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## Moving towards employment insurance: Unemployment insurance and employment protection in the OECD

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## **discussion paper**

FS I 00 - 201

### **Moving towards Employment Insurance - Unemployment Insurance and Employment Protection in the OECD**

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## **Abstract**

The report takes issue with the large debate of social security systems and particularly the large expenditure devoted to unemployment insurance in most OECD countries. From the perspective of transitional labour markets we analyse the corresponding welfare regime focusing on employment and unemployment transitions. We propose a restructuring of national social security systems towards an employment insurance system. This entails a considerable reorganisation of most current social security systems mainly unemployment insurance, employment protection, pension systems, household work and life-long learning.

We advocate an integrated view of employment protection and unemployment insurance systems which yields three major types of employment insurance systems in the OECD (comprehensive institutional data base in Appendix). Subsequently we discuss major recent changes in unemployment insurance systems throughout the OECD in view of their contribution towards the development of an Employment Insurance. Despite severe financial constraints on national levels, decentralisation and regionalisation of provision gives a new flavour to the ambitious goal of a right to work and its implementation.

## **Zusammenfassung**

Der Bericht will einen Beitrag leisten zu der Reform der sozialen Sicherungssysteme. Er befasst sich besonders mit den hohen Ausgaben für Arbeitslosenversicherungen in den meisten OECD-Ländern. Ausgehend von der Perspektive der Übergangsarbeitsmärkte untersuchen wir die damit verbundenen Wohlfahrtsregime mit besonderem Blick auf Beschäftigungs- und Arbeitslosigkeitsübergänge. Wir schlagen ein Überdenken der nationalen sozialen Sicherungssysteme im Hinblick auf ein Beschäftigung sicherndes Gesamtsystem vor. Dies würde eine beachtliche Reorganisation der meisten gegenwärtigen sozialen Sicherungssysteme bedeuten, insbesondere der Arbeitslosenversicherung, des Beschäftigungsschutzes, der Alterssicherung, der Haushaltsarbeit und des lebenslangen Lernens.

Wir befürworten eine integrierte Betrachtung von Beschäftigungsschutz und Arbeitslosenversicherungssystemen; daraus ergeben sich drei Haupttypen von Beschäftigung sichernden Systemen in der OECD (umfangreiche institutionelle Datenbank im Anhang). Darüber hinaus werden wichtige Veränderungen der Arbeitslosenversicherungssysteme in den letzten Jahren in der OECD diskutiert, besonders im Hinblick auf ihren Beitrag zur Entwicklung eines Beschäftigung sichernden Sozialsystems. Trotz erheblicher finanzieller Engpässe auf nationaler Ebene konnten Dezentralisierung und Regionalisierung dazu beitragen, dem anspruchsvollen Ziel des Rechts auf Arbeit und seiner Verwirklichung eine neue Bedeutung zu geben.



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Appendix I + II



## 1 Introduction

The World Labour Report 1999 is devoted to the theme “Income security in a changing world”. The industrialised countries can reasonably be expected to have the longest traditions of a formalised system of some elements of income security<sup>1</sup>. But even within these industrialised countries the extent of income security and the kind of support which is provided vary a great deal. There is neither a political, nor a scientific consensus among Member States of the OECD what the right level of unemployment protection or the optimal coverage for systems like unemployment insurance or employment protection should be (Holmlund, 1998). The answer to the question probably depends on the scope such a system of support and solidarity is intended to have.

The earliest forms of unemployment insurance were developed by trade unions in the nineteenth century in Britain and Sweden, but largely restricted to specific professions. Attempts to broaden the coverage soon led to the involvement of employers and the state. The broadest scope of such an insurance is captured in a system which covers the whole working-age population. More narrow income support systems only focus on the economically active population thus shifting the scope of solidarity from the society at large to those who have already contributed to economic production. These are typically income support systems which are built on previous contributions of potential recipients, which have been coined Bismarckian systems of social security. In contrast, social security systems based on generalised income support have been named Beveridge-type social assistance.

These two major forms of social protection developed in the late 19th century and refer to different conceptions of the Welfare state and social needs, in particularly concerning unemployment. On the one hand, the British system, created by William Beveridge, was the first one (in 1911) to recognise unemployment as a social risk, which should be covered with an insurance. This first nation-wide unemployment insurance was regarded as an instrument of labour market regulation able to stabilise the wage-earning social class. In “Social Insurance and Allied Services” of 1942, Beveridge took up this reasoning and applied it to other social risks, such as health, retirement and family related obligations. The social protection system is based on three principles: universality, unity and uniformity. It tends to cover the whole population with (modest) insurance benefits. The initial idea was to maintain social stability through a minimum income which also allows a sustained demand for goods and services important for macro-economic stabilisation. The

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<sup>1</sup> Less formalised systems of income security are narrow or extended family, household or neighbourhood support for living expenses or income. These elements are dealt with in other parts of the World Labour Report 1999. Therefore, we restrict our in depth analysis more to the comparison of unemployment insurance and employment protection systems in this report to avoid overlaps.



great influence of Keynes' economic theory in the elaboration of the British model of social protection leads to the fact that social difficulties are regarded simultaneously with economic difficulties.

On the other hand, the Bismarckian model of social protection is based on socio-professional solidarity and insurance funds, co-financed from workers' and employers' contributions. It was created by Bismarck as part of a whole system of social protection starting in 1881 for professional risks and ranges to 1927 for the unemployment insurance system. Due to co-financing structure of these funds the social partners, trade unions and employers' organisations, share the management of these funds usually with the State in a tripartite form. The Bismarckian-type of unemployment insurance differs from the Beveridge design of social protection in the coverage of the population. The universality of benefits cannot be achieved in the former system because the insurance principle demands some period of contribution before any insurance benefits can be claimed. Typically this excludes young labour market entrants who have not yet worked and contributed to the funds. Therefore, unemployment insurance is usually complemented by some form of social assistance for persons not eligible for benefits of unemployment insurance. Those two models of social protection have served as basic examples for many countries which developed unemployment insurance or unemployment benefits as major pillar of social protection.

With this sketch of the historical evolution of social protection we have already identified the major distinguishing elements of all forms of unemployment protection also nowadays. These are the level and duration of wage replacements, and the question of how many persons have access to insurance or protection claims. In other words, who is covered under this individual, group or social contract. Recent economic and social policy debates still deal with these basic issues: (1) Is there scope to increase the level of coverage to larger groups of society and (2) can the existing levels of benefits and the extend of coverage be kept at the current levels?

In this chapter we discuss country experiences with unemployment insurance and employment protection for the employed in the wider framework of more general welfare provision. Only briefly we touch additional elements of social assistance, financing of retirement, occupational disabilities and compensation for household activities like caring for children or the elderly<sup>2</sup>. These elements are mentioned to exemplify the perspective of transitional labour markets (Schmid, 1998; Schmid, Gazier, Flechtner, 1999) and because they constitute important functional equivalents of employment protection and unemployment insurance from the benefit

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<sup>2</sup> Chapters six and eight of the World Labour Report 1999 cover these aspects in detail. Useful material on retirement and disability pensions can be found in the OECD Employment Outlook 1998 which illustrates the close link of employment protection to retirement and occupational disability compensations. An analysis of the dynamics of early retirement in the European Union based on the transitional labour markets approach can be found in Kruppe, Oschmiansky and Schömann (1999). For a comparative analysis of family support systems and the treatment of marriage and children in European Income Tax Systems compare O'Donoghue and Sutherland 1998.

recipient's point of view as well as for the legislator. Sometimes these other elements of social protection provide alternative or even complementary sources of income in labour market transitions. A detailed investigation of the multiple links of these other support systems with employment protection and unemployment insurance are, however, beyond the scope of this chapter.

We make a particular effort to link the discussion of unemployment insurance systems with the controversies about employment protection. Although employment protection concerns only those who already hold a job it has a role to play in the prevention of unemployment by means of offering advance notice of individual dismissal or mass redundancies. Similarly, severance pay at separations of employers and employees is also conceived to provide income support during the following labour market transition. Rather than extending the thorough economic and social analysis of employment protection by Schömann, Rogowski, Kruppe (1998) for the European Union to the OECD countries, we restrict the analysis to a more general overview of the "state of the art" focussing on the kind of relationship between unemployment insurance and employment protection in the Member States of the OECD.

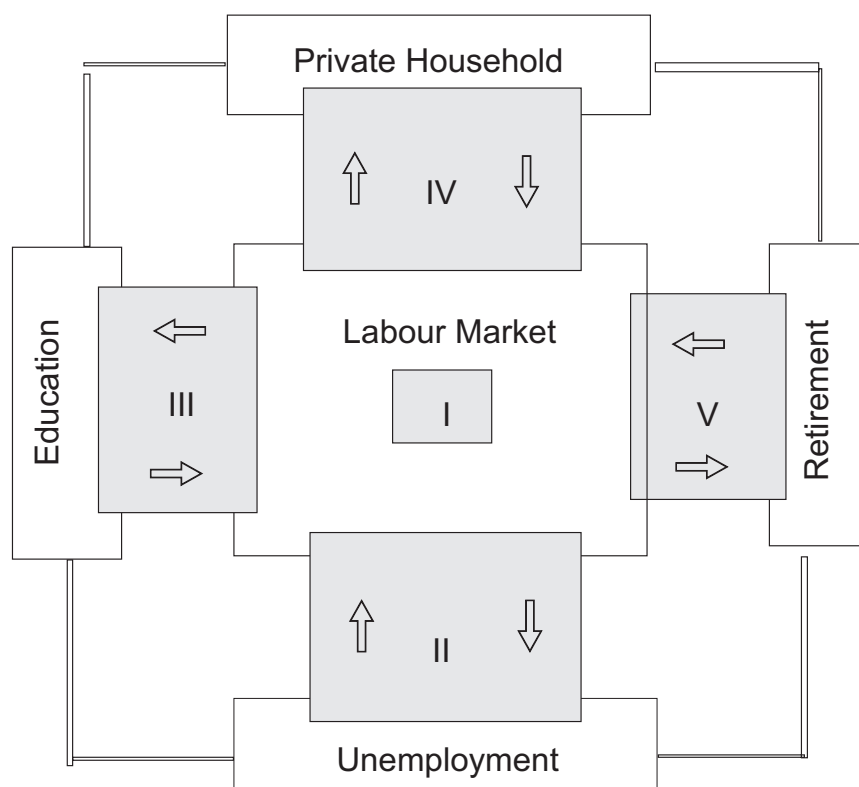
According to the broad view of income security taken in the World Labour Review we shall provide in Section two a general framework for the analysis of income, employment protection and unemployment insurance. Section three introduces a distinction into high, medium and growing types of unemployment insurance and employment protection systems. Section four relates recent trends in employment and unemployment to institutional features of employment insurance. Recent policy responses are discussed in Section 5. The conclusions concerning employment insurance as an integrating form of unemployment insurance and employment protection are presented in the final Section six.

## 2 Transitional labour markets as a framework for comparisons

Derived from a systemic overview of all labour market transitions, Schmid (1998) distinguishes five types of transitional labour markets: (1) transitions between part-time and full-time employment, between dependent and self-employment (2) transitions between unemployment and employment, (3) transitions between education/training and employment, (4) transitions between private household and labour market activity, (5) transitions between employment and retirement. These employment bridges can be trespassed in both directions, in some cases even several times within a year (compare Figure 1).

**Figure 1**

### **Transitional Labour Markets**



adapted from Schmid 1993 p.43

The theory of transitional labour markets recognises that, basically, all labour market flows can occur in both directions: outflows from unemployment are linked to inflows into unemployment. A narrowly defined unemployment insurance system which

focuses only on flows between unemployment and employment is likely to overlook the fact that the flows into unemployment can also come either directly from the education system or from people previously labelled economically inactive but providing important services to households and society as a whole (Schömann, Kruppe, Oschmiansky 1998). The link between unemployment insurance and employment protection, viewed from the perspective of the theory of transitional labour markets, becomes apparent in the following policy example. Employment policies directed at facilitating the outflow from unemployment by deregulating fixed-term employment has only limited success, because the increase in fixed-term employment also has the effect of increasing the inflows into unemployment, as short-term employment contracts expire (Schömann, Rogowski, Kruppe, 1998). The change in unemployment level is always a reflection of the difference between both these flows.

