distributional, productive and labour market consequences of their aging societies, and retirement systems are being increasingly financially strained, policy makers are interested in understanding alternative ways and means to alleviate the mounting pressure. This is particularly true for countries that are aging rapidly (Western and Southern Europe and Japan), that rely predominantly on pay-as-you-go finance (everywhere, albeit less so in Switzerland and the Netherlands), and where extensive early retirement programs exist that provide strong incentives to leave the labour market at a comparatively early age (in particular Denmark and the Netherlands).

In this context, self-employment receives increasing attention due to primarily two reasons. First of all, the self-employed tend to work longer, both in terms of hours per week as in terms of years before final labour force withdrawal. Secondly, the self-employed may act as employment multipliers by providing work opportunities for themselves and others. Many countries have indeed sought to stimulate start-up activities by the unemployed so as to create alternative options outside wage employment that may not be available (be it for institutional reasons or otherwise). Why exactly the self-employed choose to work longer years than comparable employees is not quite clear a priori, and retirement behavior of the self-employed is little understood. There may be institutional reasons, for instance lower eligibility for early retirement or other provisions of the social security system and the welfare state (including health insurance), it may have to do with the distribution of income shocks over the life cycle that causes some of the self-employed to work longer than initially planned, or it may ultimately simply be due to preferences (taste for work or independence). Conversely, however, self-employment may be taken as a convenient alternative route for gradual labour force withdrawal for otherwise wage employed persons whose preferences for

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<sup>230</sup> European Employment Observatory Review, Self-employment in Europe, Publication Office of the European Union, 2010 ISSN 1725-5376 pages 6-8

hours worked and date of retirement do not concur with actual employment possibilities.

Second, it is used a unique institutional features of the Danish labour market in order to understand labour market transitions of the self-employed. Danes can make a couple of choices not available to other nations, and the choice set has been subject to exogenous variation: every Danish citizen may decide whether or not to insure him/herself against the risk of income loss during unemployment, and this choice is open to both wage earners and self-employed workers. Integrated into the unemployment insurance system (which is otherwise de-coupled from social security institutions) is an optional early retirement program that allows eligible workers to leave the labour force seven years before standard retirement age.<sup>231</sup> This program is likewise open to the self-employed.<sup>232</sup>

Denmark is one of the very few countries in the world where unemployment insurance is voluntary and organized around about 35 private, industry/occupation-specific unemployment insurance funds. A typical UI fund will be a not-for-profit organization without selection restrictions for applying members. UI Funds receive substantial subsidies from the government and cover a large majority of workers.<sup>233</sup> Workers can receive up to 90% (subject to a ceiling) of previous earnings for extended periods of time (this used to be 3 years during the 1990s but has been reduced to one year by, followed by an extended period of what might be called workfare).

Quite unique as well to Denmark is the fact that the self-employed may insure themselves against the risk of “unemployment”, which includes, but is not restricted to termination of the business due to negative earnings or de-facto bankruptcy/insolvency.<sup>234</sup> Typically, UI fund members working full time will have to insure themselves as on full time basis, part time workers can choose full time or part time equivalence insurance. Self-employed workers, however, may not choose their insurance cover (always full time). Individuals wishing to draw UI benefits will have to have been member of a UI fund for at least one year and be able to show that they have been working accordingly (typically half a year during the last 12 months preceding application). For the self-employed, instead, the rules specify to have been running the business for the last three years and to have terminated (or suspended) the business (by means of transferring property rights, closing shop, or long-term lease) prior to applying for benefits.

<sup>231</sup> The rules have been changed in 1999.

<sup>232</sup> <http://www.pse.ens.fr/rtn/1807.pdf> (10.04.2011)

<sup>233</sup> Parsons, Donald, Torben Tranæs, and Helene Lilleør, (2003), *Voluntary public unemployment insurance* Copenhagen: Social Forskningsinstitutet.  
([http://www.sps.ed.ac.uk/\\_data/assets/pdf\\_file/0017/23138/JSPGhent08.pdf](http://www.sps.ed.ac.uk/_data/assets/pdf_file/0017/23138/JSPGhent08.pdf)) (24.05.2011)

<sup>234</sup> Schoukens, Paul, (2000), “Comparison of the Social Security Law for Self-Employed Persons in the Member-States of the European Union”, in Danny Pieters (ed.), *Changing Work Patterns and Social Security*, London: Kluwer Law International, pages 63-98.

The Danish old-age retirement pension is compulsory and foresees in retirement from age 67 onward. Integrated in the UI fund system, however, is an early retirement option open to UI fund members, allowing retirement at a reduced pension from age 60 onwards. Access to the ER system is possible irrespective of whether an individual is a wage earner or self-employed. The latter have to sell their business before they can claim benefits. UI fund members aged 60 and older used to qualify if they had been enrolled in the UI system for the last 10 years, typically leading to a spike in the enrollment hazard at age 50, both for wage earners and even more so for 2 The retirement age has been lowered to 65 as of July 2004, a step whose revocation is now being discussed.

Due to its generosity, ER became a very popular exit route from the labour force, but caused financial strain to the system and hampered productivity growth. The most important reform during the early 1990s concerned an important policy shift in 1992 that required continued membership of at least 20 years before retirement, implying the latest age for joining a UI fund decreased to 40. Individuals aged between 40 and 50 in 1992 were required to join the UI fund in 1992 and stay members until 60 if they were to collect early retirement benefits. For reference, we shall denote members of the cohort unaffected by the 1992 reform as being subject to the 10-year-membership rule, while those who are falling entirely under the new regime as being subject to the 20-year rule.

Only in 1999 the ER system was substantially overhauled, focusing in particular on more flexibility in terms of retirement age and possibilities to continue paid work while receiving ER benefits. The reform also removed the tight link between UI fund membership and ER eligibility by making ER eligibility depend on a special contribution to the ER system independent of UI fund membership dues. (Beskæftigelsesministeriet, 2001, 2005).<sup>235</sup>

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<sup>235</sup> <http://www.pse.ens.fr/rtn/1807.pdf>

## **Chapter 7**

# **Migration and unemployment**

### **1. Introduction**

#### **1.1. Background of international/cross border migration**

Migrant labourers and overseas contract workers were at the forefront of massive retrenchments and, as a result, remittances fell sharply in some of the world most remittance-dependent economies.

Large waves of returnees were reported, while other unemployed migrant workers stayed on in their host countries, competing for scarce jobs, and likely fueling social tensions in the process. Unfortunately, the majority of overseas workers fall outside formal unemployment insurance systems.

In host countries around the world, there are typically no mechanisms for guest workers to pay into an unemployment insurance system. Nor are migrant workers covered by unemployment insurance systems in their countries of origin. At the same time, a large fraction of migrant workers are undocumented workers and would not be covered by any social insurance system in the first place. Some unemployed workers with adequate savings may have fared well, but for most workers, the consequences of the crisis have likely been borne fully by them and by their households. There is an exception for legal migrants in EU for both European Economic Area (EEA) and third country nationals within the framework of social security coordination (see below).

In the recent post-crisis environment, host countries and countries of origin have an opportunity to consider how best to provide safety nets for their overseas workers. As the global economy recovers, unemployed migrant workers will likely find new jobs and those who returned to their home countries will likely be redeployed.<sup>236</sup>

International labour migration tends to benefit primarily the migrants themselves, who can often multiply their labour incomes, to a lesser extent their home countries (mostly

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<sup>236</sup> <http://www.global-economic-symposium.org/solutions/the-global-society/providing-portable-unemployment-insurance-to-overseas-workers> (11.05.2011)

through remittances) and the host countries' resident population. However, it is host countries' voters who have the largest say on how much regular migration is permitted and how extensively irregular migration is repressed. Therefore, a two-pronged approach is needed to design politically feasible immigration policies that seek to enhance global welfare by permitting more migration:

- 1) immigration and redistribution policies should be calibrated so that overall economic benefits for the host country are maximized and more evenly distributed;
- 2) immigration policies should also respond to considerations beyond narrow economic benefits such as concern for the welfare of individuals in lower-income countries – similar to development assistance by high-income countries – or equity concerns: Individuals should not be discriminated against based on nationality, any more than based on gender, skin color, or handicap.<sup>237</sup>

## 1.2. Demographic differences will increase pressures for migration

In the course of the next 40 to 45 years, the world population will go through significant shifts, which will affect growth and welfare prospects in all regions. The population will grow by some 2.6 billion people to reach 9 billion by 2050. At the same time, declining fertility and increasing longevity are contributing to an aging population worldwide. As a result, the population over 40 years old stands to increase by as much as 2 billion people – or by 75 per cent – and the share of people 65 and older will more than double. These prospects could pose serious risks to economic growth, fiscal balances, and the welfare of the elderly.

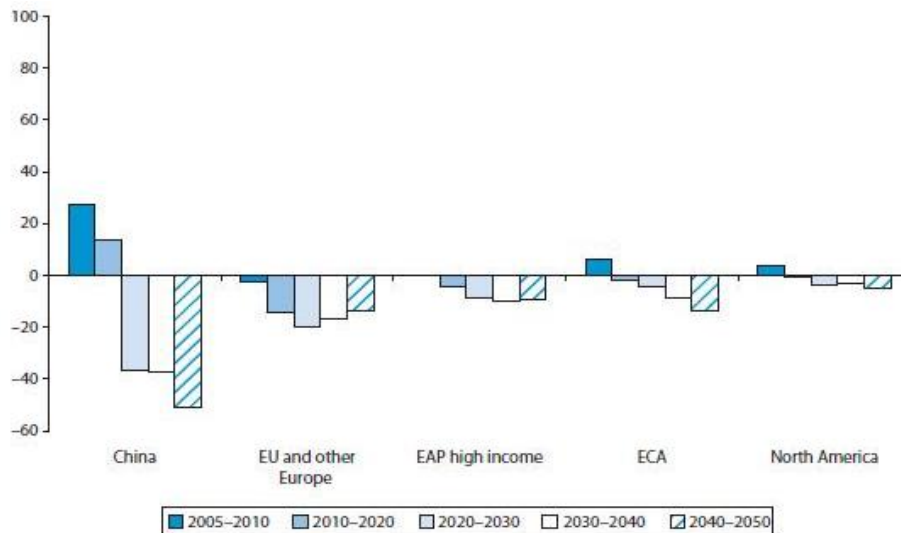
The dynamics vary significantly by region, with some regions, notably Europe, facing the prospects of a rapid decline in population and labour force, even if drastic policy measures are put in place. The European Union alone would experience a loss of 66 million workers; a decline of almost one-third, and by 2050, there will be about two retirees per every one active person. Without heroic assumptions about labour productivity growth, a reasonable level of aggregate income growth cannot be sustained unless migrants are allowed to replace the retiring workforce.

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<sup>237</sup> Matthias Lücke, Toman Omar Mahmoud, (2011), *Making Migration Work after the Crisis – Solutions* <http://www.global-economic-symposium.org/solutions/the-global-society/preparing-for-environmental-migration/strategy/perspectivefolder/making-migration-work-after-the-crisis-solutions> (20.05.2011)



**Figure 1.**  
**Change in Total Labour Force for Deficit Regions, by Decade**  
 (millions, zero-migration variant, 2005-50)



Source: Koetti in background papers

Other and generally poorer regions would have migrant labour to offer. For various reasons, potential migrants are likely to be young workers; that is, members of the labour force ages 15 to 39, and may represent 570 million additional workers by 2050. This group will be the largest in countries in Sub-Saharan Africa (SSA), followed by South Asia (SA), and Middle East and North Africa (MENA).

To meet the challenge of an aging and shrinking labour force, while maintaining living standards and international competitiveness, deficit regions, including European countries, need to adopt a comprehensive approach. This approach should aim to increase labour force employment rates (through, for example, increasing retirement ages and women's participation rates) and boost productivity (through innovation). Domestic labour market reforms will not be sufficient to close the labour force gap, however, and such reforms also carry political costs. Under current migration policies and with the broad economic and political parameters unchanged, only a small fraction of the labour deficit would be filled by other regions with surplus labour. It is predictable that international migration will be unavoidable in Europe.<sup>238</sup>

<sup>238</sup> Shaping the Future: A Long-Term Perspective of People and Job Mobility for the Middle East and North Africa, [http://siteresources.worldbank.org/INTMENA/Resources/Shaping\\_Future\\_Overview-ENG.pdf](http://siteresources.worldbank.org/INTMENA/Resources/Shaping_Future_Overview-ENG.pdf) (23 May 2011)

### **1.3. Labour shortages are likely to occur in occupations across the skills spectrum**

Labour migration involves and will continue to involve different skill levels. Labour shortages in some areas, such as health care professionals at various skill levels, are already significant. Short- and long-term projections both point to the fact that labour shortages will grow in many rich countries, and that these labour shortages will occur across the skills spectrum, with significant demand for mid level skills (such as nurses, intermediate business services) or even relatively low-level skills (retail sales persons, waiters, and so on). Migrants with vocational, secondary levels of education and linguistic proficiency conceivably could fill these gaps.

Countries are increasingly aware of the need to attract talent at the high-skilled level, but policies and instruments to promote mid level skills are not as high on the policy agenda. Employers will continue to hunt globally for the best talent. Scientists and academics already move in a global labour market, as do business executives. Many European countries now focus on how to adapt migration policies to catch up with traditional immigration countries, like Australia, Canada, and the United States, to attract a more skilled workforce. Commensurate initiatives are not available, however, to explore how to prepare and organize the recruitment of mid-level skills and provide the necessary training. Yet mid-level skills not only are in high demand, but also are likely to constitute the bulk of future labour shortages if no action is taken.<sup>239</sup>

## **2. Bilateral agreements between sending and host countries**

In the absence of a multilateral policy framework for international labour migration, many high-emigration countries are now negotiating bilateral agreements with host countries. These should be used to expand migration opportunities, particularly for those potential migrants who cannot benefit from the privileged arrangements that exist in many host countries for high-skilled immigrants. At the same time, bilateral agreements should establish labour standards and certification for intermediaries to protect migrants from exploitation.

In many countries, legal and illegal immigration occur in a largely unplanned fashion and therefore generate erratic incentives. Policies are difficult to reform because large parts of the electorate fail to acknowledge the reality of widespread immigration. Host countries need to have a full and honest debate about how many immigrants to admit, whether and how to select them, and how to integrate them socially and economically. This debate can be helped by systematic benchmarking of good practices in national

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<sup>239</sup> Shaping the Future: A Long-Term Perspective of People and Job Mobility for the Middle East and North Africa, [http://siteresources.worldbank.org/INTMENA/Resources/Shaping\\_Future\\_Overview-ENG.pdf](http://siteresources.worldbank.org/INTMENA/Resources/Shaping_Future_Overview-ENG.pdf) (23 May 2011)

immigration policies. Existing efforts such as the Migrant Policy Integration Index<sup>240</sup> are helpful but could usefully be extended to more non-European countries and to policies on irregular migration.

Private firms are already facilitating the movement of large numbers of workers across borders, through all steps from selection in the home country through visa and travel arrangements to job placement in the host country. When migrants go through these steps without support by trustworthy parties, a significant risk of exploitation or worse may result.<sup>241</sup>

### **3. Coordination of social security schemes in the European Union: unemployment benefits**

According to the latest Eurobarometer figures, one out of ten Europeans say they have lived and worked in another country (inside or outside the EU) at some point in the past, three per cent have lived in another country but did not work there, and one per cent worked in another country before but did not live there. An estimated 11.3 million EU citizens, or 2.3% of the overall EU population, live in a different Member State to their birthplace. More than 750,000 people cross a border every day for work. Recent figures show that around 187 million (37%) Europeans currently hold a European Health Insurance Card which allows access to healthcare during temporary stays in Europe. For all these EU citizens, potentially confronted with a mosaic of 31 different national social security systems, coordination is an issue.<sup>242</sup>

To make life easier for the millions of EU citizens on the move, and allow them to preserve their rights on unemployment benefits, child care benefits, health care or pensions when moving within Europe, a new system of modernised coordination came into force this summer (May 2010) to speed up the exchange of social security information. EU Citizens will benefit from a reduction of the number of papers (formerly E-forms, and SED<sup>243</sup> documents in the near future) issued and the reduction of time taken to process the calculation and payment of benefits. Electronic data exchange is used to confirm periods of employment or periods of insurance.<sup>244</sup>

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<sup>240</sup> [www.integrationindex.eu](http://www.integrationindex.eu)

<sup>241</sup> <http://www.global-economic-symposium.org/solutions/the-global-society/preparing-for-environmental-migration/strategy/perspectivefolder/gesolutions-2009-making-migration-work-after-the-crisis> (21.05.2011)

<sup>242</sup> The information of social security coordination sub-chapter is mainly based on two sources: a) <http://www.welfare.ie/EN/Policy/EU/Euguide/Documents/Part8.pdf> (12.04.2011) and b) <http://www.tress-network.org>. (20.05.2011.)

<sup>243</sup> Structured Electronic Documents

<sup>244</sup> <http://www.tress-network.org> (12.03.2013.)

### 3.1. The role of the social security coordination system in EU

The EU rules on social security coordination do not create any new entitlements to social security for EU and EEA citizens, but guarantee that rights in the area of sickness insurance, pensions, unemployment and family benefits are preserved for people moving within Europe (27 EU member states and Iceland, Liechtenstein, Norway and Switzerland). Each country is entirely free to determine its own social security system: this results in a mosaic of systems each with their own very different rules. Social security coordination works as a bridge between the national social security systems: the objective is that citizens do not lose out as a result of their choice to live or work in another country.<sup>245</sup>

### 3.2. Coordination of unemployment benefits

Most claims for unemployment benefit can be dealt with under national legislation. However, in some cases, particularly in the case of EEA migrant workers, it will be necessary to invoke the EU Regulations. The relevant provisions are set out in Chapter 6 of Title III of Regulation 883/04 (Articles 61 to 65) and Chapter V of Title III of the Implementing Regulation 987/09 (Articles 54 to 57).

Within the topic of the EU social security coordination will shall deal with the following issues:

1. Aggregation of periods of insurance<sup>246</sup> completed in another EEA Member State.
2. Calculation of Jobseekers Benefit, including increases for family members.
3. Export of Jobseekers Benefit from competent Member State to another EEA Member State.
4. Jobseekers Benefit for frontier workers
5. Jobseekers Benefit for workers other than frontier workers<sup>247</sup> who do not reside in the State of employment.

#### 3.2.1. Aggregation of periods

The general rules for determining the legislation applicable in relation to unemployment benefit are determined by Article 11 of Regulation 883/04. Under these provisions the

<sup>245</sup> <http://www.borderpeople.info/eu-coordination-rules> (04.03.2011)

<sup>246</sup> In relation to unemployment benefits, “period of insurance” refers not only to periods in which contributions to an unemployment insurance scheme were paid but also to periods of employment considered by the legislation under which they were completed as equivalent to periods of insurance – Case 388/87 – Warmerdam-Steggerda

<sup>247</sup> A “frontier worker” is defined by Article 1(f) of Regulation 883/04 as “any person pursuing an activity as an employed or self-employed person in a Member State and who resides in another Member State to which he returns as a rule daily or at least once a week”.

applicable legislation will usually be the legislation of the State of last employment. In other words, a claim for unemployment benefit can generally only be made in the State in which the unemployed person was last employed. Certain exceptions do exist. One of the significant innovations of the new Regulations to introduce the SEDs and later the EESSI (Electronic Exchange of Social Security Information).<sup>248</sup> It is used between the relevant Member States to certify the legislation a worker is subject to.

The Regulation provides that where a claim for unemployment benefit is made in the competent state, and where that state makes entitlement to benefits conditional on completion of periods of insurance or employment, then account can be taken, to the extent necessary, of periods of insurance or employment<sup>249</sup> completed in another Member State.

The above rule is subject to the condition that any period of employment from another EEA State which is being aggregated must count as a period of insurance had it been completed under the legislation of the competent state.<sup>250</sup> This means that where a person worked in another EEA State, but was not insured for unemployment benefit, that period of insurance can only be aggregated by competent state if it would have counted as a period reckonable for Jobseekers Benefit had it been completed in the competent state.

However, the European Court of Justice has ruled that the above condition will not apply when the employment in another EEA State is reckonable for unemployment benefit in that state, even if those periods of insurance would not be reckonable in the competent EEA State.<sup>251</sup> The result of this appears to be to put the customer in the most favourable position as regards enabling receipt of unemployment benefits.

### 3.2.2. Calculation of benefit

EU rules lay down that where the legislation of an EEA State provides that the calculation of unemployment benefits is based on average earnings, average contributions or standard earnings, such average earnings, contributions or standard earnings shall be determined exclusively by reference to earnings, contributions or the standard earnings of contributions or periods completed under the legislation of the competent state.<sup>252</sup>

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<sup>248</sup> <http://ec.europa.eu/social/main.jsp?catId=869> (11.03.2013)

<sup>249</sup> The term “period of employment” covers only periods of work which, according to the legislation under which they were completed, are not regarded as periods conferring entitlement to affiliation to a scheme providing unemployment benefits – Case 388/87 – Warmerdam-Steggerda

<sup>250</sup> Regulation EEC 883/04, Art 61 (1) 6

<sup>251</sup> See ECJ Case 126/77 Frangiamore

<sup>252</sup> Regulation (EEC) 883/04, Art 62 (1)

Where the amount of cash benefits varies with the number of members of the family of the person concerned, account must be taken of the members of the family who are resident in the territory of another EEA State as if they were resident in the competent state. The only exception to this rule is if the members of the family living in the other EEA State are being taken into account for similar calculation of benefits for family members in their state of residence<sup>253</sup>.

Equally, if the spouse/partner of the claimant has earnings in another EEA State in excess of the prescribed limit the qualified adult increase is not payable and any increase in respect of qualified child/ren will be paid at half-rate.

National rules providing for disallowance of payment of increase in respect of a qualified adult while absent from the state should not be applied.

### *3.2.3. Export of unemployment benefits – unemployed person going to a Member State other than the competent state (Article 64)*

Under Article 64 of the Regulation, a wholly unemployed person who qualifies for unemployment benefits in an EEA State is allowed to retain his/her entitlement to such benefits should he/she go to one or more other EEA States to seek employment. Where Article 64 applies, the benefits continue to be paid directly by the institution of the EEA State where the beneficiary was last employed or subject to its legislation.

*Conditions and Limits for Retention of the Right to Benefits.* Previously, under EC Regulation 1408/71, a person was only permitted to export their claim once between two periods of employment. The introduction of EC Regulation 883/04 now means that this entitlement is available several times between two periods of employment as long as the wholly unemployed person respects the overall maximum period of three (or six, if extended by the competent institution) months, and is subject to the following conditions:<sup>254</sup>

a) Before going to another EEA State, the unemployed person must have been registered as a person seeking work and been available to the competent state's employment services for work for at least four weeks after becoming unemployed. The competent services or institutions may allow the unemployed person to depart before the end of this four-week period.

b) The unemployed person must register as a person seeking work with the employment services of the host state (that to which he/she travels) within seven days of the date when he/she ceased to be available to the employment services of the state from which he/she came, that is, the competent state. This seven-day period may be extended in exceptional circumstances by the competent services or institutions.

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<sup>253</sup> Regulation (EEC) 883/04, Art 5

<sup>254</sup> Regulation 883/04, Article 64

c) Unemployment benefits can be retained for a period not exceeding three-months (can be extended to six months in exceptional circumstances) from the date the unemployed person ceased to be available to the employment services of the EEA State he/she left – the competent state – provided that this is within the period granted for receipt of such benefits as established under the legislation of that competent state.

d) If the unemployed person returns to the competent state within this designated period he/she shall continue to be entitled to benefits under the legislation of that state. This designated period can be extended by the competent services or institutions in exceptional cases.<sup>255</sup>

***Discretionary powers afforded the competent state, institutions or services***

(a) Article 64 (1) provides that the competent institutions or services may decide to reduce the period and, in exceptional cases, extend the period. There is no specific Court ruling to guide deciding officers in this, but reference to the Court's findings in the case *Coccioli*<sup>256</sup> may be of use insofar as it states that competent institutions and services are free to take into consideration all factors that they consider relevant.

(b) Article 64 (2) states that the competent institutions or services may, in exceptional cases, extend the period. In deciding whether to grant exception to the rules of Article 64, again reference to the Court's findings in the *Coccioli* case may be of use to the deciding officer. The Court interpreted Article 64 (2) in a way that provides broad discretion to the institutions or services of the competent state. As mentioned above, it concluded that competent institutions and services are free to take into consideration all factors that they consider relevant.

(c) Competent services or institutions of the EEA States are afforded wide discretion in determining whether to extend the period laid down under Article 64 (2) of the Regulation. In exercising that discretion they must take account of the general principle of proportionality enshrined in Community law. Consequently, in each case the competent services or institutions must consider the extent to which the period in question has been exceeded, the reason for this and the seriousness of the legal consequences arising from this delay.

***Administration of export of unemployment benefit***

Unlike under EC Regulation 1408/71, the new EC Regulations mean that the competent state shall now pay the recipient directly, in accordance with its own legislation, and at its own expense.<sup>257</sup>

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<sup>255</sup> Court of Justice 28 April 1988, Case 192/87 Vanhaeren, [1988] ECR 2411

<sup>256</sup> Court of Justice 20 March 1979, Case 139/78 Coccioli, [1979] ECR 991

<sup>257</sup> Art 64 (1)(d) of EC Regulation 883/04

(a) In some Member States (e.g. Ireland) internal Guidelines state that in order to transfer jobseekers benefit/unemployment benefit abroad an unemployed person must inform her/his local office at least four weeks in advance so that the necessary arrangements may be made before he/she leaves. It should be noted that although such pre-warning is desirable it is not mandatory under the terms of the Regulation and cannot therefore be used as a reason to deny transfer of Jobseekers Benefit/Unemployment Benefit.

(b) The institution of the competent state must ensure that the unemployed person seeking to export their benefit is made aware of his/her obligations under the Regulations, e.g. need for statement certifying that they retain entitlement to benefits under Article 64 of 883/04, time limits, etc.

(c) An unemployed person seeking to transfer his/her Jobseekers Benefit to another EEA State should apply to his/her local office for a certified statement for presentation to the institution of the host state. This certificate must include the following details:

ca) the date on which the unemployed person ceased to be available to the employment services of the competent state,

cb) the time limit within which the recipient must register as a person seeking work in the host state. This is typically seven days but may be extended in exceptional circumstances;

cc) the maximum time limit within which the recipient must return to the competent state to ensure retention of his/her right to benefit. This is typically no more than 78 days (or three calendar months) but can be extended in exceptional circumstances; and

cd) any facts that may alter the recipient's right to benefit.

(d) Should the unemployed person fail to apply for a certified statement prior to travelling to another EEA State or fail to submit it to the institution of that state, the institution of the host state shall obtain the certified statement from the competent institution.

(e) The institution of the host state is required to inform the competent institution of the date the recipient registered in that country

(f) The host state must afford the recipient the same treatment it affords its own unemployed workers claiming unemployment benefit. In other words, it should carry out the same checks as would be carried out on a domestic claimant and inform the competent institution of any facts that may alter the right to benefit of the recipient.



(g) Should any facts emerge which demand the termination or suspension of the right to benefit, the circumstances should be communicated to the competent institution who will decide whether payments should be stopped immediately.

#### *3.2.4. Unemployment benefit for persons who live in one state and work in another*

The Unemployment Chapter of the Coordination Regulation contains special provisions for *unemployed persons who resided in a Member State other than the competent state*. This section has only one article: Article 65, which contains provisions that diverge from the general rule under which it is the responsibility of the competent state to pay social security benefits.<sup>258</sup>

The determining factor for the application of this article is the residence of the person concerned in an EEA State other than that to whose legislation he/she was subject during his/her last employment. Article 65 distinguishes between:

1. A frontier worker and an employed person other than a frontier worker; and
2. A frontier worker who is partially or intermittently unemployed and a frontier worker who is wholly unemployed.

Article 65 (1) provides that: A frontier worker who is partially or intermittently unemployed shall make themselves available to his/her employer or to the employment services in the competent Member State, and shall receive unemployment benefits from the competent state (i.e. the state of employment) as if he/she resided there.

Article 65 (2) provides that: A frontier worker who is wholly unemployed shall make themselves available to the employment services in the Member State of residence, and shall receive benefits from the state of residence.

Without prejudice to their right to export unemployment benefits under Article 64, a frontier worker may, as a supplementary step in attempting to gain employment, make him/herself available to the employment services of the Member State in which he/she was last employed or self-employed. However, the fact that a person makes themselves available to the employment services of the state of last employment has no impact on their entitlement to unemployment payments which will remain the responsibility of the state of residence.

an employed person other than a frontier worker who does not return to his/her Member State of residence, shall make him/herself available to the employment services in the Member State to whose legislation he/she was last subject.

The underlying intention of Article 65 is to guarantee unemployment benefits to the migrant worker under the most favourable conditions for seeking employment.

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<sup>258</sup> Court of Justice 20 March 1979, Case 139/78 Coccioni, [1979] ECR 991

### ***The definition of frontier worker***

A frontier worker is defined in Article 1 (f) as “any person pursuing an activity as an employed or self-employed person in a Member State and who resides in another Member State to which he returns as a rule daily or at least once a week”.<sup>259</sup>

It is for the competent institution to decide on whether a person comes within the definition of a “frontier worker”. However, the requirement that the frontier worker travel to the state of residence at least once a week should be strictly applied.<sup>260</sup>

However, even if an employed person meets the definition given above, there may be circumstances in which such a person would not be considered a “frontier worker”. This would only arise in very exceptional circumstances and might involve a person who satisfies the criteria (i.e., travels between the states of residence and employment at least once a week) but who has maintained such personal or professional links with the state of employment so as to give him/her a better chance of finding employment in that state than in the state of residence.<sup>261</sup>

### **3.3. Wholly and partially or intermittently unemployed**

The provisions on unemployment benefits for frontier workers are contained in Article 65. This article draws a distinction between a *wholly unemployed* frontier worker and a *partially or intermittently unemployed* frontier worker.

In general, a *wholly unemployed* frontier worker is one whose employment relationship has been broken or has expired, who is looking for new employment and who no longer has any link with the competent state (state of last employment), although they have the right, as a supplementary step, to also make themselves available to the employment services of the state of last employment.<sup>262</sup> They will continue to receive unemployment benefits from the state of residence.

On the other hand, if there is still an employment link with the state of employment, such as part-time work, then that person will be considered to be *partially or intermittently unemployed* for purposes of the Regulation.

The European Court of Justice has ruled that in order to determine whether a frontier worker is to be regarded as *partially unemployed* or *wholly unemployed* uniform EU

<sup>259</sup> Article 1 (f) Regulation 883/04

<sup>260</sup> ECJ Case 236/87 Bergemann

<sup>261</sup> ECJ Case 1/85 Miethe

<sup>262</sup> The regulation contains no definition of wholly, partially or intermittently unemployed. This interpretation draws on the both opinion of the Advocate General and the judgement of the Court in the de Latt case, C-444-98.

criteria must be applied. Such an assessment may not be made on the basis of criteria from national law.<sup>263</sup>

The EU criteria adopted provides<sup>264</sup>:

- a) Determination of the nature of unemployment (whole or partial) depends on whether or not any contractual link exists or is maintained, and not on the duration of any temporary suspension of the worker's activity.
- b) If the worker's activity is merely suspended the person should be regarded as partially unemployed.
- c) In the absence of any contractual link, if the person no longer has any link with the state of last employment, the person should be regarded as wholly unemployed and benefits should be provided by the state of residence at its own expense.

It is for the competent institution to decide, having regard to the above criteria, which of the above categories an employed person falls into when deciding on entitlement to unemployment benefit.

### 3.4. Wholly unemployed frontier workers

An exception to the general rule that unemployment benefit should be claimed in the state of employment is made for a wholly unemployed frontier worker who, instead, shall receive unemployment benefits in accordance with the legislation of the state of residence, as if that worker had been subject to the legislation of that state while lastly employed. These benefits shall be paid by the institution of the place of residence according to its own rules and conditions and at its own expense, meaning there will be no reimbursement from the state of employment.<sup>265</sup> Moreover, there is no choice in this for the unemployed person; the state of residence is the competent state and a claim for unemployment benefit cannot be made in the state of employment.<sup>266</sup> As already stated, the unemployed person has the option, as a supplementary step, to make themselves available to the employment services of the state of last employment, but the state of residence remains the competent state.

However, if a wholly unemployed frontier worker, who is in receipt of unemployment benefit from the state of residence, decides to transfer his/her residence to the state of last employment, then competency for unemployment benefits will also transfer to that state<sup>267</sup>. In such a case, Article 64 would not apply (i.e. the state of former residence

<sup>263</sup> ECJ Case C-444/98 de Laat

<sup>264</sup> See Decision U3 of the Administrative Commission

<sup>265</sup> Article 65 (5)(a) Regulation 883/04

<sup>266</sup> See ECJ Case 1/85 Miethe

<sup>267</sup> ECJ Case 131/95 Huijbrechts – ECJ ruled that Article 71(1)(a)(ii) of EC regulation 1408/71, as replaced by Article 65 of 883/04, which provides that State of Residence is competent, is a “legal fiction” which suspends, but does not extinguish, the competency of the State of Employment. Where the unemployed person then

would not “export” its unemployment benefit for 3 months) but instead entitlement in that state would cease.