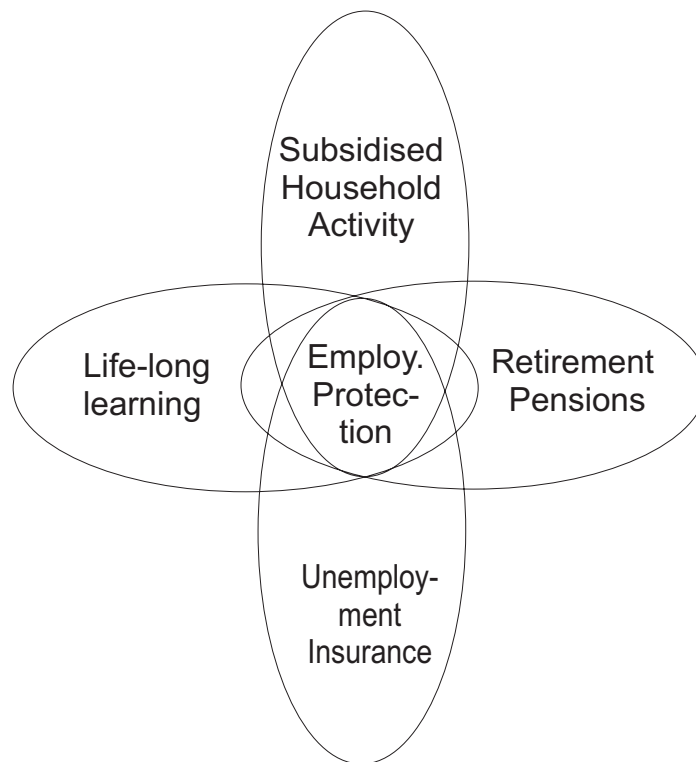
The framework provided by the theory of transitional labour markets is useful to understand the multiple links and overlaps between different types of income support systems. Based on national systems of unemployment insurance and employment protection we can derive a combined perspective of protection against unemployment in OECD countries (see also Auer 1999; Bertola et al. 1999; Boeri, 1999). These two elements constitute the focus or kernel of what we define as an employment insurance system since both systems (employment protection and unemployment insurance) deal with societal responses to the risk of unemployment. However, other income support systems like pensions for disability or general retirement and early retirement have more and more taken the role of substituting unemployment benefits at later phases during the life course (Casey, 1996; OECD, 1998).

Similarly, the transitional labour market between private household activities, mostly unpaid work, and labour market activity is subject to increased labour market policy attention due to increasing efforts to ensure equal opportunities for women and men to participate fully in the labour market. Some features of the income tax system, the health insurance system, particularly if they grant specific rights for spouses or dependent children, as well as maternity leave parental and educational leave regulations operate as functionally equivalent support systems (compare Figure 2) to elements of unemployment insurance systems. Perhaps in the case of maternity leave it is most obvious that unpaid household activities coincide with special employment protection legislation which guards against dismissal around the expected date of birth. Each of the transitional labour markets two to five (Figure 1) is closely linked to the regulation of the general labour market be it dependent employment or self employment, full time or part time employment, or fixed-term versus more permanent types of employment. The insurance type of income support systems which correspond to each transitional labour market have been depicted as each forming a separate sphere which overlap in sphere of the general labour market (compare Figure 2).

It is, however, beyond the scope of this chapter to give a full account of the many ways in which subsidies devoted to household activities affect labour market outcomes. Besides some basic features of the income tax system like joint, separate and transferable taxation of households or couples (Pechman, Engelhardt, 1990), tax reductions for day-care expenditure or child benefits (Gustafsson, 1996) which may constitute functional equivalents to low-paid part-time work for spouses, maternity leave is usually considered an element of employment protection legislation. In terms of income support and work incentives both areas have a close relationship as illustrated in Figure 2.

**Figure 2**

**From Unemployment Insurance to Employment Insurance**



Schömann, Flechtner, Mytze, Schömann 1999

A final example is mentioned to demonstrate the use of a broad perspective on income security. Therefore, we consider the common case of further training for the employed or the unemployed which are traditionally organised by public employment services and financed or co-financed through unemployment insurance. Initiatives under the overarching title of life-long learning largely supported by the specialised organisations of the United Nations (ILO, IMF, UNESCO, World Bank) and OECD have stressed the link and implications for a reform of the general education system

which needs to be re-opened for this kind of second chance education with a closer link to the labour market.

The driving force for this new link between the general and vocational education system and employment insurance consists in the rapid development of new skills and competences necessary for success in the labour market (Tuijnman, Schömann, 1996). Previously both systems were considered as separate entities, but successful employment insurance systems facilitate the transitions also between the world of learning and working throughout life. The Danish educational leave schemes not only allow such transitions but give additionally financial incentives to realise more frequent transitions. Canadian and Japanese initiatives of a comprehensive employment insurance system are closely connected to life-long learning initiatives (OECD 1998, Japan Institute of Labour 1999) to mention only a few examples.

We cannot give a full account of the multiple links between the different support systems. Our general framework is meant to serve as a safeguard against necessarily reductionist representations of national employment systems and their respective overall welfare state arrangements. The institutional data base developed for this purpose (see appendix 1) serves as background information for more detailed comparisons of only selected specific features of an individual country's employment insurance system.

As a first step to reduce the complexity formed by the multiple institutional links between the different support systems we will introduce three broad country groups that have similar features concerning their unemployment insurance and employment protection systems.

### 3 Main types of unemployment insurance and employment protection systems

Within the OECD unemployment protection systems vary substantially. There is no agreed ideal type of unemployment insurance or employment protection in OECD member states. In contrast each country has built its own system with its own specific national features. However, we can distinguish main types of unemployment protection systems in the OECD if we focus on some general and important aspects. For analysing some common factors we mainly concentrate on financial and temporal aspects, the coverage ratio of the unemployment insurance system and the main aspects of employment protection legislation. This approach has been chosen in order to reveal the most relevant configurations concerning the unemployment insurance and employment protection systems in the OECD.

#### 3.1 Methodological approach and indicators

The categories connected with our analysis of unemployment insurance focus on four criteria: first, the **level** of unemployment benefits, second, the **duration** of unemployment benefit payments, third, the **coverage** with unemployment insurance as a percentage of all unemployed persons and, fourth, the strictness of the **employment protection legislation**<sup>3</sup>.

Corresponding to our comparative view we have to rely on sources that provide comparable information about the chosen variables. As an indicator for the **level** of employment benefits, we have selected the net replacement rates for single unemployed compiled by the OECD (1997a, 17ff.). This indicator provides a comprehensive picture of the real average benefits the unemployed are receiving. This is because not only tax payments and social security contributions are deducted from the benefit calculation. In addition a few important alternative sources of income, i.e. housing benefits, family or child benefits, food stamps, clothing, and social assistance are incorporated in the estimations. The specific indicator that we used is the net replacement rate for a single average production worker in the first month after the unemployment spell.<sup>4</sup>

Additional information about the level of compensation the unemployed are receiving can be derived from the level of social assistance (see appendix 1). Social assistance serves as a last source of income when other sources of unemployment

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<sup>3</sup> For a more detailed description of the criteria underlying the categories see appendix 2.

<sup>4</sup> The average net replacement rate is calculated at national average earnings referring to a production worker being 40 years old and having worked continuously since the age of 18. Replacement rates are for the first month of unemployment after waiting period have been met (OECD, 1997, 23, Table 5).

benefits are unavailable. The international comparison of this indicator shows that the countries with a high level of regular unemployment compensation and unemployment assistance usually have a high level of social assistance and vice versa. This high correlation between the two indicators lead us to concentrate the analysis on the net replacement rates of unemployment compensation payments.

The second indicator is the maximum **duration** of unemployment compensation payment. Since the structure of unemployment compensation schemes vary to a great extent between the OECD countries, we had to apply additional restrictions. The main difference is the existence or non-existence of an two-step unemployment compensation scheme, consisting of 'unemployment insurance' and 'unemployment assistance' payments (see Schmid, Reissert, 1996). Our decision is to include the duration of unemployment assistance payments in the calculation of the overall duration of unemployment compensation if the level of payment is substantially higher than the level of social assistance benefits. We excluded it if for example in the United Kingdom the unemployment assistance payments are on the level of the social assistance payments<sup>5</sup>.

The **coverage** of benefit denotes the proportion of unemployed receiving unemployment compensation, also called '*beneficiary rates*' (Schmid, Reissert, 1996). In addition to the depth of effectiveness of unemployment insurance this indicator reflects the tightness of a system concerning eligibility and work availability provisions as well as the proportion of long-term unemployed who exhausted the unemployment insurance payments. Another measure for coverage more focussing on the transition from employment to unemployment (compare Figure 1) would be the proportion of employed being insured by the unemployment insurance system. Due to the lack of comparable information we had to neglect this aspect.

Regarding the indicator for **employment protection** we again focussed on comparable data provided by various sources and compiled to an index measuring the strictness of employment protection legislation in OECD countries (OECD, 1994a,b ; OECD 1999c). This index covers different aspect of employment protection legislation such as statutory notice periods, procedural inconveniences, the level of severance pay and rules governing unfair dismissal (OECD, 1994a, b, pp. 69-73). The indicator reflects the state of the employment protection legislation at the end of the 80ies and thus does not include changes in that area during the 90ies. Nevertheless we decided to include this indicator in our analysis because of its comprehensive nature, the coverage of a large number of OECD countries and its statistical usability. In addition comparison with recent studies (Bertola, Boeri, Cazes, 1999) show that the relations between the countries concerning employment protection legislation do not change considerably, strengthening the notion that legally fixed institutional frameworks are subject to a relatively slow change (Buechtemann, 1993; Schömann, Rogowski, Kruppe, 1998).<sup>6</sup>

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<sup>5</sup> See Appendix 2 for more information.

<sup>6</sup> This notion has been confirmed by a recent OECD-publication of newly compiled EPL-indicators covering changes until the end of the 90ies (OECD 1999c). It show that the correlation between



Due to the lack of readily assessable and comparable information on regulations based on collective agreements signed by the social partners we had to confine our comparison to these legislative regulations as an important part of general labour law. Nevertheless this is a severe shortcoming since in some legislative traditions collective agreements play a more important role than the general worker statutes referred to in labour legislation (Schömann, Rogowski, Kruppe, 1998)<sup>7</sup>. To capture some of these additional aspects of employment protection, we comprised an indicator about the proportion of *fixed term contracts* in the employment systems, the *collective bargaining coverage rate* and the *trade union density* (see appendix 1).

The indicator for fixed term contracts contains ambivalent information that prevents a cross-sectional comparison of the OECD countries on the proportion of fixed term contracts. Because of the different regulations concerning regular employment contracts in the OECD countries, the demand for signing fixed term is very heterogeneous. This constellation prohibits a direct comparison without additional information. E.g. a comparison between the proportion of fixed term contract between the USA and Germany is purposeless, whereas a comparison between Spain and France gives a deep inside into the specific features of the Spanish employment system concerning fixed term contracts. In this article the indicator for the proportion of fixed term contracts in the OECD countries serves as a complementary information on employment systems and permits a comparison within one group of countries with the approximately the same level of employment protection legislation.

On the basis of the four main indicators *level of unemployment compensations*, *duration of unemployment compensation*, *strictness of employment protection legislation* and *coverage*, the analysis of the unemployment insurance and employment protection systems has led to the construction of clusters of systems of unemployment protection. As the appropriate statistical technique to classify the OECD countries we applied cluster analysis using statistical techniques such as hierarchical clustering methods (Norusis, 1992).<sup>8</sup> Following the results of the cluster analysis we constructed three broad clusters that gather countries showing similar characteristics concerning the chosen indicators. We call these country clusters *the high level*, *the medium level* and *the growing type* of unemployment protection because it shows that the clusters are characterised by a high, medium and growing level of unemployment insurance and employment protection. The distribution of the OECD countries to these broad clusters is depicted in Figure 3. The clustering

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the country-ranking at the end of the 80ies and at the end of the 90ies is as high as 0.86 (OECD 1999c: 67.

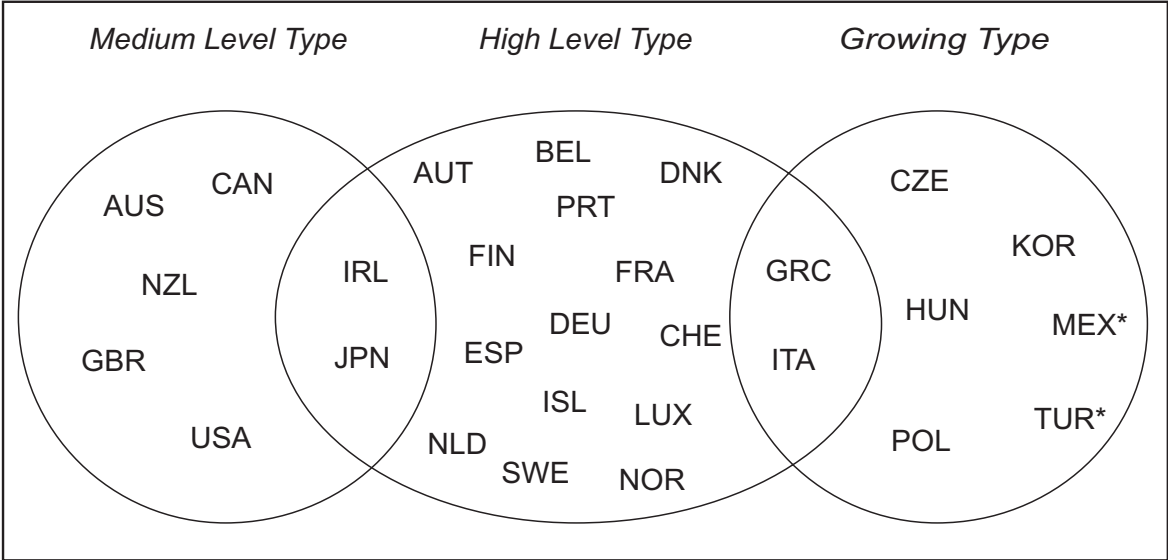
<sup>7</sup> In the Scandinavian countries the unemployment insurance funds are mainly administered by trade unions although largely co-financed by the state budget. As soon as the comparison is oriented towards specific industrial sectors the role of collective agreements becomes even more important in all countries. The deviation of sectoral agreements from national legislation is particularly strong in the U.S. or Denmark for example where the general legislative level of regulation is kept at a low level of employment protection, but sectors or individual firms do opt for a substantially more restrictive levels of dismissal protection.

<sup>8</sup> See Appendix 2 for more information.

scheme which we applied also allows for two kinds of intermediate clusters. The following sections will discuss the characteristics of the three major types of unemployment protection systems.

**Figure 3**

**Main Types of Unemployment Insurance Systems in OECD countries**



\* unemployment insurance systems not yet in place

**3.2 The high level type**

The high level type pools the most generous unemployment protection systems within the OECD<sup>9</sup>, namely Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

In high level type countries unemployment protection consists of various layers of benefits<sup>10</sup>. Unemployment insurance benefits (UB) as the first and most important layer are paid during an initial period of unemployment. Following the insurance principle the amount and in most cases the duration of unemployment insurance benefits depends on level (and duration) of previous earnings. With average net replacement rates<sup>11</sup> of more than 60 per cent of the respective national average earnings, the level of unemployment benefits within the high level type lies

<sup>9</sup> In this context 'generous' means that the employment protection legislation and the unemployment insurance-system offer a high standard of financial security for the working population in case of unemployment spells.  
<sup>10</sup> See Schmid, Reissert, 1996 and Gazier, Schmid, Flechtner (1999 forthcoming).  
<sup>11</sup> See Footnote 4 and appendix 1.

significantly over the average rate of the medium level type countries<sup>12</sup>. Additionally most high level systems<sup>13</sup> do dispose of a second layer of unemployment insurance, usually called unemployment assistance (UA)<sup>14</sup>. Unemployment assistance in high level type-systems prevents unemployed workers having exhausted their entitlement to unemployment benefits of falling directly into the less generous social assistance schemes. Acting as the final layer of unemployment insurance (also open for all persons in need), social assistance benefits or guaranteed minimum income (GMI) schemes play an important role for unemployed not qualifying for or having already exhausted their entitlement to unemployment benefits. Concerning social assistance high level type-systems are generous as in all countries of the high level group social assistance is of unlimited duration and the respective benefit levels are rather high compared with those of the other OECD countries<sup>15</sup>.

Besides the level the duration of unemployment insurance benefits is equally important for assessing the generosity of unemployment protection. High level systems are characterised by long duration of payments. All high level unemployment insurance systems pay benefits for at least one year<sup>16</sup>, in most cases even significantly longer. Furthermore the coverage ratio within high level type countries is comparatively high. In most countries more than 60 per cent of all unemployed are covered by unemployment insurance<sup>17</sup>. On the one hand this high ratios are partly consequence of the above mentioned long-term entitlements to unemployment insurance, partly a result of moderate unemployment insurance qualifying conditions. On the other hand the fact that the majority of the unemployed in high level countries does actually benefit from unemployment insurance underlines, inversely, the relevance of the generous financial aspects of these benefit schemes.

Having presented the main characteristics of unemployment insurance systems within the high level group we shall now take a look on employment protection legislation. Concerning this criteria the high level type is a slightly more heterogeneous group. While most countries - especially Portugal, Germany, Spain, Belgium and Finland - impose strong limitations on the freedom of business to hire and fire<sup>18</sup>, employment protection legislation in Switzerland and Denmark seems little

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<sup>12</sup> The unweighted average of the Medium level type is at 38,8 per cent.

<sup>13</sup> This is not the case in Belgium, Denmark, Iceland, Luxembourg and Norway.

<sup>14</sup> In contrast to the first layer, unemployment assistance benefits are means-tested and flat-rated (except for the case of Germany).

<sup>15</sup> Most high level type systems offer a net replacement rate of social assistance of more than 45 per cent of the respective national average earnings for a single person (OECD 1994b; appendix 1, column 2.7).

<sup>16</sup> See appendix 1 (II.4. for unemployment assistance).

<sup>17</sup> The coverage criterion for High Standard systems is not achieved by France (44 per cent), the Netherlands (50 per cent), Luxembourg (33 per cent), Portugal (25 per cent) and Spain (21 per cent); Unfortunately, comparable data for coverage is only available for European Union member states (no data for Iceland, Norway and Switzerland) (appendix 1, column 2.5).

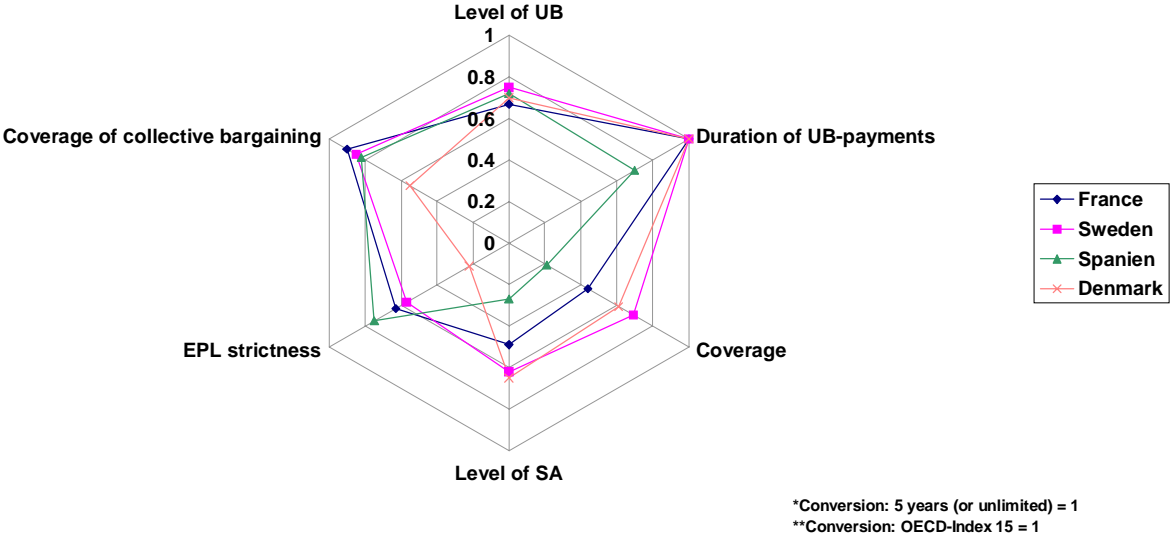
<sup>18</sup> According to the OECD ranking these countries have an EPL-index of above 10 (the OECD EPL-indexes range between 0 and 15) (appendix 1).

constrained<sup>19</sup>. However one should pay attention to the fact that this OECD-based rating reflects only legal arrangements. The high level group would probably appear more homogeneously if it would be possible to include other aspects of non-legal agreements or fixed-term contracts in a systematic way. For example the high EPL index of Spain is put into a new perspective if one considers that about one third of the Spanish employees is working on the basis of fixed-term contracts and are therefore not covered by most EPL-arrangements. Inversely Denmark's weak EPL-index neglects the role of arrangements based on agreements between the social partners that are at least relevant for more than half of the Danish employees<sup>20</sup>. Finally, in spite of its rather broad range, employment protection legislation within the High Level category is still stricter than in most other industrialised countries.

Thus summarising the above presented criteria we conclude that within the OECD member states the high level type countries are characterised by an above average generosity in unemployment protection, namely by high level and long duration of unemployment insurance benefit payments, extensive unemployment insurance coverage and an additional layer of employment protection legislation aiming at the prevention of unemployment. By means of six indicators a graphical presentation of the high level type is depicted in Figure 4 showing the large area of the unemployment protection safety net obtained in these countries.

**Figure 4**

**Unemployment Protection Indicators  
- selected High Level Type-systems**



<sup>19</sup> The OECD-index is 3,25 for Denmark and 1,75 for Switzerland.

<sup>20</sup> For assessing the impact of agreements of social partners we have thus included an index reflecting the coverage of collective bargaining in the graphical representation below. The data are bases on the ILO World Labour Report 1997-98 (see appendix 1).

### 3.3 The medium level type

Medium level countries have well established unemployment protection systems with a long tradition just as the systems of the high level countries. But in general unemployment protection arrangements within the medium type throughout all relevant aspects are less generous than those of the high level type systems. The United States, Canada, Australia, New Zealand and the United Kingdom form the country cluster of medium level type-systems.

Concerning unemployment insurance all medium level systems provide some kind of unemployment benefit but there is no second layer of unemployment insurance in the form of unemployment assistance schemes. The level of unemployment benefits are lower than within the high level type, with net replacement rates ranging from 23 per cent (New Zealand) to 58 per cent (USA, Canada) of the respective average national earnings. In addition unemployment benefits in Australia and New Zealand do not follow the insurance principle but are unlimited, means-tested and based on a flat rate of wage replacement. Concerning the rather low level of benefits, unemployment insurance in these two countries is thus following more the tradition of social assistance. In the other medium level systems the periods of unemployment benefits payments are rather short, with a maximum length of benefits payments of less than 12 months. Furthermore the coverage of unemployment insurance in the medium level type is more limited than in the high level type<sup>21</sup>. Social assistance schemes within the Medium level type - though open to all persons in need - are not as generous as in the case of the high level countries. Except for Great Britain net replacement rates of social assistance for singles do not exceed 45 per cent within the medium type.