### **3.5. Partially or intermittently unemployed frontier workers**

A partially or intermittently unemployed worker shall receive benefits from the state of employment.<sup>268</sup> The benefits will be provided by the competent institution according to its rules and conditions, and at its own expense.<sup>269</sup> The unemployed person will not be able to claim benefits from the state of residence while he/she is receiving benefits from the competent state.

### **3.6. Unemployment benefit for workers other than frontier workers who do not reside in the state of employment**

The provisions on unemployment benefits for workers other than frontier workers are contained in Article 65 (2), (3), (5)(b). These Articles provide that a wholly, or partially or intermittently unemployed person, other than a frontier worker, has a choice between the unemployment benefits of the state of last employment and those of the state of residence.

Such a person, who does not return to his/her Member State of residence, is entitled to unemployment benefits from the state of last employment, providing they make themselves available to the employment services of that state. However, a wholly unemployed person, other than a frontier worker, may choose to claim unemployment benefits from the state of residence. These rules are set out in more detail in the following paragraphs.

#### *3.6.1. Determining the state of residence*

For the purposes of this section, the state of residence means the state in which the employed person, although employed in a different state, is habitually resident, or where he/she has his/her habitual centre of interests.<sup>270</sup> In determining habitual residence, a deciding officer must take account of a range of factors e.g. how long the person lived in the state of residence before moving to the state of employment, the expected duration and type of employment relationship, the intentions of the employed person.

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moves residence to the State of employment, this derogation ceases to apply and the principle of competency for the State of Employment is reinstated.

<sup>268</sup> Article 65 (1) Regulation 883/04

<sup>269</sup> Article 65 (5)(a) Regulation 883/04

<sup>270</sup> Article 10, Regulation 883/04

The factors listed above are not exhaustive and the overall judgement will depend on the EEA State to which the employed person has the strongest ties, and where he/she will find it easier to find employment. However, the concept of residency should be defined relatively strictly, and simply because an employed person's family reside in another EEA State should not be taken as a factor which automatically qualifies the person to be regarded as residing in a state other than the state of employment.

### *3.6.2. Benefits from the competent state*

A partially, intermittently or wholly unemployed person who does not live in the state of employment, and who is not a frontier worker<sup>271</sup>, shall receive benefits from the competent state provided that the unemployed person does not return home and makes him/herself available to the employment services of that state<sup>272</sup>. He/she will not be able to claim benefits from the state of residence while he/she is receiving benefits from the competent state<sup>273</sup>.

### *3.6.3. Right to choose between states of residence and employment*

In certain very specific circumstances, a wholly unemployed person, who is not a frontier worker, can claim benefits in the competent state, or can choose to return to the state of residence after becoming unemployed and claim unemployment benefits there. In such a case, the requirement that the person has completed a period of insurance will not apply and the state of residence will provide unemployment benefits according to its legislation and at its own expense.

The people to whom this provision applies are those who resided during their last professional activity in a Member State other than the competent state. The particular categories involved are set out in Decision U2 of the Administrative Commission and include:

- a) The persons referred to in Article 11(4) of Regulation 883/2004. This refers to seafarers employed or self employed on board a vessel flying the flag of a Member State.
- b) The persons referred to in Article 13 of Regulation 883/2004 which include employed and self-employed people pursuing activities in two or more Member States.
- c) Persons to whom an agreement as referred to in Article 16 (1) of Regulation 883/2004 applies. This is where two or more Member States have, by common agreement, provided for exceptions to the standard rules on applicable legislation.

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<sup>271</sup> For example, one who does not return to the State of residence at least once a week. This could include seasonal workers, or those who return less frequently, e.g., once a month. It would also include workers who temporarily move to another MS to work, but who maintain their centre of interests in the State of Residence.

<sup>272</sup> Article 65 (2), Regulation 883/04

<sup>273</sup> Article 10 Regulation 883/04

Persons referred to above who, during their last professional activity, were subject to the legislation of a Member State other than the state of the place of activity as an employed or self-employed person, shall be eligible for benefits under the provisions of the legislation of the state of residence, as if they had previously been subject to that legislation.

#### *3.6.4. Claiming benefits in competent state before returning to state of residence*

If a wholly unemployed worker claims unemployment benefit in the competent state before returning to the state of residence, then he/she will receive benefits under Article 64 from the competent state, and should not claim benefits from the state of residence until his/her entitlement under Article 64 has expired. The person will be subject to the normal rules contained in an Article 64 procedure, e.g. that the unemployed person register with the employment services of the destination state. After the expiry of the three month period under Article 64, unless this period is extended by the competent state up to a maximum of six months, the unemployed person can claim benefit under the legislation of the state of residence, and the requirement that he have completed a period of insurance in that state will not apply.

#### *3.6.5. Reimbursement of benefits*

The benefits provided by the institution of the place of residence in accordance with Article 65 (5) shall continue to be at its own expense. However, the competent institution of the Member State to whose legislation the person was last subject shall reimburse to the institution of the place of residence the full amount of the benefits provided by the latter institution during the first three months. The amount of the reimbursement during this period may not be higher than the amount payable, in the case of unemployment, under the legislation of the competent Member State. The period of reimbursement is extended to five months where the person has, during the preceding 24 months has complete periods of employment or self employment of at least 12 months in the Member State to whose legislation he was last subject. In the case of a person who first received benefits under the legislation of the competent state before returning home, the period during which benefits were provided under Article 64 shall be deducted.

#### *3.6.6. Bergemann ruling<sup>274</sup>*

In the *Bergemann* case, The European Court of Justice (ECJ) considered the entitlement of a wholly unemployed person who was not a frontier worker to unemployment benefit from the state of residence, who for family reasons moved residence to an EEA State other than the state of last employment.

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<sup>274</sup> ECJ Case 236/87 Anna Bergemann

Mrs. Bergemann lived and worked in the Netherlands. When she married she transferred her residence to the home of her husband in Germany, where she has never worked or been insured. She applied for unemployment benefit in Germany, which was refused.

The ECJ ruled that Article 71 (1)(b)(ii) of the Regulation 1408/71 which is now replaced by Article 65 (5)(b) of EC Regulation 883/04 is applicable to a worker who, in the course of his/her last employment, transfers his/her residence to another EEA State for family reasons and who, after the transfer, no longer returns to the state of employment in order to pursue an occupation there. This rule should be interpreted strictly.<sup>275</sup>

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<sup>275</sup> <http://www.welfare.ie/EN/Policy/EU/Euguide/Documents/Part8.pdf> (12.04.2011)





## Chapter 8

# Youth unemployment

### 1. Basics of youth unemployment

#### 1.1. Definition of target group

Youth unemployment is generally viewed as an important policy issue for many economies, regardless of their stage of development. For the purpose of this indicator, the term “youth” covers persons aged 15 to 24 years, and thus the term “adult” refers to those aged 25 and over. In some countries (e.g. Hungary) the highest age limit of youth unemployment is expanded up to the age of 30 for persons who graduated from higher education.

There is no one homogenous group of young unemployed people. Some are more vulnerable than others, some have more chances than others. Differences can be explained by 1) education, 2) working sector and 3) individual background.

##### 1) *Level of education.*

The first important factor is the level of education. A higher-educated person is more likely to find a job than someone who only followed lower education or has had limited or no schooling. The importance of the factor education becomes evident when we look at the statistics of the first-time jobseekers.<sup>276</sup>

##### 2) *Working sector.*

The level of education is strongly connected to the sector of employment. Some sectors respond rather strongly to labour market changes caused by the economic cycle or globalization.<sup>277</sup>

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<sup>276</sup> For example, in Belgium 90% of the higher education graduate jobseekers succeed in finding a job in the first year, opposed to only 50% of those without higher education.

<sup>277</sup> In Ireland, for example, the construction sector recorded a decline in employment of almost 35% in 2009. Other vulnerable sectors are the manufacturing industry and wholesale and retail trade, as well as the motor vehicle repair sector. In Wallonia, Belgium, there is a structural decline of jobs in the manufacturing industry sector.

### 3) *Individual background.*

Also, the national (ethnic) background of the potential employee is a factor. Youngsters with a non-Western background have smaller chances (or fail to take them) on the labour market than their Western counterparts.<sup>278</sup> This is often closely connected to the knowledge of the working language, the level of education and the (intended) sector of employment.<sup>279</sup>

## 1.2. Causes of youth unemployment

The causes of youth unemployment and circumstantial factors can be divided, at least, into three categories: 1) economic conditions, 2) labour market regulation and 3) education.

### 1. *Economic conditions*

A downward movement in the economic cycle is obviously one of the causes of youth unemployment. The countries which were hit hardest by the recent recession now have the highest youth unemployment. Companies do not take the risk of hiring new employees or are even forced to fire employees. Fewer new companies are started and self-employed people are confronted with a shrinking market.

Some sectors are more dependent on the economic cycle than others. The economic decline caused high rates of unemployment in the construction, manufacturing and retail trade sectors. As a result, the regional differences within countries can become larger.<sup>280</sup> Therefore, youngsters who have been educated or trained for the sectors that have been hit hard deserve special attention when fighting youth unemployment.

### 2. *Labour market regulation*

One of the more structural problems in Europe is the rigid labour market regulation. Almost in all over the continent the insiders (core employees) are treated better than the outsiders (peripheral employees/usually engaged in atypical employment). Insiders have fixed contracts on good conditions, at the cost of outsiders: newcomers, self-employed and “flexible” employees.

<sup>278</sup> In the Netherlands, for example, the level of unemployment among non-Western immigrants in 2009 was around 2.5 times as high as among the native population.

<sup>279</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>280</sup> In Wallonia, for example, the south-eastern region of Belgium, the unemployment rate is higher than in Flanders in the northwest of the country. This is due to the fact that Wallonia's economy relies for a large part on heavy and manufacturing industry. In Flanders, on the other hand, the services sector is the motor of the economy, a sector which has shown to be less vulnerable to the recent economic decline.

For the career starters, the labour market is difficult to enter. The transition from school to work is hard since youngsters lack work experience and may not immediately be productive. Employers have to invest in them and their exact value is yet to be proven, which means risk. As a result, youngsters are offered part-time jobs and/or temporary contracts which make them easy targets in times of economic decline.<sup>281</sup> The strong protection of employees with a fixed contract, the insiders, is to the disadvantage of newcomers.<sup>282</sup>

### 3. Education

The proportion of young people in higher education is clearly linked to the rate of unemployment.<sup>283</sup> In times of high unemployment, many people who would have preferred to work choose to study rather than be unemployed.<sup>284</sup>

The field of education is one of the focus points of youth unemployment. Good education might very well be the main condition of finding an entrance to the labour market. Therefore, schools need to deliver high quality education, in line with requirements on the labour market.

Young people without a degree are overrepresented in unemployment statistics all over the EU. At some levels, mainly the vocational training level, it appears difficult to keep youngsters at school and make them finish it with a degree. Sometimes students have insufficient knowledge of the language and cannot keep up with their schooling. A more general problem is the failure to keep youngsters motivated.

But to finish a school with a diploma is not the only condition. Education has to be good. Schools need to guarantee a certain level of education, which prepares students for entering the labour market. Here it is one of the problems. In Spain, Belgium and Bulgaria was observed a disjunction between what education offers and what the labour market demands. This goes hand in hand with a failing apprenticeship system. In Sweden this disjunction causes high unemployment rates since students do not succeed in making the *transition from school to the labour market*. In many other European countries the contact between school and potential employers is lacking. Vocational

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<sup>281</sup> In some cases, the nature of the contract is short-term by definition like seasonal work often performed by youngsters, for example in Spain.

<sup>282</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>283</sup> At the beginning of the 1990s, there is a drastic rise in the proportion of full-time students claiming that what they really want to do is work.

<sup>284</sup> Claudia Gardberg Morner & Mattias Ossowicki & Kristoffer Lundberg: Social Security at Odds with the Labour Market for Young Workers in a Post-Industrial Era? The Case of Sweden, <http://www.issa.int/Resources/Conference-Reports/Social-security-at-odds-with-the-labour-market-for-young-workers-in-a-post-industrial-era/%28language%29/eng-GB> (03.05. 2011)

training is being pointed at mainly, but there is also low academic achievement, in terms of cooperation between universities and employers.<sup>285</sup>

**Flexibility** is also one of the other key words in the field of education just as it is in the discussion about labour market reform. To adapt to changing circumstances and employers' demands is crucial in preparing students as good as possible for their entry into the labour market. A good preparation means the level of education as well as the sort of qualification that can be acquired.

A **qualification** is the starting point. It improves one's competitiveness on the labour market and increases the chances to find a suitable job. The gap between those with a start qualification and those without tends to grow in times of economic decline. Evidently, the level of qualification is important too.

One of the major problems in every EU country is the **school dropouts**, youngsters who have left school before acquiring any qualification. They have little chance of finding a job. How to resolve this problem? In the first place, everything possible should be done to prevent students from dropping out. Early measures are required, for example extensive monitoring and tutoring. Truancy is an early sign of dropping out and deserves attention from the school. This is a mutual responsibility of the parents and the school. It is important that school is a nice place to go to, students should feel at ease. Bullying should be prevented, old school buildings are to be renovated and every elementary school should have a porter. This might look self-evident, but nonetheless things often go wrong here. Problems have to be resolved in a personal and effective way so that the student does not lose his/her motivation to finish school. When this happens, preventive measures may come too late. MR is of the opinion that school dropouts should be compelled, or at the least strongly incentivized, to return to some kind of education or training.

It could be useful to think of trade schools or on-the-job training schemes in the framework of employment services partnerships with the private sector. The knowledge in private companies and entrepreneurs should be better used. It could be the best solution if the best trades people and technicians, whether still in active employment or close to retirement, to become trainers of young people in both regulated and unregulated education. These trainers are the human capital of vocational training. They are highly qualified in different fields and have working experience in the private sector. When they retire, the labour market and the companies lose experience acquired over many years, along with a great deal of technological specialisation.<sup>286</sup>

<sup>285</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>286</sup> In the Netherlands, employees with part-time unemployment benefits could use the time that they are paid unemployment benefits but do not work to train young unemployed and let them benefit from their skills and knowledge. Due to a lack of apprenticeships this expertise would otherwise not be transferred to a next generation.

The level of education also plays an important role. In addition, for many years vocational training had a low social prestige in many EU member states (e.g. Spain, Hungary) and was therefore not considered as a real option for youngsters to choose as a school.

There was an idea in Netherlands to introduce a tax advantaged personal skills savings called *Future Account* to increase investment in education and entrepreneurship. The Future Account can be seen as an individual adjustment insurance. The idea is that the individual is best capable of determining what kind of schooling/training he/she should invest his/her money in. The employee is free to choose the form of saving. In addition, an employer can pay part of the course costs, which is tax advantageous/tax deductible.

Whereas graduates cannot find a job, companies do not manage to find people with specialized training, for example skilled electricians. A related problem is acknowledged – e.g. in Bulgaria, in Hungary, etc. – where there is no bridge between education and the labour market.

This problem of an educational output that does not correspond to the needs of the labour market is being observed in many EU countries. The problem of shortages and surpluses on the labour market can only be resolved by an educational system that is capable of adapting to changing conditions on the labour market. This requires more learning opportunities and readiness amongst the labour force to participate in further education (labeled as *lifelong learning*). Nowadays, young people must be prepared to enter the labour market but at the same time they must be prepared to continue their education during their entire life. Investing in qualifications increases the competition-readiness, which in turn increases the chances on the labour market.

Many experts stress the importance of *apprenticeships*. Apprenticeships provide the youngster with valuable experience and knowledge and increase his chances on the labour market. Because of the economic conditions there are currently not enough apprenticeship possibilities. Companies do not have the resources or do not want to invest in training-apprenticeships.

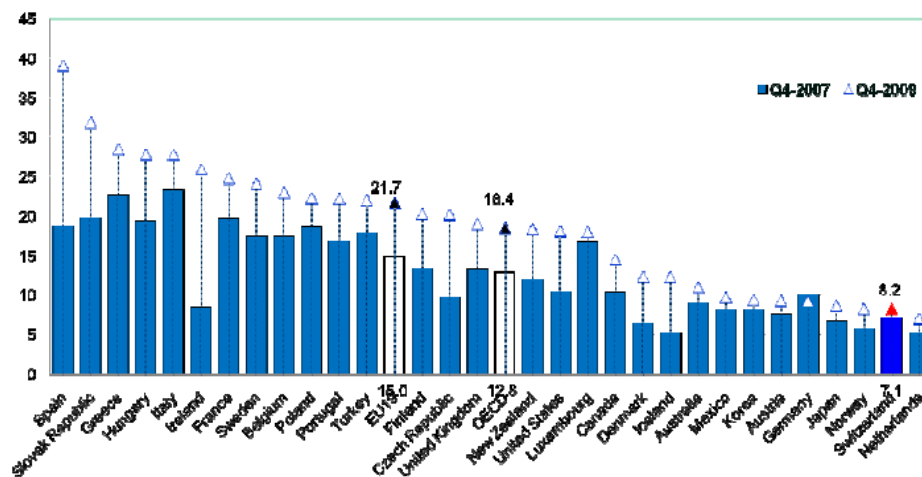
Governments have set up a wide range of schemes to provide for additional apprenticeships and stimulate companies to create more of them. In most cases, companies are offered financial compensation for taking in apprentices as a temporary measure. Private sector experience might also help to build an entrepreneurial culture among the young population. Entrepreneurial spirit is a vital element of their education and private sector experience prepares young people to start a business of their own. Governments should stimulate young people to become entrepreneurs and set up their own businesses.

However, young entrepreneurs often lack the information necessary to make a successful start. For example, how can they obtain credit and how do they raise the initial capital? Here the government could more pro-actively make information available. It would be necessary to offer grants and tax reductions for young entrepreneurs and support initiating incentives and financial aid to found micro-companies.<sup>287</sup>

### 1.3. Statistics of youth unemployment

European countries and the OECD countries in general, are also familiar with the problem of youth unemployment. The following graph shows the extent of youth unemployment among 15 to 24 year-olds.

**Graph 1.**  
**Extent of youth unemployment among 15 to 24 year-olds**



Source: <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB>.<sup>288</sup>

In all European Union countries, youth unemployment rates are higher than mainstream joblessness, often by a factor of two to one. Hence, the problem of youth unemployment

<sup>287</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>288</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

is not confined to developing or emerging countries, but also a major long-standing issue in European countries and the OECD in general.<sup>289</sup>

The rate of youth unemployment is even more disturbing. In times of economic decline, the young usually have to bear the consequences. This phenomenon is visible throughout Europe. In 2008 the youth unemployment rate rose faster than that of other age groups. After this rise, the OECD set the ratio of youth unemployment at 2.8 compared to average (adult) unemployment; in normal times, this ratio is around 2. In some countries the divergence is even larger: in Sweden and Iceland, it was over 4. Young jobseekers are clearly overrepresented in the unemployment rates.<sup>290</sup>

As with the level of general unemployment, the differences within Europe are striking. According to Eurostat, youth unemployment stood at 20.5 per cent in the European Union in May 2010. This is twice the overall unemployment rate, which is 9.6 per cent. These are average figures. In some countries youth unemployment is much higher. For example, in Spain, Latvia and Estonia youth unemployment is enormous: around 40% of the youth are unemployed. The Netherlands has the lowest unemployment rate (7.8%), and Austria and Germany (both 9.9%) are also performing relatively well. Only Austria, Germany and the Netherlands have youth unemployment rates below 10 per cent. In Belgium the youth unemployment rate is 23.8 per cent. It is 25.9 per cent in Sweden; 29.2 per cent in Italy; and 35.1 per cent in Slovakia.<sup>291</sup>

However, one must be careful with these kinds of statistics, since they may hide actual figures. For example, in the Netherlands young people in the so-called Wajong (social benefits for young people with a (partial) disability) are not included in unemployment statistics, while these youngsters are in fact unemployed and may never return to the labour market.<sup>292</sup>

## 2. Young people in the labour market

Policymakers in Brussels have warned of a “lost generation” of young workers, and worry that employment gaps in the early stages of a career can affect wages for several years, if not decades. “Young people trying to get into the labour market is the biggest

<sup>289</sup>Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

<sup>290</sup><http://www.ft.com/cms/s/0/8c907618-39ca-11e0-8dba-00144feabdc0.html#axzz1QPgANU4R> (07.05. 2011)

<sup>291</sup>Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

<sup>292</sup>ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

employment issue in Europe right now.”<sup>293</sup> That is also problem, that young career starters are taking part-time or low-paid temping work, meaning the underlying picture is even worse than the figures suggest.

Gaining a foothold in the labour market is for most people a pre-requisite for being self-supporting, acquiring a home of one's own and forming a family. The groups who have most difficulty in establishing a permanent foothold in the labour market are young people, particularly those with poor education, and people with foreign background.<sup>294</sup>

In many European countries the labour market system doesn't work for the young. Union members get older and older, and unions naturally tend to represent the interests of their members. Young Europeans prefer smaller communities of their own choosing to mass unions, and they tend to switch jobs more often. Their modern lifestyle doesn't work in their favour as they don't fit into old structures. The Netherlands is a good example, but we can find similar practice in many other European states: when a company is forced to reduce its workforce, the so-called LIFO principle counts.<sup>295</sup> No matter the performance or the enthusiasm, the (relatively) new workers will fall victim to bad economic times.

Several liberal experts have included so-called “flexicurity” proposals in their manifestos: the combination of a flexible labour market and relaxed requirements of dismissal, while at the same time offering strong safety guards against immediate income loss. This would help societies move from a culture of job security to a culture of work security. A modern liberal solution befitting an economy in which hardly anyone spends a whole working career within one company.

In principle, a fair labour market also needs to be free. Every day of the week, that is. Most European countries restrict the opening hours of shops, some even force them to close their doors on Sundays.

One of the other serious problems is the obsolete education system in many European countries. It is known that by 2015 ICT skills will be needed for about 90% of the jobs. Still, students in almost every country spend most of their time sitting in old-fashioned classrooms, and computers are used to do some occasional homework. E-learning helps develop digital skills, and is the best way to combine education, work and private life.

The Lisbon Goals included several agreements among member states on investments in knowledge and education. Its targets turned out to be too open-ended, and lacked the

<sup>293</sup> Quoted John Monks, general secretary of the European trade union confederation.

<sup>294</sup> Claudia Gardberg Morner & Mattias Ossowicki & Kristoffer Lundberg: Social Security at Odds with the Labour Market for Young Workers in a Post-Industrial Era? The Case of Sweden, <http://www.issa.int/Resources/Conference-Reports/Social-security-at-odds-with-the-labour-market-for-young-workers-in-a-post-industrial-era/%28language%29/eng-GB> (03.05. 2011)

<sup>295</sup> LIFO principle means: Last In, First Out.



necessary commitment to make a real difference. The EU 2020 strategy, Lisbon's natural successor, may end up with the same omission if EU heads of state do not have the courage to commit themselves to concrete goals on investments in the knowledge economy. From a European perspective, economies thriving on knowledge are by far the most promising horizon for the European youth. A dedication to a modern education system, top quality higher education and plenty of opportunities for students to spend a university semester in other member states is paramount to this development. Therefore, as EU 2020 is a second chance to turn words into action.

There is a need for smart governments which are cooperating with the private sector in order to create job opportunities or internships in companies. Especially vocational training schools, but also more academic schools should enfranchise the private sector to participate in the definition of training schemes so as to match labour supply and demand.

On top of that, students need to be aware beforehand of the opportunities which different educations offer on the job market. For those who drop out of the school system, on-the-job training is often the best solution. Employment benefits should be put to use to encourage employers to educate their workers, rather than compensate income loss without encouragement to invest in themselves. A smart government needs to both invest in people, and expect people to invest in themselves.<sup>296</sup>

## 2.1. Affects of unemployment on young persons

Unemployment may affect the individual in various ways. Long-term unemployment naturally affects the individual's financial standard, but work also fulfils a social function. The workplace is an important arena for social contacts and societal participation. The financial and social consequences of unemployment exert, in their turn, a strong influence on well-being and health. Even though young people's unemployment is for the most part relatively short-term, it can have long-term consequences. Young people who find themselves unemployed after high school appear to be at greater risk of becoming unemployed again as adults.<sup>297, 298</sup>

Young people from working class backgrounds and foreign-born people were to be at greater risk of unemployment and dependency on social security payments.

<sup>296</sup>ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>297</sup> Nordström Skans, Oskar, and Linus Lindqvist, (2005), "Causal effects of subsidized career breaks", *Working Papers* 2005/Vol. 17, pages 3-6, The Institute for Labour Market PolicyEvaluation

<sup>298</sup> Gardberg Morner, Claudia, Mattias Ossowicki And Kristoffer Lundberg (2007), *Social Security at Odds with the Labour Market for Young Workers in a Post-Industrial Era? The Case of Sweden*, <http://www.issa.int/Resources/Conference-Reports/Social-security-at-odds-with-the-labour-market-for-young-workers-in-a-post-industrial-era/%28language%29/eng-GB> (03.05. 2011)

Thus, a social background including poorly educated parents who are blue-collar workers or unemployed, and the fact of having a low level of education themselves or having been born abroad, are clear risk factors when young people attempt to establish an independent adult life.

## **2.2. Long-term perspectives**

Demographic changes like the proportional increase of the ageing population will have a severe impact on the labour market. As soon as the babyboom generation will reach the pension age, all available workforces will be needed, including those people who are currently unemployed. At this moment, some of these unemployed have little chance of finding work and run the risk of getting structurally excluded from the labour market; they are frequently called “outsiders”. Youngsters are overrepresented among the outsiders. To solve these future problems, more anticipation and a long-term view are welcome, also on the level of political parties.

It is not only the statistics and demographic forecasts that should worry politicians and experts of social sciences. On a personal level, the unemployed individual does not have the opportunities that a fair society should provide. During economic crises the gap between outsiders and insiders increases. The outsider, the individual who is unemployed at a young age, runs the risk to be structurally excluded from the labour market and to remain on a lower salary level, as a consequence of a lower starting salary in the early working years.<sup>299</sup>

## **3. Youth employment policies**

### **3.1. The ILO approach**

The ILO advocates an integrated national approach to unemployment giving high priority to solving the problems of youth unemployment. It is important to invest in sectors which generate employment and not only in those which stimulate economic growth alone. Job creation must be combined with the inclusion of young people in the labour market.

The quality of jobs for young people is as important as the quantity. Young people are entitled to decent employment, even though they are not always in a position to negotiate because they are insufficiently aware of their rights or because there is no legislation. Moreover, national legislation should be based on the International Labour

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<sup>299</sup>ELDR, (2010), *Countering Youth Unemployment in Europe* Rotterdam: ELDR Conference 07.05.2010  
[http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

Standards, in order to remove discrimination against young people as regards equal pay for equal work. The ILO then emphasized that the greater the number of people involved in the design and implementation of measures aimed at youth employment (importance of social dialogue), the greater the chances of ensuring “good management”.<sup>300</sup>

### **3.2. Youth employment strategies in European countries**

#### *3.2.1. Youth employment strategies in EU level*

The recent developments in youth unemployment have shown that non-binding targets on a member state do not render sufficient result. Commitment at the European level is the only way to address the challenges of a global economy. Agreeing on common goals and targets and sharing best practices is the best way to take responsibility for a generation struggling to enter the labour market. It is this generation that will have to make sure that an aged European population can keep enjoying a high standard of living.<sup>301</sup>

#### *3.2.2. Youth unemployment and mobility in Europe*

As a fact, youth unemployment in Europe is rising at a high speed. The question which comes to one's mind is: why do these young people stay in their own country? They belong to the most mobile groups in Europe, and still prefer being unemployed in their own surroundings to looking for a job in another European country.

In the years preceding the introduction of the EURO, there was a widespread optimism that a single currency would not only be beneficial for the European market and trade, but would also contribute to the development of a more unified European labour market. The idea was that more transparency would give companies the opportunity to compare labour costs, which would make benchmarking easier. Moreover, a single monetary market was expected to result in more competition, faster decision making and greater flexibility in the European labour market.

In 1997, the international staffing company Randstad held a survey to evaluate the opportunities which the introduction of the euro would bring and to compare the geographic mobility on the European and American labour markets. The central question was whether a single currency would ultimately lead to a unified labour market with more migration between European countries, in other words, whether the European

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<sup>300</sup>Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

<sup>301</sup>ELDR, (2010), *Countering Youth Unemployment in Europe* Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

labour market was going to be more like that of the USA with its low level of regulation and high geographic mobility.

In search of the answers to the above-mentioned questions, ten people from various backgrounds, professions and nationalities from Europe and the USA were interviewed. One of them was the European Commissioner for Employment and Social Services at that time, Mr. Padraig Flynn. Flynn was an advocate of the centralized approach, i.e. he was in favour of eliminating excessive differences in social legislation and more equality for the future European employment market. Flynn was convinced that one stable European labour market would develop. In his opinion, the strategy of the European Commission should not be focussed at uniformity of social legislation but rather at determining a bottom line. Although he was aware that harmonization was going to be a long-term process, he found that free movement of individuals and abolition of work permits were important first steps: reducing the differences was the credo.

The other interviewed person was Mr. Philip Jennings. He, at the time General Secretary of FIET<sup>302</sup> and later General Secretary of UNI,<sup>303</sup> uttered fears about the fact that no “harmonization in employment materials and social security” had been achieved so far. Jennings was concerned that this absence of European regulations could lead to social dumping. According to Jennings the American and European labour markets should not be compared on a one to one basis: the European social security systems “are needed for the successful continuation of a common Europe”. Still, even in the view of a union leader, the European employee had to “become more geographically mobile and flexible”.

The American professor Donald Ratajczak was convinced that “the certainty of social services restrains Europeans from moving to other regions and countries to find a job”, a process which Hans Weggemans of Groningen University called “cultural and economic regionalization”. Whatever one’s views, fact is that the higher geographic mobility in the USA results in lower unemployment and an average unemployment period of only five weeks. It is quite simple: an American employee does not have the social safety net of his/her European counterpart.

As Peter Pesce of Arthur Andersen formulated it: “An American who loses his/her job, will have to move”. Ed van Lamoen of DSM observed that “up to a certain age and under certain family-related circumstances, you find that [European] people are prepared to move abroad for several years”. After that, Europeans stay where they are.

This observation encloses the results of the report “Mobility in Europe”, which was published in 2006. The researchers found an “age effect”: young people without children are more mobile than older people. Facts like the presence of children or a

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<sup>302</sup> The white collar and services global union.

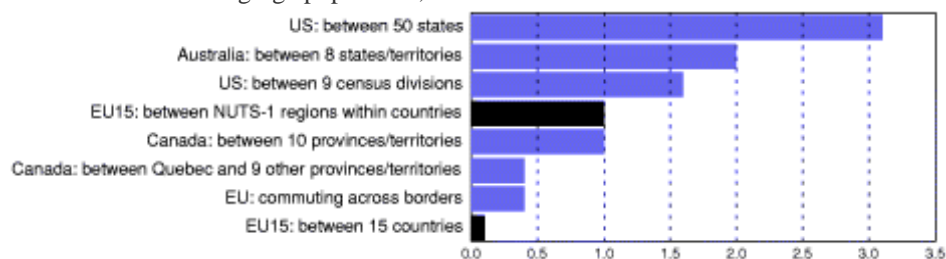
<sup>303</sup> Global Union for skills and services.

partner with a job limit the geographic mobility. There are two possible explanations: young people are more mobile or there is a changing attitude towards mobility, which would mean that mobility is increasing.<sup>304</sup>

Since there are no signs of the latter, it seems that no progress has been made over the last decade: “both geographical and job mobility rates remain substantially lower in Europe than in the USA”. This is confirmed by the results of a comparison of geographic mobility by the OECD between Europe, the US, Canada and Australia, as is shown in Figure 2.<sup>305</sup>

**Figure 2.**  
Annual cross-border labour mobility

Per cent of the working-age population, 2000-05



Source: US Census Bureau, Current Population Survey; Eurostat, Labour Force Statistics; Statistics Canada; OECD(2005), *Employment Outlook*, Chapter 2, Paris, [http://www.oecd.org/document/61/0,3343,en\\_2649\\_3373\\_3\\_39001853\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/61/0,3343,en_2649_3373_3_39001853_1_1_1_1,00.html).

The researchers of “Mobility in Europe”<sup>306</sup> came to the conclusion that a majority of the Europeans (62%) find mobility a “good thing” for the economy, the labour market and the individual but “unfavourable for families”. Their figures show that people do not bring their view into practice: “only 4% of EU citizens have ever moved to another country in the EU and less than 3% to another country outside the EU” and only 3% of all EU citizens indicate that they might move to another EU country in the next five years.<sup>307</sup>

<sup>304</sup> Vandenbrande, Tom , Laura Coppin, Peter van der Hallen, Peter Ester, Didier Fourage, Anette Fasang, Sara Geerdes, Klaus Schömann, (2006), *Mobility in Europe: Analysis of the 2005 Eurobarometer survey on geographical and labour market mobility*. European Foundation for the Improvement of Living and Working Conditions pages 10-76

<sup>305</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>306</sup> <http://www.eurofound.europa.eu/pubdocs/2006/59/en/1/ef0659en.pdf> (21.04.2011)

<sup>307</sup> Vandenbrande, Tom , Laura Coppin, Peter van der Hallen, Peter Ester, Didier Fourage, Anette Fasang, Sara Geerdes, Klaus Schömann, (2006), *Mobility in Europe: Analysis of the 2005 Eurobarometer survey on*

Constraining factors they mention are cultural and language related barriers, employment-related difficulties but most of all the “social costs of leaving one’s family, friends, colleagues and local community”. Other issues which influence international mobility are the “transferability of pension rights, fear of not being able to find suitable housing and access to public facilities”.

The report further shows that geographic mobility is influenced by level of education and that mobility tends to be highest at the upper and lower boundaries of the labour market: among those who have most opportunities, the young, urban high-educated professionals and among those who face “forced mobility through redundancy, expiry of employment contract or health reasons”.<sup>308</sup>

The European welfare state provisions and the social safety net also play a role in the decision to migrate or move for a job. Unemployment payments and other social security measures give Europeans a relatively high degree of financial security. When these provisions do not exist or are more meagre, like in the USA, it can be seen a higher labour mobility.

Another aspect of geographic mobility is the amount of regulation on the labour market. Regulation of the labour market is defined by the OECD on basis of the protection for dismissal for regular employment, temporary employment contracts and mass dismissals.

In sum, more employment regulation, i.e. better protection of employees, leads to lower labour mobility. Since many European countries still have a relatively highly regulated labour market, this could also contribute to the low geographic mobility.

It seems as if international mobility is not considered to be an option in Europe: “Losing family ties or friends and having to learn a new language are the main factors that would discourage those contemplating a move abroad”.<sup>309</sup> But this is only one way of looking at the labour migration: one could also argue that moving to another country provides (young) people with the opportunity to learn another language and get to know new people. Maybe young Europeans do not have the appropriate tools for working in another country, like the necessary language competence, European-wide recognition of their diplomas, transparency of the job market and affordable housing.

If Europe wants to remain competitive, it is essential to discover the underlying reasons for the low geographic mobility and do something about it. Young Europeans should

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*geographical and labour market mobility*. European Foundation for the Improvement of Living and Working Conditions. pages 71.

<sup>308</sup> Ibid. p. 72.

<sup>309</sup> Ibid. p. 74.

have a more flexible attitude towards labour migration. They will have to move on since they are getting more and more competitors in other parts of the world: For example, “More students graduate in India each year than at all European universities taken together”. The American economy is recovering faster than the European economy, unemployment is decreasing. The economic growth figures in China are impressive, 11.9% in the first quarter of 2010,<sup>310</sup> as is the mobility which has made this growth possible: “between 1980 and 2000, as many as 268 million people moved from the Chinese countryside to the towns and cities” to find work and earn money.<sup>311</sup>

The mobility on the European labour market has hardly changed over the last decade. Contrary to Americans, Europeans face many cultural and language barriers when moving to another European country and still feel protected by social safety nets. Moreover, the high regulation of the labour markets leads to a low geographic mobility. This will have to change, due to the increasing global competition and the fact that European states have to cut costs to decrease the debts resulting from the economic recession. In order to recover economically, Europe will need a more flexible labour market and a more geographically mobile workforce. The EU cannot and should not steer this process, but has the responsibility of facilitating it by further harmonizing social and fiscal legislation, education systems, diploma recognition, housing taxes and welfare provisions.<sup>312</sup>

Some valuable and pragmatical recommendations:

- More (language and culture) education at European schools.
- Europe-wide recognition of diplomas and qualifications.
- Shorter period of unemployment benefits.
- Less labour market regulation, less bureaucracy, more flexibility.
- Further harmonization of European social, fiscal legislation.
- More transparency of the European labour market opportunities.<sup>313</sup>

### 3.2.3. Youth unemployment provisions in some European states

Addressing youth unemployment means adapting communication to a young audience, and it is never too early to start. It is also worth continuing to make an effort even after recruitment. Partnerships enrich unemployment strategies: jobseekers benefit from a wider and more varied choice of services to help them find jobs. These are the findings of good practices in three Western European countries: Belgium (Brussels metropolitan area), the Netherlands and Switzerland. The various innovative plans addressing youth

<sup>310</sup> The Guardian, 15 April 2010

<sup>311</sup> Yusuf, Shahid and Tony Saich, (2008), *China Urbanizes: Consequences, Strategies, and Policies*. Washington, D.C.: The World Bank

<sup>312</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>313</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

unemployment such as job coaching in the Netherlands, the Win-Win Belgian model to activate unemployment benefits, the Syrian microfinance model, and the Swiss six-month motivation course for young people experiencing problems all provided good witness to this.<sup>314</sup>

#### **A) Belgian youth unemployment policy**

With a youth unemployment rate of 23.8 per cent, Belgium is above the European average of 20.5 per cent (EU27, May 2010). Its approach to youth unemployment is an integral part of Belgian employment policy.

The Higher Employment Council is a Belgian scientific body comprised of experts (senior officials and university professors) responsible for providing advice and submitting reports on employment policy to the Government. The Higher Employment Council submitted a report on the access of young people to the labour market in October 2009.

In general terms, the Council stressed the need for a global and coherent policy focused on strengthening job-creating economic growth.

However, it also indicated that special attention must be paid to young people, as analysis showed that they are more vulnerable to unemployment than adults, even in a favourable economic context. Steps must also be taken to prevent cyclical unemployment, which is growing rapidly as a result of the crisis, from turning into structural unemployment once the crisis is over. The Council made the following recommendations based on a detailed analysis of the situation in Belgium:

##### **1) Training**

- a) quality teaching for all;
- b) study of at least one national language for foreigners;
- c) reduce the number of students repeating a school year and dropouts, and
- d) raise the status of on-the-job training.

##### **2) Support**

- a) priority should be given to those who have the skills needed to enter the labour market immediately;
- b) acquisition of skills for the others;
- c) instruction in rights and responsibilities, and
- d) support traineeships in enterprises.

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<sup>314</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)



## 3) Placement

- a) temporary and interim contracts as stepping stones to more stable integration;
- b) student contracts;
- c) a specific approach for the most vulnerable, and
- d) combat discrimination.<sup>315</sup>

The recommendations of the Higher Employment Council are very close to those of the European Commission and the OECD.

In Belgium a great many policies have been introduced. The main structural measures are:

- a) first jobs, which require employers to recruit a certain number of young workers,
- b) reduced social security contributions for young people, based on age and training,
- c) support provided for young jobseekers by regional employment services, and
- d) flat-rate waiting allowances for young jobseekers unable to find a job at the end of their studies.

A number of measures have been taken in 2010 to increase support for youth employment. In the following list the first measure is of a mainly cyclical nature, while the others are more structural.

*The “Win-Win” recruitment plan.* In line with the above recommendations, this measure is designed to facilitate the recruitment of those jobseekers in greatest need in a period of crisis. The aim is to avoid unemployed workers especially young, less qualified jobseekers, getting bogged down in the situation. It is based on the active use of unemployment allowances: a jobseeker thus continues to receive a flat-rate unemployment allowance which the employer can deduct from the net wage laid down in the employment contract and based on the agreed scales which apply to the sector in question.

*Enterprise traineeships.* This measure, which came into effect on 1 April 2010, is intended to facilitate the recruitment of low-skilled jobseekers, particularly young people, by providing them with an opportunity to serve as a trainee in an enterprise for a period of two months. During this period the young jobseeker is entitled to a waiting allowance (allocated in advance) or to continued payment of an unemployment allowance. Employers may paid an additional allowance. The employer must enter into a tripartite contract with the young jobseeker and the regional employment and training service. At the end of this two-month period the enterprise must recruit the jobseeker on

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<sup>315</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

the basis of an employment contract of indefinite duration, which may not be terminated during the first two months.

*Reform of the plan which provides support and follow-up for jobseekers.* A draft proposal for reform envisages reinforced and more rapid support services better tailored to the individual needs of jobseekers, particularly young jobseekers, and special more long-term support for jobseekers a wide distance from the labour market.

#### Other measures

- a) encourage traineeships in enterprises for students and jobseekers (such periods being covered by the legislation on first job contracts);
- b) encourage mentorship, that is, on-the-job training of young recruits by experienced workers (by providing bonuses and reduced contributions for mentors);
- c) reduce discrimination in recruitment, especially through support for diversification programmes and awards for model enterprises.<sup>316</sup>

#### *Youth unemployment projects in Brussels (Belgium)*

The youth unemployment rate in Brussels is particularly high at 31.7 per cent, in spite of it being a wealthy region with a high GDP. Actiris, the Brussels regional employment service, has set up a network of employment partners. This provides a greater variety of placement services to help jobseekers integrate the labour market.

The role of Actiris in providing support for jobseekers does not end with the signature of an employment contract. Job coaching is part of the service, and where necessary Actiris addresses problems arising from lack of knowledge of national languages.

Actiris familiarizes students in their final year of secondary school with the job market through the “JEEP” programme (Jeune, Ecole; Emploi ... tout un Programme). The JEEP programme is spread over five half-day sessions designed to help students find their bearings and identify their skills and assets so as to enter the labour market successfully. The “student job” JEEP project enables young people to put their existing skills into practice and to discover new ones through a student job.

A special “youth employment” project has also been developed to enable young people to make the most of the services offered by Actiris. The emphasis is primarily on communication: the language and content are specifically aimed at young people, as is

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<sup>316</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

the use of modern communications technology. The video is a concrete achievement of the project.<sup>317</sup>

### ***B) The Dutch youth unemployment policy***

In the Netherlands, the Institute for Employee Benefit Schemes<sup>318</sup> introduced a number of special programmes for young unemployed persons (2004-2008 and 2009-2011) which produced excellent results. The key to the success of both programmes is that they established effective contact with young people through good communications.

A television reality programme filmed a youth being literally dragged out of bed and made to look for work, which was screened during the 2004-2008 period. Since young people do not always go to the job centres, a minibus was made available to collect them from their homes. Over a period of three years a team of determined staff managed to fill 40,000 additional vacancies for young people. The “youth unemployment action plan”,<sup>319</sup> introduced in 2009, actively involves young people.

Over the past two years some 200 young jobseekers taken on by the employment service as trainees at the end of their studies have thus been put in a position to search for job opportunities for other young people. Their selection was somewhat unorthodox: existing support staff themselves chose their own colleagues. The active participation of young people benefits all those concerned: the trainee acquires professional experience and gets to know the labour market, young jobseekers find it easier to contact the public services, and the employment service opens up to modern communication methods. The trainees’ conclusions<sup>320</sup> have been published in book.<sup>321</sup>

### ***Good practice: The De Travers project in Rotterdam***

The reason to set up De Traverse was a shared concern and feeling of responsibility of the entrepreneurs for the gap between education on the one hand and knowledge and skills needed by companies on the other. De Traverse focuses on innovative schooling and upgrading of skills of unemployed youth (amongst whom many immigrants and women) for the hotel and catering branches and retail. Expansion to other sectors, like tourism, logistics, health care and services is being examined.

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<sup>317</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

<sup>318</sup> Uitvoeringsinstituut Werknemersverzekeringen (UWV).

<sup>319</sup> [http://www.4shared.com/document/amxQzxEU/Youth\\_Unemployment\\_Action\\_Plan.html](http://www.4shared.com/document/amxQzxEU/Youth_Unemployment_Action_Plan.html)

<sup>320</sup> Ideeënboek Inspiratiedag Jeugdwerkloosheid.

<sup>321</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

The goal for 2010 was to provide youngsters in 30 weeks with a start qualification (an MBO2 degree) for retail employee or employee fast service. The trainees are selected on basis of an entry test and an assessment interview with a coach of De Traverse. During the course the trainee is guided by a personal coach and a work guide of the company of the traineeship or De Traverse. Social benefit payments are continued, on top of which the trainee receives some financial compensation from the company where he/she is working. The programme has a workload of 40 hours per week, consisting of 1.5 days of schooling and 3.5 days of working.

As for financing the programme, young people receiving social benefits from the Social Affairs Department in Rotterdam continue to receive these when enrolled in the project. However, the social benefits are now being paid by the payroller *Pay for People*, who invoice *Daad-Werkt* for this. The ultimate goal of De Traverse is that the trainee finds a job or continues studying, so that he does not receive social benefits anymore. If the trainee does not find a job after finishing the project and does not continue studying either, he/she has to apply for social benefits again. On top of the social benefits, the company the trainee works for pays the trainee a financial compensation.

As a result, since the beginning of the programme in March 2008, two classes per year have been enrolled. Thanks to De Traverse, 105 young people have obtained their MBO2 degree and 75 of them have also received a Traverse certificate, including an extensive portfolio. The success rate of more than 70% proves that De Traverse has developed a successful method for tackling youth unemployment.<sup>322</sup>

### ***C) Matching education to the job market in Switzerland***

International comparisons show that Switzerland is achieving good results on youth unemployment,<sup>323</sup> a figure which is in line with the low overall rate of national unemployment.<sup>324</sup> Its youth unemployment strategy is linked to the education system and relies heavily on the close involvement of enterprises and all the actors in the field of vocational training.

Young people who enter the labour market on completing compulsory schooling can enter the job market by starting an apprenticeship in one of the many Small and Medium-sized Enterprises (SMEs) belonging to the “training enterprises” network.<sup>325</sup> An alternative for these young school-leavers is a “motivation semester”.<sup>326</sup> During this period they are exposed to a combination of practice and theory and come into contact

<sup>322</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>323</sup> 4.1 per cent in June 2010.

<sup>324</sup> 3.8 per cent in June 2010

<sup>325</sup> see: <http://www.formationprofessionnelleplus.ch>

<sup>326</sup> Semestre de motivation (SEMO).

with the job market. This service is provided by the unemployment insurance and is intended for problem school leavers.

Young people leaving higher education can undertake vocational training in a public or private enterprise. The employer covers 25 per cent of the unemployment benefit. There is also a commercial practice enterprise<sup>327</sup> where fictional products are negotiated with other commercial enterprises in Switzerland and abroad. Young people with a well-defined commercial profile can thus acquire up to six month's experience in all departments of the enterprise.<sup>328</sup>

### Conclusion

As for the long-term solutions. The first of these should definitely be the **creation of new jobs**. Measurements to create jobs and economic growth should be a top priority in Europe in the next decade.

In the field of **education**, a problem lies in the fact that in a today's diverse and dynamic economy, many young people find it difficult to choose the right education or profession. Many switch studies after one or two years, which leads to delay and early school leave. There is a need for youth a professional guidance to find the right profession and matching education. Another vital issue is the problem of young workers who leave school early. Those who enter the labour market without relevant qualifications run a higher risk of long-term unemployment. The school system is not focused on the demand of the labour market, but rather on offering studies to attract students. In short, some young people are trained to become unemployed.

**School-to-work transition.** But even when they have found the right profession and possess the relevant qualifications, many young people are still having difficulties in the transition from school to work.<sup>329</sup> The successful apprenticeship system has proved tremendously important in keeping youth unemployment in or near the 10% range, one of the lowest in Europe.

There is a need for **labour market reform**. Young people, eager to start their careers, face an overly rigid labour market that favours those who are already in it. Older employees are comfortably established and well protected by generous contracts, whilst

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<sup>327</sup> Entreprise de pratique commerciale (EPC).

<sup>328</sup> Corine Maeyaert: unemployment insurance systems and youth employment policies, <http://www.issa.int/Resources/Conference-Reports/Unemployment-insurance-systems-and-youth-employment-policies/%28language%29/eng-GB> (03. 05. 2011)

<sup>329</sup> In the United Kingdom, was proposed an internship scheme to place 800,000 young unemployed with local employers. Germany has also made a clear case for ensuring a solid school-to-work transition.

the young are stuck in temporary arrangements and are easily laid off.<sup>330</sup> Rigid and complex regulation makes it hard to dismiss those who have been employed for the longest time, but are not necessarily the best and most productive employees.

The another important issue is to prepare *intersectoral mobility*. Because of demographic ageing there will be shortages on the labour market. To fill in these gaps, people should be able to switch jobs more easily in the future. At the same time, due the economic situation, there will be too many workers in some sectors. Switching jobs should also be facilitated for these people so that the labour market stays flexible in a transitional way.<sup>331</sup>

The most important items on the shopping list against youth unemployment are the following:

- 1) Relax the bureaucracy and requirements of dismissal to make the labour market more flexible.
- 2) Raise unemployment benefits and shorten the period.
- 3) Reduce unemployment benefits when employment is being rejected by a jobseeker and raise social benefits when the jobseeker re-enters education.
- 4) Encourage young entrepreneurship through tax reductions and awards.
- 5) Make employment of youngsters fiscally attractive for companies.
- 6) Prevent early school dropouts by, amongst other measures, tutoring and monitoring.
- 7) In case of early school dropout, facilitate re-entering education or alternative training.
- 8) Establish closer cooperation between the education and working field (or private companies) through internships and learn-and-work programmes.
- 9) Offer assistance to local initiatives.
- 10) Make binding agreements on targets on an European level.
- 11) Education and lifelong learning are key.
- 12) The existing inequality between insiders and outsiders has to be dissolved.
- 13) The education field and private actors should cooperate more closely.<sup>332</sup>

In sum: efforts have to focus on the individual. He/she should be optimally equipped, through lifelong education, to secure his/her chances on the labour market. A new more flexible labour market model with the focus on the individual, encourage mobility, flexibility, training and exchange. On the changing labour market security must be

<sup>330</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>331</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

<sup>332</sup> ELDR, (2010), *Countering Youth Unemployment in Europe*, Rotterdam: ELDR Conference 07.05.2010 [http://www.d66.nl/d66nl/document/magazine\\_eldr\\_youth\\_unemployment/f=/vihzi51vhwj9.pdf](http://www.d66.nl/d66nl/document/magazine_eldr_youth_unemployment/f=/vihzi51vhwj9.pdf) (12.05.2011)

sought by individual flexibility rather than through protection for a particular job at a specific workplace. The responsibility to establish a model is based on individuals, employers, government, trade unions and NGOs.





## **Chapter 9**

### **Old workers and unemployment**

#### **1. Elderly people in the labour market**

##### **1.1. Greying and working**

For demographic reasons it is necessary to increase employment rates of older workers or – more generally – extend the active working life. This is part of a comprehensive strategy to cope with the fact of aging populations in European countries.<sup>333</sup> This is reflected in numerous economic policy guidelines and suggestions, for example in the growth strategy of the European Union, the so-called Lisbon Agenda.

Until the recent past, older workers in industrialised countries were tending to leave the employment market at an increasingly younger age, but the situation has now changed. In a context marked by ageing and restricted manpower, the improvement of the situation of seniors in the employment market has become one of the major concerns of governments. Keeping seniors in working life longer results in an increase of the available active population, thereby improving the equilibrium of social security systems, in particular the retirement systems, and stimulating economic growth.

From the 1970s onwards, the great majority of OECD countries witnessed a drop in the number of men working after age 55. The reason for this decline was mainly due to the intentional implementation of early retirement policies: to respond to the rise in youth unemployment, many countries willingly encouraged early retirement by offering various relatively advantageous forms of departure (early retirement, unemployment with an exemption from job seeking, forced early retirement based on economic grounds, claiming a disability pension, etc.).

This situation is in the process of being phased out, as demonstrated by the trend reversal which has been taking place for several years and which has now been confirmed. Analysis of the change in employment rates in all OECD countries shows that after having significantly fallen during the 1970s and 1980s, the employment rates

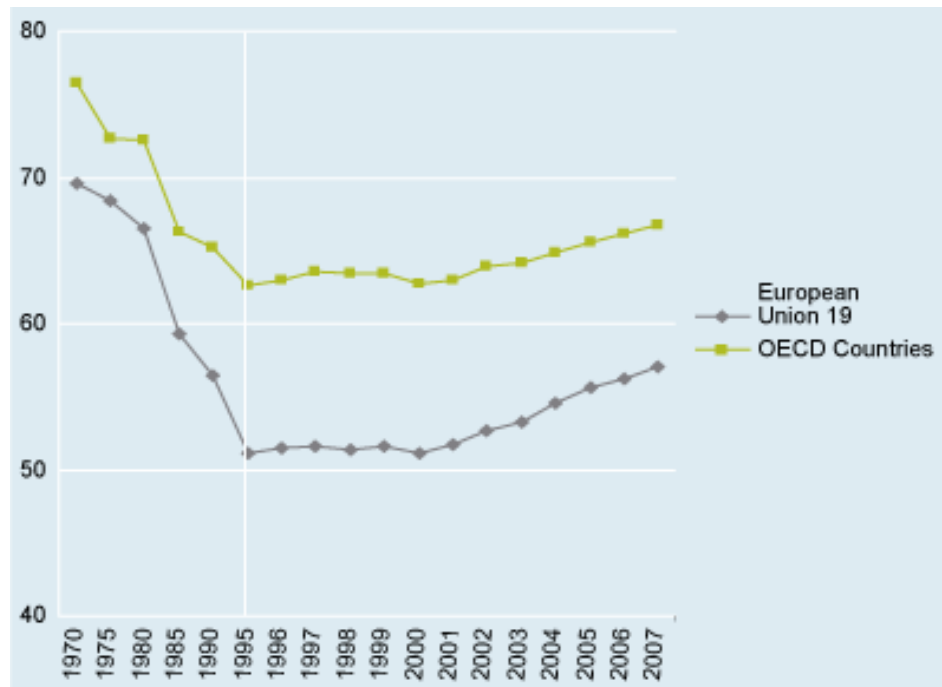
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<sup>333</sup> European Central Bank, 2003

of workers aged between 55 and 64 stabilised between 1995 and 2000 and has constantly risen since 2000 (Figure 3).

**Figure 3.**

**Employment rates in OECD countries and ageing the EU (19 countries), men<sup>334</sup> aged between 55-64**



Source: OECD Database of the active population

## 1.2. Common trends, disparate results

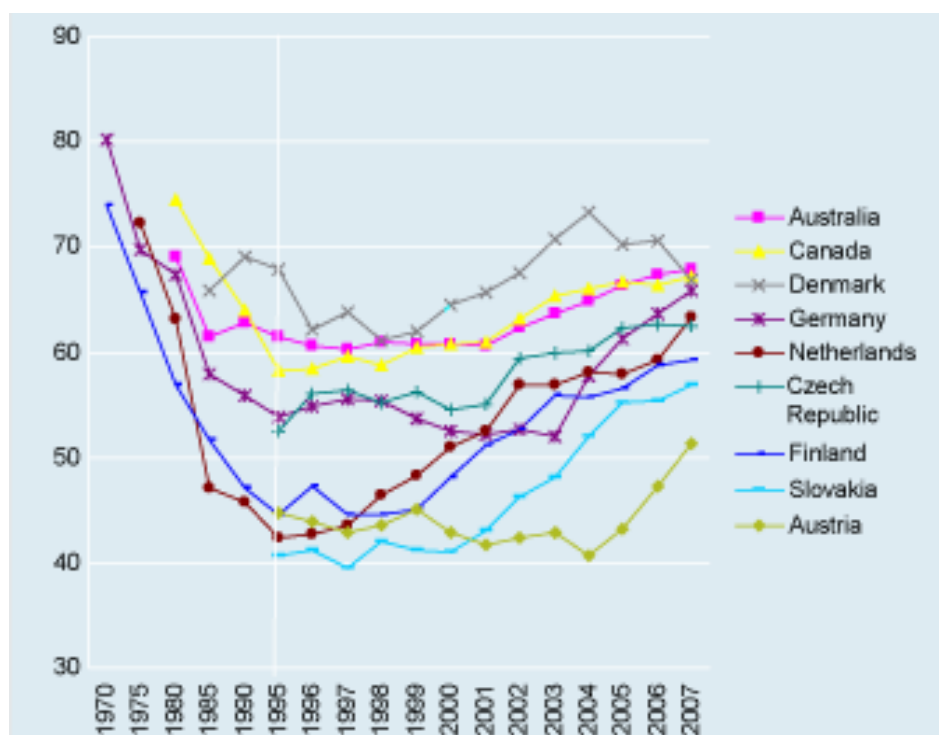
The trend change occurred after 2000 in the majority of countries. Some countries have achieved a remarkable rise, having increased their employment rate by more than 10 points in a period of seven years, such as the Slovak Republic (15.9 points), Germany (13.4 points), Finland (11.1 points). In 2007, eight EU-19 countries achieved or even exceeded the Stockholm objective: an employment rate of workers aged between 55 and 64 of at least 50%. The Netherlands, which initially had one of the lowest employment rates of persons aged over 55 in Europe in the 1990s, achieved a spectacular leap by

<sup>334</sup> There was not data available for women.

increasing its employment rate by more than 21 points between 1995 and 2007. Only a minority of countries continue to record low employment rates of older workers, although they have achieved noteworthy progress, for example in Hungary, Poland and Luxembourg.

**Figure 4.**

**Countries with increased employment rates for men<sup>335</sup> aged between 55 and 64 (selection of countries)**



Source: OECD Database of the active population

### 1.3. A break with previous practices

There are several reasons for this trend reversal. Economic growth is one of the arguments frequently put forward but it has not been strong enough during the recent period to explain this progress which, in some countries, exceeds ten points. However,

<sup>335</sup> There was not data available for women.

this reversal marks a major break with the policies applied over several decades and demonstrates a paradigm shift with regard to seniors.

The measures taken to boost the employment of seniors are undeniably starting to be successful and countries have become aware of the need to extend active life in order to face the challenges linked to population ageing. Various strategies have been drawn up to encourage seniors to continue working, which may be classified in three types of action:

- 1) Dissuasive measures in relation to early retirement from active life by means of reform of the pension and/or all of the social security system;
- 2) measures aimed at making employment more attractive for older workers and encouraging employers to maintain or recruit seniors; and
- 3) actions aimed at changing the negative portrayal of older workers.<sup>336</sup>

Several countries have attempted to balance their budgets by delaying the retirement age for older workers. At the same time, many employees of retirement age have chosen to stay in the workforce due to personal financial problems.

In the United Kingdom, the Office for National Statistics recently revealed that 8.5 per cent of citizens over the age of 65 were employed in a three-month period ending on 10 October 2009 compared to 7.3 per cent during the same time in 2008, according to *The Financial Times*.

In fact, the employment rate is much more hopeful for older workers than their younger counterparts. Younger demographics are suffering from a lack of jobs and the problem appears to be getting worse. Unfortunately, this trend of global baby boomer human resource management has become a source of tension for many younger people in Europe. Those born after the baby boomer generation feel that they have been pushed out of the workforce by mature employees who aren't retiring. Nowhere is this more apparent than in Europe, where protests have erupted in parts of Greece and Italy over high youth unemployment. The problem is also pervasive in Spain and Portugal. The unemployment rate for young people is 40 per cent in Spain and 28 per cent in Italy. "By now, only a few people refuse to understand that youth protests aren't a protest against the university reform, but against a general situation in which the older generations have eaten the future of the younger ones."<sup>337</sup>

Many countries have raised the retirement age to support the sustainability of pension systems, which may be perpetuating the problem of youth unemployment. Businesses

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<sup>336</sup> <http://www.issa.int/News-Events/News2/Analysis-Keeping-older-workers-in-employment-A-policy-success/%28language%29/eng-GB> (03.02.2011)

<sup>337</sup> Former prime minister Giuliano Amato told Italy's *Corriere della Serra* newspaper, according to the news source.

are hesitant to hire new workers because older employees are often tenured and expensive to fire.

One 2005 survey conducted by Investments & Pensions Europe magazine found that 63 per cent of respondents in managerial positions believe that employers should be able to force older workers to retire, while only 47 per cent believe that the state should mandate retirement age. The survey also found overwhelming support (95 per cent) for gradual or phased retirement and one manager suggested that retirement age workers should only be allowed to stay employed if they are financially desperate.<sup>338</sup>

## 2. Effectiveness of the measures and lessons learned

The countries are using different methods to improve the employment of seniors. However, there is not a unique model for success. The countries which have achieved convincing results are those which have implemented ambitious and determined policies, tackling the issue of employment of older workers by adopting a global approach. Finland and the Netherlands provide the best examples of success with this approach: 20 years ago, these two countries were still committed to early retirement. Since the mid-1990s, they have made considerable progress with regard to the employment of seniors. Applying different methods, the two countries have undertaken wide-ranging reforms aimed at a range of areas (social security, employment, training, health, portrayal of seniors). On the other hand, countries which apply one-off, scattered and incomplete measures end up in the majority of cases with limited results (Italy, Luxembourg).

Moreover, long-term action must be undertaken in order to increase sustainably the employment rate of seniors. The approach based on life cycle and life-long learning is essential in this respect for improved integration of current and future older workers into the employment market. Sweden, which records a high level of employment of seniors, has notably adopted this approach.

The success rate with regard to the employment of seniors is also related to the coherence of the reforms implemented. Germany has implemented generally coherent measures: it has constantly readjusted its pension system over the years, while adopting a series of measures to encourage employers to recruit older workers and improve their employability. On the other hand, the co-existence of contradictory measures undermines the action taken in some countries aimed at extending active life. France, which has one of the lowest rates, recently introduced various reforms aimed at keeping

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<sup>338</sup> Older workers source of tension in Europe

<https://www.aarpglobalnetwork.org/netzine/Industry%20News/ProductsandServices/Global%20HR%20Management%20for%2050%20plus/Pages/Older%20workers%20source%20of%20tension%20in%20Europe%20800357722.aspx> (15.05.2011)

older workers in employment, but at the same time maintained early retirement measures.<sup>339</sup>

### 3. Myth and misinterpretation

First, there is no “one size fits all” reform for all aging countries, not even within Europe. Demography varies remarkably even within Europe, and so does labour force participation. History has shaped very different pension, health care and social assistance schemes in Europe. Attitudes towards risk and saving, and towards intergenerational support vary dramatically between the North and the South of Europe. Countries with an already high labour force participation rate will have difficulties to increase it even further: for Italy, increased female labour force participation and a higher retirement age offsets much of the employment effect of aging; in Denmark, there is little to gain because employment levels are already high. More saving for retirement, the another prominent solution, works in countries with a low saving rate but will fail in countries where the saving rate is high and much of it is already spent on old-age provision.

The second reason for shifting the discussions’ focus is more important. Citizens in those countries which have the largest pay-as-you-go pension systems and the most vulnerable labour markets (France, Germany, and Italy) show remarkable resistance against pension and labour market reform. Little is known about how to overcome straightforward opposition to reform, and even less is known about long-term negative behavioral reactions to originally successful reforms. While the economists’ profession may know the “solutions”, societies appear not to know how to successfully implement them.<sup>340</sup>

Four examples, which demonstrate that quite many “conflicts” are artifacts generated by the following myths and misconceptions.

*First*, there are misconceptions about the force of demography. They reach from disbelief to total gloom. One set of misconceived beliefs stresses that aging has been going on since the turn of the 20th century with the rapid decline in birth rates after the European industrialization. Europe has been growing since, hence there is nothing to be afraid of. If at all, demographic change is used as a pretense to redistribute from the poor to the rich.

Another set of misconceived beliefs, Germany, ends on the note that demography is our destiny and nothing can be done about it.

<sup>339</sup> <http://www.issa.int/News-Events/News2/Analysis-Keeping-older-workers-in-employment-A-policy-success/%28language%29eng-GB> (04.02.2011)

<sup>340</sup> Axel Börsch-Supan: Myth and misconceptions about aging in Old Europe, <http://www.global-economic-symposium.org/solutions/the-global-society/financing-old-age/strategyerspectivefolder/myth-and-misconceptions-about-aging-in-old-europe> (17.05.2011)

Both are wrong. The paper “Old Europe ages: Reforms and Reform Backlashes” by Axel Börsch-Supan & Alexander Ludwig shows that the force of population aging suffices to significantly reduce living standards in Old Europe vis-à-vis the rest of the developed world. The paper also shows that the combination of pension and labour market reform can more or less fully compensate for the effects of population aging. The lesson is: first, there is something to be worried about, actually quite much is at stake, and second, it is well worth going through the trouble of reforms.<sup>341</sup>

*Second*, there are misconceptions about who profits and who loses from reform. The worst enemy of labour market reforms encouraging more work, particularly among older individuals, such as an increase in the statutory retirement age, is the misconceived belief that the old take jobs away from the young. The paper “Early Retirement and Employment of the Young in Germany” by Axel Börsch-Supan & Reinhold Schnabel shows that large decreases in employment of the old have not concurred with increases in the employment of the young, and that increases in the effective retirement age have not concurred with rising unemployment rates of the young. If there is a correlation at all in the data, it suggests that higher employment of the old has also helped to employ more young people. The most likely reason is not difficult to communicate: Later retirement reduces pension contributions and payroll taxes in the pay-as-you-go systems of Old Europe which are actuarially unfair. Lower pension contributions and payroll taxes reduce total labour compensation. Lower labour costs encourage companies to hire more workers.<sup>342</sup>

*Third*, there are misconceptions about older workers. Another enemy of later retirement age is the misconceived belief that older workers are less productive than younger workers. There is not much literature on this topic. One set of studies compares entire companies with slightly different age structures. Such studies are difficult to interpret because of selection and aggregation effects: output of apples and oranges has to be made comparable, and new quickly growing companies tend to have young employees. Another set of studies uses qualitative data such as supervisors’ evaluations. They tend to perpetuate misconceptions. Then there are of course the many studies on cognitive and physical abilities. They tend to decline from about age 30 on. They may, however, be of little relevance in a service and knowledge-oriented modern society. Studies on top performers (Nobel laureates and top athletes) ignore that day-to-day business for most employees is about a steady average performance. Few studies have a clear experiment with comparable output and a relevant measure of productivity. The paper “Productivity and the Age Composition of Work Teams: Evidence from the Assembly

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<sup>341</sup> Börsch-Supan, Axel H., and Alexander Ludwig, (2010), “Old Europe ages: reforms and reform backlashes”, *NBER working paper series*, 15744, Cambridge p.46.