According to the employment protection legislation ranking of the OECD<sup>22</sup> legal arrangements in medium level type countries are supposed to provide little or no statutory employment protection. As hiring and firing practises in these countries are scarcely constrained by law one should also consider the possible impact of collective arrangements signed by the social partners. However, in contrast to the case of Denmark and Switzerland, such arrangements can not be expected to reinforce the overall employment protection as in all medium level countries (with the exception of Australia) only a minority of employees are covered by collective bargaining. In addition the density - and therefore presumably also the impact - of trade unions have sharply declined in most medium level countries<sup>23</sup>. For example, in New Zealand trade unions have lost more than half of their members between 1984 and 1994. Thus concluding employment protection in all medium level type systems has to be rated as weak.

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<sup>21</sup> Comparable data is only available for Great Britain with a coverage of 59%, coverage in the United States is estimated at 40 per cent, in Canada coverage has declined from 83 per cent in 1990 to recently 42 per cent (due to tightened unemployment insurance qualifying conditions). No data is available for Australia and New Zealand (see appendix1).

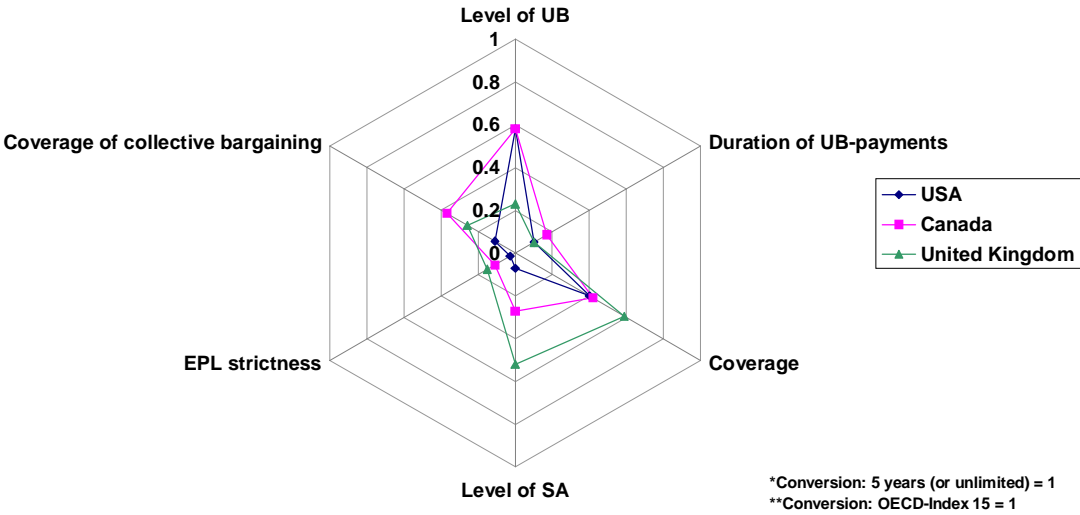
<sup>22</sup> EPL indexes of the Medium type group range from 0,36 (USA) to 3,26 (AUS), see appendix 1.

<sup>23</sup> Only in Canada density has been stable at about 37 per cent.

Summarising the level of unemployment protection in the Medium type one find that all countries in this category do dispose of unemployment insurance and employment protection systems. Concerning the overall unemployment protection those systems provide a level of generosity that can be assessed as medium within the OECD context. Judging from the information on the overall social safety net for the unemployed (compare Figure 5) income support for the unemployed is somewhat lower in this type as in the High level group.

**Figure 5**

**Unemployment Protection Indicators  
- selected Medium Level Type-systems**



**3.4 The growing type**

The growing type is formed by the Czech Republic, Hungary, Poland, Korea, Mexico and Turkey. Within the OECD these countries do significantly mark off the other types of unemployment protection as they do not dispose of well established systems of unemployment protection and existing regulations and arrangements are subject to rapid changes. In addition all Growing type countries except for Turkey have just recently joined the OECD. This brings along a severe problem of lack of comparable data and impedes an analysis solely restricted to the statistical indicators used for the distinction of the high and medium level type. Nevertheless there are some more detailed features concerning unemployment insurance and employment protection.

An unemployment insurance systems does not yet exist in Turkey and Mexico and was recently created in Korea (in 1995). In the Czech Republic, Hungary and Poland unemployment insurance has undergone sharp changes due to the

transformation process within the former socialist countries. In growing type countries where unemployment insurance systems exist duration and level<sup>24</sup> of benefit payments as well as the coverage are rather limited. Concerning the strength of employment protection legislation information is rare<sup>25</sup> and due to the complexity of this indicator difficult to assess. However we suppose that EPL will be stronger in the Czech Republic, Hungary and Poland than in the other countries of the Growing type because of their socialist past and their orientation towards the European Union<sup>26</sup>.

Since unemployment protection in all growing type systems are lacking fix or established structures their direction of development is hard to assess. For example after the breakdown of the socialist regimes East European OECD countries experienced a period of sharp cuts in their national social security systems. Yet it is not clear if they will tend towards the high level type of unemployment protection of their European neighbours (which seems probable if they will join the European Union in the medium term) or if they will rather orient on the more liberal models of the Medium type systems. Concluding one should pay attention to the fact that all growing type countries are still in the process of building up an unemployment protection system and can reasonably be expected to close up to the medium or even high level countries in the medium term.

### 3.5 Intermediate type I and type II:

The clusters of OECD countries (compare Figure 3) contain two intermediate types of unemployment protection systems that can not be clearly assigned to one of the three main types. On the one hand Japan and Ireland (intermediate type I) are situated between the high and the medium level type. On the other hand Italy and Greece are representing the intermediate type II.

Intermediate type I: According to the indicators used in our analysis Japan and Ireland do dispose of characteristics both of the medium and the high level type. With an average net replacement rate of 63 per cent Japan's unemployment benefit level is among those of the high level group. However, concerning duration and coverage of unemployment insurance Japan does clearly fall in the medium type category. Finally Japans EPL index is slightly higher than the standard of the medium type. Inversely in Ireland the level of unemployment benefit payments is rather low but those benefits are paid for more than one year and are additionally complemented by an unemployment assistance scheme. While the coverage of the Irish unemployment insurance system is far above the average of the medium type systems its EPL index corresponds to this category. Applying our analysis' indicators we see that neither

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<sup>24</sup> As there are yet no data of net replacement rates we had to confine to indicators as gross replacement rates.

<sup>25</sup> Until now none of the growing type countries turns up in the EPL-rankings of the OECD (nor in rankings of other authors).

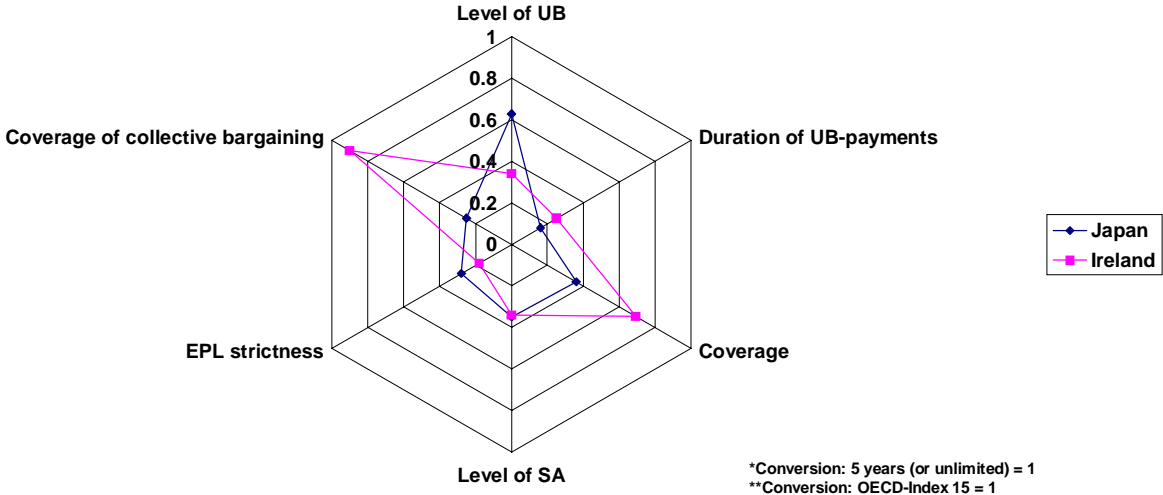
<sup>26</sup> For example Hungary recently harmonised their regulations concerning collective dismissals with relevant EU directives.

Japan nor Ireland can be clearly assigned to the high or medium level type. Aside from these empirical factors we did not find stringent clues to decide whether these countries will develop in the direction of the medium or the high level type. Those arguments justify their intermediate position in our clusters.

Intermediate type II: Empirically Greece and Italy provide a level of unemployment protection that in most aspects is near to the growing type. While employment protection legislation is very strong, unemployment insurance arrangements are considerably below the standard of the high level countries<sup>27</sup>. Nevertheless and in contrast to all other Growing type countries both Italy and Greece dispose of established unemployment protection systems with long traditions. Furthermore within the last decade both countries have remarkably expanded their unemployment insurance systems in favour of the unemployed<sup>28</sup>. Besides the placing of the two countries is justified by another argument. Due to their involvement in the European Union we suppose that concerning unemployment protection Italy and Greece are already and will continue to develop in the direction of their European partners and will thus close up to the high standard systems in the medium term.

**Figure 6**

**Unemployment Protection Indicators  
- Intermediate Type I-systems**



<sup>27</sup> An exception is the duration of the Greek unemployment insurance system that evenly qualifies with an maximum duration of payments of 12 months.

<sup>28</sup> Italy increased UI benefits (from 20 to 30 per cent of previous earnings) and also expanded the access to those benefits. Besides, a more comfortable wage compensation fund (CIG) have been created for the case of mass redundancies within large enterprises. Greece has also risen the level of UI benefits as well as extended the maximum duration of UI.



### 3.6 Legal sources of a right to work as an element in the explanation of the typology

The legal concept of a right to work, which is the right to obtain the means of a suitable standard of living through work, has a close relationship to both social protection systems especially unemployment insurance and employment protection. To a large extent the commitment of state-level action towards poverty, social exclusion and social integration is predetermined by the level at which a right to work is determined within a country's legal framework. It needs to be mentioned that the right to work is frequently linked also to an obligation to work which enhances the possibility to carry out "active" work-fare programmes based on the same legal source or activation of public expenditure on labour market policies more generally.

For this purpose we provide a brief overview of (1) the legal rank of the right to work, (2) if it exists in an explicit form and (3) whether the legal basis obliges the state to act in order to provide citizens with employment. The rank of a legal assertion of a right to work for example in a constitution, which can be changed only with a qualifying majority (usually higher than simple majority rule) is indicative of a state's commitment for both employment protection and income support with the aim of reintegration through employment into the labour market. It also refers to the role of the state to regulate the labour market, and at least historically to which extent a far reaching "monopoly" in social matters exists. Only recently we witness the abolition of public employment service monopolies in the realm of placement services or employment agencies.

Generally, the highest legal rank to assess a right is the constitution of a State, which contains both principles and rights. Principles have a high moral value without normative effect. Rights, on the other hand, have to be implemented by means of law or agreements or other types of legal instruments that have a normative effect. In this respect, a constitutional right for citizens is a duty for the State. It is important to determine the nature of this state duty in a comparison. In case a constitutional right to work exists, the State can reasonably be expected to make larger efforts to provide jobs for unemployed persons that correspond to their level of qualifications. However, the question, can the state force job seekers to take up any (low paid) job or labour market policy measure, remains to be investigated as well. Another interpretation of a constitutional right to work is that the State needs to take legal action to advance the implementation of the right, for example, through active labour market policies coupled with a sufficiently large social protection, so that job seekers who still don't find work can have a reasonable standard of living. This latter understanding of a constitutional right to work is the most common one encountered in the comparison of the constitutions of OECD countries.

A number of OECD countries do not have a constitutional right to work. Among them two categories can be distinguished. On the one hand we find the countries having a constitution, but no right to work as a constitutional guarantee for its citizen such as Germany and Switzerland and, on the other hand, we find countries that

don't have a written constitution, such as Great Britain. In both instances, however, a social protection and in particular an unemployment protection system exists, so that job seekers and unemployed persons have access to active labour market policies or (passive) social assistance. In these cases, the reasons of the non existence of a (constitutional) right to work have historical and political roots, which do not imply no responsibility or even an unwillingness of the part of the state to act against exclusion or poverty. Commitment to the right to work can also be inferred from expenditure on active labour market policies through unemployment insurance systems as well as legally determined employment protection in form of statutory dismissal protection (Buechtemann, 1993; Schömann, Rogowski, Kruppe, 1998, see also Section 5 of this chapter).

Comparative analyses of the existence of a constitutional right to work in the OECD countries show a high degree of similarity with the comparative analysis of types of unemployment protection systems in these countries, in particular with the proposed classification. Countries classified in the medium level type of unemployment protection systems do not have a constitution or right to work of constitutional rank (compare Table 1). A reason for this finding can be found in the type of legal system a country has adopted. The great influence of the British legal system, which does not have a written constitution and where written social rights play a subordinate role explains historically the lack of constitutional social rights such as a right to work, in Australia, New Zealand, The United States, Canada and Mexico.

Countries with a legal system based on a constitution implement the existence of a constitutional right to work, in form of a binding obligation for the State to create job opportunities for job applicants (like in Turkey and Portugal) or in form of a norm of public order to be implemented by Government action. This is the case in most countries having a high or a growing level type of unemployment insurance system. The fact that a constitutional right to work exists in both types of unemployment insurance systems does not allow to reach a simple conclusion. Moreover, a more thorough historical and political analysis of the transition economies of Eastern Europe is indicated to inform the status of the right to work in these societies during or after the transition from the socialist past.

It is common legal practice that recent constitutions of a country acknowledge the existence and extent of a right to work through references to international legal sources due to their normative impact on national law. The ratification of international agreements by countries expresses the will to adopt these principles and to implement them in their own legal system. However, internationally ratified agreements have a limited constraining effect, because of lack of dissuasive penalty mechanisms. A range of ILO agreements are concerned with active labour market policies, the International Pact of economic, social and cultural rights from 1966 mentions in article 6 the right to work as a fundamental principle for a full employment policy, the universal declaration of human rights contains a right to work, the Convention on the Elimination of All Forms of Discrimination against Women of

1979 asserts the right to work, as a right inherent in the human person which needs to be implemented for everyone and the European Social Charter of 1961, completed in 1988, contains a range of individual rights among them a right to work in article 1.

The information contained in Table 1 lends support to the clustering approach of countries into three major types of unemployment protection systems as depicted in Figure 3. Despite the relatively clear cut distinction of legal traditions between medium and high level countries, it is noteworthy that both intermediate type groups of Ireland, Japan as well as Greece and Italy do have a constitutional assurance of a right to work. The delineation of the high level group corresponds for these countries to their legal tradition similar to most other countries in the high level group.

In the following section four we discuss recent trends in unemployment in the Member States of the OECD with respect to the three broad clusters of unemployment protection systems outlined above. We base our analysis, due to data restrictions, mainly on indicators of stocks of unemployed persons although an analysis of flows into and out of unemployment would be more adequate (Schömann, Kruppe, 1996). Yet the main conclusions of our overview in this chapter are not altered if one or the other source of data is applied<sup>29</sup>. The country clusters derived above are useful in understanding the working of labour market institutions and constitutions, the explanation of recent trends in levels of unemployment, however, is even more complex since sometimes longer run economic cycles and structural imbalances affect recent levels of unemployment.

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<sup>29</sup> This holds true only for a comparison of the Member States of the European Union until 1995 where we had access to construct flow data based on the European Labour Force Survey (Schömann, Kruppe, Oschmiansky, 1998).

**Table 1: Constitutional provisions for a right to work in the OECD countries.**

Medium level countries	AUS	No constitutional right to work.
	CAN	New Charter of Rights and Freedoms 1982 Section 6 (2) §b: right to pursue the gaining of a living in any province, right of mobility more than a right to work.
	NZL	No constitutional right to work.
	GBR	No constitutional right; however a restrictive right to work can be seen in particularly acts such as the Disabled Person Employment Act 1944, the Employment Act 1975, Job seekers' allowance.
	USA	No constitutional right to work.
Interm type I	IRL	Art. 45 (2) of the Irish constitution: provisions without binding obligations for the state.
	JPN	Art. 27 of the Japanese constitution: constitutional provisions guarantee rights for workers and provide that they should be defined by law in conformity with public welfare.
High level countries	AUT	Federal Constitution: constitutional right to earn a living, implicitly through work.
	BEL	Art.23 §1 of the Belgian constitution (revised in 1994): norm of public order, to be implemented by Government action.
	DNK	Grundlov Art. 75 I: stated as a goal; statement or manifestation without material legal effects.
	FIN	No constitutional right: till 1995 constitutional right to work as a duty for the government to provide work for every Finish citizen when needed; 1995 reform of constitutional provisions on fundamental rights replaced the right to work by a duty for the public power to promote employment and to strive to guarantee everyone the right to work.
	FRA	Preamble of the V Constitution (that refers to the Preamble of the IV Constitution, particularly §5): goal to be reached –if possible- through (active) labour market policies.
	DEU	No national constitutional right; however constitutions of the 12 <i>laender</i> contain a right to work as a moral and (legal) fundament for labour market policies.
	ISL	No information available.
	LUX	Art. 11 of the constitution of Luxembourg.
	NLD	Art. 20 of the Dutch constitution: provisions enabling the legislature and the judiciary to give more content and a legal quality to the right to work.
	NOR	Art. 110 of the Norway constitution: provision that is not binding the state to provision of jobs.
	PRT	Art. 59 of the Portuguese constitution: constitution expressly assigns the state with the obligation to create material conditions needed for the materialisation and safeguard of the right, that is directly applicable and is binding on public and private entities.
	EPS	Art. 35 of the Spanish constitution: binds the public powers in its goal.
	SWE	Art. 1 of Swedish constitution: declaration of aims not binding the state to provision of jobs
CHE	No constitutional right to work.	
Interm type II	GRC	Art. 22 of the Greek constitution: duty of the state to protect this right by creating conditions of employment.
	ITA	Art. 4 of the Italian Constitution (together with the duty to work): provision to be implemented through labour market policies.
Growing type countries	CZE	Act N0 1/1991 CoL on Employment and Act No 9/1991 CoL on Employment and Competence of the Bodies of the Czech Republic: implemented through active labour market policies.
	HUN	Art. 70/B of the Hungarian Constitution: principles have to be realised through labour market policies.
	KOR	Art. 32 (1) of the Constitution of South Korea: give a constitutional basis to the legislation concerning employment security, unemployment insurance and vocational training.
	POL	Art. 68 of the Polish Constitution: obligation for the state to observe an adequate socio-economic policy.
	MEX	No constitutional right to work.
	TUR	Art.48 of the Turkish constitution: with the right to work the state has been assigned the duty to ensuring that everyone receives an equitable share of the national income.

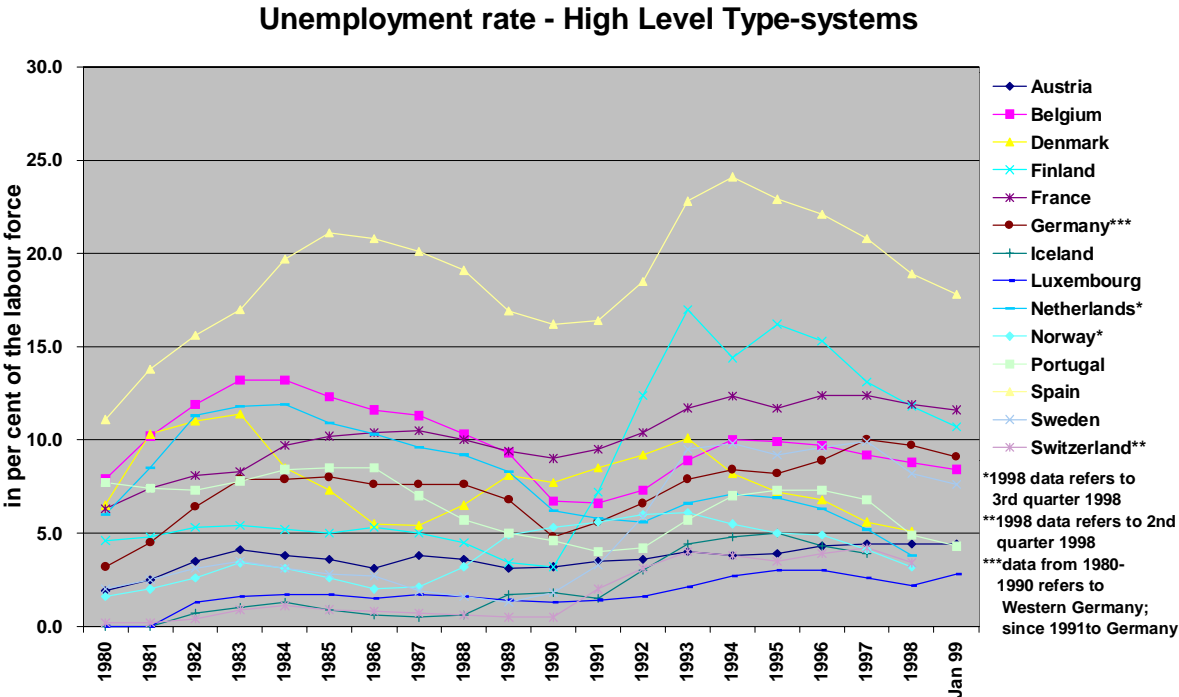
## 4 Trends of unemployment in the OECD

The major aspects of unemployment trends dealt with are the levels of unemployment as well as the composition of unemployment reflecting shares of unemployed among the young and according to gender. The long-term unemployed have also been among the policy priorities in many mainly European Union countries. This latter group of unemployed persons is of particular importance for our comparison, since unemployment insurance systems and more general welfare state provisions are two distinct policy responses to what is in principle the same policy concern of bringing people back to work or avoiding social exclusion caused by poverty (compare Figure 1 and Figure 2).

Despite the recovery of economic growth in the OECD area since the middle of the nineties the unemployment rate for the whole area is coming down very slowly. However, the strong economic performance of some individual Member States has demonstrated that the employment intensity of growth is still sufficiently high in most countries that substantial inroads to reduce unemployment rates can be achieved. The best performing countries in terms of lowering overall unemployment rates are found within each of the three types of countries identified in the previous section of this chapter. Among the countries with high level unemployment benefits Denmark and the Netherlands have achieved the largest reduction of unemployment whereas the unemployment rate continues to be below 5 per cent in Austria, Luxembourg and Norway (compare Figure 7).

The medium level countries show all, except for Japan in recent years, a decline in the unemployment rate comparing levels of unemployment between 1992 and 1998 (compare Figure 8). Australia, Canada, United Kingdom, United States and Ireland have all succeeded to reduce unemployment during the recent period of economic growth. It is noteworthy that countries with a high share of active labour market policy, close to an unemployment protection system as outlined in Section two of this chapter, have been quite successful in reducing levels of unemployment.

Figure 7



The countries with unemployment protection systems of a still growing type witness stable levels of unemployment except Korea and the Czech Republic recently. The transition economies of Eastern Europe have managed to reduce the unemployment rate in the late nineties but substantial changes in the regulations and eligibility for unemployment benefits or employment insurance have been incurred (compare Figure 9 and appendix 1).

Across the three unemployment protection groups we can identify a trend that the level of employment protection particularly the tendency to facilitate fixed-term employment since the middle of the eighties has mainly contributed to increase the volatility of the labour market, the fast reaction of the labour market to business cycle effects, rather than contributing to higher overall employment. In the Asian countries, which have fallen into recession lately, the high provision of employment protection has at least slowed down or delayed the rise in unemployment.