<sup>342</sup> Börsch-Supan, Axel, and Reinhold Schnabel, (2010), “Early Retirement and Employment of the Young in Germany” in Jonathan Gruber and David A. Wise, *Social Security Programs and Retirement around the World: The Relationship to Youth Employment*, National Bureau of Economic Research, Inc. pages 2-21

Line” by Axel Börsch-Supan and Düzgün and Weiss, shows no signs of declining productivity until the mandatory retirement age of 65, even after controlling for a possible selection of less productive workers through selective early retirement policies.<sup>343</sup>

*Fourth* and finally, there are misconceptions about the health of older workers. Bad health is indeed a good predictor of early retirement, but it is far from being the only one. In fact, health is a very bad predictor for international variations in retirement. The paper on “Work Disability: The Effects of Demography, Health, and Disability Insurance” by Axel Börsch-Supan makes the point using the new SHARE data, a unique source for interactions between health and employment in Europe. It takes disability insurance as an example.<sup>344</sup> One should think that disability insurance is most closely linked to health and least closely to tastes for early retirement. This is not true. The paper shows that even in disability insurance, health is a much worse predictor for enrolment than institutional features such as the coverage, the minimum disability level required, and the benefit generosity of the disability insurance system.

All quoted misconceptions are enemies of reform. Ignoring demography is folly; evoking gloom discourages reform. Employing older workers helps the young to be employed, and it can profitably be done because older workers are as productive as their younger colleagues and generally of good health, thanks to better medical attention – which has increased the length of life with unexpected speed and steadiness, which is, after all, one reason for population aging.<sup>345</sup>

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<sup>343</sup> Börsch-Supan, Axel, and Matthias Weiss, (2011), “Productivity and age: Evidence from work teams at the assembly line”, *MEA discussion paper series* 07148, Munich Center for the Economics of Aging (MEA) at the Max Planck Institute for Social Law and Social Policy pages 2-23

<sup>344</sup> Börsch-Supan, Axel (2010), “Work Disability: The Effects of Demography, Health, and Disability Insurance” in. David A. Wise, *Research Findings in the Economics of Aging*, The University of Chicago Press. pages 37-38

<sup>345</sup> Börsch-Supan, Axel, (2008), Myth and misconceptions about aging in Old Europe. <http://www.global-economic-symposium.org/solutions/the-global-society/financing-old-age/strategyperspectivefolder/myth-and-misconceptions-about-aging-in-old-europe> (17.05.2011)



## Chapter 10

### Active labour market programs and alternative solutions

#### Introduction

##### 1. The role of the active labour market policy

The concept of activation has gradually gained prominence across Europe in last years, and is today an important keyword of EU labour market policy. Most narrowly, it involves developing tighter links between unemployment protection policies and active labour market policies. More broadly, activation is about increasing labour market entry and participation, and phasing out temporary labour market exit options for working age claimants (early retirement, disability, etc.). In its narrow and sometimes also its broad meaning, activation implies making established welfare rights more conditional on job seeking efforts. Partly for this reason, activation has also been a theme in recent comparative studies on unemployment protection.<sup>346</sup>

Empirically, these studies first concentrated on the cross-national development of policies for classic activation targets, such as the unemployed<sup>347</sup>, <sup>348</sup> or working-age social assistance claimants<sup>349</sup>. More recently, some analysts have pointed out that the increasing “employment orientation” in social policy has implications for whole national social protection systems, and have drawn pension policies or national tax systems into more holistic comparative assessments of activation dynamics.<sup>350</sup>

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<sup>346</sup> Clasen, Jochen, and Daniel Clegg, (2006), “Beyond Activation: Reforming European Unemployment Protection Systems” in *Post-Industrial Labour Markets*, Vol. 8, no. 4, Routledge UK, pages 527-528

<sup>347</sup> Neil Gilbert and Rebeaca A. Van Voorhis, (2001), *Activating the unemployed*. ISSA

<sup>348</sup> <http://www.svt.ntnu.no/iss/Bjorn.Hvinden/Scan0245.pdf> (02.04.2011)

<sup>349</sup> I. Lødemel and H. Trickey (eds), (2001), *An offer you can't refuse – Workfare in international perspective*, Bristol, The Policy Press

<sup>350</sup> Barbier, Jean-Claude, and Wolfgang Ludwig-Mayerhofer, (2004), “Introduction: the many worlds of activation.” *European Societies* Vol. 6, No 4, pages 423-436.

Broader system approaches to activation have challenged this impression of a cross-national convergence, however, and argued that when placed in their societal context distinctive types of activation can in fact be identified. Thus, alongside “liberal” activation, which emphasises the extensive use of taxcredits to subsidise low-paid work, limits the role of social policies or active labour market programmes and implies only modest efforts in training and skill enhancement,<sup>351</sup> also identifies a “universalistic” activation, which continues to provide high standards of social protection, and emphasises training, skill development and the quality of employment.

The traditional passive strategy towards unemployed people leads to an increasing number of people living on income support and a growing and larger group of people excluded from the labour market. To allow a better transition between the phase of unemployment and a job, a growing number of activation measures have been adopted in the social security systems.

All these active labour market measures should be seen as encouragement to find new employment.<sup>352</sup>

In addition, some Member States increased spending and/or raised the effectiveness of their active labour market programmes, for example, by increasing the effectiveness of job search assistance (Belgium and Slovakia), by providing targeted training for the unemployed (Austria) or by introducing “in-work” benefits (Sweden and France) or a return to work bonus for long-term unemployed (France). Some countries also subsidise self-employment. This happens for example in Germany, Greece, Lithuania, Slovakia and Latvia. Other Member States rather focused on strengthening the individual responsibility of job seekers, for instance by increasing the conditionality of unemployment benefits, a more stringent monitoring of job search activities and by making job seekers’ rights and obligations more explicit in contracts concluded between the job seeker and the employment service. A number of Member States intensified the internal cooperation between the different agencies serving job seekers. Examples of this can be found in the Netherlands, Ireland, Hungary, Malta and Slovakia.<sup>353</sup>

While the condition for looking for a job or accepting suitable employment offers is already since many years a condition in the Member States for obtaining unemployment benefits, a further strengthening of these conditions can be noticed during these last years in several Member States. In different countries there is a clear tendency to individualise this condition for looking for work and to follow-up (and examine more closely) the circumstances of the unemployed person. (Table 10)

<sup>351</sup> Barbier, Jean-Claude, and Wolfgang Ludwig-Mayerhofer, (2004), “Introduction: the many worlds of activation.” *European Societies* Vol. 6, No 4, pages 423-436.

<sup>352</sup> [http://missoc.org/MISSOC2010/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2008/2008\\_AnalysisI\\_EN.pdf](http://missoc.org/MISSOC2010/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2008/2008_AnalysisI_EN.pdf) (04.05.2011)

<sup>353</sup> [http://missoc.org/MISSOC2010/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2008/2008\\_AnalysisI\\_EN.pdf](http://missoc.org/MISSOC2010/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2008/2008_AnalysisI_EN.pdf) (04.05.2011)

**Table 10.**  
**Active measures to stimulate job search in Europe**

<b>Recently introduced measures in unemployment schemes to stimulate activation</b>	<b>Countries</b>
General obligation (or strengthening of this obligation) to search actively for work as conditions for benefits	AT, BE, CY, EE, FR, LU, SP, PT, FI, SI, SK
Individualised follow-up/personalised action plan of condition to look for work	DK, LT, HU, FR, SE, UK
Stricter sanctions when not actively looking for a job	BE, EE, LT, PT, DE, IT

Source: <http://missoc.org/MISSOC2010>

Related to strengthened activation measures in employment insurance, one can also identify the introduction of further stricter sanctions for unemployed persons that fail to comply with their duty to actively look for a job.<sup>354</sup>

## **2. Social enterprises in Europe**

### **2.1. Types of social enterprises**

According to my perception the existence and activity of social enterprises is part, in a wider sense, of the active labour market policy. However, at the very beginning we must make a distinction between a) commercial enterprise with social objectives<sup>355</sup> and b) social enterprise.

a) Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is fundamentally motivated by the perception that such commitment will ultimately make the enterprise more financially valuable.

b) Social enterprises differ in that, inversely, they do not aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realise their philanthropic goals.

The resource mix of social enterprise in this field is a crucial issue. The key factor here is that usually a disadvantaged workforce cannot work to the same productive level as a non-disadvantaged (especially because of lower skills or physical impairment) in a competitive private market. In some instances, of course, such as in call centres, the nature of the work may mean a person with mobility difficulties can undertake the tasks at an equal level as an able-bodied person. However the general issue remains. This is


<sup>354</sup> For example, in Germany a reduction by 30% of unemployment benefit applies, if one does not make an effort to participate in the labour market or does not accept a reasonable employment. In Italy, an extra sanction was introduced for those people who refused to attend recycling training courses.

<sup>355</sup> This activity could be immanent part of the companies' CSR policy.

conceptualised in Figure 5 where a basic model is shown indicating that, roughly, the higher the degree of disadvantage, the higher the degree of some kind of public sector engagement is required: this may be through direct subsidy or through grants, contracts, preferred procurement strategies or fiscal advantages for a particular contribution an organisation is making. This should not be seen as a negative.<sup>356</sup>

**Figure 5**

**Basic model of degree of public support measures organisations need to engage with people with high or low disadvantaged people**

<b>Organisations:</b> More public sector support measures	<b>Organisations:</b> Less or no public support measures
	
<b>People:</b> Highly disadvantaged in the labour market	<b>People:</b> Low disadvantaged in the labour market

Source:<sup>357</sup>

<sup>356</sup> Aiken, Mike, (2007), "What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?"

<http://www.the-box.org.uk/assets/files/se%20and%20employment%20-%20cab%20office.pdf> (14. 04. 2011)

<sup>357</sup> Aiken, Mike, (2007), "What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?"

<http://www.the-box.org.uk/assets/files/se%20and%20employment%20-%20cab%20office.pdf> (14. 04. 2011)

**Figure 6**  
**Claimed advantages of social enterprises creating work with disadvantaged groups**

<b>About relation with client or users</b> <ul style="list-style-type: none"> <li>▪ close to the user</li> <li>▪ more holistic and empathetic to the user</li> <li>▪ more trusting relation with the user</li> </ul>
<b>About the service</b> <ul style="list-style-type: none"> <li>▪ can reach the highly disadvantaged</li> <li>▪ can facilitate wider social inclusion for disadvantaged people.</li> <li>▪ can deal with highly disadvantaged by offering multiple and flexible opportunities</li> <li>▪ provides a better quality service</li> </ul>
<b>About the wider community links</b> <ul style="list-style-type: none"> <li>▪ close to the community</li> <li>▪ can make local connections to wide range of other organisations</li> <li>▪ delivers wider benefits: social and environmental</li> </ul>
<b>About the organisational roles</b> <ul style="list-style-type: none"> <li>▪ good local intelligence</li> <li>▪ can offer innovation and develop niche markets</li> <li>▪ promise of financial sustainability</li> </ul>

Source: <sup>358</sup>

The aim here is to give illustrations of the range of types of organisations and to indicate that they may have *different forms* as well as *differing emphases* to employment initiative. The mostly known types of social enterprise could be identified as follows:

- (a) worker co-operatives,
- (b) social firms,
- (c) community businesses,
- (d) Intermediate Labour Market Organisations (ILMs), and
- (e) voluntary organisations with embedded or arm's-length employment initiatives.

**(a) Worker co-operatives** tended to be small but offered permanent work – they took on staff who were disadvantaged to a degree but were not necessarily equipped to deal, financially or professionally, with large numbers of severely disadvantaged people while still retaining economic success.

<sup>358</sup> Aiken, Mike, (2007), "What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?"  
<http://www.the-box.org.uk/assets/files/se%20and%20employment%20-%20cab%20office.pdf> (14. 04. 2011)

**(b) Social firms** have been of growing importance over the last 10-15 years as specialists in creating employment for disadvantaged groups. Social firms need to generate more than 50% of their income through the trading of products and services and, significantly, contract income to provide work experience or training is not counted as part of that trading income (unless disadvantaged people were, employed, say, to deliver training). Social firms are thus quite distinctive from, for example, sheltered workshops, which in effect receive wage subsidies from the public purse. Social firms are also distinctive from organisations that are primarily placing people into work in other organisations through public sector contracting. Social firms aim to operate in commercial markets, like many worker co-ops, while maintaining a high focus on job creation for severely disadvantaged people. They have thus set themselves highly ambitious targets in aiming for commercial success and job creation for the highly disadvantaged.<sup>359</sup>

**(c) Community businesses**<sup>360</sup> was designed to describe organisations trading in commercial markets; sometimes competing with the private sector for public sector contracts for activities such as delivering second-hand furniture, they usually had a trading company (limited by share or guarantee). This provides freedom from public sector managerialism, but is probably only effective where trainees are not far from the labour market.<sup>361</sup>

**(d) Intermediate Labour Market organisations** tend towards short-term training and employment offering productive work (recycling IT or white goods, landscape gardening, etc.) with the aim of trainees moving into paid work in other organisations. Nevertheless, some trainees do go on to become core members of staff within the ILM as vacancies arise. ILMs, with their high training element and larger-scale operations, may be working with highly disadvantaged people, and will tend to be dependent on some degree of public sector contracting.<sup>362</sup>

## 2.2. Main criterias of social enterprises

One of the best established European research networks in the field, EMES, gives a more articulated criterions of social enterprises – a Weberian 'ideal type' rather than a prescriptive definition – which relies on nine fuzzy criteria:

<sup>359</sup> <http://socialfirmseurope.org/> (25.01.2011)

<sup>360</sup> This is a term which increasingly less used.

<sup>361</sup> Spear, Roger and Mike Aiken., (2003), "Gateways into Employment: UK work integration", *NCVO Research Conference*, Birmingham, UK, 2-3 Sept 2003 ([www.technology.open.ac.uk/cru/publicatold.htm](http://www.technology.open.ac.uk/cru/publicatold.htm)) (25.01.2011)

<sup>362</sup> Local Works is facilitated by Inclusion (formerly CESI). [www.cesi.org.uk](http://www.cesi.org.uk) (17.02.2011)

**A) Economic criteria:**

1. continuous activity of the **production** and/or sale of goods and services (rather than predominantly advisory or grant-giving functions).
2. a high level of **autonomy**: social enterprises are created voluntarily by groups of citizens and are managed by them, and not directly or indirectly by public authorities or private companies, even if they may benefit from grants and donations. Their shareholders have the right to participate (“voice”) and to leave the organisation (“exit”).
3. a significant economic **risk**: the financial viability of social enterprises depends on the efforts of their members, who have the responsibility of ensuring adequate financial resources, unlike most public institutions.
4. social enterprises' activities require a minimum number of **paid workers**, although, like traditional non-profit organisations, social enterprises may combine financial and non-financial resources, voluntary and paid work.

**B) Social criteria:**

5. an explicit aim of **community benefit**: one of the principal aims of social enterprises is to serve the community or a specific group of people. To the same end, they also promote a sense of social responsibility at local level.
6. **citizen initiative**: social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another.
7. decision making **not based on capital ownership**: this generally means the principle of “one member” one vote“, or at least a voting power not based on capital shares. Although capital owners in social enterprises play an important role, decision-making rights are shared with other shareholders.
8. **participatory** character, involving those affected by the activity: the users of social enterprises' services are represented and participate in their structures. In many cases one of the objectives is to strengthen democracy at local level through economic activity.
9. **limited distribution of profit**: social enterprises include organisations that totally prohibit profit distribution as well as organisations such as co-operatives, which may

distribute their profit only to a limited degree, thus avoiding profit maximising behaviour.<sup>363</sup>

The literature characterises social enterprises as often having multiple objectives, multiple stakeholders and multiple sources of funding. However their objectives tend to fall into three categories:

- a) integration of disadvantaged people through work (Work Integration Social Enterprises or WISEs),
- b) provision of social, community and environmental services, and
- c) ethical trading such as fair trade.

### 2.3. Social enterprises in European countries

Despite, and sometimes in contradiction to, such academic work, the term social enterprise is being picked up and used in different ways in various European countries:

Social enterprise as a concept is just about to enter **Danish** discourse on social cohesion,<sup>364</sup> but it has primarily been used so far as part of an active labour market policy, with an ambition to make traditional enterprises – and especially Small and Medium-sized Enterprises (SMEs) – more socially responsible in matters of integration of unemployed persons into the labour market.

In **Finland** a law was passed in 2004 that defines a social enterprise as being any sort of enterprise that is entered on the relevant register and at least 30% of whose employees are disabled or long-term unemployed. As of March 2007, 91 such enterprises had been registered, the largest with 50 employees. According to this Act, a social enterprise, whatever its legal status, is a market-oriented enterprise created for employing people with disabilities or long-term unemployed.<sup>365</sup>

**Italy** passed a law in 2005 on *imprese sociali*, to which the government has given form and definition by Legislative Decree, 24 March 2006, No. 155. Under Italian law a social enterprise is a private entity that provides social utility goods and services, acting for the common interest and not for profit. The first general aspect that has to be highlighted is that a social enterprise is neither a new legal form, nor a new type of organization, but a legal category in which all eligible organizations may be included, regardless of their internal organizational structure. Therefore, the eligible organizations

<sup>363</sup> The Social Enterprise Sector: A Conceptual Framework, Organisation for Economic Co-operation and Development Local Economic and Employment Development Programme, Seminar on “Reviewing OECD Experience in the Social Enterprise Sector”, Trento, Italy, 15-18 November 2006, pages 1-2

<sup>364</sup> Hulgård, Lars, and Thomas Bisballe, (2004), “Work Integration Social enterprises in Denmark”, EMES Working Papers, No. 04/08, Liege: EMES European Research Network.

<sup>365</sup> Tejvan Pettinger (2990), “Solutions to Unemployment” <http://econ.economicshelp.org/2009/10/solutions-to-unemployment.html> (20 May 2011)



could in theory be cooperatives (i.e. employee-, producer-, or customer-owned firms), investor-owned firms (i.e. business corporations), or traditional non-profit organizations (i.e. associations and foundations). This is the so-called principle of “neutrality of the legal forms” adopted by the Italian law. Hence, social enterprise is like a legal “brand” that all eligible organizations can obtain and use in the marketplace. The requirements are: – being a private organization; – performing an entrepreneurial activity of production of social utility goods and services;<sup>366</sup> – acting for the common interest and not for profit. In order to be defined as a social enterprise, an organization needs to simultaneously possess all these attributes.

In an effort to develop social enterprises and measure social impact, the Italian governmental work placement agency – Italia Lavoro – has developed a method to calculate the social efficiency of their project, from an economic point of view.<sup>367</sup> Since 1997, Italia Lavoro provides work placements to people with mental, social, physical or health disadvantages. To this aim, they help people who have fallen out of the general work system to reintegrate society through the creation of small and medium non-profit enterprises.

Also intended to generate more social enterprises is the non-profit cooperative named “Make a Change”. “Make a Change” provides financial, operational and management support to social start-ups. In 2010 they organized the first edition of a contest to elect the “Social entrepreneur of the year”,<sup>368</sup> as well as another contest entitled “The World's Most Beautiful Job”.<sup>369</sup>

**Portugal.** In several other European countries, even when the term of social enterprise is still relatively absent, both from mainstream policy and scientific debate, it also appears, when used, as associated with the issue of active labour market policies. In Portugal, for instance, there is an on-going debate about the role of third sector organisations when they support the creation of integration companies (*empresas de inserção*) in the “social employment market”, which aims to reintegrate disadvantaged persons through work.

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<sup>366</sup> The Law prescribes that this must be the main activity, that is, it has to account for at least 70% of the total income of the organization

<sup>367</sup> For example, they measure the economic value to the society of providing a job to a disabled person.

<sup>368</sup> In 2010 the winner of the former was the social cooperative “Cauto”, which manages the whole trash life-cycle in the province of Brescia. Cauto's workforce is composed by 1/3 of disabled and disadvantaged individuals.

<sup>369</sup> Winner of the “World's Most Beautiful Job” prize was the project “Tavern of the Good and Bad” by the group Domus de luna from Cagliari. The tavern employs mums and children who just exited rehabilitation programs. The prize consisted of a financial aid of 30.000 euro and 12 months of professional consulting and support. The prize-giving ceremony was included in the program of the Global Entrepreneurship Week.

**Scotland.** In Scotland, social enterprise<sup>370</sup> is a devolved function and is part of the remit of the Scottish Government. Activities are co-ordinated by the Scottish Social Enterprise Coalition, and intellectual leadership is provided by the Social Enterprise Institute at Herriot-Watt University Edinburgh. Sencot based in Edinburgh supports social entrepreneurs through a variety of activities including a weekly email bulletin, etc. The Social Enterprise Academy “deliver leadership, enterprise, and social impact programmes” throughout Scotland and further support is provided by Development Trusts Association Scotland and Co-operative Development Scotland.

**Spain's** national Parliament voted a law on work integration enterprises.<sup>371</sup> It should be noted that these different legislations do not define any new legal form; they rather create a tool like an official register for social enterprises.

In **Sweden**, the term “social co-operative” (*sociale kooperativ*) has become synonymous with “work integration social enterprise”, even though the Swedish landscape is also characterized by the development of social entrepreneurial dynamics in the field of personal services, for example under the form of parent or worker co-operatives and voluntary (commonly multi-stakeholder) associations.

**United Kingdom.** The original use of the term social enterprise was first developed by Freer Spreckley in 1978, and later included in a publication called Social Audit – A Management Tool for Co-operative Working published in 1981 by Beechwood College. In the original publication the term social enterprise was developed to describe an organisation that uses Social Audit. Freer went on to describe a social enterprise as: an enterprise that is owned by those who work in it and/or reside in a given locality, is governed by registered social as well as commercial aims and objectives and run co-operatively may be termed a social enterprise. Traditionally, “capital hires labour” with the overriding emphasis on making a “profit” over and above any benefit either to the business itself or the workforce. Contrasted to this is the social enterprise where “labour hires capital” with the emphasis on social, environmental and financial benefit. Later on the three areas of social, environmental and financial benefits used for measuring social enterprise became known as the Triple Bottom Line<sup>372 373</sup>.

In the British context, social enterprises include community enterprises, credit unions, trading arms of charities, employee-owned businesses, co-operatives, development trusts, housing associations, social firms, and leisure trusts.

<sup>370</sup> Some well known social enterprises include John Lewis, Welsh Water (Dŵr Cymru), Cafédirect, The Eden Project, Divine Chocolate (Kuapa Kokoo), The Big Issue, the Co-operative Group, Duchy Originals, and the London Symphony Orchestra.

<sup>371</sup> In December 2007.

<sup>372</sup> In brief: Financial, social, and environmental effects of a firm’s policies and actions that determine its viability as a sustainable organization.

<sup>373</sup> <http://www.economist.com/node/14301663>

Whereas conventional businesses distribute their profit among shareholders, in social enterprises the surplus tends to go towards one or more social aims which the business has – for example education for the poor, vocational training for disabled people, environmental issues or for animal rights. However, social enterprises are distinct from charities (although charities are also increasingly looking at ways of maximising income from trading), and from private sector companies with policies on corporate social responsibility. An emerging view, however, is that social enterprise is a particular type of trading activity that sometimes gives rise to distinct organisation forms reflecting a commitment to social cause working with stakeholders from more than one sector of the economy.

The first agency in the UK – Social Enterprise London (SEL) – was established in 1998 after collaboration between co-operative businesses (Poptel, Computercraft Ltd, Calverts Press, Artzone), a number of co-operative development agencies (CDAs), and infrastructure bodies supporting co-operative enterprise development (Co-operative Training London, Co-operative Party, London ICOM, Co-operatives UK). SEL's first chief executive, Jonathan Bland, brought experience from Valencia where a business support infrastructure for co-operative enterprise was established using learning from the Mondragon region of Spain. SEL did more than provide support to emerging businesses. It created a community of interest by working with the London Development Agency (LDA) to establish both an undergraduate degree in social enterprise at the University of East London and a Social Enterprise Journal (now managed by Liverpool John Moores University and published by Emerald Publishing).

Two years later, The National Council for Voluntary Organisations (NCVO) established the Sustainable Funding Project. Using funds from Futurebuilders, Centrica and Charity Bank, this project promoted the concept of sustainability through trading to voluntary groups and charities.

In 2002, the British government launched a unified Social Enterprise Strategy, and established a Social Enterprise Unit (SEnU) to co-ordinate its implementation in England and Wales. After a consultation on a new type of company (see CIC below), policy development was increasingly influenced by organisations in the conventional “non-profit” sector rather than those with their origins in employee-ownership and co-operative sectors.

### **The CIC in the UK**

The UK has also developed a new legal form called the community interest company (CIC). CICs are a new type of limited company designed specifically for those wishing to operate for the benefit of the community rather than for the benefit of the owners of the company. This means that a CIC cannot be formed or used solely for the personal gain of a particular person, or group of people. Legislation caps the level of dividends payable at 35% of profits and returns to individuals are capped at 4% above the bank base rate.

CICs can be limited by shares, or by guarantee, and will have a statutory “asset lock” to prevent the assets and profits being distributed, except as permitted by legislation. This ensures the assets and profits are retained within the CIC for community purposes, or transferred to another asset-locked organisation, such as another CIC or charity.

A CIC cannot be formed to support political activities and a company that is a charity cannot be a CIC, unless it gives up its charitable status. However, a charity may apply to register a CIC as a subsidiary company.

The national body for the social enterprise movement in Britain is the Social Enterprise Coalition (SEC) and this liaises with similar groups in each region of England, and in Northern Ireland, Scotland & Wales. The definition of social enterprise propagated by the SEC is slightly broader than the original DTI definition and acknowledged that the social purpose of an organisation can be “embedded in its structure and governance”. As such, social businesses that adopt inclusive governance structures and employee-ownership are brought fully into the fold of the movement.

***Social Enterprise Mark:*** In February 2010 the Social Enterprise Coalition launched the new Social Enterprise Mark (branding). Like the Fair Trade brand, the Social Enterprise Mark aims to increase the visibility of socially motivated businesses. More than this, the mark represents the growing commercial identity of social enterprises and a deliberate attempt to carve out a recognisable niche for such organisations in the business community. Qualification for the mark requires that a business conform to set criteria, e.g. companies must earn at least 50% of their income from trade and spend at least 50% of their profits on socially beneficial purposes. The mark has been received with

mixed responses in some corners with suggestions that the qualifying criteria is not strict enough.

Social Firm is the British term for a *work integration social enterprise (WISE)*, a business created to employ people who have a disability or are otherwise disadvantaged in the labour market. Its commercial and production activities are undertaken in the context of a social mission, with profits going back into the company to further its goals. A significant number of the employees of social firms will be people with a disability or disadvantage, including psychiatric disabilities. The firms grew out of disillusionment with mainstream businesses, and the failure to recognise or enable everyone's potential. All workers are paid a market-rate wage or salary that is appropriate to the work. All employees are intended to have the same employment opportunities, rights and obligations.<sup>374</sup>

## 2.4. The Central and Eastern European Countries

There has not been yet a study of the realities of social enterprises in the Central and Eastern European Countries (CEEC) comparable to the one conducted by EMES in the 15 countries which constituted the European Union before its enlargement.

Nonetheless, based on available information and the conferences already held on the topic<sup>375</sup>, it is possible to highlight some general trends. In contrast to the situation in Western Europe, where social enterprises are currently undergoing a renewal, several obstacles are slowing the growth of social enterprises in the CEEC:<sup>376</sup>

1. the dominance of the “transition myth” which, until now, induced policies highly reliant on the creation of a free market and failing to appreciate the value of “alternative” organisations and enterprises as *bona fide* forces for local and national development,
2. cultural opposition to co-operatives and a belief that they are somehow politically suspect. In many countries, there is a negative perception of old co-operatives as organisations with ties to former Communist regimes – even though many of these organisations were actually created before the Communist era,
3. an excessive dependence of social enterprises on donors, combined with a limited view of the role that alternative organisations can play,<sup>377</sup>

<sup>374</sup> Tejvan Pettinger (2990), “Solutions to Unemployment” <http://econ.economicshelp.org/2009/10/solutions-to-unemployment.html> (20 May 2011)

<sup>375</sup> Such as the October 2002 Prague Conference “Enlarging the Social Economy”.

<sup>376</sup> Borzaga, Carlo and Giulia Galera, (2004), “Social Economy in Transition Economies: Realities and Perspectives”. Discussion Paper presented at the First Meeting of the Scientific Group on Social Economy and Social Innovation of the OECD Centre for Local Development, Trento, Italy. 2004. pages 1-15.

<sup>377</sup> As regards associations, it appears that many NGOs are created, but they often suffer from two weaknesses. First, they are highly dependent on external donor agencies – especially American foundations – that tend to use them for their own purposes and significantly limit their autonomy. Second, while NGOs

4. a lack of legal frameworks to regulate co-operatives and other nonprofit organisations,
5. a general lack of confidence in solidarity movements – the concept of solidarity being used primarily to describe an individual's relationship with friends and family – and a view of economic activity orientated towards the pursuit of personal gain, rather than as an activity with positive benefits for the community as a whole,
6. the predominance of a “parochial” political culture inducing, among social economy actors, a tendency to limit their horizons to the pursuit of their immediate interests, and
7. the difficulty in mobilising the necessary resources.

However, despite the cultural, political and legal difficulties they face, both traditional co-operatives and the new generation of non-profit organisations display real potential for growth.

The OECD's Centre for Local Development<sup>378</sup> has noted that when co-operatives return to their roots, they can play an important role in regions with underdeveloped markets. This is true of Poland and Hungary, for example, where interesting co-operative initiatives have arisen in different areas, including credit, housing and agriculture. It is also true of Estonia, where the co-operative sector, which took off in the 1990s, has now become a cornerstone of Estonia's social economy, among others through the creation of the Estonian Union of Co-operative Housing Association. The co-operative housing movement in Estonia has made remarkable progress; 55% of the population now lives in co-operative housing units.<sup>379</sup>

Meanwhile, new forms of social entrepreneurship are emerging in Eastern Europe. They are starting to provide services of general interest redressing the failures of the social system. There are now associations in all CEEC, and foundations in all except Latvia and Lithuania. In addition to associations and foundations, about half of the CEEC have created at least one new type of social organisation:

*First*, some countries have established a distinction between grant-making organisations and organisations providing services. They classify foundations as grant-making organisations, and created a new legal form for non-governmental organisations without an associative basis which are either grant-seeking or income generating organisations. These NGOs are most often organisations providing services, such as private hospitals

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sometimes emerge as forces that are certainly associative, they are often less an authentic expression of civil society than the upshot of strategies linked to funding opportunities

<sup>378</sup> Borzaga, Carlo and Giulia Galera, (2004), “Social Economy in Transition Economies: Realities and Perspectives”. Discussion Paper presented at the First Meeting of the Scientific Group on Social Economy and Social Innovation of the OECD Centre for Local Development, Trento, Italy. 2004. pages 1-15.

<sup>379</sup> Today, this association consists of 7,500 housing co-operatives (out of a total of 16,500 non-profit organisations across the country).

or training centres or institutes. The designation for these organisations varies from country to country.<sup>380</sup>

*Second*, in addition to foundations, most of which function over the long term, several countries have created a second form of grant-making organisation: the fund.

In Croatia, for example, funds are differentiated from foundations in that the former must set themselves short-term targets (less than 5 years). Similarly, the Czech Republic recognizes funds that, unlike foundations, do not require an initial grant.

*Third*, a few countries have created “open foundations”, which result from the convergence of some associations and foundations. Like classic foundations, open foundations commit their resources to a particular cause, usually of public interest. However, they differ from classic foundations in that their founding members' committees are open to new co-founders. Furthermore, open foundations can exclude founding members who do not meet their obligations. Latvia classifies open foundations as a particular type of public organisations, while Lithuania applies the same classification to its charity and support funds. The founding members of open foundations generally have the power to control the activities of their organisations; in Lithuania and Latvia, for example, they constitute the organisation's highest decisionmaking body.

Lastly, in the *Czech Republic, Hungary and Slovakia*, new types of non-profit organisations, closely related in form to Great Britain's Community Interest Company (CIC), were recently granted legal frameworks. In Hungary, public interest companies provide public services, while pursuing economic activities to raise funds for these services. To obtain the legal status of “major community interest”, they are obliged to fulfil two additional conditions: (i) offer services usually provided by public institutions, and (ii) publish their annual financial statements and information on their activities. In this case, public interest organisations can claim additional assistance from the government and a better taxation rate than that obtained by other non-profit organisations.