Figure 8

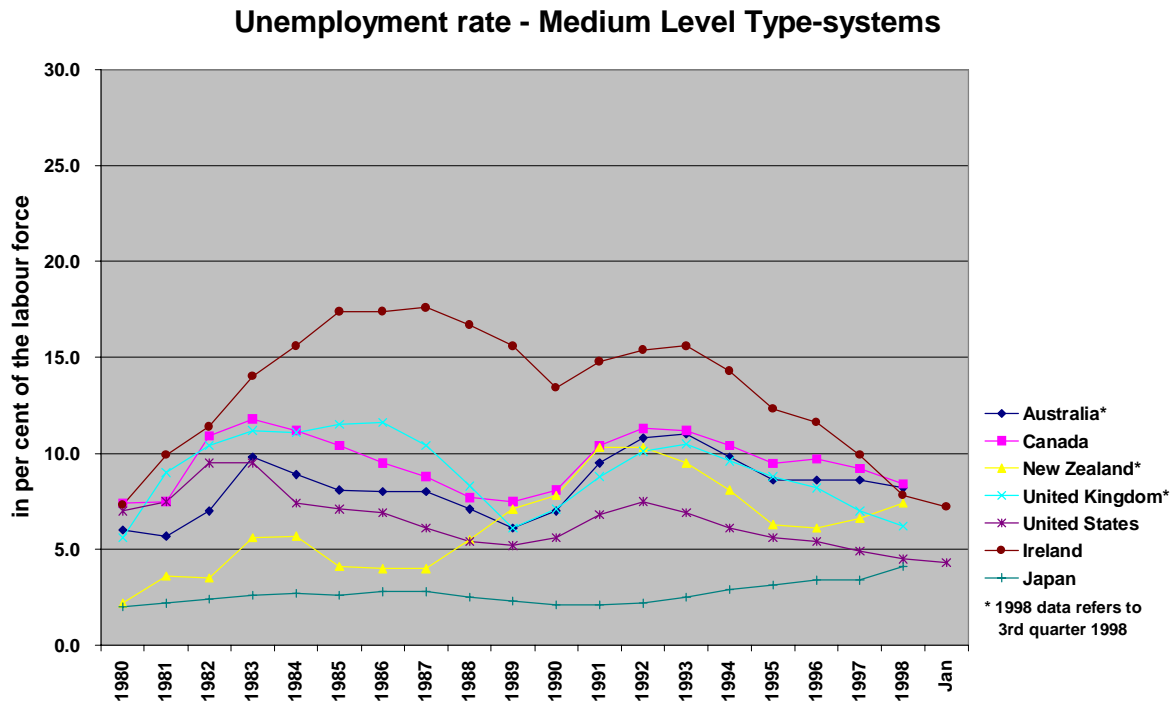
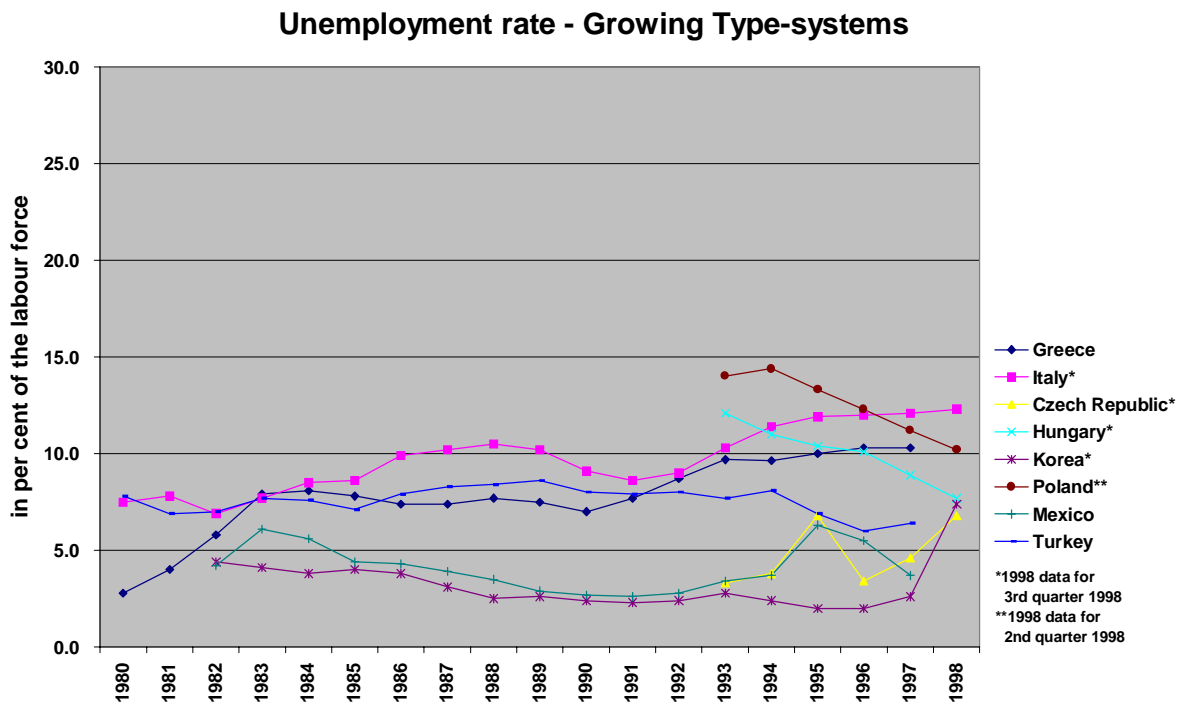


Figure 9



#### 4.1 Difficulties at labour market entry

To tackle youth unemployment has been high on the political agenda in most Member States of the OECD (OECD 1998). However, low youth unemployment rates are still more the exception than the rule throughout the OECD area. Even countries with a strong economic performance and overall success in reducing the unemployment rate, like the U.S., Denmark, Ireland and the Netherlands still have a higher youth unemployment rate than the national average unemployment rate. A particularly unfavourable evolution for youth has occurred in Finland where the youth unemployment rate rose from about 5 per cent in 1991 to 25 per cent in 1997 almost reaching the high level youth unemployment of Greece, Italy, Spain (over 30 per cent) and France or Poland (about 25 per cent, (compare Figure 10-12)).

Throughout the OECD there seems to be little change in the youth unemployment rate over the business cycle in most countries highlighting the role of institutional factors in explaining the transitional labour market from „school to work“ (Shavit, Müller, 1998). The need to move away from the perception of the school to work transitions as one single transition remains rather urgent. Additionally, the link between work experience and learning needs to be strengthened throughout the working life. Therefore, efforts to make life-long learning a reality for larger shares of employees through new policy initiatives is a widely shared policy response. The Scandinavian countries have used job rotation models to allow for employees to participate in further training and unemployed persons to work as substitutes on the work place.

There is an increasing concern about the fact that high levels and durations of youth unemployment is dangerous for societal cohesion. Some countries, mainly in Europe and Japan with ageing populations, have recognised the related issue of intergenerational equity. High social expenditure for the elderly increased the non-wage labour costs in many European countries which adversely affect the hiring of additional employees by firms. At the same time unemployment protection systems frequently leave out young persons who have not been able to enter the labour market successfully or on a sufficiently permanent basis. Young employees are most likely affected by recent changes in employment protection particularly fixed-term employment (Schömann, Rogowski, Kruppe 1998) which has led to firm's employment strategies of "last in first out". Unemployment insurance systems which are based on previous contributions also tend to exclude young persons from unemployment insurance. This accumulates to high risks of social exclusion for young persons. Possible escape routes from this dilemma have been found in reinforcing the link of education systems and the labour market as well as in the use of large scale public job creation schemes targeted on youth.