In the Czech Republic a working party stemming from the development partnerships in the EQUAL programme agreed on the following distinctions:<sup>381</sup>

**a) Social economy:** It is a complex of autonomous private activities realized by different types of organizations that have the aim to serve their members or local community first of all by doing business. The social economy is oriented on solving issues of unemployment, social coherence and local development. It is created and developed on the base of concept of triple bottom line – economic, social and environmental benefits. Social economy enables citizens to get involved actively in the

<sup>380</sup> In the Czech Republic, for example, they are called “public interest companies”.

<sup>381</sup> April 2008

regional development. Making profit/surplus is desirable, however is not a primary goal.

**b) Social entrepreneurship:** Social entrepreneurship develops independent business activities and is active on the market in order to solve issues of employment, social coherence and local development. Its activities support solidarity, social inclusion and growth of social capital mainly on local level with the maximum respect of sustainable development. Social entrepreneurship is defined very broadly. Beside employment of the people disadvantaged at the labour market it also includes organizations providing public benefit services in the area of social inclusion and local development including environmental activities, individuals from the disadvantaged groups active in business and also complementary activities of NGOs destined to reinvest profit into the main public benefit activity of an organization.

**c) Social enterprise:** Social enterprise means “a subject of social entrepreneurship”, i.e. legal entity or its part or a natural person which fulfils principles of the social enterprise; social enterprise must have appropriate trade license. The legal form a social enterprise takes is not important, however they must be subject of private law. According to the existing legal system, they can function in a form of cooperatives, civic associations, public benefit associations, church legal entities, Ltd., stock companies and sole traders. Budgetary organizations and municipalities should not be social enterprises as they are not autonomous – they are parts of public administration.<sup>382</sup>

**Poland** also passed an Act on Social Co-operatives in 2006, specifically intended for the work integration of particular needy groups (such as ex-convicts, long-term unemployed, disabled persons and former alcohol or drug addicts).<sup>383</sup>

In sum, despite the problems associated, among others, to the process of economic transition in which CEEC are engaged, social enterprises and the social economy are showing significant growth potential. The new associative models that have emerged in Eastern Europe confirm the relevance of the social enterprise model.<sup>384</sup>

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<sup>382</sup> Tejvan Pettinger (2990), “Solutions to Unemployment” <http://econ.economicshelp.org/2009/10/solutions-to-unemployment.html> (20 May 2011)

<sup>383</sup> Tejvan Pettinger (2990), “Solutions to Unemployment” <http://econ.economicshelp.org/2009/10/solutions-to-unemployment.html> (20 May 2011)

<sup>384</sup> Jacques Defourny and Marthe Nyssens (eds.), (2008), “Social Enterprise in Europe: Recent Trends and Developments” [http://www.emes.net/fileadmin/emes/PDF\\_files/PERSE/PERSE\\_WP\\_02-02\\_I.pdf](http://www.emes.net/fileadmin/emes/PDF_files/PERSE/PERSE_WP_02-02_I.pdf) (24.04.2011)



## 2.5. The future of social enterprise beyond work integration

Although the work integration of disadvantaged people is often seen in Europe as a major field for social enterprises, the latter also experienced a significant development in a wide range of other areas.<sup>385</sup>

In Sweden and in France, childcare services are clearly a major field of activity for social enterprises, which are often set up and managed by parents and professionals as a response to a public provision shortage.<sup>386</sup> The same can be said of the UK, which also witnesses a fast growth of social enterprises in social housing and home care services, as well as in a wide spectrum of community and social services, including culture, arts and sports. In Belgium and France, the so-called “proximity services” refer to a variety of personal or collective services offered by social enterprises.

In some countries, like Ireland, the emphasis is put on the role of social enterprises and the social economy in local development. A similar trend may be observed in Greece, where agro- tourist cooperatives are being set up in remote areas, mostly by women.

When looking at new legal frameworks, it appears clearly that the French “collective interest cooperative society”, the Portuguese “social solidarity co-operative”, the Belgian “social purpose company” and the Spanish “social initiative co-operative” are not especially designed for work integration enterprises; the provision of social services is at the heart of the Spanish and Portuguese laws. Even in countries such as Finland and Poland, where current legislations on social enterprises or social co-operatives only focus on work integration, new fields of activity, such as social and community services, are emerging.

In the same line, the Italian law on social enterprise which was passed in 2005 opens up explicitly new fields of “social utility”, such as environmental and eco-system protection, cultural heritage and cultural services, social tourism, research activities and education.

Given all those developments, one might reasonably expect a diversification of social enterprises’ activities throughout the European Union, including in new member states.<sup>387</sup>

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<sup>385</sup> For instance, from the early 1990s, Italian “A-type” social co-operatives, providing social and personal services, underwent a rapid development and hired thousands of highly skilled professionals in the fields of health care, psychology, mental health care and training. Indeed, the number of enterprises and jobs created in such services has always been much larger than in “B-type” (work integration) social co-operatives. (see later)

<sup>386</sup> Fraisse, Laurent, Isabelle Guérin, and J. L. Laville, (2007), “Economie solidaire: des initiatives locales à l’action publique” *Revue Tiers Monde*, No. 190, avril-juin, pages 245-255.

<sup>387</sup> Jacques Defourny and Marthe Nyssens (eds.), (2008), “Social Enterprise in Europe: Recent Trends and Developments”

[http://www.community-wealth.org/\\_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf](http://www.community-wealth.org/_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf)  
(27.04.2011)

### **3. Social co-operatives**

#### **3.1. Co-operatives and sustainable employment**

The co-operative model promotes sustainable employment in sustainable enterprises, and, hence, local development and social cohesion. Co-operatives are owned and controlled by owners-stakeholders who are actively present on the territory, and are aimed to satisfy their common economic, social, cultural and/or environmental needs and aspirations.

Among them, worker and social co-operatives – and other types of employee-owned firms – are owned and controlled by the enterprise staff. The resilience of these enterprises to the present crisis, which has been surveyed, is a good indicator of their capacity to sustain their economic activities and their jobs. In the short-term, their governance and economic model enables them to take rapid joint decisions such as the non redistribution of surpluses to worker-members or cost reductions or even to restructure when needed. In more complex groupings, workers can be rapidly redeployed from one enterprise to another one for some time and be retrained, while maintaining intact the payment of their pension benefits.

In the longer term, they can often generate the joint intelligence needed to invest in innovation and find the appropriate anticipatory solutions for the future. This process is reinforced by the support environment that the enterprise network provides, with dedicated advisory bodies, training systems, banks and non-banking financial institutions, consortia and groups, representative federations and social organisations, which contribute to the long term sustainability of the enterprises and of their workplaces.<sup>388</sup>

#### **3.2. Social co-operatives at the European level**

The European Social Co-operative (ESCOOP) is based on the principles of national and international mutuality and excludes any purpose of private speculation.

ESCOOP has the purpose to pursue the general interest of the community, towards human advancement and the social integration of citizens through the management of:

- 1) socio-health, education and training services for the benefit of underprivileged people, and
- 2) productive activities in which the working integration and/or work placement of socially underprivileged people would be realized.

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<sup>388</sup> <http://www.sustainableemployment.eu/Sustainable-employment-a-key-for,74.html> (14.02.2011)

The co-operative also has the purpose to achieve continuity of employment opportunities in the best possible economic, social and professional conditions, through appropriate management in associate or collective forms of the enterprise in which the employees, members and non-members work.<sup>389</sup>

The social co-operative is perhaps the archetypical social enterprise, in that it combines a businesslike style of operation with a profound attachment to social goals. What distinguishes it from a standard co-operative is that it has multiple stakeholders – usually its workers and its beneficiaries, and often volunteer members as well.

This form of co-operative was pioneered in Italy and has grown most impressively there, although it is also strong in Spain. Belgium and France have also created special legal forms of this type.<sup>390</sup>

### 3.3. Social co-operatives at country level

#### 3.3.1. Italian legislation on social co-operatives

A particularly successful form of multi-stakeholder cooperative is the Italian “social cooperative”. “Type A” social cooperatives bring together providers and beneficiaries of a social service as members. “Type B” social cooperatives bring together permanent workers and previously unemployed people who wish to integrate into the labour market.

In Italy, social co-operatives are defined as follows, according to law 381/91:

- 1) the objective is the general benefit of the community and the social integration of citizens
  - a) type “A” social co-operatives provide health, social or educational services
  - b) type “B” social co-operatives integrate disadvantaged people into the labour market.

The categories of disadvantage they target may include physical and mental disability, drug and alcohol addiction, developmental disorders and problems with the law. However they do not include other factors of disadvantage such as race, sexual orientation or abuse.

- 2) various categories of stakeholder may become members, including paid employees, beneficiaries, volunteers (up to 50% of members), financial

<sup>389</sup> <http://www.escoop.eu/> (12.03.2011)

<sup>390</sup> Fugazza, Marco (2000), “Search Bonuses: An Alternative to Declining Unemployment Benefits?” *CERAS, Ecole Nationale des Ponts et Chaussées*.

investors and public institutions. In type “B” co-operatives at least 30% of the members must be from the disadvantaged target groups

- 3) the co-operative has legal personality and limited liability
- 4) voting is one person one vote
- 5) no more than 80% of profits may be distributed, interest is limited to the bond rate and dissolution is altruistic (assets may not be distributed)

Italian social co-operatives benefit from relief of social insurance charges on their disadvantaged members, but this is the only form of subsidy they receive.

#### **A) Scale of social co-operation in Italy**

A good estimate of the current size of the social co-operative sector in Italy is given by updating the official ISTAT figures from the end of 2001 by an annual growth rate of 10%.<sup>391</sup> This gives totals of 7,100 social co-operatives, with 267,000 members, 223,000 paid employees, 31,000 volunteers and 24,000 disadvantaged people undergoing integration. Combined turnover is around EUR 5 billion. The co-operatives break into three types: 59% type A (social and health services), 33% type B (work integration) and 8% mixed. The average size is 30 workers.<sup>392</sup>

#### **B) Social co-operatives and the Italian state**

Social enterprises supply both labour market integration and care services. They offer a way to meet social needs that is both more efficient than a state sector burdened with intricate personnel regulations and pension liabilities, and of better quality, because of the high relational content that they embody. Their commitment to social goals means that unlike the private sector they are unlikely to resort to cost cutting as a way to increase revenue.

Before the EU Public Procurement Directive, registration as a type “B” social co-operative gave access to public contracts without tendering. The local authorities promoted social co-ops by giving them contracts, because they could deliver services more cheaply than public or private sector provision, and were also more flexible, in particular with regard to personnel. Social co-operatives therefore took on the new services such as home care that had previously been provided within families. They thus enabled women to move into the paid workforce. The sector is now making the transition from an essentially protected status to free market competition for public contracts.<sup>393</sup>

<sup>391</sup> Assumed by the Direzione Generale per gli Ente Cooperativi.

<sup>392</sup> Source: Flaviano Zandonai.

<sup>393</sup> [http://www.wikipreneurship.eu/index.php5?title=Social\\_co-operative](http://www.wikipreneurship.eu/index.php5?title=Social_co-operative) (28.04.2011)

### 3.3.2. Social cooperatives in Belgium, France, Greece, Portugal, Spain and UK

In **Belgium**, the “social purpose company” (*société à finalité sociale*, or SFS, in French; *vennootschap zonder winstoogmerk*, or VSO, in Dutch) legal framework, introduced in 1996, does not focus on the sole co-operative tradition, although it is often combined with the latter. More precisely, this framework is not, strictly speaking, a new legal form, as all types of business corporations can adopt the “social purpose company” label, provided they “are not dedicated to the enrichment of their members”. Therefore, the company must define a profit allocation policy in accordance with its social purpose and provide for procedures allowing each employee to participate in the enterprise’s governance through the ownership of capital shares.

In France and Belgium, these legal innovations have met, up to now, with little success. This may be explained by the fact that they involve a considerable number of requirements which add to those associated with traditional legal forms, without bringing a real value added for the concerned organizations. Unlike the concepts of social economy or solidarity-based economy, which have inspired coalitions of actors for the last twenty years, from both the world of associations and that of co-operatives, and which are increasingly characterised by a social entrepreneurial approach, the notion of social enterprise itself is far from having achieved general recognition in these two countries.

In **Greece**, a status of “limited liability social co-operative” (Κοινωνικός Συνεταιρισμός Περιορισμένης Ευθύνης Κοι.Σ.Π.Ε or *Koinonikos Syneterismos Periorismenis Eufthinis*, KoiSPE) has been designed in 1999 for organizations targeting very specific groups of individuals with psycho-social disabilities and aiming at the socio-professional integration of the latter through a productive activity. These organizations are based on a partnership between individuals of the “target group”, psychiatric hospital workers and institutions from the community.<sup>394</sup> Indeed, this new form of co-operative undertaking brings together employees, users, volunteers, local and regional authorities and any other partner wishing to work together on a given local development project.

The **Portuguese** “social solidarity co-operative” (*cooperativa de solidariedade social*) legal form was created in 1997. This type of co-operative provides services with an objective to foster the integration of vulnerable groups, such as children, people with disabilities and socially disadvantaged families and communities. Portuguese social solidarity co-operatives combine in their membership users of the services, workers and volunteers; they cannot distribute any profit to their members. As for Spain, a national law created the label of “social initiative co-operative” (*cooperativa de iniciativa social*)

<sup>394</sup> Such a multi-stakeholder strategy is also at the heart of the French law, passed in 2002, which defines the “collective interest co-operative society” (*société coopérative d'intérêt collectif*, or SCIC).

in 1999; any type of co-operative providing social services or developing an economic activity aiming at the work integration of socially excluded persons can use this label. Twelve autonomous regions have since developed their own legislation linked to this national law. As their Portuguese counterparts, Spanish social initiative co-operatives cannot distribute any profit, but their organizational forms are usually less oriented to a multi-stakeholder structure than what is the case in some other European countries.<sup>395</sup>

In some European countries, the concept of social enterprise (cooperative) is not part of the political agenda nor of the academic discourse outside a very small circle of experts; this is in particular the case in Germany. The main reason for this probably lies in the fact that the German socio-economic model is based on a wide social partnership agreement around the concept of “social market economy”, understood as a specific articulation between the market and the state to foster socio-economic development. Within such a model, the specific roles of social enterprises – or the social economy as a third sector – are particularly difficult to highlight. Although there exist plenty of not-for-profit organizations characterized by an entrepreneurial approach and addressing emerging social needs, these organizations are not considered as making up a distinct group; they seem to be “split up” in a variety of different “milieus”, each with its own identities.<sup>396</sup>

In sum: The recent introduction of diverse legal frameworks in the national legislation of various European states tends to confirm that we are dealing with a somewhat original kind of entrepreneurship. These legal frameworks are intended to be better suited to these types of initiatives than the traditional non-profit or co-operative structures. It has been already mentioned the new status created in 1991 for Italian social co-operatives. In 1995, Belgium introduced into its legislation the concept of a “social purpose company”, whilst Portugal introduced the “social co-operative with limited liability”. The Spanish law of 1999 about co-operatives provides for the existence of “social services co-operatives”, and specific legal frameworks have been introduced in the various regions. More recently still, France created the “co-operative society of collective interest”, while a new legislation is about to be passed in the United Kingdom regarding the “community interest company”.

These new legal frameworks are designed to encourage the entrepreneurial and commercial dynamics that are an integral part of a social project. They also provide a way of formalising the multi-stakeholder nature of numerous initiatives, by involving

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<sup>395</sup>On this last point, however, it is worth underlining that empirical research has shown that the singlestakeholder character does not seem to jeopardize the multiple-goal nature of social enterprises; the latter can have governing structures made of a single stakeholder category, as it is the case in many traditional co-operatives, and still pursue the satisfaction of the needs of the community at large or of particular disadvantaged groups (Campi et al. 2006). This suggests once more that the borders of the social enterprise phenomenon are not clear-cut ones.

<sup>396</sup>[http://www.community-wealth.org/\\_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf](http://www.community-wealth.org/_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf) (12.05.2011)

the interested parties (paid workers, voluntary workers, users, etc.) in the decision-making process. However, it must be emphasised that except in Italy, the great majority of social enterprises are still using traditional third sector legal forms.<sup>397</sup>

#### 4. Miscellaneous alternative solutions for unemployment

##### 4.1. Encourage to search employment (bonus-malus)

The search bonuses could be a possible alternative to unemployment benefits decreasing with the increase in the length of unemployment. Search bonuses are paid to unemployed workers who find a job within their first period of unemployment. Both job search intensity and wages are determined endogenously. Both policy schemes restore search incentives, but while decreasing unemployment benefits penalize low levels of search effort, search bonuses reward high levels of search effort. In the presence of risk adverse workers, the insurance dimension of unemployment benefits matters. Quantitative exercises indicate that, for a similar impact on the unemployment rate, search bonuses may generate higher welfare levels both at the individual and aggregate level.

It has been shown that search bonuses could replicate declining insurance effects on unemployment.

A declining sequence of unemployment benefits penalizes the long-term unemployed with respect to short-term unemployed workers. This feature explains why the short-term unemployed increase their search effort as the profile of unemployment compensations becomes more decreasing. As to search bonuses, they effectively represent a tangible asset for the short-term unemployed which incite the latter to increase their search efforts. Nevertheless, in contrast to increasing unemployment benefits they are not a "malus" for the long-term unemployed.

They reward the search efforts of short-term unemployed workers without penalizing possible failure and preserve the same insurance properties as a flat profile of unemployment compensation. Thus, from a social welfare point of view, if the respective effects of the two policies on equilibrium values are similar, society should be better off in the search bonus scheme than in the declining UI scheme, always taking as a benchmark an economy paying a flat profile of unemployment benefits. Moreover, search bonuses are likely to satisfy Rawls (1971) justice criterion while this would not be the case for a declining sequence of unemployment compensations.

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<sup>397</sup>Jacques Defourny: "Social Enterprise in an Enlarged Europe: Concept and Realities " [http://www.emes.net/fileadmin/emes/PDF\\_files/PERSE/PERSE\\_WP\\_02-02\\_1.pdf](http://www.emes.net/fileadmin/emes/PDF_files/PERSE/PERSE_WP_02-02_1.pdf) (12.05.2011)

The motivation for such a theoretical exercise was based principally on welfare considerations. Both policy scheme could potentially restore search incentives, and then stimulate unemployment outflow. However, while decreasing unemployment benefits penalize low search effort search bonuses reward high search effort. As individuals are risk adverse the insurance dimension of unemployment benefits matters. In that respect, the different functioning of the two schemes was thought to generate opposite effects on welfare and more precisely on long-term unemployed workers' welfare.<sup>398</sup>

#### 4.2. Underground economy and unemployment

In order to develop a theoretical model that explains the role of underground economy in Spain, it is necessary to distinguish the factors that affect individual decisions with respect to which sector to work, the restrictions that individuals face in the labour market, and the relevant institutional framework. In that sense, we must take into account that in principle, working in the underground sector imposes an opportunity cost on workers, as it prevents them from gaining access to Social Security provisions, whose most important components are health care, sick leave and retirement pension. However, one important characteristic of the Social Security system in Spain is that individuals who do not pay taxes still can have access to public health care if they prove that they depend economically on someone who pays taxes. Due to this institutional characteristic the value of social security provisions of formal sector jobs would differ according to workers' family responsibility and the labour market status of other household members. It is likely that heads of household value more these provisions.

From the labour demand side, employers might offer higher monetary compensation in the underground sector than in the formal sector for equally productive workers, since they do not pay employer social security tax for the worker hired. Under this hypothesis of compensating wage, we should observe that individuals working in the underground sector earn more than those operating in the formal sector given the same productivity.<sup>399</sup>

In summary, with respect to the factors that affect the probability of working in the formal sector, we highlight two factors. First, the different valuation of Social Security provisions by different members of the household seems to increase significantly the effort put into searching for jobs in the formal sector among the heads of household compared to that of children or spouses. Second, demand restrictions seem to operate as well to individuals with higher education have easier access to formal sector jobs.

<sup>398</sup> Fugazza, Marco (2000), "Search Bonuses: An Alternative to Declining Unemployment Benefits?" *CERAS, Ecole Nationale des Ponts et Chaussées*.

<sup>399</sup> Namkee Ahn and Sara La De Rica, (2010), "The underground economy in Spain: an alternative to unemployment?" *Applied Economics* Publication details, including instructions for authors and subscription information: <http://www.informaworld.com/smpp/title~content=t713684000> Online publication date: (01.10.2010)



For those individuals who do not work in the formal sector, the probability of staying unemployed rather than working in the underground sector increases with the level of education for females. This suggests that better-educated women prefer searching for a formal sector job to working in the underground economy. Another important finding is that there exists a positive correlation in the labour market situation between members of the same household. The economic necessity factor that implies a higher probability of working among other family members whose head of household is unemployed (compared to those with a working head of the household) seems to be dominated by other factors, such as unobserved family heterogeneity in preferences or ability.<sup>400</sup>

### 4.3. Economic solutions

Faster economic growth is viewed as a means of generating more jobs and decrease unemployment. The list of most important suggestions:

1. Cuts in real wages are a reaction to the view that through their demands for higher wages, some groups of workers have priced themselves out of a job.
2. Methods of accumulation and dissemination of information on available jobs and workers could be improved.<sup>401</sup>
3. Unemployment agencies could tighten their job search and job acceptance requirements.
4. There is a need to improve the education and training provided to young people, with a greater focus on vocational skills.
5. Countries need to ensure that their welfare systems do not provide disincentives to work.
6. Policies affect the labour market by reducing the supply of labour.<sup>402</sup>
7. Generalized income guarantees – Guaranteed Minimum Income (GMI), Negative Income Tax (NIT) and Basic Income. A non-conditional GMI or NIT, paid to each individual, would at least ensure that no permanent resident would be without an entitlement to a base income. This provides some limited security for those facing unemployment and it provides an income floor below which no one falls without imposing a ceiling beyond which no-one rises. It is a universal payment, therefore people are always advantaged by any extra income obtained. It delivers an income floor without interfering with productivity.

<sup>400</sup> Namkee Ahn and Sara La De Rica, (2010), “The underground economy in Spain: an alternative to unemployment?” <http://www.informaworld.com/smpp/title~content=t713684000> Online publication date: 01 October 2010

<sup>401</sup> See the Swedish model, in which job centers have a nationwide, integrated database of jobs, employers, and available employees. This type of database could reduce the time spent by an average worker on the unemployment roll and thus reduce the unemployment rate.

<sup>402</sup> For example, work sharing, early retirement, and reduced migration.

8. Government support to struggling industries in order to try to save jobs.
9. Provide more training and education to the unemployed. This could help improve computer skills and communication. These people will become more confident and employable.
10. The Government needs to try to create demand in the economy. It could give grants to businesses to produce goods and services.<sup>403</sup>
11. Cut interest rates to encourage spending.
12. Cut income tax to encourage spending.
13. Even though it isn't healthy for the current full-timers, the amount of full-time workers can be reduced (temporarily). That way, once the economy is healthy, it can be slowly increased.

#### **4.4. Sectoral diversification**

There is a growing interest in the academic and policy making communities in understanding the effects of sectoral specialisation on labour market performance. The existing empirical evidence, mainly based on US data, generally finds a positive correlation between sectoral specialisation and labour market indicators such as wages and unemployment. The policy implication one can draw from these results is that fostering sectoral diversification may reduce unemployment. However, this lesson may not hold for all countries. In particular, in the case of Europe, the diversity of labour market institutions may play a distinct role in shaping the relationship between sectoral specialisation and labour market performance.

It was investigated the relationship between regional sectoral specialisation and regional unemployment rate in the context of different collective bargaining institutions in the EU countries. We find that collective bargaining institutions do play a role in shaping the unemployment rate differentials across regions belonging to the same country. Furthermore, the relationship between regional specialisation and the regional unemployment rate is stronger in countries with intermediate and decentralised collective bargaining institutions in comparison to countries with centralised collective bargaining institutions.

The results suggest that labour market institutions are likely to influence the outcome of policies aiming at fostering regional diversification. While such policies may result in reducing regional unemployment in countries with decentralised and intermediate levels of collective bargaining, they may not make a big difference in countries with centralised collective bargaining institutions.<sup>404</sup>

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<sup>403</sup> Have projects such as road building, construction, etc.

<sup>404</sup> Longhi, Simonetta, Peter Nijkamp and Iulia Traistaru, (2005), "Is Sectoral Diversification a Solution to Unemployment? Evidence from EU Regions" <http://ideas.repec.org/a/bla/kyklos/v58y2005i4p591-610.html> (10.03.2011)

#### 4.5. New solution for unemployment – marriage

The Dutch believe that women can get off unemployment benefits if they would just get married to a nice guy with a job. So the government is putting its money where its mouth is, offering single, job-free women a \$1,695 fashion and beauty makeover, date coaching and free membership to a dating agency. This is no joke. The program was organized by three councils in Friesland, a section in the north part of the Netherlands, and while it's available to both men and women, organizers predict that the women who take advantage of the program will far outnumber the men.

The unmarried and unemployed who sign up receive a free outfit, hairstyle and makeup consultation, plus personal advice from a life coach about how to land a job – or a spouse. In addition, they get a free consultation on social and presentation skills, and free placement with the exclusive matchmaking service Mens & Relatie (People and Relationships). And they also get a professional photo to place on the service's website. Mens & Relatie says they have a 75 per cent success rate for matching up long-term partners. And once somebody is married to a decent wage-earner. She is off the government dole.

Not everyone in the Netherlands is in favor of this idea. Some politicians think it's an unethical waste of taxpayer money. But representatives of Mens & Relatie beg to differ. Social Security pays about EUR 650 per month, which is the same as the one-time fee that the matchmaking service charges Friesland, so they figure that Friesland can get its money back in the first month the wife stops receiving benefits.

Besides, Radboud Visser, the managing director of Mens & Relatie, "We know from national statistics that people in a relationship have better health, more happiness, make more money and live longer lives. They make less use of medical systems and social security. So in Friesland they thought, we can try to get people out of social security by bringing them a nice new husband."<sup>405</sup>

#### 4.6. Canadian model for Working Unemployed People – bartell promise

There is an interesting model from Canada. Unemployed persons have all the basic needs of men and women; as well as the no less poignant wants inculcated by aggressive corporate programs of life-style advertising. They have skills and knowledge acquired, in good faith, during a lifetime of education and "on-the-job" training. Few of their needs...let alone wants...can be met by short-lived unemployment insurance

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<sup>405</sup>Lisa Johnson Mandell: New Solution for Unemployment – Marriage?!  
<http://jobs.aol.com/articles/2010/06/15/unemployed-singles/> (12.03.2011)

schemes. Moreover, their hard-won skills are now obsolete, redundant or superfluous...or so they have been given to believe.

These are bitter prospects. The unemployed are, in fact, doubly oppressed: they are the victims of both unemployment and of society's failure to arrange rational alternatives to "regular" employment. The following describes one such alternative:

1. A simple program could greatly improve the economic and psychological circumstance of the unemployed, as well as the overall economic well-being of societies. It is the Working Unemployed People (WUP) initiative.
2. WUP would be undertaken in two steps. In the first, each unemployed person receives a listing of area unemployed, along with their skills, facilities and productions i.e., tools of the various trades, woodworking equipment, service station-like facilities, home gardening skills, millinery and other domestic arts. Armed with this information, and having requirements for such services, goods and facilities, the unemployed could contact one another and make arrangements to their mutual advantage.
3. To facilitate such interchanges, it would be useful to develop a "credit-note" system for the unemployed, a "local-economy", so that an unemployed individual could provide a product or service without receiving a product or service in direct return.
4. This evolution of the bartering system is critical. A person rendering a service or product may have no immediate requirement, or finds that the other person involved in the transaction is unable to satisfy some need. A network currency would "bank" such earned, but not received, value. Each participating unemployed person would be empowered to issue "promissory notes" for services or goods received. Persons receiving such notes could spend them to procure goods or services from other WUP members.

An advantage of basing currency upon hours worked is that members are reminded that working time is (or should be) equally valuable to each. However, the "fine details" of the banking scheme are peripheral...the important point is this: the unemployed have special need – and great potential – for interdependence. A system putting the unemployed in touch with one another...and providing a currency formalizing interchanges...grants them the means of becoming employers and customers of one another!

There would be advantages all around in such arrangements. The unemployed would be assisted in direct economic ways. No less importantly, they would enjoy improved states of mind and self-esteem. They would have intelligible incentives to develop new skills, retain old ones, and develop "cottage industry" products to put before their "local market". Such skills and self-esteem would enhance their "employability" should opportunities arise in the main economy. On the other hand, should unemployment levels remain high, WUP arrangements could reduce the support welfare schemes must

subsume when unemployment insurance benefits run out. Indeed, if widely established, WUP schemes could reduce the level of unemployment insurance support necessary.

Even more interestingly, WUP schemes could transform the nature of present UIC support: Government participation could consist of acting as banker and guarantor for local economy currency; and of establishing an “exchange rate” between local and federal dollars. Thus, UIC funding could become “seed money” catalyzing indigenous productions among the unemployed. In this way, UIC funding could be spread out over many years; and amount to a guaranteed opportunity to work. This opportunity would not be granted from the “top down”, but achieved “horizontally” out of the resources and initiative of the unemployed. Social support schemes (e.g., welfare) could be restricted to those who are infirm.

WUP initiatives place responsibility for well-being squarely upon individuals, by reducing the often insurmountable obstacles to productive activities facing many displaced persons.

As the unemployed sector becomes partially self-supporting and internally productive, the resentment the employed feel at being its “mainstay” would be mitigated. The anxiety occasioned by this resentment – and, more generally, the stigmata of being unemployed – would be alleviated.

WUP arrangements would be informal and flexible. Easily organized and accessible, they could be widely duplicated: the retired who are unwilling to just “lie down”; the artist who needs support, but who is reluctant to take full-time work; the student; the housewife wishing to expand her horizons, and who now must either make a major employment commitment or be content with menial or frustrating, part-time offers.

WUP initiatives could also provide a bridge for students who have completed their education, but who have no experience to offer. They would learn habits of industry and independence that would stand them in good stead in the “main” economy.

WUP procedures could be valuable therapy for many of the ills besetting emerging nations. WUP procedures are politically neutral and could complement (or replace) many of the developed world’s “charitable” efforts. As an inherently autonomy-engendering procedure,

However, the most striking benefit to the main economy would be the psychological advantage of having a safety net of reliable, regionally-convened employments. Recessions often occur because people defer spending because of some anticipation of hard times. WUP programs would reduce this self-fuelling tendency by making unemployment less foreboding. Thus, WUP programs would promote economic vigour and good levels of general employment. Present unemployment insurance schemes do not have this merit. They are short-lived, and participate in the trauma, stigmatization and debilitating consequences of unemployment. Thus, a perfectly reasonable fear of

“losing one’s job” affects everyone. The resulting economic timidity puts employees at increased risk of that which they dread. Indeed, even without experiencing unemployment, employees endure significant anxiety all their life, with attendant physical and psychological costs.

Finally, the unemployed are on record, but only as consumers. Their demand for goods (limited though it may be) dramatically elevates prices overall, since they are not involved on the supply side of the basic economic equation. Thus, countenancing circumstances wherein millions are deliberately unemployed as a means of controlling inflation, seems an utterly incoherent course: as long as the unemployed have any income at all, they contribute to both demand-pull and cost-push inflationary pressures. Such anti-inflation measures, therefore, only begin to work when the unemployed become utterly destitute. During the initial period of their destruction, the unemployed actually exacerbate inflationary pressures.

However, through WUP initiatives, governments have a means to effectively control inflation by expediting (or dampening) the movement of workers and consumers into regional, secondary economies.

In conclusion, there seems little doubt that unemployment will be an enduring feature of modern economic systems. Current levels of unemployment have yet to assimilate robotics and computer-based technologies, or the consequences of doing business in a polluted ecosystems. In the most optimistic view, these are not auspicious factors. Therefore, it is increasingly urgent that societies implement WUP programs. Traditional UIC and welfare programs assume unemployment to be a transient event in individual lives. While this may have been true for the majority of workers in the past, it has not been true for society in general. Nor is it true for the ever-increasing numbers for whom marginal, part-time or chronic unemployment will be a permanent fact of life. Society’s responsibility to those being skewered to maintain the fiscal well-being of advantaged groups is not satisfied by programs that further stigmatize and impoverish.<sup>406</sup>

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<sup>406</sup> An alternative for unemployment [http://www.backlander.ca/?page\\_id=269](http://www.backlander.ca/?page_id=269) (21.05.2011)

## **Chapter 11**

### **The Hungarian unemployment system**

Similarly to many European democratic states, in Hungary there also exists a statutory system to protect unemployed persons. This system basically includes two measures: 1) passive labour market measures and 2) active labour market policy measures. In the following pages, these two systems will be described briefly.

#### **1. Passive unemployment measures**

The passive measures protecting the Hungarian unemployed persons consist of three types of regimes:

1. unemployment insurance,
2. unemployment assistance and
3. social assistance.

The unemployment insurance and unemployment assistance (benefit for aged unemployed) system is based on legislation: employers and employees are obliged to pay targeted contribution to the National Employment Fund, which is an extra-budgetary fund of the state budget. It had a self-governing element in the last decades, but recently it is governed only by the government and the relevant institutions. The social assistance program is usually a supplementary, means-tested and tax-financed system. (See Table 11)

**Table 11.**  
**Types of Unemployment Benefit and Social Assistance programmes in Hungary**

	Benefits	Main qualifying conditions	Funding
<b>Unemployment Insurance (UI)</b>	earnings-related	involuntary unemployment – employment record – actively looking for work	contributions from employer and, sometimes, also employees, often topped by government payments
<b>Unemployment Assistance (UA)</b>	social minimum, partly means-tested	unemployment insurance expired or not eligible for it – (often) a short employment record – actively looking for work	contributions from employer and employee and/or government payments
<b>Social Assistance (SA)</b>	social minimum, comprehensively means-tested	unemployment insurance expired or not eligible for it – (for most categories of claimants) actively looking for work	taxes

Source: Hungary: Social partners involvement in unemployment benefit regimes  
<http://www.eurofound.europa.eu/eiro/studies/tn1206018s/hu1206011q.htm>

Between 2005 and 2012, the Hungarian unemployment legislation underwent several changes and modifications, which are demonstrated in Table 12.

### 1.1. Unemployment Insurance

*Coverage:* Basically, the unemployment insurance scheme is an insurance-based system, even though it is not part of the classical branches of statutory social insurance system.<sup>407</sup> The unemployment insurance covers everybody<sup>408</sup> who pays the necessary contribution. The amount of the contribution is 1% for the employees and 1.5% contribution for the employer, on the basis of the employee's monthly gross salary.<sup>409</sup>

<sup>407</sup> The legal basis of the Hungarian unemployment insurance scheme is Act IV of 1991 on employment promotion and provision for unemployed persons

<sup>408</sup> It means employees and self-employed people.

<sup>409</sup> The contribution is mandatory to pay, ruled by Act LXXX of 1997 on Social Security Contribution.



Entrepreneurs should pay both amounts (1+1.5%) at least on the basis of the monthly minimum wage in every month.

*The eligibility conditions are as follows:*

- a) being a registered unemployed person;
- b) having spent at least 360 days in labour relation within the last 3 years before losing the job;
- c) not being entitled to disabled persons' allowance or sickness pay;
- d) actively looking for a job but not managing to find one, and the regional office of PES cannot offer him/her an appropriate job.

*Duration of the benefit payment:* It depends on the period which had been spent in labour relation and paid contribution within four (4) years before losing the job. The maximum duration of the unemployment benefit is 90 days. There is no minimum duration prescribed.

*The replacement rates:* The measure of the jobseekers' allowance:

- a) The basis is the average income which was earned in the last 4 quarters before losing the job.<sup>410</sup> The basis of the daily amount of the benefit is the 1/30 part of the former average monthly salary.
- b) Monthly amount (replacement rate): 60% of the basis, which cannot exceed the amount of the monthly mandatory minimum wage.

*Financing:* The source of unemployment benefit is the National Employment Fund of the state budget, the revenues of which come from the 1% contribution of the employees and 1.5% contribution of the employer, on the basis of the employee's monthly gross salary.<sup>411</sup>

## 1.2. Unemployment Assistance

The Hungarian unemployment assistance benefit shows a special feature. It is available only for "old" unemployed, who are five (5) years before the statutory retirement age. That is why it is called job-seekers assistance for elderly persons (who are within the time-limit of five years before retirement age). Hereinafter, I will refer to this benefit as unemployment assistance.

*Eligibility:* The following elderly persons are entitled to unemployment assistance:

- a) who have less than five (5) years to reach the relevant retired age limit; and
- b) who have received jobseekers' allowance at least for 45 days; and

<sup>410</sup> Income means every type of income which is the basis of contribution.

<sup>411</sup>Mária Frey, (2002), A munkaerőpiaci politika jogszabályi és intézményi környezetének piacgazdasági fejlődéstörténete, Budapest, <http://econ.core.hu/doc/mt/2002/hun/frey.pdf> (02.02.2012)

- c) who achieved the services period which is necessary to have entitlement for pension
- d) there is no appropriate job available and do not receive any other state allowance.

*Duration:* Without time limitation until entitled to any other state allowance or benefit (for instance: receiving disability allowance or reaching the statutory age limit to have old-age pension or become entitled for disability benefit).

The payment of the unemployment assistance is terminated if the job-seeker:

- a) so requests;
- b) becomes eligible for invalidity pension;
- c) pursues studies as a full-time student at any educational institution;
- d) the beneficiary died; the beneficiary exhausted the eligibility for the unemployment assistance benefit;
- e) accepts a training program opportunity which also carries payment of regular benefits of an amount up to the prevailing mandatory minimum wage;
- f) the beneficiary is removed from the unemployment register;
- g) the person in question being engaged in gainful activities, upon the job-seeker's failure to file the notification to the unemployment office.

*Replacement rates:* It does not depend on the previously earned salary, the amount is 40% of the mandatory monthly minimum wage in every month.

*Financing:* National Employment Fund of the state budget, the revenues of which come from the contribution of the employees and the employer.<sup>412</sup>

### 1.3. Social Assistance scheme

If the unemployment insurance expired or the person without job is not eligible, the unemployed person's maintenance is withdrawn from the state-run labour market institutions, and is taken over by the municipalities. It meant a payment of social benefit every month, until 2008.<sup>413</sup> It is ruled by Act III of 1993 on Social Administration and Maintenance System. Its modification in 2008 established the "maintenance system of active age group": every person who is under 50 years and able to work receives a so-called "on-call subsidy", and is obliged to cooperate with the local employment office to find a job. In case there are no jobs available, he/she is obliged to participate in public work which is organised by the municipality. Attending public work is the basic condition if someone wants to receive the on-call subsidy, otherwise they will not be

<sup>412</sup> <http://www.eurofound.europa.eu/eiro/studies/tn1206018s/hu1206011q.htm> (30.01.2012)

<sup>413</sup> The amount was the same as the national minimum of guaranteed monthly pension – HUF 28,500 (EUR 95)

entitled for any benefit from state sources. The amount of on-call subsidy is the same as the social minimum. In case of attending public work, the person earns wages, the amount of which is the same as the monthly guaranteed minimum wage.

The new government (it entered office in 2010) strengthened this system and introduced the National Public Work Scheme. It renamed the “on-call subsidy” for “employment replacement subsidy”, but the content behind is the same. The amount is reduced: it cannot exceed 80% of the national minimum of the guaranteed monthly pension. The wage available in the framework of public work is also reduced. The public work scheme is financed by the National Employment Fund, instead of the municipalities’ own sources, as it was before 2011.

*Coverage:* Those unemployed persons who are not entitled to any benefit by the unemployment insurance and unemployment assistance systems, and supported by the municipality.<sup>414</sup>

*Eligibility:* Basically, there are two types of benefits: A) maintenance of active age group and B) regular social assistance.

A) The requirement of entitlement to the ***maintenance of active age group***:

- a) the unemployment insurance expired or not eligible, or
- b) disabled, or
- c) maximum one person per household, only if the income of the household is not satisfactory. The definition of “non-satisfactory income” is: 90% of the national minimum of the guaranteed monthly pension per person in the same household, without having any properties.
- d) does not receive any benefit from state source, and
- e) regularly cooperates with the local employment office.

B) requirement of entitlement to the ***regular social assistance***:

- a) who is entitled to the maintenance of active age group, and
- b) reaches the retirement age limit within five (5) years, or
- c) educates at least one child who is younger than 14 years, and there is no available daytime childcare service and does not receive any maintenance from state source, or
- d) regarding the mental and physical health situation, based on the appropriate municipality’s resolution.

*Duration:* There is no time limitation for any of the listed benefits.

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<sup>414</sup> Based on Act III on social administration and maintenance system.

*Replacement rates:* The amount of the benefits does not depend on the previous income, it is related to the national minimum of guaranteed monthly pension. (HUF 28,500/month (EUR 95/ month)

- maintenance of active age group: 90%
- employment replacement subsidy: 80%

regular social benefit: adjusted to the family's income, cannot exceed HUF 57,815/month (EUR 195)<sup>415</sup>

*Financing:* The two types of benefits are financed from the sources of appropriate municipalities. The system of Public Work Scheme is financed from the National Employment Fund.<sup>416</sup>

## 2. Active Labour Market Policies (ALMPs)

In Hungary the meaning of active labour market policies (ALMPs) is similar to other European countries. ALMPs are government programmes that intervene in the labour market to help the employed person not to lose his/her job in the labour market and/or the unemployed person to find proper work as soon as possible.<sup>417</sup> Many of these programmes grew out of earlier public works projects designed to combat widespread unemployment in the developed world during the interwar period. Today, academic analysis of ALMPs is associated with economists such as Lars Calmfors<sup>418</sup> and Richard Layard.<sup>419</sup>

In Hungary there are three main categories of ALMPs:

1. *Public employment services*, such as job centres and labour exchanges, help the unemployed improve their job search effort by disseminating information on vacancies and by providing assistance with interview skills and writing a curriculum vitae.
2. *Training schemes*, such as classes and apprenticeships, help the unemployed improve their vocational skills and hence increase their employability.
3. *Employment subsidies*, either in the public or private sector, directly create jobs for the unemployed. These are typically short-term measures which are designed to allow the unemployed to build up work experience and prevent skill atrophy.<sup>420</sup>

<sup>415</sup> Mária Frey, (2002), A munkaerőpiaci politika jogszabályi és intézményi környezetének piaczgazdasági fejlődéstörténete, Budapest, <http://econ.core.hu/doc/mt/2003/hun/frey.pdf>

<sup>416</sup> Károly Fazekas, and Molnár György, (2011, 2010, 2009, ...) *The Hungarian labour market – annual review and analysis*, MTA, Budapest <http://econ.core.hu/kiadvany/mt.html> (17.02.2012)

<sup>417</sup> Robinson, Peter, (2000), "Active labour-market policies: a case of evidence-based policy-making?" *Oxford Review of Economic Policy*, Vol. 16, No. 1. p. 11.

<sup>418</sup> Calmfors, Lars, (1994), *Active labour market policy and unemployment: a framework for the analysis of crucial design features*, OECD Economic Studies

<sup>419</sup> Layard, Richard, Stephen Nickell and Richard Jackman, (1991), *Unemployment: macroeconomic performance and the labour market*, Oxford University Press.

<sup>420</sup> Hajdú, József – Árpád Olivér Homicskó, (2010), *Szociális jog II. Patrocinium Kiadó*, Budapest, pages 149-150.

Originally the active labour market policies (ALMPs) were prominent in the economic policy of the Scandinavian countries,<sup>421</sup> although over the 1990s they grew in popularity across Europe, including Hungary, as well. Notable examples include many welfare-to-work or workfare programmes.

## **2.1. Active Labour Market Policies in Hungary under the scope of Unemployment Act**

Section 1 of Article 5 of Act IV of 1991 (Employment Promotion Act or many times it is referred to as Unemployment Act) declares that *employment services and employment promoting subsidies* should be the primary means of solving, managing and mitigating tensions in the labour market, as well as preventing, reducing and alleviating the negative effects of unemployment. Employment subsidies are usually referred to as active labour market policies (ALMPs) because they aim to prevent unemployment or help people to return to work as quickly as possible. The administration of active labour market policies including accepting claims, making payments and monitoring is the responsibility of the local offices of job centres. In general, there is no guaranteed entitlement to active labour market policies – in contrast to passive labour market measures – neither for employers nor unemployed people even if they meet the eligibility criteria laid down in the Unemployment Act.

Here we intend to describe briefly the active labour market policies in Hungary: their target groups, eligibility criteria and conditions of payment, etc.

### *2.1.1. Labour market training*

Labour market training aims to provide jobseekers and people at risk of unemployment with sought-after skills and knowledge to help them return to work or keep their job. The training can lead to a formal vocational qualification, provide the necessary skills for a specific job or strengthen skills to improve performance in their current job. In accordance with the Act on Adult Education only adults studying in accredited adult education institutions can be subsidised from the National Employment Fund.

Local job centres support the labour market training of:

- jobseekers;
- young persons aged under 25 years – graduates under 30 years – who do not qualify for jobseeker's benefit or allowance after leaving school;
- people receiving different types of parental benefits or carer's support;
- people claiming rehabilitation allowance;
- workers who will become redundant within a year and where the employer has given written notice of this to the employee and the employment service;

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<sup>421</sup> Esping-Andersen, G. The three worlds of welfare capitalism, Cambridge, Polity, 1990.

- people who take part in public/community employment scheme; or
- people who are employed but are likely to become unemployed without training.

The latter group of employees only qualifies for the subsidy if their employer contributes to the cost of training and agrees to continue their employment for at least the duration of the training after it has finished.

The National Employment Fund can support training in the following categories:

- vocational training as defined by the Vocational Education and Training Act;
- training in basic skills necessary in order to start vocational education or training;
- job search skills and career advice;
- language training for people who already have vocational qualifications;
- driver training for road vehicles.

Unemployed people have two options as regards starting training or education once they have obtained the approval of the job centre: 1) they can either enrol in one of the training courses offered by the job centre, or 2) find an accredited training course offered by an accredited training institution. Furthermore, there are two types of financial assistance for training participants: a) *income supplement* and b) *income replacement allowance*, and in addition *training-related expenses* can also be reimbursed. The income replacement allowance is paid at the rate of 60 to 100 per cent of the statutory minimum wage. A higher rate must be paid to those who are studying towards their first qualification or for a qualification in areas of employment where there is a shortage of candidates. Single parents with one or more children are also entitled to the higher payment. People claiming parental benefits and carer's support can only receive assistance towards their training-related expenses. They are permitted to participate only in courses that are less than 30 hours per week. Income replacement can only be paid to those who are no longer eligible for jobseeker's allowance. Those who are not eligible for jobseeker's allowance might be paid income replacement allowance.

The training of workers is usually initiated by the employer. In this case, assistance might be given on a discretionary basis towards training expenses and participants can qualify for an income supplement to compensate for any loss of earnings during the course. The amount of this is up to the difference between average earnings and the earnings while in training.

The other component of training-related expenses is the course fee. For recommended (collective) training courses the full fee is reimbursed, for approved (individual) training the rate is typically 70-100 per cent. In addition, training participants can qualify for the full or partial reimbursement of travel, accommodation and food expenses.

### 2.1.2. Subsidy for public work

From 2012 a new type of public employment system was introduced by which the state organizes temporary employment schemes for people who cannot profit from their physical and mental skills but are eager and able to work. Therefore – instead of welfare benefits – via the public employment system they can receive much higher wages.

The new public work programme basically aims to introduce a principle which focuses on the work-centred attitude of the economy, society and the state, and which can help boost employment rate which is currently considered low compared to the EU. The system, which complements the social welfare system based on welfare considerations, better motivates people to seek a job and it will utilize existing support schemes.<sup>422</sup> The programme supports personalized communal work, by which public work employees create added value – in individual work phases, as part of a supply chain – for which demand from the central administration can be secured.

The right to entitlement to public employment programmes is determined by a municipality on the basis of social conditions.<sup>423</sup> The benefit is channelled through the municipality. As the law rules, the refusal to take part in a public employment scheme automatically excludes one from further benefits. In the new public employment system, the former so-called availability benefit (AB, kind of social assistance benefit) from 1 January 2011 was replaced by a Wage Replacement Benefit (WRB) for the actually able-bodied workforce paid for the period spent out of work. Wage replacement benefit will have stricter entitlement criteria than availability benefit, and it will require more cooperation from jobseekers.

Basically, there are two types of the National Public Employment:

#### 1. *Short-term public employment forms* organized by municipalities, churches or civil organizations

Instead of the former public welfare employment, such short-term public employment programmes will be implemented which can be organized by a (local or minority) municipality, a church or a civil organization, and which can employ poorly educated, socially disadvantaged people who receive wage supplements. The beneficiaries of this kind of allowance must be able-bodied, in working age and they can be employed for up to four (4) months part-time, for four (4) hours per day. This employment form can facilitate a gradual return to work for the long-term unemployed. The objective of this

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<sup>422</sup> One example is the channelling of EU funds to public employment programmes (including communal work) and investing available resources in self-sustaining projects. Via communal work projects large numbers of people can be offered employment in order to achieve goals which provide added value.

<sup>423</sup> Legal reference: Act CVI of 2011 on the Modification of the Acts on Public Employment and Related to Public Employment and Other Acts and Government Decree No. 170/2011 (VIII.24.) on Determining Public Employment Wages and Public Employment Guaranteed Wages.

support is to include people who were either outside the scope of the former public employment system or could circumvent it, and to provide employment for more people than before by a more efficient utilization of the available resources. Municipalities can request the support by a simplified competition application form at the employment centres.

*2. Long-term public employment programmes organized by municipalities, churches or civil organizations*

It will be made possible to organize long-term public employment programmes for municipalities and institutions, which have been supported within the framework of the former employment systems of public interest, as well as for churches and civil organizations. The aim of this public employment programme is to encourage municipalities to integrate into it the provision of their communities with basic services and the accomplishment of local projects of public interest. Such an employment programme can last between two (2) and twelve (12) months, 6-8 hours per working day. The proportion of the support can be 70-100% depending on the economic status and potential of the settlement. Besides wages and contributions, up to 20% of other costs related to employment can also be required as a subsidy. Such competitions must be submitted to employment agencies and they will be evaluated by the employment centre within 30 days.

The eligibility conditions for public employment legal relationship: it can be established for work

- a) which is a state task prescribed by law, or
- b) which is a mandatory or voluntary task prescribed in the act on local municipalities, or
- c) which is a mandatory or voluntary task prescribed in the act on the rights of nationalities, or
- d) which is a local task or a community task beyond that – such as, in particular – tasks of health preservation, social, educational, cultural, cultural heritage conservation, monument protection, nature, environment and animal protection, child and youth protection, and with the exception of sports activities pursued on the basis of mandate in employment relationship and civil law legal relationship, tasks performed for sports, public order and traffic safety, flood and water protection purposes, or for the development, maintenance and operation of roads, bridges and tunnels opened for public traffic, or
- e) which is a task aimed at promoting the implementation of community targets set by the Government or creating the conditions thereof, and the law does require civil servant legal relationship, public servant legal relationship or government official legal relationship for the fulfilment thereof.



*Public employers can be:*

- a) local and minority municipalities and their associations having a legal entity,
- b) budgetary institutions,
- c) churches,
- d) organizations with the legal status of public utility,
- e) civil organizations,
- f) economic organizations which are responsible for managing and maintaining properties of the state and local municipalities, or which are established by the state or municipality for this purpose,
- g) associations of water companies,
- h) silviculture organizations,
- i) social cooperatives (in certain cases),
- j) railway infrastructure organizations concerning tasks of keeping railway tracks and their surroundings clean, and maintaining the vegetation of related areas, and also the maintainer of railway facilities concerning tasks related to facility conservation.

*Those natural persons can be employed for public employment who:*

- a) can establish an employment relationship pursuant to the Labour Code, with the exception of persons under 16 years of age, and
- b) are job-seekers or receive rehabilitation support.

### *2.1.3. Business start-up subsidies for jobseekers*

*Self-employment support:* Support may be granted to job-seekers and persons receiving rehabilitation benefits (partly disabled), who are employing themselves by activities other than regular employment, including those starting up a new enterprise or those joining an existing one.<sup>424</sup>

The purpose of this support is to enable the job-seeker to employ him/herself without an actual employment contract. Apart from registration as job-seeker for three months, the main requirement for the support is that applicants must have their own funds (min. 20% of the cost of total investment) and some financial security.

The self-employment support may be provided to job-seekers registered by the employment centre for at least three months or receiving rehabilitation annuity, who employ themselves as self-employed, as a member of a business association contributing to its activities in person, or as agricultural producers:

- a capital injection of up to HUF 3 million, either in the form of repayable or nonrepayable support,

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<sup>424</sup> The Employment Act was amended to allow persons receiving rehabilitation allowance to claim business start-up subsidy if they become self-employed from January 1, 2008.

- monthly support up to the mandatory minimum wages for the maximum term of six months,
- the cost of professional counselling for establishing and pursuing entrepreneurial activity.

The above mentioned first two support categories may be provided either together or separately, based on an application.<sup>425</sup>

#### 2.1.4. Improving labour market integration of disabled working-age population

Disability benefit systems can steer people into labour market exclusion and welfare dependency. At slightly above 10% in 2010 (age group 20-64), the prevalence of disability benefit recipients in Hungary is one of the highest in the OECD. Among the factors which contributed to an upsurge in disability claimants are the rapidly deteriorating health of the population in the second half of the 1960s and the political will to ease the social cost of transition in the 1990s, inducing a de facto transformation of disability benefit schemes into an early-retirement route. However, net inflows into disability benefits had been contained in the first half of the 2000s and reversed more recently, notably by altering the system of assessment through streamlined medical guidelines for applicants. Despite still sizeable gross inflow rates into disability benefits of close to 5% in 2008, the main policy challenge now is to reduce the overall number of disability benefit recipients of working age by re-integrating most of them into the labour market. Even though the age distribution is skewed towards older ages, around half of recipients were aged under 54 and a fourth were aged below 49 in 2008.

Only around 25-30% of disabled people work and the unemployment rate is one and a half times higher than for able workers OECD. About 150,000 people who suffer from sickness or disability would like to work but cannot find a job.<sup>426</sup> While there is a high correlation between the overall level of employment and the employment rate of the disabled, people with disability face greater barriers in the labour market due to various factors.<sup>427</sup> In particular, their job prospects are more sensitive to economic downturns. Promoting flexible forms of employment (part-time work, temporary work, self-employment, distance and teleworking) would enhance work possibilities for people with disability. Employment opportunities are also hampered by a low educational attainment. Lifelong learning programmes would help to narrow the educational gap between disabled and non-disabled. However, other more specific measures are needed as well.

<sup>425</sup> <http://www.kormanyhivatal.hu/hu/ugytipusok/munkaval-kapcsolatos-ugyek/munkaugyi-kozponthoz-tartozo-ugyek/foglalkoztatast-elosegito-tamogatasok/munkahelyteremtes-es-munkahelymegorzes-tamogatasa> (24.02.2012)

<sup>426</sup> Cseres-Gergely Zsombor – Scharle Ágota: Foglalkoztatáspolitikai programok hatásvizsgálatának tanulságai Magyarországon, in Fazekas Károly – Kézdi Gábor: *Munkaerőpiaci Tükör* 2011, pages 186-193.

<sup>427</sup> Eichhorst, Werner, Michael Feil, and Paul Marx, (2010), "Crisis, What Crisis? Patterns of Adaptation in European Labor Markets," *Applied Economics Quarterly* (formerly: Konjunkturpolitik), Duncker & Humblot, Berlin, Vol. 61. (Supplemen), pages 29-64.

Active labour market expenditure on employment programmes and vocational rehabilitation is very low. In 2008, a rehabilitation allowance was introduced for new claimants of disability benefits who have a good chance of returning to the labour market (based on their health). Recipients of the allowance (paid at a higher level than a standard disability benefit) have to participate in a comprehensive rehabilitation plan designed by the employment office with a view to partially or fully recover their work capacity. However, only people with a health impairment of more than 50% were allowed to participate in comprehensive rehabilitation.<sup>428</sup>

To enhance labour demand for the disabled, Hungary applies a quota-levy system whereby firms with more than 25 employees (20 employees before January 2012) are required to employ at least 5% of workers with disability, or are subject to a rehabilitation tax. In 2012, the amount of the tax was more than quintupled to almost HUF 1 million per year for each employee below the quota. In 2011, the tax base was extended to temporary employment agencies.<sup>429</sup>

Another policy instrument to promote the employment of people with partially reduced work capacity is a system of employment subsidies for sheltered firms and accredited employers. This system absorbs a large share of wage subsidies, but provides employment to only a limited number of people.<sup>430</sup> However, the effective share of disabled workers in such workplaces is often very high, thus perpetuating their segregation. Moreover, incentives for firms to ensure a transition of their workers to unsubsidised jobs in the regular labour market are weak, while workers' rehabilitation activities, professional development and skills tend to be firm specific.

There is a weak pathway from sheltered workshops or accredited firms to regular jobs, which induces a risk that subsidised employment becomes a trap for people with more labour potential.<sup>431</sup> Better outcomes could be achieved by promoting new forms of sheltered employment closer to the open labour market<sup>432</sup> or tailoring sheltered jobs to

<sup>428</sup> Moreover, the experience of OECD countries suggests mixed outcomes from vocational rehabilitation measures notably due to lock-in effects (during the rehabilitation period participants usually do not look for a job, which increases the risk of non-employment). Therefore, vocational rehabilitation measures should be coupled with work-first measures (including job coaching, workplace adaptation, and personal assistance) to limit the period of inactivity and enhance the probability of returning to work.

<sup>429</sup> However, international evidence indicates an uncertain effectiveness of quota systems (Eichhorst et al., 2010). Quota positions are often filled through internal not external recruitment and individuals can be hired into low-skilled and token jobs. Moreover, cream-skimming effects can happen as employers target those who are only moderately disabled, in particular if the quotas are not differentiated according to the levels of disability. Therefore, to enhance the labour demand for people with significant health damage and/or weak earnings potential, such differentiation could be explicitly introduced in Hungary.

<sup>430</sup> Cseres-Gergely, Zsombor – Ágota Scharle, (2011), "Foglalkoztatáspolitikai programok hatásvizsgálatának tanulságai Magyarországon" in Fazekas Károly – Kézdi Gábor (eds) *Munkaerőpiaci Tükör*, pages 186-193.

<sup>431</sup> Cseres-Gergely, Zsombor – Ágota Scharle, (2011), "Foglalkoztatáspolitikai programok hatásvizsgálatának tanulságai Magyarországon" in Fazekas Károly – Kézdi Gábor (eds) *Munkaerőpiaci Tükör*, pages 186-193..

<sup>432</sup> For example, the social enterprises in France and Finland.

those offered by regular firms (as in the Netherlands). Other options would be to limit the share of people who can stay in sheltered employment indefinitely (as in Norway) or link the financing of such firms to the placement of a certain share of disabled workers (adjusted for work capacity) in the regular labour market.

Finally, a recent adoption of tax allowances for employers, who are exempted from social security contributions up to double the minimum wage, may also promote labour demand for disabled workers provided that such incentives are well targeted according to the levels of disability.

Re-employment chances of people with disability could be fostered by relying more extensively on non-governmental organisations. Empirical evidence suggests that, in such cases, reemployment chances are significantly higher compared to disabled workers in sheltered employment, while the best service providers can place between 30% and 50% in unsubsidised positions in the open labour market.<sup>433</sup> However, the accountability of private service providers can be enhanced by creating an outcome-based funding mechanism,<sup>434</sup> whereby providers are paid based on how many disabled persons they have successfully helped to get back to work. Moreover, cream skimming in the intake phase could be avoided by differentiating fees depending on the degree of disadvantage in the labour market (as in Australia). Funding of such re-employment services could be achieved by reallocating part of expenditure away from wage subsidies for accredited employers, in particular for those failing to place a certain share of disabled workers in the regular labour market.

In 2011, the government announced a large-scale review of disability rights with an objective to bring back into the labour market 110,000 people out of a planned review of 220,000 disability pensioners under the age of 57 (five years before the statutory retirement age). Retesting beneficiaries according to new assessment criteria is a welcome step. The authorities have secured part of labour demand by directly creating jobs within the framework of the new public works programme. However, as discussed above for people who remained detached from the labour market over a protracted period of time, a comprehensive activation strategy based on extended training, skills upgrading and pre-employment support is needed to reduce the risk of a subsequent shift of public works participants into unemployment or social assistance. Following a retest of the entire caseload of beneficiaries aged below 45, the experience of the Netherlands suggests that about one-third returned to the labour market within 18 months, but partly with special reintegration support offered to this group. Therefore, to maximise re-employment chances in the primary labour market a tailored engagement of public employment services leading to a systematic profiling and identification of those most in need of pre-employment intervention is necessary and

<sup>433</sup> Cseres-Gergely, Zsombor – Ágota Scharle, (2011), “Foglalkoztatáspolitikai programok hatásvizsgálatának tanulságai Magyarországon” in Fazekas Károly – Kézdi Gábor (eds) *Munkaerőpiaci Tükör*, pages. 186-193..

<sup>434</sup> Like in Australia, Netherlands. United Kingdom or United States.

should be coupled with the provision of some disability services contracted out to the private sector.

#### *2.1.5. Support for job creation*

Aid for job creation can be paid in two main forms:

*a) as regional support* for one or more of the following: cost of investment in material and non-material assets, building and labour costs of the jobs directly created by the investment project, or

*b) as employment support* for labour costs of the jobs directly created by the investment project.

Support for job creation is allocated through open competition, not only for job creation but the safeguarding of jobs as well. On top of this sum additional support is available – from the regional job centres – for any or all of the following criteria:

- if the investment takes place in an area classified as disadvantaged in any of the following categories: regional development, socio-economic and infrastructural development, and employment, or in regions with labour market disadvantages an additional HUF 200,000 can be granted for each new job;
- if the vacancies created as a result of the investment are filled with jobseekers registered with the public employment service, an additional HUF 200,000 can be awarded;
- if the vacancies are filled with Roma workers an extra HUF 100,000 can be granted.

*Investment aid for the creation of high-value-added jobs.* This state programme supports projects involving relatively low levels of capital expenditure and a high volume of new jobs that are filled by qualified staff with higher education, mostly recent graduates. Businesses can receive a contribution towards their personnel expenditure associated with the expansion of their workforce. Small- and medium-sized enterprises are required to safeguard jobs created for young entrants, registered jobseekers or workers threatened by redundancy for two years, other businesses for three years.

*Job creation aid for large investment projects.* The following eligibility criteria apply:

- it is awarded on a case-by-case basis by the Government from the Budget for Investment Promotion;
- the project must take place in a disadvantaged or most disadvantaged area listed in the relevant legislation;
- must create a minimum of 500 new jobs – or 200 in the most disadvantaged areas;
- no less than 50% of the newly created jobs – 30% in the most disadvantaged areas – must be filled by registered jobseekers.

*Aid for the creation of teleworking and part-time jobs.* Teleworking programmes continue to promote the spread of on-line working. They provide a wage subsidy and funding for the purchase of equipment and training for businesses and public authorities creating teleworking opportunities.

#### *2.1.6. Support for job-protection*

Employers can qualify for assistance if they are planning to make redundancies due to business difficulties and they have given written notice to the job centre 30 days before the redundancy together with their claim. To be eligible for the subsidy they must agree to retain workers who have been employed for at least six months and are affected by the redundancy for twice the duration of the subsidy. During this period the average headcount must not decrease and they cannot make any redundancies. The duration of the subsidy can be up to one year. The grant is generally paid at a rate of 25 to 75 per cent of the wage and contributions. Wage costs can be reimbursed at a rate of 50 to 90 per cent, if 1. the worker's fixed monthly pay or the guaranteed part of the piece-rate pay is equal to the statutory minimum wage; or 2. he or she has a disability; 3. already works reduced hours, more than four but less than six hours per day, to prevent redundancy.

#### *2.1.7. Mitigating the negative impact of mass redundancies*

Employers can qualify for assistance to alleviate the negative impact of a planned mass redundancy of the employees. The provisions describing mass redundancy is in the new Labour Code Act I of 2012. The assistance is conditional upon the completion of the statutory consultation procedure and the setting up of an outplacement committee in the divisions affected by loss of jobs. The grant contributes to the operation of this committee with up to HUF 1,000,000 that must be used within 12 months.

#### *2.1.8. Travel-to-work subsidies*

*Travel-to-work subsidies* can be claimed by both the employer and the employee. To qualify for this subsidy the employer must hire a jobseeker who has been registered with the job centre for at least six months, in the case of young entrants and people with disabilities for three months, and has not made any workers redundant holding a similar position in the previous six months. The subsidy can be paid for up to a year and can cover the full or a part of the travel expenses to work. If the employee also claims the subsidy for his or her share of the travel expenses, the claim must be made jointly with the employer before signing the employment contract.

The subsidy can also be paid for shared transportation, own or hired, if at least four workers are travelling together. To be eligible for this subsidy the time spent travelling to work must be more than two hours per day. The maximum rate of the subsidy is equal to the employer's statutory contribution rate towards the cost of the bus pass between the home of the worker and the workplace.

*Relocation assistance.* The Hungarian workforce is very immobile. Even unemployed persons stick to their original living place. Therefore the government decided to encourage the movement of unemployed persons to follow the offered job opportunity by introducing the relocation assistance. This is a type of benefit offered to employees who accept work assignments in new locations. Typically, it takes the form of assistance with moving costs, travel expenses, temporary lodging and home-buying/selling. The IRS determines what may be reimbursed on a tax free basis. Some reimbursed expenses may be taxable (for example: meals).

#### *2.1.9. Employment services*

According to the Employment Act employment services include:

- the provision of information on vacancies and jobs;
- job, career, job-search, vocational rehabilitation and local (area) employment guidance;
- job brokerage.

The contents of these are defined by the regulation on employment services, which also defines provision requirements. The regulation lists those services that are delivered to customers primarily by the regional job centres and the local job offices. In addition, the regulation also allows the purchase of certain services from external providers to increase availability. A novelty is that regional training centres and the Employment and Social Office can also directly deliver services. The employment services are available free of charge to unemployed people, employers and employees.<sup>435</sup>

#### *2.1.10. Labour market programmes*

Four fifths of the registered jobseekers are not new but returning customers of the employment service. Their problems are unlikely to be solved by a single active labour market policy. A combination of labour-market measures or especially participation in a labour market programme is necessary to address their complex problems. Labour market programmes were introduced in the Employment Act on 1 February 2000, which defines them as follows: “The National Employment Fund can support the implementation of programmes that aim to achieve local employment objectives, influence the local employment situation and promote the employment of people disadvantaged in the labour market. These programmes can combine employment services and financial assistance.”