Figure 10

Youth unemployment (15-24) - High Level Type-systems

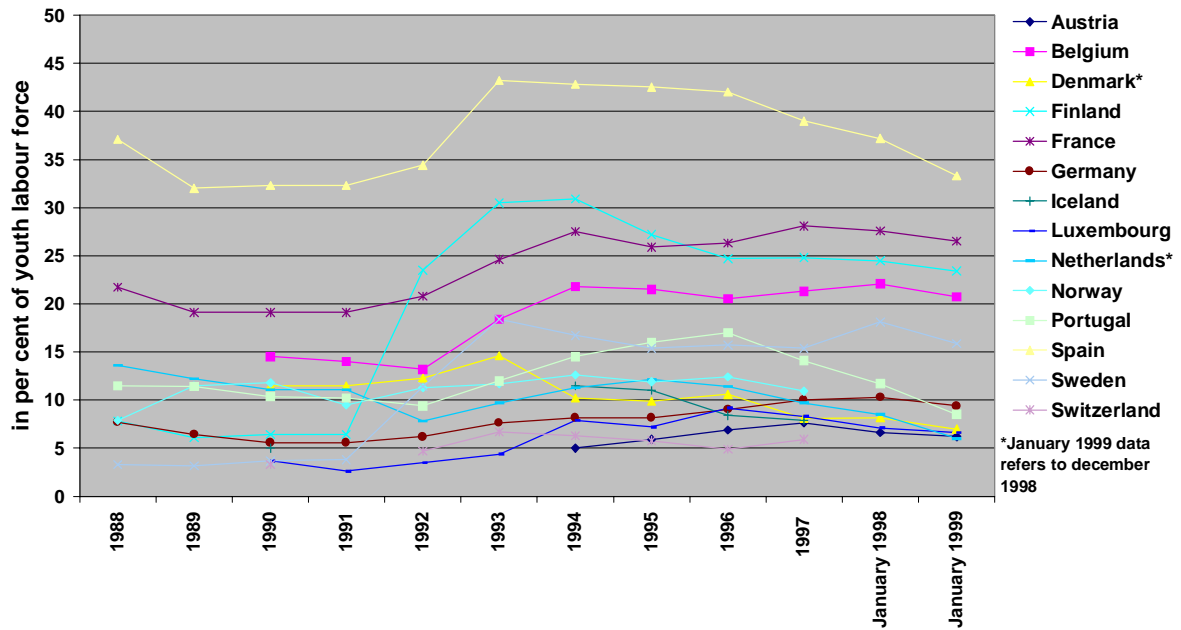


Figure 11

Youth unemployment (15-24) - Medium Level Type-systems

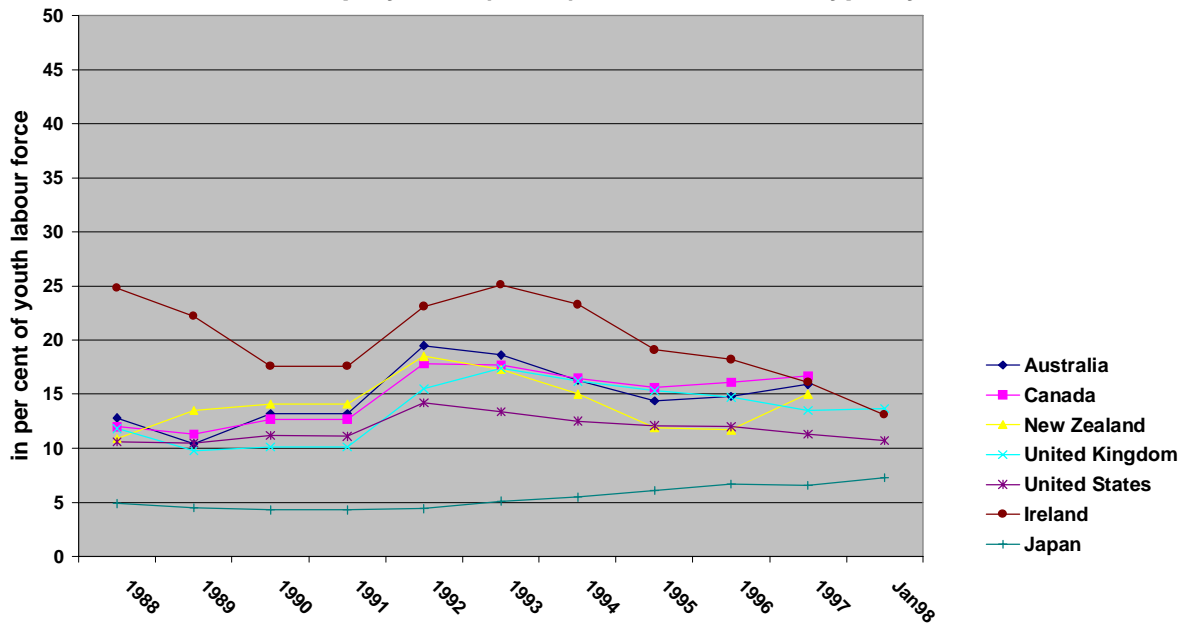
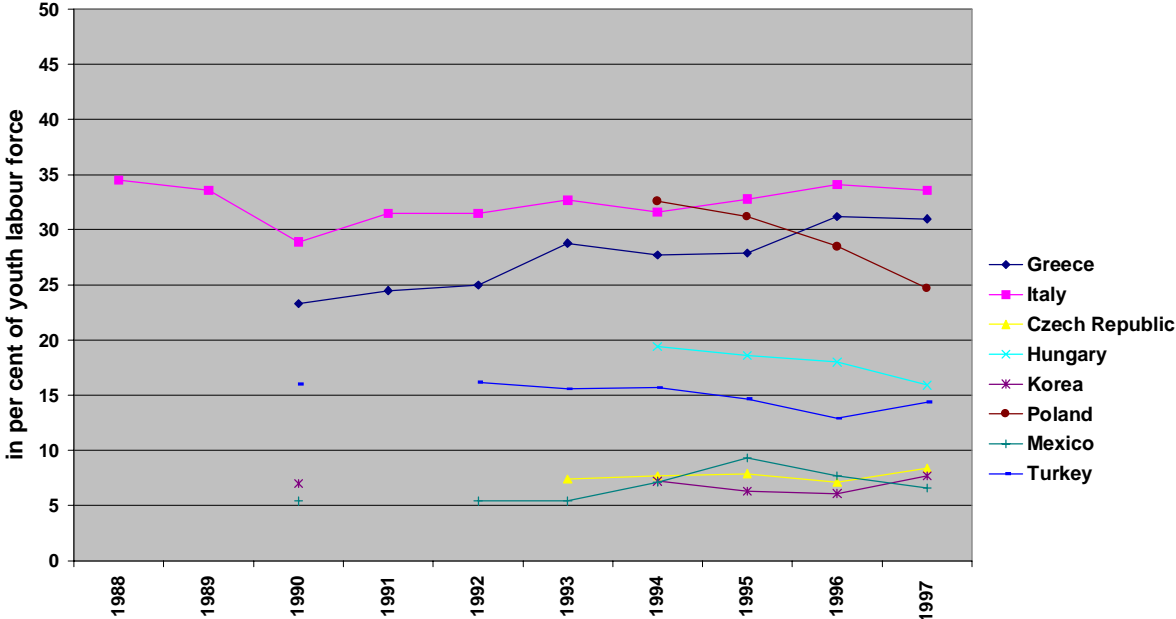


Figure 12

Youth unemployment (15-24) - Growing Type-systems



4.2 Gender selectivity of unemployment

The trend of increasing gaps between male and female unemployment frequently observed during previous periods of economic recession has been stopped in the period of economic growth in the late nineties in the OECD. Taking a medium term perspective we find that in the medium level countries there has been almost no change in the levels of unemployment for women (compare Figure 13-14) over the last 15 years. In line with the overall trend in the U.S. female unemployment has been pushed successfully below 5 per cent in 1997 and 1998.

In the High Level countries there is no clear cut tendency. Women have been on the loosing side in Austria, Finland, Germany, Spain, Sweden and Switzerland comparing 1997 with the average rate for the 1980s and early 1990s. But in Belgium, Denmark, France and Norway we witness an improvement in the unemployment situation of women recently. It appears that these positive developments are largely dependent on an overall favourable evolution of unemployment trends in these countries to the benefit of both women and men.

Figure 13

Unemployment rate - Women  
High Level Type-Systems

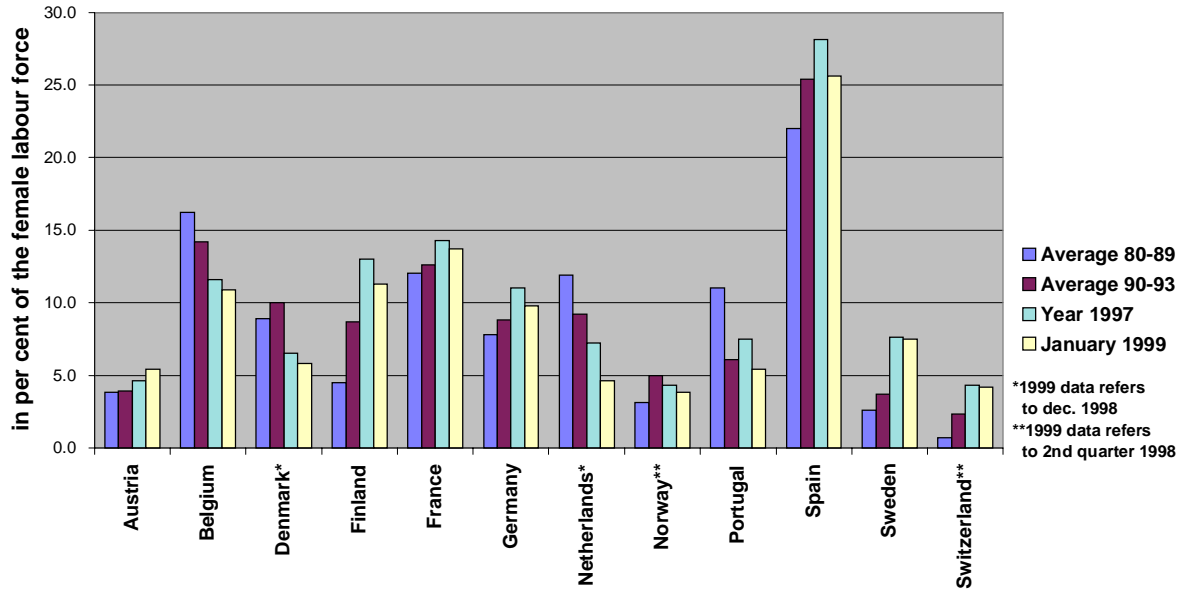
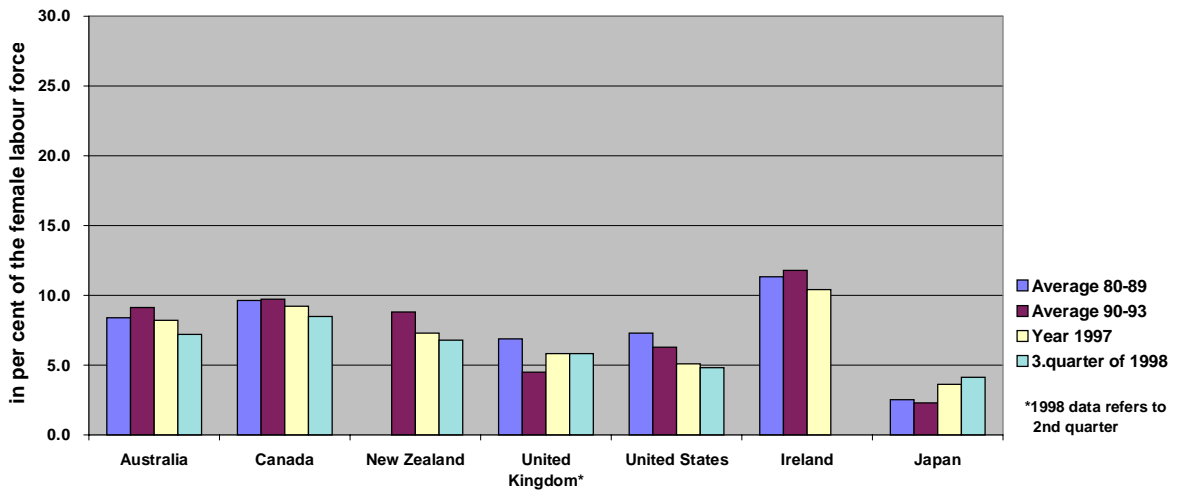


Figure 14

Unemployment rate - Women  
Medium Level Type-Systems



### 4.3 Persistence of long-term unemployment

There are only a few countries in the OECD which have a long-term unemployment rate (duration of unemployment 12 months and longer) below 20 per cent of all unemployed persons. These are Canada, the U.S., Iceland, and Norway. On the other end of the ranking as worst performers in terms of long-term unemployment figure Belgium, Ireland, Spain and Portugal (compare Figure 15-17). Besides the effects of generally insufficient labour demand in most countries with high long-term unemployment (except Ireland where the economy is not booming with high GDP growth rates), reasons for persistent long-term unemployment can also be found in stigmatisation effects of the long-term unemployed. Among all persons in unemployment the long-term unemployed have the lowest probability to leave the unemployment register. Long-term unemployment is perceived by many employers as an indicator for low productivity at previous jobs and a lack of recent work experience. Therefore, in the job queue for vacancies the long-term unemployed frequently figure toward the back end of the queue. Additionally the long-term unemployed are also in competition with those persons out of the labour force like temporarily inactive persons or new labour market entrants with recently acquired training and skills.

Based on specifically calculated flow statistics from the European Labour Force Survey it can be shown that the share of inflows to employment directly from unemployment reaches only between 30 and 60 per cent of all inflows into employment in the European Union over a one year period. Mainly inflows from inactivity have become fairly important. This can also be seen as an indicator for increasing levels of discouraged job seekers that leave unemployment and especially long-term unemployment to become inactive and seek labour market re-entry at a later stage<sup>30</sup>. The income support for these persons is either through unemployment assistance or social assistance, but also through other social protection measures like compensation for ill-health, disability or early retirement. Some displacement of cost of unemployment protection to other fields of social protection can be observed, especially in the United Kingdom, the Netherlands, Finland and Norway (OECD 1998d p.102).

There is a still growing, mainly economic and econometric literature, based on job search theory which suggests that unemployment benefits prolong unemployment durations (Atkinson and Micklewright, 1991; Addison and Portugal, 1999). Much of this evidence, however, neglects that in systems with individual and employer's contributions there exist some form of a labour market experience-rated right to receive benefits unemployment protection to certain levels of maximum periods of receipt (see appendix 1 for country specific details). A simple cross country plot of shares of long-term unemployment in overall unemployment and the length of unemployment benefits or assistance shows little evidence for an overriding

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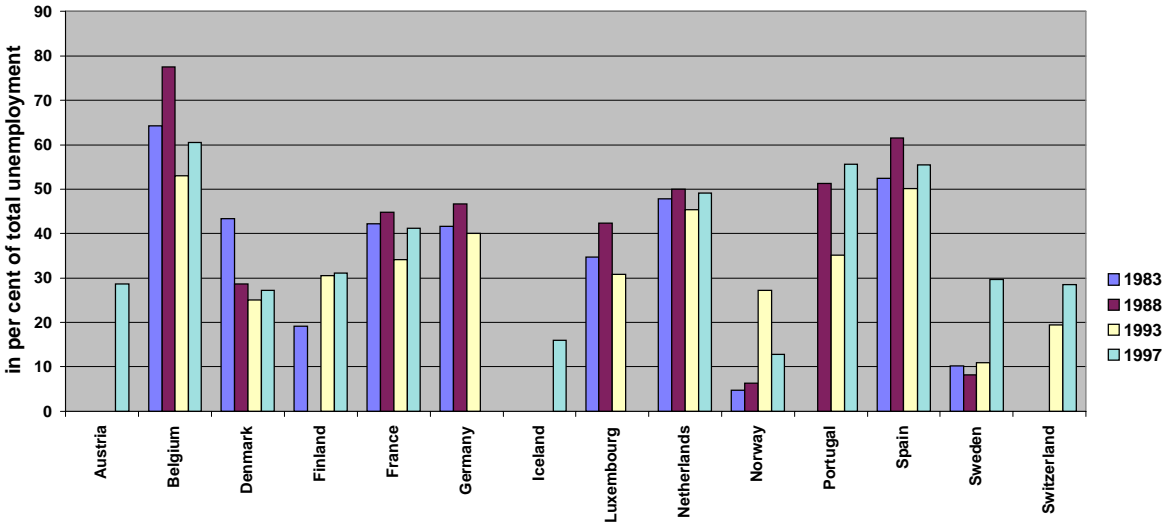
<sup>30</sup> For more details of how these flow statistics were calculated as well as country-specific details see Schömann and Kruppe (1996).

and systematic link between benefit duration and shares of long-term unemployed (compare Figure 18).