With regard to subsidies provided within the programmes, certain conditions specified in the Employment Act and its implementing regulations can be left out of consideration. For example in that case:

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<sup>435</sup> [www.nive.hu](http://www.nive.hu)

- the target group of the programme can be involved in all programme components regardless of their individual eligibility,
- subsidies can be paid during the whole programme period,
- with regard to subsidies for community employment, the duration of the programme is unlimited.<sup>436</sup>

## 2.2. Active labour market policies outside the scope of the Unemployment Act

In addition to the active labour market policies discussed in the previous chapter, there is a range of other subsidies governed by regulations other than the Unemployment Act but provided by the public employment service.

### 2.2.1. Promoting the employment of jobseekers by micro, small- and medium-sized enterprises

In the SME+ programme micro, small- and medium-sized enterprises as well as voluntary organisations that employ at least 250 staff and have been established for at least six months are eligible for a subsidy if they hire people who are not claiming any assistance and:

- have been registered as a jobseeker with the PES for a minimum of three months; or
- have been out of work for a year or more; or
- have been made redundant in a group redundancy within the previous three months.

The subsidised employment should increase the average yearly headcount and should be maintained for at least the duration of the subsidy. If they hire anyone from the above groups they are exempt from social security contributions and employer's contribution for up to a year. The subsidy can be paid after wages up to 130% of the statutory minimum wage in the case of full-time employment.

### 2.2.2. Supporting the re-employment of people made redundant as a result of the crisis

This aims to support the re-employment of people who have been made redundant due to the economic downturn by using their jobseeker's benefit as a wage subsidy for the rest of their eligibility period. The subsidy is paid to employers that hire people claiming jobseeker's benefit for full-time employment. A further condition is that the

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<sup>436</sup> The Hungarian Labour Market 2012 – The Evaluation of Active Labour Market Programs, The Hungarian Academy Sciences, Research Center for Economic and Regional Studies, 2012  
<http://www.krtk.mta.hu/our-news/THE-HUNGARIAN-LABOUR-MARKET-2012-THE-EVALUATION-OF-ACTIVE-LABOUR-MARKET-PROGRAMS/74/> (19.03.2013)



individual is eligible for at least 180 days of jobseeker's benefit when commencing the employment.

The subsidy is paid at a rate of up to 60% of the statutory minimum wage and contributions. If the jobseeker's earnings prior to becoming eligible for the benefit have been lower than the minimum wage, this sum should be adjusted accordingly. If the employee has a Start card then the reduced rate contribution can also be used at the same time as the subsidy. The duration of the subsidy is equal to the number of entitlement days remaining from the jobseeker's benefit when starting employment. The subsidy is paid in arrears to the employer by the job centre.

#### *2.2.3. Supporting part-time work to prevent redundancies<sup>437</sup>*

The aim of the measure is to support the retention of workers threatened by redundancy in part-time employment. Employers are eligible for support if instead of laying-off redundant workers they continue to employ them part-time, at least four hours per day. As a condition of the subsidy the employer is required to give prior notification of planned mass dismissal to the local labour centre. The rate of the subsidy is up to 80% of the difference between the full-time and the part-time wage and contributions. The maximum wage eligible for subsidy is capped at 150% of the statutory minimum wage. The subsidy can be paid for up to 12 months. Further conditions are that the subsidy is paid to workers monthly, in advance; the employer must not implement a mass layoff; must maintain the initial headcount and retain the workers for at least the same duration as the subsidy has been paid. Employers need to apply for the subsidy for the workforce affected by redundancy at the job centre.

#### *2.2.4. Supporting the work experience of young entrants with a vocational qualification*

The scheme supports the work experience of young people with sought-after qualifications who have not been able to find a job after 90 days of job search either independently or with assistance from the employment service. Employers are eligible for the subsidy if they hire school leavers with certain vocational qualifications – defined by the regional labour centre together with the regional labour council and regional development and training committee – in jobs that will provide them with relevant work experience. The subsidy is paid for the period of employment but up to 365 days. The rate of the subsidy is 50-100% of the wage costs; if it is paid at the 100%-rate, then it cannot be higher than:

- the statutory minimum wage for school leavers with basic level vocational qualifications;

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<sup>437</sup> 70/2009. (02. 04) Government regulation on support to the work experience of young entrants with a vocational qualification and part-time employment to prevent mass layoff. It entered into force on April 5, 2009.

- 150% of the minimum wage for school leavers with medium-level vocational qualifications;
- 200% of the minimum wage for school leavers with high-level vocational qualifications or higher education.

The scheme is implemented by the Employment Service. The source of the subsidy is the decentralised budget of the National Employment Fund. Young entrants who hold a Start Card are also eligible to take part in the work experience scheme if they have a sought-after vocational qualification and have been searching for a job for at least 90 days with assistance from the employment service. In this case the subsidy is paid on the wage costs reduced according to the Start relief.<sup>438</sup>

### **3. Some reforms and restructuring of Public Employment Services in Hungary**

Hungary is continuing the process of restructuring the PES to make them more efficient in offering assistance to the unemployed, while in the Czech Republic and Slovakia the use of private agencies for employment services is being explored.

Although it has been recommended that Hungary increase the quality and effectiveness of training, job search assistance and individualised services, there were no developments to report in this area in the last quarter. However, there have been some efforts to improve the analytical capacity of the PES, for example through an ongoing project for the modernisation of the PES, in which the development of a management information system is being commissioned. Besides generating information on the performance of PES offices, the system is expected to deliver up-to-date information on programme participation details and basic figures for programme effectiveness. Because these figures are expected to be computed also for public works, this development can be a key element in evaluating the success of public works measures. The current phase of the PES modernisation project was due to finish in January 2012 but has been extended to implement new projects.

As part of encouraging labour market participation, Hungary has been taking steps to reduce the impact of taxes on labour. However, no direct action has been taken since January 2012 on Hungary's Corporate Social Responsibility (CSR) to enhance participation in the labour market by alleviating the impact of the tax reform on low earners in a budget-neutral manner. Indirectly however, the Government did attempt to lessen the employment effects of the tax reform, or more precisely that of the quasi-mandatory wage-compensation that was introduced as a response to the tax reform. From the beginning of April 2012 to the end of the year, a support scheme is available

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<sup>438</sup> Mária Frey: The legal and institutional environment of the Hungarian labour market  
[http://econ.core.hu/file/download/HLM2011/TheHungarianLabourMarket\\_2011\\_Environment.pdf](http://econ.core.hu/file/download/HLM2011/TheHungarianLabourMarket_2011_Environment.pdf)  
 (10.05.2012.)

for funding the wage compensation in the form of a grant. Although the new scheme increases the administrative burden again and does not increase participation relative to the income tax reform, only relative to the post-wage compensation state, the measure definitely improves the chances of small- and micro-enterprises for survival and thus works against the decline of employment. A total of HUF 21 billion (EUR 70.9 million) is available to fund this programme.

*Encouraging female participation in the labour force.* In Hungary steps are being taken to encourage the participation of women in the labour market, the main focus being on making more childcare available to working women. For example, the CSR for Hungary in relation to women's participation on the labour market calls for a strengthening of measures to encourage their participation by expanding childcare and pre-school facilities. The lack of availability of day-care is at the heart of the employment problem of mothers in Hungary. To tackle this, a new support scheme has been launched recently, funded by the European Social Parliament (ESP), to support the development of alternative day-care providers and practices to balance family and working life. The total of HUF 8 billion (EUR 27 million) is divided between the actual development of facilities (HUF 5 billion or EUR 17 million) and the development of flexible working time arrangements. The available funds for setting up a day-care facility are between HUF 10 and 50 million per facility/application (between EUR 33,000 and EUR 169,000) and can be used for all aspects of the development process. Half of the funds are available for facilities operated by workplaces (HUF 2.5 billion, EUR 8.4 million).<sup>439</sup>

### Conclusion

The low level of the national employment rate and other budgetary strains compelled strong cuts in the unemployment benefit system, and the labour market policy focuses on the public working schemes. Nevertheless it makes a positive effect on the employment indicators, but the financial background of that system is missing from the state budget. It is questioning the long-term sustainability of the National Public Working Schemes' problem, while its activities are not directly connected to the competitive sectors' labour market. The long term financial sustainability of the Public Works Scheme is concerned, having regard to the fact that it is financed from the National Employment Fund (state budget). It does not link to the competitive sector's labour market to create proper transition to the labour market. So the biggest concern is financial sustainability, however, some of the social partners' representatives agree that at this time the economy is unable to create jobs for these unemployed people. At the

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<sup>439</sup> Kuddo, Arvo, (2009), "Employment Services and Active Labour Market Programs In Eastern European and Central Asian Countries" *The World Team, SP. Discussion Paper* No. 0918, October 2009 pages 5-13. <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf> (27.03.2010.)

same time, social partners are concerned that there are fewer and fewer state sources for the companies' disposal to develop human resources (trainings, employment targeted subsidies.)<sup>440</sup>

### **Brief summary of the book**

This book has attempted to show that there is a complex relationship between social security, employment and (economic/societal) development. Social security policies are part of – and interact with – a wide range of social policies, such as investments in basic social services, active labour market policies, elderly and youth policy, education policy, protective labour legislation and the enforcement of basic rights, etc. They are also intimately related to employment policies, because most social insurance schemes are financed out of labour incomes and protect against risks related to employment capacity, such as unemployment, sickness, disability and old age. This paper the focus point was on the protection of unemployed persons.

Unemployment benefit schemes have become more and more inadequate as individual employment patterns have become increasingly uncertain (clandestine work, self-employment, atypical work, etc.). These schemes therefore have to be flexible enough to cover new uncertainties and changes facing workers and have to form part of larger strategies for employment and economic development.

Employment protection policies in the industrialized countries have been concerned in particular with the high rates of unemployment affecting unskilled workers. One approach has stressed the need for better education and training to ensure that workers have the skills that are in demand in a high-wage, high-productivity economy.

There is also a very striking problem of the vulnerable persons in Europe, for example young career starters, elderly employees, disabled persons, etc. We discussed briefly the EU's inclusion and activation approaches.

This book also picked up some old-new patterns to solve the problem of unemployed persons (for example, private unemployment insurance, unemployment mortgage protection insurance, etc.).

In sum: a new more flexible labour market model with the focus on the individual, encourage mobility, flexibility, training and exchange. On the changing labour market security must be sought by individual flexibility rather than through protection for a particular job at a specific workplace. The responsibility to establish a model is based on individuals, employers, government, trade unions and NGOs. The task is eternal.

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<sup>440</sup> Károly Fazekas, and Molnár György, (2011, 2010, 2009, ...) *The Hungarian labour market – annual review and analysis*, MTA, Budapest, <http://econ.core.hu/kiadvany/mt.html> (16.03.2012)

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## Appendix

**Table 3.**  
**Major changes in UB regimes in the EU Member States and Norway, 2001–2012\***

	<b>Unemployment Insurance (UI)</b>	<b>Unemployment Assistance (UA)</b>	<b>Social Assistance (SA)</b>
<b>AU</b>	2004, 2005, 2008	<i>No significant change</i>	2010
<b>BE</b>	2004	<i>Absent**</i>	<i>No significant change</i>
<b>BG</b>	2002, 2004, 2007, 2009, 2010	<i>Absent</i>	<i>Absent</i>
<b>CY</b>	2010	<i>Absent</i>	<i>No significant change</i>
<b>CZ</b>	2004, 2007, 2011, 2012	<i>Absent</i>	<i>No significant change</i>
<b>DK</b>	2002, 2010	<i>Absent</i>	2002, 2004, 2009, 2011
<b>EE</b>	2007, 2009	2009	<i>No significant change</i>
<b>FI</b>	2005, 2009	2005	<i>No significant change</i>
<b>FR</b>	2001, 2002, 2008, 2009	2002, 2007, 2009	2009
<b>DE</b>	2003	<i>Removed in 2003</i>	2003
<b>EL</b>	2001, 2007, 2010, 2012	<i>No significant change</i>	<i>Absent</i>
<b>HU</b>	2005, 2011	2005, 2011	<i>No significant change</i>
<b>IE</b>	2006, 2009, 2011	2009	<i>No significant change</i>
<b>IT</b>	2005, 2007, 2009, 2012	2009, 2012	<i>Absent</i>
<b>LV</b>	2010	2002, 2010	2009
<b>LT</b>	2005, 2008	<i>Absent</i>	2009
<b>LU</b>	2010	<i>Absent</i>	<i>No significant change</i>
<b>MT</b>	2008, 2009, 2011	2006, 2010	<i>Absent</i>
<b>NL</b>	2006, 2009	2003, 2008	<i>No significant change</i>
<b>NO</b>	2002, 2009, 2011	<i>Absent</i>	<i>No significant change</i>
<b>PL</b>	2003, 2008	<i>Absent</i>	2004
<b>PT</b>	2006, 2009, 2010, 2012	<i>No significant change</i>	<i>No significant change</i>
<b>RO</b>	2002, 2004, 2007, 2008, 2009, 2010	<i>Absent</i>	2012
<b>SK</b>	2003, 2004	<i>Absent</i>	2003
<b>SI</b>	2006, 2010	<i>Removed in 2006</i>	2010
<b>ES</b>	2002, 2010, 2011	2006, 2009, 2011	<i>No significant change</i>
<b>SE</b>	2007	<i>No significant change</i>	<i>No significant change</i>
<b>UK</b>	<i>No significant change</i>	<i>Removed in 2012</i>	2012

\* Years in which major changes occurred are reported.

\*\*Absent means that the programme does not exist.

Source: EIRO national reports  
[www.eurofund.europa.eu/studies/tn1206018s/tn1206018s\\_2.htm](http://www.eurofund.europa.eu/studies/tn1206018s/tn1206018s_2.htm)

**Table 4.**  
**Recent changes in UB regimes in the EU Member States and Norway, 2001–2012**  
**(changes to UI unless otherwise specified)\***

	Coverage		Eligibility criteria		Duration		Size of benefits		Contrib./ premium	Reorg./ restruct.
	extended	reduced	relaxed	tightened	expanded	shortened	increased	reduced		
<b>AT</b>	2008		2004 2008	2005	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	2010 (SA)
<b>BE</b>	<i>nsc</i>			2004	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	<i>nsc</i>
<b>BG</b>	2004 2007		<i>nsc</i>		2007		2010	2009	2007 (lowered for employers)	2002
<b>CY</b>	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		2010 (increased for employees)	<i>nsc</i>
<b>CZ</b>		2007 2011		2012	2004		<i>nsc</i>		<i>nsc</i>	<i>nsc</i>
<b>DK</b>	2002		<i>nsc</i>			2010	<i>nsc</i>		<i>nsc</i>	2002 2004 2009 2011 (SA)
<b>EE</b>	<i>nsc</i>		2007 2009				2007 2009 (UI and UA)		2009 (increased)	<i>nsc</i>
<b>FI</b>	2009		2009		<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	2005
<b>FR</b>	<i>nsc</i>		2009			2002 2009	<i>nsc</i>		2002 (increased)	2001 2008 2002 2007 2009 (UA) 2009 (SA)
<b>DE</b>	<i>nsc</i>			2003		2003	<i>nsc</i>		<i>nsc</i>	2003 (UI, UA+SA)
<b>EL</b>	2010			2001				2007, 2012	<i>nsc</i>	<i>nsc</i>
<b>HU</b>	<i>nsc</i>		2011 (UA)	2011		2011		2005	<i>nsc</i>	2005
<b>IE</b>	<i>nsc</i>			2009 (UI and UA)	<i>nsc</i>			2011	2011 (lowered)	2006 (UI+UA)
<b>IT</b>	2009 2009 (UA)		2009		2005 2007		2005 2007		<i>nsc</i>	2012 (UI+UA)
<b>LV</b>	<i>nsc</i>		2001			2008	2009	2010	<i>nsc</i>	2002 2009 (SA) 2010 (UA)



<b>LT</b>	<i>nsc</i>		2005	2008 2009 (SA)	2005		2005	2008	<i>nsc</i>	<i>nsc</i>
<b>LU</b>	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		2010 (increased)	<i>nsc</i>
<b>MT</b>	2009		2008 2009 2011 2010 (UA)	2006 (UA)	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	<i>nsc</i>
<b>NL</b>	2008 (UA) 2009	2003 (UA) 2006	2006 2008 UA 2009	2003 (UA) 2006		2006	Simplified /unified		2009 (abolished for employees)	2003 2006
<b>NO</b>	2009		2009 2011	2002 2012	2009	2002 2012	<i>nsc</i>		<i>nsc</i>	2009
<b>PL</b>	<i>nsc</i>		<i>nsc</i>			2008	<i>nsc</i>		<i>nsc</i>	2003 2004 (SA)
<b>PT</b>	2009 2010		2009	2006 2010	2006 2009	2012	2012	2010 2012	<i>nsc</i>	2006 2009 2012
<b>RO</b>	2004		2004 2009	2004 2008	2009		2004	2010	2002 2007 (lowered)	2002 2012 (SA)
<b>SK</b>	<i>nsc</i>			2003 2004 (SA)		2003		2003		2003 2004 (SA)
<b>SI</b>	2010		2010	2006	<i>nsc</i>		2010		<i>nsc</i>	2006 (UI, UA) 2010 (UI, SA)
<b>ES</b>	2006 (UA) 2009 (UA) 2010 2011 (UA)			2002 2002 (UA) 2011	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	2002 (UI and UA) 2011 (UI and UA)
<b>SE</b>	<i>nsc</i>			2007	<i>nsc</i>			2007	2007 (increased)	2007
<b>UK</b>	<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		<i>nsc</i>		<i>nsc</i>	2012 (UA+SA)

*\*The years in which major changes in the relevant features of the country's UB system occurred are reported; "nsc", standing for "no significant change", indicates that the considered feature was not significantly modified over the decade.*

*Source: EIRO national reports*

*[www.eurofund.europa.eu/studies/tn1206018s/tn1206018s\\_2.htm](http://www.eurofund.europa.eu/studies/tn1206018s/tn1206018s_2.htm)*

**Table 5.**

**Dynamics of change in UB regimes in the EU Member States and Norway, 2001–2012**

	<b>Main changes (affecting UI if not otherwise specified)</b>	<b>Initiative</b>	<b>Social partner positions</b>
<b>AT</b>	2004: eligibility criteria for older workers relaxed 2005: eligibility criteria tightened 2008: eligibility criteria for low incomers relaxed 2008: coverage extended 2010 (SA): reorganisation	By government together with social partners	Always favourable
<b>BE</b>	2004: eligibility criteria tightened	By government	Neutral. Trade unions disliked change but assessed it as marginal
<b>BG</b>	2002: reorganisation 2004: coverage increased 2007a: employers' social security contributions lowered 2007b: coverage increased and benefit duration for old workers expanded 2009: benefit size lowered 2010: previous calculation of benefit size restored	In 2002, 2004, 2009, by government In 2007a by employers' associations In 2007b and 2010 by trade unions	Generally, support by social partners Trade unions disagreed in 2007a and 2009
<b>CY</b>	2010: limited increase in employees' social security contribution	By government	Neutral
<b>CZ</b>	2004: for older workers duration increased and replacement rate expanded 2007: coverage and different replacement rate reduced 2011/2012: coverage reduced and eligibility criteria tightened	By government	General support in 2004. Trade unions strongly criticised subsequent reforms
<b>DK</b>	2002: occupational relationships to UI funds liquidated 2002: special SA for migrant workers introduced 2002, 2004, 2009: restrictive criteria on SA introduced	In 2002-2010: by liberal-conservative Government. In 2011: by centre-left	2002-2010: Employers' associations favourable. Trade unions disapproved and

	2010: UI benefit duration shortened 2011: SA restrictive reforms abolished	government	prevented introduction of further reforms
<b>EE</b>	2007 (and 2009): eligibility criteria relaxed and benefit size increased 2009: insurance premiums increased 2009 (UA): increase in benefit level agreed upon	By government supported by tripartite discussions 2009 UA reform by social partners	General support After 2009, with decreasing unemployment, social partners unsuccessfully proposed reduction of insurance premium
<b>FI</b>	2005: system reorganised to enhance activation 2009: coverage extended and eligibility criteria relaxed	By government and by Social partners (Social Wage Agreement in 2009)	Supportive and leading actors
<b>FR</b>	2001 and 2008: organisational reforms 2002: contributions increased, duration shortened 2009: eligibility criteria relaxed, duration shortened 2002, 2007, 2009 (UA): protection extended 2009 (SA): reorganisation	By social partners: UI changes and reforms By government: UA and SA	UI: Initiated and supported by social partners, but with opposition of 2 TUs.
<b>DE</b>	2003: system reorganised, eligibility criteria tightened, duration reduced (also UA and SA):	By government	Supported by employers Criticised by trade unions
<b>EL</b>	2001: eligibility criteria tightened 2007: benefit size reduced 2010: coverage extended 2012: benefit size reduced	By government	Accepted by social partners (but complaints about lack of resources for UB system)
<b>HU</b>	2005: system (including UA) reorganised, eligibility criteria tightened, benefit size reduced 2011: duration shortened, eligibility criteria tightened; (UA) eligibility criteria relaxed	By government	2005: Employers' associations favourable. Trade unions opposed 2011: both social partners disagreed

<b>IE</b>	2006: reorganisation of programmes 2009: (UI and UA) eligibility criteria tightened 2011: benefit size reduced 2011: contributions lowered	By government	Employers' associations favourable. Trade unions opposed
<b>IT</b>	2005 and 2007: benefit size increased, duration expanded 2009: extended coverage and relaxed eligibility (also for UA) 2012: reorganisation and rationalisation of system	By government In 2007 supported by tripartite agreement/discussion (centre-left government)	2005-9: general support, at times with criticism by trade unions 2012: Trade unions very critical of reform
<b>LV</b>	2001: eligibility criteria relaxed for specific categories of workers 2008: duration shortened 2009: more favourable calculation of benefit size for workers in child care leave 2010: less favourable calculation of benefit size 2009: introduction of SA	By government (through continuous changes – 13 times) and discussion in tripartite council	General support but with specific criticism by trade unions or employers' associations
<b>LT</b>	2005: eligibility criteria relaxed, duration expanded and benefit size increased 2008 and 2009 (SA): benefit size reduced, replacement rate and eligibility criteria tightened	By government	2005: trade unions favourable, employers' associations contrary 2008 and 2009: employers' associations favourable, trade unions contrary
<b>LU</b>	2010: social partner contribution increased	Tripartite Committee	Favourable
<b>MT</b>	2008, 2009, 2011: eligibility criteria (for specific categories of workers) relaxed 2009: coverage extended 2006 and 2010 (UA): eligibility criteria tightened and then relaxed	By government	General support
<b>NL</b>	2003 (UA): eligibility criteria tightened 2006: eligibility criteria both	By government	2003 and 2006 changes: trade unions opposed

	tightened (in general) and relaxed (to favour activation) and duration reduced 2008 (UA) and 2009: temporarily coverage extended and eligibility criteria relaxed		2008 and 2009: supported by all social partners
<b>NO</b>	2002: eligibility criteria tightened, duration shortened 2006, 2008: partial modifications to 2002 rules 2009: (temporarily) coverage extended, eligibility criteria relaxed, duration prolonged 2009: reorganisation 2011: eligibility criteria (for migrant workers) relaxed 2012: 2009 softer layoff rules reversed	By government, in 2009 following pressures by social partners	In general social partners support. But strong criticism by trade unions in 2002, which contributed to subsequent change. 20012: opposition by both social partners
<b>PL</b>	2003 and 2004 (SA): reorganisation 2008: shortened duration	By government	General support
<b>PT</b>	2006: eligibility criteria tightened, duration extended 2009: coverage extended, eligibility criteria relaxed, duration temporarily extended 2010: eligibility criteria tightened, benefit size reduced, but coverage somewhat extended 2012: duration shortened, benefit size reduced, but temporarily increased for unemployed parents	By government supported by tripartite discussions and tripartite agreement (2012)	2006 and 2009: general support, although with criticism by some of trade unions. 2010 and 2012: strong criticism by trade unions, which divided on the 2012 agreement
<b>RO</b>	2002: reorganisation of system 2002, 2005, 2007: contributions lowered 2004 and 2005: coverage extended, eligibility criteria recalibrated (both tightened and relaxed), benefit size increased 2008: eligibility criteria tightened 2009: duration temporarily expanded, eligibility criteria relaxed 2010: benefit size reduced 2012 (SA): reorganisation of	By government - firstly to meet EU access criteria - in 2009 on initiative by social partners	In general supportive Leading actors in 2009 In 2008 and 2010 opposed

	system		
<b>SK</b>	2003- general reform: eligibility criteria tightened, benefit size lowered, duration shortened 2004- reform of SA: eligibility criteria tightened, benefit size lowered	By government	In general social partners supported, although with criticism by trade unions
<b>SI</b>	2006: eligibility criteria tightened 2006-UA abolished and combined with SA 2010: coverage extended, eligibility criteria relaxed, benefit size increased, 2010-SA reorganisation	By government	In general social partners supported, although with some criticism by trade unions
<b>ES</b>	2002: eligibility criteria tightened 2006 and 2009 (UA): coverage extended 2010: coverage extended to self-employed 2011: eligibility criteria tightened 2011 (UA): coverage extended	By government 2006 and 2011: changes promoted through agreements between social partners and government	In general favourable and proactive actors In 2002 trade unions strongly opposed change. Proposal was modified
<b>SE</b>	2007- UI reform: contributions increased, eligibility criteria tightened, benefit size reduced	By government	Trade unions widely disapproved change
<b>UK</b>	2012 (UA, SA): reorganisation into a Universal Credit (UC) system	By government	Employers' associations favourable. Trade unions opposed

Source: EIRO national reports for this study

**Table 8.**  
**Main features of UB regimes in the EU Member States and Norway, 2012**

		<b>Coverage</b>	<b>Eligibility criteria</b>	<b>Duration</b>	<b>Replacement rate</b>	<b>Funding</b>
<b>AT</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All employees and, if voluntarily insured, self-employed.</li> <li>- Public servants and workers on minimum hours are exempt from paying contributions but covered</li> </ul>	<ul style="list-style-type: none"> <li>- Having paid contributions for at least 52 weeks out of last two years (reduced for the young)</li> <li>- Being able and willing to work.</li> </ul>	<ul style="list-style-type: none"> <li>- According to claimant's age and insured periods: from 20 weeks up to one year.</li> <li>- Extended up to 3/4 years if beneficiary takes part in active policies</li> </ul>	<ul style="list-style-type: none"> <li>- Basic amount (55% of average net income) + family supplements, or for low income earners.</li> <li>- Ceiling (€814) fixed</li> </ul>	<ul style="list-style-type: none"> <li>- Contribution of 6% of insurable income shared equally by employers and employees (3% each)</li> </ul>
	<b>USA</b>	<ul style="list-style-type: none"> <li>- UA: long-term unemployed once UI expired</li> <li>- SA: universal needs-based minimum income system</li> </ul>	<ul style="list-style-type: none"> <li>- UA: UI benefit exhausted, + satisfying means-test.</li> <li>- SA: satisfaction of means-test + participation in active labour market policies</li> </ul>	<ul style="list-style-type: none"> <li>- UA: No limits. Beneficiaries have to reapply every year</li> </ul>	<ul style="list-style-type: none"> <li>- UA: 92-95% of UI. Ceilings. Family supplements.</li> <li>- SA: flat rate benefit (basic + living assistance benefit)</li> </ul>	<ul style="list-style-type: none"> <li>- UA: Contributions by employees' and employers'</li> <li>- Taxation</li> </ul>
<b>BE</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All persons over 18 years who are seeking job</li> </ul>	<ul style="list-style-type: none"> <li>- Prior work record</li> <li>- School-leavers who never</li> </ul>	<ul style="list-style-type: none"> <li>- Unlimited duration</li> </ul>	<ul style="list-style-type: none"> <li>- Based on previous earning and family status (around</li> </ul>	<ul style="list-style-type: none"> <li>- Contributions by employees and employers</li> </ul>

		or involuntarily lost it	worked are eligible after 1 year		60% of last wage, decreasing after 15 months). - Minimum and maximum (€1.472/€2.370) levels set	to (union controlled/ independent) funds
	<b>SA</b>	- SA: universal minimum income				- Taxation
<b>BG</b>	<b>UI (no UA/SA)</b>	All compulsorily insured employees + others, if voluntarily insured (sailors, freelancers, craft persons, self-employed)	- Having paid contributions for at least nine months out of last 15	- According to the length of service: between four and 12 months	- 60% of previous average daily wage. - Minimum (BGN 7.20 daily) level set	- Contribution of 1% (since 2007) of insurable income by employees and employers (at 0.4% and 0.6% respectively)
<b>CY</b>	<b>UI</b>	- All compulsorily insured employees and, if voluntarily insured, persons working for Cypriot employers abroad.	- Having paid contributions for at least 26 weeks. - Having lost job involuntarily - Obligation to participate in active	- 156 working days	- Basic allowance (60% of previous weekly earnings) + family supplements	- Contribution of 1.5% of insurable earnings shared equally by employers and employees + State contribution



			labour market policies and accept appropriate work or vocational training			
	<b>SA</b>	- Guaranteed minimum income				- Taxation
<b>CZ</b>	<b>UI</b>	- Compulsorily insured employees resident in CZ without a foreign income. - self-employed excluded	- Insured for at least 12 months. - Having lost job involuntarily - Obligation to participate in active labour market policies and accept appropriate work or vocational training	- According to claimant's age: between 5 and 11 months.	- 58% of the average wage in the national economy, - 65% in case of re-training support	- Contribution of 1.2% of insurable income by employers, and self-employed
	<b>SA</b>	- Subsistence minimum	- Satisfying household-based means-test			- Taxation
<b>DK</b>	<b>UI</b>	- Workers belonging to 31 recognised national UI funds covering employees	- Registered at employment service - Member of a UI fund for at	- Up to two years	- 90% of previous wages for low income earners - 50-60% of previous wages for	Contributions shared jointly by wage-owners and the state (at the proportion

		and self-employed in every occupation and industry (of which few cross-sectoral and independent of the unions)	least 1 year. - Employed for at least one year out of the last three (34 weeks for part-timers) - Actively seeking work.		mid-income earners	of 1/3 and 2/3 respectively on average)
	<b>SA</b>	- Social assistance for persons not belonging to UI funds (More restrictive SA programmes were abolished in 2011)	- Having been in Denmark for seven of the previous eight years. - Obligation to participate in active labour market policies and accept appropriate work or vocational training (same applies to partner)			- Taxation
<b>EE</b>	<b>UI</b>	- All insured employees, public servants, wives of officials in mission	- Registered at PES. - Paid contributions for at least 12 months of	- According to insured periods: from 180 to 360 days	- 50% of previous gross earnings reduced to 40% after 100 days. - Maximum	- Contributions to UI fund by employees.

		abroad - self-employed, executives and managers excluded.	previous 36 - Having lost job involuntarily		and minimum rates fixed	
	<b>UA SA</b>	- UA: Unemployed not fulfilling eligibility criteria for UI - or whose UI benefits became exhausted - SA: independent programme	- UA: Registered at PES - Employed or engaged in activity assimilated to work (for instance, studying) for at least 180 days in previous year. - means-tested income - SA: municipalities can refuse benefits to people of working age refusing suitable work	- Up to 270 days (reduced if unemployed on fault)	- around 22% of minimum wage and 8% of gross average wage. (increasing at least to 50% of national minimum wage)	- Taxation
<b>FI</b>	<b>UI</b>	- Workers belonging to one of 30 UI funds - even if only partially unemployed	- Having been member of a UI fund for at least 34 weeks, with at least 28	- Up to 500 days (for five days a week).	- about 70% of previous gross earnings (for full-time unemployed)	- Contributions by members of UI funds (around 1–2% of gross pay) and

		d	monthly contributions paid. - Registered at PES and available for work		d)	employers
	<b>UA SA</b>	- UA: <i>Basic Unemployment Allowance</i> for persons not covered by UI funds, - or whose benefits became exhausted - SA: <i>Labour market subsidy</i> for those not covered by UA either	- UA: Working records of eight months in the last 24 (reduced to five for the young) - no previous work requisite for young with vocational qualification - SA satisfying strictly means-tested conditions	- UA: Up to 500 days - SA: No limits	- UA: in 2012: €31.36 per day (€25.74 in 2011) - SA: same size as <i>Basic Unemployment Allowance</i> . (being means-tested it is lower)	- Taxation
<b>FR</b>	<b>UI</b>	- All workers, also voluntarily unemployed if for legitimate reasons	- Working records for at least 122 days out of last 28 months (36 for out of 50 years old) - Registered at PES and	- According to claimant's age: 730 days (for workers under 50 years), 1095 days (for workers	- 57.4% of previous daily work earnings, or alternatively 40.4% + a fixed part of €11.34. - Maximum and minimum levels fixed	- Contribution of 6.4% of gross earnings by both employers (4%) and employees (2.4%)

			available to accept reasonable job offers	over 50 years)		
	<b>UA</b>	Special regimes for specific groups: - unemployed whose UI benefits expired - retired with requisite conditions but not legal age for pension - on-training persons - asylum seekers, stateless people, etc. - artists and the like	According to the programme : - working record (at least five out of last 10 years); means-test; - household means-test - being in training without benefit - having not working record to be eligible for other programmes	According to the programme	According to the programme	- Taxation
<b>DE</b>	<b>UI</b>	<i>Unemployment Benefit I</i> : – Compulsorily insured persons - civil servants and marginally employed workers who are exempt from	- Registered at local employment agency	- According to claimant's age and insured periods: from six to 24 months	- 60% of last net wage (67% for applicants with children)	- Contribution of 3% of monthly wage shared equally by employers and employees (1.5% each)

		contributions but covered				
	<b>UA/SA</b>	<i>Unemployment Benefit II</i> (merger of UA and SA) - persons from 15 to 65/67 years of age - Able to work, but without income nor family assistance	- living in Germany - satisfying household means-test	No limits	- flat rate monthly grant (€374), reduced if living with partner getting the benefit + allowances for children, - lower grant for young adults living with parents (€299)	- Taxation
<b>EL</b>	<b>UI</b>	- All insured employees - Ordinary public servants, domestic workers and self-employed excluded	- Registered at PES. - for first application: working records for at least 80 days per year out of last two years (125 of which within the last 14 months), or 200 days out of two years; for a second	- According to length of service, from a minimum of five to a maximum of 12 months	- 55% of the national minimum wage, + family supplement s. - Since March 2012, it has been fixed at €360, as a result of 22% cut in national minimum wage.	- Contribution of 4% of wages: 2.67% by employees and 1.33% by employers. Government participates with small percentage

			application: 125 days during last 14 months. - for special occupational groups different working record criteria apply			
	<b>UA</b>	Special programme s including: - Insured unemployed not meeting eligibility criteria, or whose UI benefit expired - professions of seasonal nature - insured persons fired due to industrial readjustment or insolvency of firms	Variable according to the programme	Generally lump-sum once a year (sometimes granted up to three times a year)	Variable according to the programme and the sector. In all cases family supplements, and additional allowances to persons participating in retraining programme ..	Same as for UI, contributions by employers, employees and the Government
<b>HU</b>	<b>UI</b>	All persons paying contributions: employees, self- employed, single	- Registered as unemployed. - Working records for at least one	- According to length of service, with a maximum of 90 days	- 60% of previous average income; cannot exceed 60% of monthly	- Contribu- tion of 2.5% of monthly gross wages to National Employee

		entrepreneurs	year out of last three - Actively looking for jobs		mandatory minimum wage	nt Fund: 1% by employees and 1.5% by employers. Entrepreneurs pay both amounts
	<b>UA SA</b>	- UA: Ageing unemployed persons - SA: persons under 50 years able to work not eligible for UI or whose UI benefit expired	- UA: < five years to reach retirement age limit - services period to be entitled for pension achieved - UI benefit exhausted - no appropriate job available - SA: Obligation to cooperate with local employment office to find job - if no alternatives, joining 'public work' schemes, set by municipalities required	- UA: No limits until obtaining other state allowance or pension - SA:	- UA: 40% of mandatory minimum wage - SA: social minimum; cannot exceed 80% of national minimum of guaranteed monthly pension	- UA: Same as for UI - SA: After 2011 reform, is funded by same source as UI and UA
<b>IE</b>	<b>UI</b>	- All	- at least	-	-	Contributio



		insured workers unemployed for at least 3 days out of 6	104 weeks of contributions, of which 39 in relevant tax year - Capable of work - Available for and genuinely seeking work.	According to the class and number of contributions paid, from nine to 12 months.	Depending on average weekly earnings: a maximum of €188.00 weekly, reduced if average weekly earnings are less than €300	ns on wages by employers and employees, financially supported by the state
	<b>UA SA</b>	- UA: Unemployed not eligible for UI or having used up UI entitlements - SA: a number of SA schemes only indirectly linked to protection against unemployment	- UA: Capable of work - Available for and genuinely seeking work - Satisfying means test - If part-timer or on casual work trying to get full-time employment	- UA: No limits	- UA: According to total household means	- UA: Employers, employees, state
<b>IT</b>	<b>UI</b>	- All insured involuntarily laid off employees (with exclusion of agriculture and	Ordinary UI - Registered at PES and available for work. - two years of social security	Ordinary UI - according to claimant's age: from eight to 12 months. Special mobility	Ordinary UI - 60% of previous wage, reduced after six months to 50% and 40%	Ordinary UI - Contribution of 1.61% of wages by employers Special mobility

		<p>building sector) are covered by. Ordinary UI</p> <p>- Employees dismissed by larger firms in manufacturing and some categories of services sector are covered by a special mobility programme</p> <p>- Unemployed employees in agriculture and constructions are covered by specific sectoral programmes</p> <p>NB. The system is strictly intertwined with the operation of Ordinary and Extraordinary Wage</p>	<p>seniority with at least 52 weeks of contributions</p> <p>Special mobility programme</p> <p>- at least one year's working record in firms admitted to the programme</p>	<p>programme</p> <p>- according to claimant's age: from 12 to 36 months.</p> <p>- according to local socio-economic conditions: 12 months more in Southern regions</p>	<p>Ceiling at around 1000.</p> <p>Special mobility programme</p> <p>- 80% of previous wage, reduced to 80% of the allowance after 1 year</p>	<p>programme</p> <p>- besides the 1.61% contribution, an additional 0.30% by employers required</p>
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		Guarantee Funds, often in fact covering dismissed workers.				
	<b>UA</b>	<ul style="list-style-type: none"> <li>- Discontinuous workers not reaching requirements for UI</li> <li>- freelancers, economically dependent workers</li> </ul>	<ul style="list-style-type: none"> <li>- one week of contributions in two years and working records of 78 days within the year</li> <li>- Dependent on only one contractor.</li> <li>- Having earned at least 5,000 in previous year.</li> <li>- 3/10 months of contributions in last year</li> </ul>	Lump-sum Lump-sum	<ul style="list-style-type: none"> <li>- 35% of earnings in the first 120 days of previous year + 40% of earnings in subsequent ones (with a maximum of 180 days)</li> <li>- 10% of previous year's earnings</li> </ul>	<ul style="list-style-type: none"> <li>- contribution of 1.61% of wages by employers</li> <li>- Taxation</li> </ul>
<b>LV</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All insured persons</li> </ul>	<ul style="list-style-type: none"> <li>- Registered as unemployed at PES and available for work.</li> <li>- At least nine months of contributions in the</li> </ul>	<ul style="list-style-type: none"> <li>- According to insured periods: from four to nine months</li> </ul>	<ul style="list-style-type: none"> <li>- 50-65% of insurable earnings according to insured periods, decreasing to 75% and 50% of the granted benefit after the first two to</li> </ul>	<ul style="list-style-type: none"> <li>- contribution of 0.09% of wages</li> </ul>

			last year		three months	
	<b>UA</b>	More than 10 specific programmes				Specific sources of funding according to the programme
<b>LT</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All persons dismissed from work or services specified by law</li> <li>- graduated from vocational training schools, colleges and universities</li> <li>- persons previously out of labour market because of raising children</li> <li>- self-employed</li> </ul>	Obligation to cooperate with local employment office to find suitable job offer	<ul style="list-style-type: none"> <li>- According to insured periods: from six to nine months (extended for further two months for claimants approaching old-age pension)</li> <li>- Unemployed dismissed on their fault are granted UI benefit 3 months later their registration</li> <li>..</li> </ul>	<ul style="list-style-type: none"> <li>- combination of fixed part corresponding to state supported income (€102) and a variable one corresponding to 40% of wage last 36 months, reduced to half after three months</li> </ul>	<ul style="list-style-type: none"> <li>- contribution of 1.5% of gross wages by employers</li> <li>- specific funding for self-employed)</li> </ul>
	<b>SA</b>	Unemployed irrespective of whether receiving UI benefits	Satisfying household means-test		Social allowance and other compensations	
<b>LU</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All workers, self-employed</li> </ul>	<ul style="list-style-type: none"> <li>- Registered at PES and willing to</li> </ul>	<ul style="list-style-type: none"> <li>- one year out of two-year period.</li> <li>- It may be</li> </ul>	<ul style="list-style-type: none"> <li>- 80% of previous gross salary, –</li> </ul>	<ul style="list-style-type: none"> <li>- Solidarity tax and annual budget</li> </ul>

		and youth leaving school.	accept any appropriate job. - Be unemployed involuntarily - Working record for at least 26 weeks, for a minimum of 16 hours per week, during last 12 months; if self-employed, two years of contributions	extended of further 6–12 months according to age, working capacity, involvement in labour market measures, length of insurance	85% for recipients with children. - Ceiling at 250% of minimum social wage, reduced to 200% after nine months. - Youth get 70% of minimum social wage	contribution from the State.
	<b>SA</b>	Minimum guaranteed income scheme largely accessed by unemployed not/no longer eligible for UI	- Satisfying household means-test - If able to work, active participation in labour market programmes required		- higher for low income households and with children	- Taxation
<b>MT</b>	<b>UI</b>	- Employed persons having paid Class 1 contributions Access can be made to: - general programme	To access UB - Registered at ETC and available for all training and employment	one day's benefit per contribution paid up to 156 days maximum	According to family conditions, - between 29.1% and 44.5% of minimum wage for UB - between	- Weekly contribution shared equally by employers, employees and the state (33.3% each)

		(UB) - Special programme (UBS)	t programme s proposed. - Contributions paid for at least 50 weeks To access UBS, besides general requirements: - be head of household - meeting criteria of SA means-test		48.8% and 74.8% of minimum wage for UBS	
	<b>UA</b>	Registered heads of households having exhausted 156 days UB period	- available for all training and employment programme s proposed by ETC - satisfying means test	Unlimited	- 62.8% of minimum wage, + 5.4% for each unemployed person in household	- Taxation
<b>NL</b>	<b>UI</b>	All insured employees and public servants - Self-employed are not covered. - Excluded those who lost job on their responsibility	- Insured workers losing five or more hours of work - Working records of 26 out of previous 36 weeks - Available for and	According to the claimant's working records: - one month per year of work experience from a minimum of three to	- 75% of previous earnings (not exceeding a fixed maximum) for two months, then reduced to 70%.	- From 2009, contributions by employers only

		ty	actively searching for another job	a maximum of 38 months		
	<b>UA</b>	Two programmes for older unemployed - IOAW for over 50s - IOW for over 60s	- Having exhausted ordinary UB - Looking actively for work - Satisfying household means-test (IOAW)	Until retirement age	- IOAW: at social minimum level depending on household income IOW: at maximum of 70% of minimum wage	- Taxation
<b>NO</b>	<b>UI</b>	- All workers who had their working time reduced by at least 50%, and whose previous income was over minimum level	- Minimum income of 15,000 during previous year, or 29,000 out of last three	According to claimant's previous average annual income, from up to 52 or 104 weeks	- 62.4% of previous gross income, not exceeding a fixed maximum	- Taxation
	<b>SA</b>	SA for those not satisfying the minimum income requirement	- satisfying means-test			- Taxation
<b>PL</b>	<b>UI</b>	UB: All insured employees and self-	- Registered at PES and committed	Depending on the level of unemploy	The amount is not earnings-	- contribution of 2.45% of wages

		employed. - those leaving jobs voluntarily can be included after 90 days - Special stipend for unemployed on training, internship and vocational programmes	to accept job proposals, training, internship, vocational preparation - Having worked and been insured for at least 365 days within last 18 months. - Women returning to work after child-care leave	ent in the district of residence, from six to 12 months, -12 months are guaranteed in any case for people over 50 and long employment records, or with children and dependent spouse	related and depends on claimant's employment records	by employers Supplement ed by state subsidy
	<b>SA</b>	SA not directly related to UI				
<b>PT</b>	<b>UI</b>	- All insured employees – also self-employed if working for a single firm.	- being involuntarily unemployed - Registered at PES and available for work. - Contributions paid for at least 360 days out of last two years	From 150 to 540 days	65% of previous earnings up to a limit of 2.5 times the social support (€419 monthly), which defines also its minimum	- A quota of the whole social security contribution, which amounts at 11% of gross pay paid by employees and 23.75% by employers
	<b>UA SA</b>	UA: Unemployed	UA: Contribution	UA: From 150 to 540	UA: according	UA: As for UI



		d not fulfilling eligibility criteria for UI - or whose UI benefits became exhausted SA: Guaranteed minimum income	ns paid for at least 180 days out of last year. - Meeting household means-test SA: means-tested programme	days	to family condition from 100% to 80% of social support	SA: taxation
<b>RO</b>	<b>UI</b>	- All workers paying UI contribution, also voluntarily (partners, administrators, self-employed, working abroad).  - Involuntarily unemployed - Capable for work and available to seek work - Contributions paid for at least 12 months within the last 24 (with exemptions for freshly graduated, those having completed military training)	- Involuntarily unemployed - Capable for work and available to seek work - Contributions paid for at least 12 months within the last 24 (with exemptions for freshly graduated, those having completed military training)	According to length of insured periods, from six to 12 months	According to length of insured periods - a variable percentage of the social reference indicator, - + plus a variable percentage of previous average gross base salary over last year	- Contributions to the UB fund by employers and employees (with , respectively the 51.7% and the 35.8% of total) complemented by non-tax revenues and donations
	<b>SA</b>	Minimum guaranteed income, not directly linked to				

		UB				
<b>SK</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All insured economically dependent workers.</li> <li>- Self-employed are not covered.</li> </ul>	<ul style="list-style-type: none"> <li>- involuntarily unemployed</li> <li>- registered at EO</li> <li>- Contributions paid for at least two years out of the last three (four in case of fixed-term contracts)</li> </ul>	six months	<ul style="list-style-type: none"> <li>- 50% of the base of assess, calculated on the amount paid by individual claimant to UI fund</li> <li>- maximum at the times the average wage in the economy</li> </ul>	<ul style="list-style-type: none"> <li>- 2% contribution on gross wages, equally shared by employers and employees.</li> <li>- In case of voluntary UI, individual rate is 2%</li> </ul>
	<b>SA</b>	<ul style="list-style-type: none"> <li>- Not directly linked to UB. But around 90% of long-term unemployed are covered by SA</li> </ul>	<ul style="list-style-type: none"> <li>- means-tested programme</li> </ul>			<ul style="list-style-type: none"> <li>- Taxation</li> </ul>
<b>SI</b>	<b>UI</b>	<ul style="list-style-type: none"> <li>- All compulsorily and voluntarily insured workers, including, for instance, self-employed, parents returning to labour market.</li> </ul>	<ul style="list-style-type: none"> <li>- Working records for at least nine months in the last 24.</li> <li>- Up to €200 per month for partially unemployed</li> </ul>	According to length of insured periods, from three to 25 months	<ul style="list-style-type: none"> <li>- 80% of average wage in previous eight months for first three months, then reduced.</li> <li>- Minimum (€350) and maximum (three times the</li> </ul>	<ul style="list-style-type: none"> <li>- 0.2% contributions on wages, due by employers (0.06%) and employees (0.14%)</li> </ul>

		- Partially unemployed also covered			minimum) levels are set	
	<b>UA/SA</b>	In 2006 previous UA was unified with SA	In 2006 obligations for unemployed receiving SA were tightened			
<b>ES</b>	<b>UI</b>	- All workers included in the general regime of Social Security, and in Special ones (coal-mining, agricultural, sea workers), civil servants - Since 2010, also self-employed, under a specific UI	- Contributions paid for at least 360 days out of previous six years - For self-employed: at least 12 months of contributions in the period immediately before becoming unemployed	- According to length of insured periods, from 120 to 720 days - For self-employed minimum at two months	- 70% of previous base income for first 120 days, then reduced at 60%, with a maximum amount (€1,100), increased for recipients with dependent children	- Contributions on wages paid by employers, employees and the state, varying on the employers' part according to the type of contract (lower for open-ended, higher for temporary and part-time contracts)
	<b>UA</b>	- UA: Unemployed not eligible for UI, or whose UI benefits became exhausted	- UA: Registered as job-seekers for one month - Having not refused a suitable job and	- UA: 3–6 months that may be extended to 12–21, according to insurance position	- UA: 80–75% of Public Indicator of Multiple Effect Income - SA: 80% of Public	- UA: Taxation

		SA: Active Insertion Income Programme Further Assistance programmes also at Regional level	participating to active labour market policies - income below 75% minimum wage. - for under 45s without family responsibilities: at least three months of contributions required - SA: long-time unemployed over 45s or with disabilities, income below 75% minimum wage - committed to participate in active labour market policies	and family condition - SA: 11 months	Indicator of Multiple Effect Income	
<b>SE</b>	<b>UI</b>	Members of the sector-based UI funds or of the cross-sectoral one (Alfa	- Been made redundant due to scarcity of work - Registered	- Maximum of 300 days (five days per week) + further 150 if with children	- income-related benefit of up to 80% of previous salary (not exceeding a fixed	- UI funds are financed by UI membership fees and by state subsidies

		Kassan) Additional income insurance: voluntary system supplement ing UI funds	at PES and actively seeking work. - being paying member of a UI fund for at least 12 months. - working records for, on average, 80 hours per month in the last 12		maximum) for 200 days, reduced to 70% for other 100 days, then to 65% (for members with children).	(in the proportion of 40% to 60%. Until 2007 it had been 13% to 87%). Membershi p fees consist of a basic fee + an unemploy ment fee (paid only when in employmen t)
	<b>UA</b>	Workers not qualifying for income- related benefit or not belonging to UIs can i) apply at Alfa Kassan for basic benefit ii) enter a <i>Job and development guarantee programme</i> administere d by PES	i) Registered at PES and actively seeking work; - paying administrati ve fee to Alfa Kassan, if non- member of a UI ii) UI compensati on expired, - commitmen t to fulfilling all phases until finding new job	i) Maximum of 300 days ii) three phases of 150, 300, 450 days	i) maximum basic benefit for non- members of a UI is SEK 320/day ii) 65% of former wage for job-seekers who had previously the right to UI; for others a minimum compensati on per day	- Taxation
<b>UK</b>	<b>UI</b>	Non-means	- out of	Maximum	Governmen	- Paid out

		tested unemployment insurance scheme = contribution-based JSA - All workers, also partially unemployed	work or working less than 16 working hours per week – Capable of work and available for work (as specified in Job Seeker's Agreement) - registered and actively seeking work. - With enough national security contributions paid during previous two tax years	of six months	t defined flat-rate unemployment benefit (linked with changes in prices rather than wages) [in 2011 corresponded to a 29% of the minimum wage (15% of average weekly earnings), reduced for the young]	of National Insurance Fund, that receives contributions by both employees and employers: the former paying 12% of earnings between €175 and €980 per week, the latter paying 13% of earnings above €173 per week
	<b>UA/SA</b>	Means tested unemployment assistance scheme = income-based JSA All workers, also partially unemployed, whose	- out of work or working less than 16 working hours per week – Capable of work and available for work (as specified in Job	No limits	Same as contribution-based JSA	- Taxation

		contributor y-based UB expired. * In October 2013, this UB will be integrated with SA schemes, creating the so called Universal Credit	Seeker's Agreement) - registered and actively seeking work. - Savings below GBP 9,600			
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*Source: EIRO national reports for this study*

**Table 9.**  
**Coverage of self-employed persons by unemployment insurance**

Country	Unemployment insurance for self-employed	Other system
Austria		<p>On January 1st 2009 the new scheme for voluntary unemployment insurance entered into force. Self-employed persons can choose to be insured against unemployment or not and thereby further improve their social protection. Self-employed keep their entitlement to unemployment benefit, which they earned previously as non self-employed, for the duration of their self-employed activity, even without being member to a voluntary unemployment insurance, i.e. for free. That was already the case so far.</p> <p>The following groups of self-employed persons are eligible for voluntary unemployment insurance: self-employed, who are covered for old-age in accordance with the Act on Social Insurance for Persons engaged in Commercial Activities (<i>Gewerbliches Sozialversicherungsgesetz (GSVG)</i>) or in accordance with the Act on Social Insurance for Self-Employed (<i>Freiberufliches Sozialversicherungsgesetz (FSVG)</i>), as well as self-employed lawyers and civil engineers. No possibility for membership to the voluntary unemployment insurance exists for persons having reached the age of 60 or the age for early</p>



Country	Unemployment insurance for self-employed	Other system
		retirement or if an old-age pension or an old-age benefit has already been granted. The entitlement to benefits corresponds to that for compulsorily insured persons.
<b>Belgium</b>		Unemployment No protection system exists for the self-employed.
<b>Bulgaria</b>		No data available.
<b>Cyprus</b>		The self-employed are not covered for Unemployment benefit.
<b>Czech Republic</b>	For the job seeker whose last activity before his/her inclusion in the job seekers list was independent gainful activity and who participated in the old-age pension insurance as a person performing independent gainful activity, the amount of his/her unemployment benefits shall be calculated from his/her last base for the assessment of the premium for old-age pension and the state employment policy contribution for the period under review calculated on the basis of 1 calendar month. For the first 2 months of the period of support, the percentage rate for unemployment benefit shall be set at 65%, for the following two months 50% and for the remaining period of support 45% of the assessment base. The percentage rate of retraining allowance shall be set at 60% of the assessment base. If the base for assessment cannot be established, the unemployment benefit shall be a fixed multiple	

Country	Unemployment insurance for self-employed	Other system
	(0.15 times during the first two months, 0.12 times during the following two months and 0.11 times during the remaining time of receipt of benefits and 0.14 times during the time of retraining) of the national average earning in the period from 1st quarter to 3rd quarter of the calendar year preceding the calendar year in which the unemployment benefit was claimed or in which the job-seeker started retraining.	
<b>Denmark</b>	<p>Unemployment insurance is voluntary also for the self-employed persons.</p> <p>Of the 29 unemployment insurance funds, 7 operate within specific occupational fields which means that only employed persons from specific occupational fields can become members. 11 of them operate within specific occupational fields, but also admit self-employed persons working within the occupational field as members. 3 of them are interdisciplinary unemployment funds which mean that they admit employed persons from all occupational fields as members. 8 of them are interdisciplinary unemployment funds for both employed persons and self-employed persons. One unemployment insurance fund only admits self-employed persons as members.</p> <p>Self-employed persons are entitled to benefits but the</p>	

Country	Unemployment insurance for self-employed	Other system
	conditions for entitlement differ a bit from those for the employees.	
<b>Estonia</b>		Self-employed persons are not covered by the unemployment insurance scheme, but they may be entitled to the State unemployment allowance scheme. In this scheme, self-employment is considered equal to employment in respect of the qualification period for entitlement to the allowance (the qualification period is 180 days of employment or equalised activity within the 12 months preceding unemployment). As a part of active labour market policy measures, the unemployed are entitled to labour market grant up to EEK 70,000 (€ 4,474) to start their own business, including self-employment, upon presentation of a business plan.
<b>Finland</b>	The self-employed are insured by the basic unemployment insurance. Since 1995 the self-employed have had the possibility to join voluntarily the earnings-related unemployment insurance scheme and qualify for the earnings-related unemployment allowance as members of special unemployment funds, with rules particularly adapted to the situation of the self-employed (e.g. in defining unemployment).	
<b>France</b>		No unemployment insurance system exists for farmers.

Country	Unemployment insurance for self-employed	Other system
		No unemployment insurance system exists for craftsmen, neither self-employed in commercial or industrial branches nor liberal professions.
<b>Germany</b>		There is no compulsory unemployment insurance for self-employed farmers. If there is no sufficient income and no disposable assets, the self-employed farmers are in principle entitled to the standard allowance granted to jobseekers ( <i>Arbeitslosengeld II</i> ), a universal allowance granted to the gainfully employed to secure their subsistence.
<b>Greece</b>		Unemployment risk is not covered in the farmers' system.
<b>Hungary</b>		General unemployment insurance system covers the self-employed persons.
<b>Ireland</b>		There is no protection system for the self-employed. Share-fishermen who pay optional contributions are covered for cash benefits for unemployment (payable for a limited duration of 13 weeks in any one year).
<b>Iceland</b>	Social protection exists for the self-employed as for the employees. Both groups are compulsorily insured. Self-employed persons must have paid social security contribution ( <i>tryggingagjald</i> ) and income tax for a certain period.	
<b>Italy</b>		Generally speaking, no protection system exists for unemployment. Schemes for other groups of self-employed

Country	Unemployment insurance for self-employed	Other system
		<p>Self-employed with a specific treatment (separate management):</p> <ul style="list-style-type: none"> <li>• Coordinated collaborators for projects (co.co.pro., collaborazioni coordinate a progetto)</li> <li>• Occasional workers whose annual income is above € 5.000 (co.co.co.)</li> <li>• Door-to-door sellers whose annual income is above € 5.000 (co.co.co.).</li> </ul> <p>The contribution rates effective from 1 January 2009 are:  17.00% for self-employed who are already insured under another compulsory management scheme or who are already retired;  26.72% for self-employed insured only under the separate management scheme.</p>
<b>Liechtenstein</b>		<p>The unemployment insurance is compulsory for employees. Subscription is not compulsory for the self-employed nor do they have any other possibility of voluntary insurance.</p>
<b>Lithuania</b>	No data available.	
<b>Luxembourg</b>	<p>The self-employed who had to cease their occupation owing to economic and financial difficulties, to medical reasons, to a third party or by a case of force majeure, may obtain unemployment benefits when they register as jobseekers. They must have completed at least two years of compulsory pension insurance as a self-employed person. However, for</p>	

Country	Unemployment insurance for self-employed	Other system
	<p>the purposes of calculating the two-year qualifying period, periods of insurance completed as an employed person can be aggregated, provided the person has carried out activities as a self-employed person for at least six months before the submission of the request for compensation. Jobseekers must be resident in Luxembourg at the time of cessation of their activities. Self-employed persons must register as jobseekers within six months following the cessation of their activities.</p> <p>In case unemployment benefit is granted, the self-employed person is entitled to an allowance corresponding to 80% of the income which the pension fund used as a basis for calculating contributions for the last activity. Full unemployment benefit cannot exceed the ceilings provided in the general scheme. It cannot be lower than 80% of the social minimum wage.</p>	
<b>Malta</b>		Self-employed persons are not entitled to an unemployment benefit.
<b>Netherlands</b>		Self-employed persons are not insured against the risk of unemployment; here the corresponding law applies only to employees.
<b>Norway</b>		Generally, there is no compulsory coverage for the self-employed. Nor is a voluntary coverage available.

Country	Unemployment insurance for self-employed	Other system
		<p>However, unemployment benefits based on previous work as an employee, can be drawn up to nine months into a start-up period as a self-employed, and there is an entitlement to unemployment benefits between 64 and 67 years of age provided the activity as a self-employed has ceased.</p> <p>Fishermen are compulsorily covered as part of their extended rights, see under <i>Financing</i>.</p>
<b>Poland</b>		The same rules as for employed persons.
<b>Portugal</b>		No unemployment protection system exists for the self-employed.
<b>Romania</b>		<p>Coverage: Voluntary regime.</p> <p>Financing: Contributions. Rate 1.00%. No ceiling.</p>
<b>Slovenia</b>	<p>A self-employed person is unemployed if the profit from his activity has not exceeded the amount of the minimum salary compensation, or if a person is an owner or co-owner of companies, whose profit in the last calendar year prior to occurrence of unemployment, reduced by payment of compulsory social security contributions, has not exceeded the amount of the minimum salary compensation.</p> <p>Self-employed may be engaged in voluntary insurance for the case of unemployment. They are therefore entitled to unemployment financial benefits, reimbursement of</p>	

<b>Country</b>	<b>Unemployment insurance for self-employed</b>	<b>Other system</b>
	transport and relocation costs, the right to health care and the right to pension and disability insurance. Contribution rate for unemployment for the self-employed is 0.20% gross wage (0.14% as employees and 0.06% as employers).	
<b>Spain</b>		No provision under the Special System. A bill will be passed in a short time.
<b>Switzerland</b>		The self-employed have no possibility of insurance.
<b>Slovakia</b>	The benefits are granted according to the regulations of the general system, but only in case of non performance of the self-employed activity and previous voluntary insurance.	
<b>Sweden</b>	Social protection exists for the self-employed: Self-employed persons have the option of joining the unemployment insurance fund responsible for their occupational branch and consequently acquire entitlement to the basic amount and the income-related benefit.	
<b>United Kingdom</b>		No protection system exists for self-employed persons. If they become unemployed, they can claim income-based Jobseeker's Allowance (which is means-tested).

*Source: Author's own source, based on the MISSOC tables 2010.*



**Table 12.**  
**Changes on unemployment benefits 2005-2010**

<b>Till 01.11.2005</b>	<b>Modifications in force from 01.11.2005</b>	<b>Modifications in force from 01.01.2010.</b>	<b>Modifications if force from 01.09.2011</b>
<p>Requirements of receiving unemployment benefit:</p> <p>Being registered unemployed person;</p> <p>who have spent at least 200 days in labour relation within the last 4 years before losing the job;</p> <p>not entitled for disabled persons' allowance or sickness pay;</p> <p>actively looking for job but does not manage to find, and the regional office of PES cannot offer him/her the appropriate job.</p> <p>The measure of the unemployment benefit:</p> <p>Basis: the average salary which were reached in the last quarter before</p>	<p>The "unemployment benefit" renamed for "jobseekers' allowance", with the aim to strengthen the insurance function of the unemployment benefit and boost it's function of motivating for jobseeking.</p> <p>Requirements of receiving jobseekers allowance:</p> <p>Being registered unemployed person;</p> <p>who have spent at least 365 days in labour relation within the last 4 years before losing the job</p> <p>not entitled for disabled persons' allowance or sickness pay;</p> <p>Actively looking for job but does not</p>	<p>Entrepreneurs are also obliged to pay the contribution for the Labour Market Fund, at least on the basis of monthly mandatory minimum wage. They should pay both the 1 and 1,5% contribution. By this measure entrepreneurs are purchase entitlement for receiving jobseekers allowance after finishing business activity.</p> <p>(Nr. 84./2009 Act on burden sharing, which modifies the Nr. 4. /1991. Act on Employment)</p> <p>Source of jobseekers' allowance: Labour Market Fund of the state budget, which revenues come from the 1% contribution of the employees' and 1,5% contribution</p>	<p>Requirements of receiving jobseekers allowance:</p> <p>Being registered unemployed person;</p> <p>who have spent at least 360 days in labour relation within the last 3 years before losing the job</p> <p>not entitled for disabled persons' allowance or sickness pay;</p> <p>Actively looking for job but does not manage to find, and the regional office of PES cannot offer him/her the appropriate job.</p> <p>The measure of the jobseekers' allowance:</p> <p>Basis: the average income, which were reached in the last 4 quarters before losing the</p>

<p>losing the job. The basis of the daily amount of the benefit is the 1/30 part of former average monthly salary.</p> <p>Monthly amount: maximum the 65% of the basis.</p> <p>Duration of receiving benefit: It depends on the period which had been spent it labour relation within 4 years before losing the job, but 270 days maximum.</p> <p>In case the labour contract terminated because of the employee, he/she cannot except for benefit in the first 90 days after the termination's date.</p> <p>Source of unemployment benefit: Labour Market Fund of the state budget, which revenues come from the 1% contribution of the employees' and 1,5% contribution of the employer,</p>	<p>manage to find, and the regional office of PES cannot offer him/her the appropriate job.</p> <p>The measure of the jobseekers' allowance:</p> <p>Basis: the average salary which were reached in the last 4 <i>quarters</i> before losing the job. The basis of the daily amount of the benefit is the 1/30 part of former average monthly salary.</p> <p>Monthly amount: maximum the 60% of the basis in the first section of payment (for maximum 91 days), and 60 % of the monthly mandatory minimum wage in the second section of payment (for maximum 179 days).</p> <p>Duration of receiving benefit: It depends on the period which had been spent it labour relation within 4 years before losing the job, but 270</p>	<p>of the employer, on the basis of the employee's monthly gross salary.</p>	<p>job. (Income means ever type of taxable income.) The basis of the daily amount of the benefit is the 1/30 part of former average monthly salary.</p> <p>Monthly amount: 60% of the basis, which cannot exceed the 60% of monthly mandatory minimum wage.</p> <p>Duration: It depends on the period which had been spent it labour relation within 4 years before losing the job, but 90 days maximum</p> <p>The Labour Employment Fund renamed for National Labour Market Fund</p> <p>(Nr. 191/2011. Act on Public Work Schemes, which modifies Nr.4/1991 Act on Employment)</p>
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<p>on the basis of the employee's monthly gross salary.</p> <p>(Nr.4/1991 Act on Employment)</p>	<p>days maximum.</p> <p>In case the labour contract terminated because of the employee, he/she cannot except for benefit in the first 90 days after the termination's date.</p> <p>Source of jobseekers' allowance: Labour Market Fund of the state budget, which revenues come from the 1% contribution of the employees' and 1,5% contribution of the employer, on the basis of the employee's monthly gross salary.</p> <p>(Nr.70/2005 Act on modification of Unemployment benefit system)</p>		
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Source: Hungary: Social partners involvement in unemployment benefit regimes  
<http://www.eurofound.europa.eu/eiro/studies/tn1206018s/hu1206011q.htm>



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