Belgium with one of the highest shares of long-term unemployed in the European Union provides long lasting benefits but Ireland does not and has similarly high levels of long-term unemployed. On the other end of the scale, the Scandinavian countries as well as Austria have possibilities for long benefit receipt of unemployment benefits but very low shares of long-term unemployed. The explanation is to be found in specific institutional reasons. All of these countries have besides the right to work a strong obligation to work, as outlined in the previous section of this chapter. In terms of labour market policies this takes the form of a job offer (mainly in the public sector) or a place in a training measure before reaching twelve months of unemployment. These institutional features and the intervention in the sense of prevention of public employment services is not easy to model and estimate in micro-level analyses of transition rates from unemployment to employment.

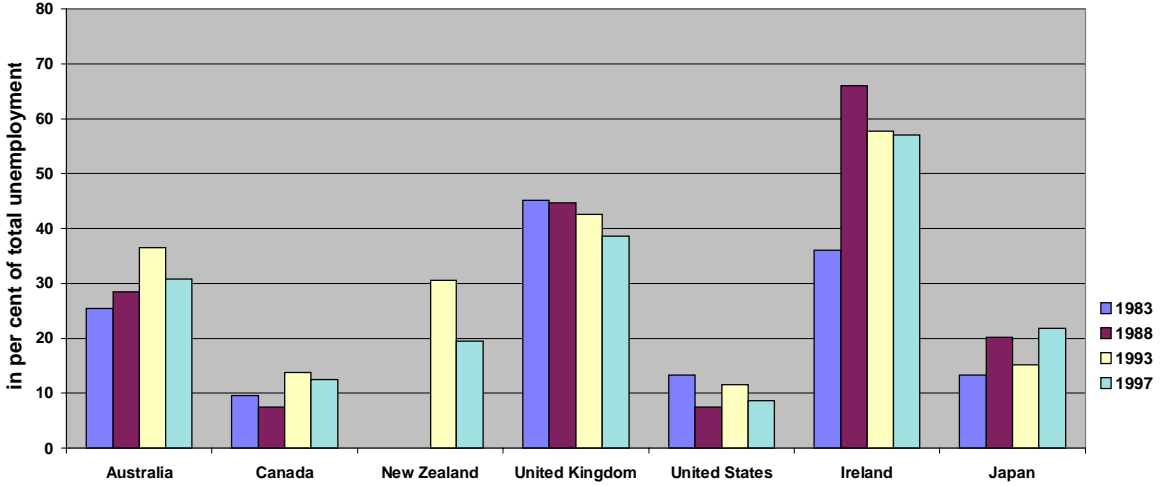
**Figure 15**

**Longterm unemployment (12-months +) - High Level Type-systems**



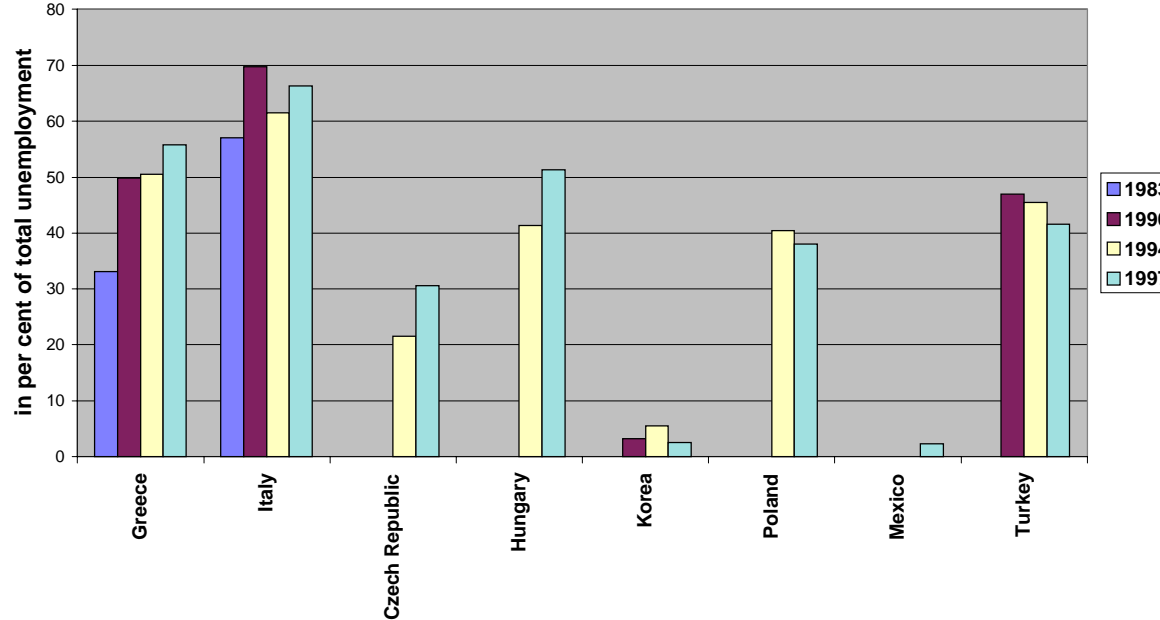
**Figure 16**

**Longterm unemployment (12- months +) - Medium Level Type-systems**



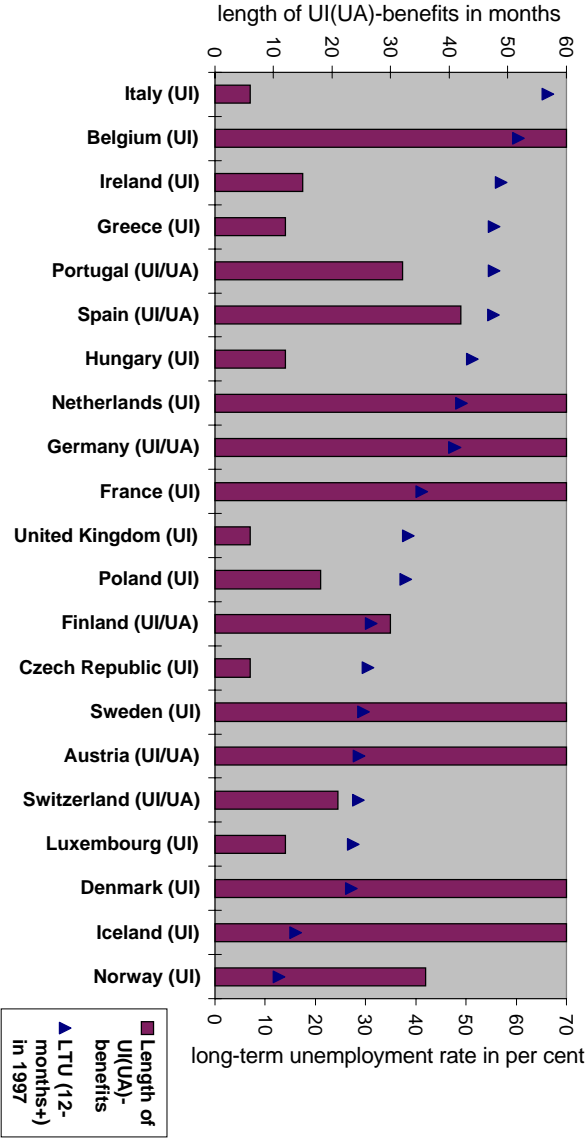
**Figure 17**

**Longterm unemployment - Growing Type-systems**



**Figure 18**

**Long-term unemployment and length of UI(UA)-benefits in Europe**



## 5 Recent changes of unemployment protection systems in the OECD

Despite of the substantial variety of unemployment protection systems among the industrialised countries outlined in chapter 4 the trends that are shaped by recent changes in the unemployment insurance systems can be expected to point to the same direction. This is because the financial constrains both for state finance and unemployment insurance systems became increasingly tight in most OECD countries during the 90ies.<sup>31</sup> Thus, the expected direction of change of the unemployment insurance systems is characterised by reductions of level and duration of benefit payment and/or tighter eligibility and work availability provisions.

To verify this hypothesis this chapter is presenting a concise overview of the main changes in the benefit systems of the OECD countries. In order to approach this aim systematically five indicators that characterise the main features of the unemployment insurance system were chosen and the direction of change in each indicator during the 90ies is estimated. The basis of our estimation is formed by compiled information on various changes in the unemployment insurance systems in these countries shown in Boxes 1 to 3. The result of this data reduction technique is shown in Table 1.

As a first step of the analysis, we will take a look at the direction of change the indicators are displaying. It can easily be seen that the predominant direction of change is that of a stricter and tighter unemployment benefit support. This hold true for most of the indicators in the High level type countries as well as in the Medium level type countries. On the contrary the countries of the Growing type on most indicators show a upward development of generosity of unemployment insurance benefits.<sup>32</sup>

As the second step of an analysis, we would like to take a closer look at the countries by evaluating the changes in detail and, wherever applicable, the contradictory direction of development.

### 5.1 The high level type

The unemployment insurance systems in the countries forming the High level type show an clear trend. This hold true especially for the indicators “work availability” and “eligibility”. In the former none of the countries have eased the regulations, in the latter, only three of the 14 countries show an upward trend. However the picture presented by the other indicators is slightly more heterogeneous (Table 2 and Box 1).

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<sup>31</sup> compare Schmid, Reissert, 1996, pp. 243.

<sup>32</sup> This notion has to be weakened because of data problems in this group of countries.



Austria, Belgium, Germany, Netherlands, Norway and Spain represent a group of countries that show a development toward more strictness on all available indicators. **Austria** has reduced the replacement rate and tightened the eligibility requirements, **Belgium** has tightened both eligibility and work availability regulations and has relaxed EPL, **Germany** has lowered the level of unemployment compensation and has tightened eligibility and work availability provisions, the **Netherlands** have reduced the duration of benefit payments, tightened eligibility and work availability regulations and eased EPL, **Norway** has reduced the duration of benefit payments and has tightened eligibility and **Spain**, while reducing the replacement rate and tightening eligibility and work availability regulation, has eased eligibility for agricultural workers in some regions. On the other hand **France** is the only country that has (re)tightened their employment protection legislation (EPL) resulting in an higher EPL-indicator (OECD 1999c:66).

**Table 2:** Recent changes of the OECD unemployment protection systems (early 90ies to 1998). Sources: OECD Economic Surveys (different countries and years), OECD 1997b, OECD 1996, European Commission 1995-1998. “–“ indicates that no further information on changes is available, blank cells indicate that no or insufficient information is available.

	Level	Duration	Eligibility/ access to benefit	Work availability/ Job search	Re- qualification	Empl. protection legislation (cf. OECD 1999c)	Overall summary: (direction of change in the available indicators)
AUS	(↑)	–	↓	↓	–	–	stricter
CAN	↓	↓	↓	↓	–	–	stricter
NZL	↓		↓	↓	–		stricter
GBR		↓	↓	↓	–	–	stricter
USA	(↑)			↓		–	slightly stricter
IRL	↓			↓		–	stricter
JPN	–	–	–	–	–		no change recorded
AUT	↓	–	↓	–	–	–	stricter
BEL	–	–	↓	↓	–	↓	stricter
DNK		↑	↓	↓	↓	↓	stricter
FIN	↑	–	↑/(↓)	–	↓	↓	heterogeneous
FRA	↓/↑	↓/↑	↓	–	–	↑	slightly stricter
DEU	↓	–	↓	↓	–	↓	(slightly) stricter
ISL	–	↓	↑	↓	–		slightly stricter
LUX							no change recorded
NLD	–	↓	↓	↓	–	↓	stricter
NOR	–	↓	↓	–	–	↓	stricter
PRT	–	–	↑	–	–	↓	heterogeneous
ESP	↓	–	↓	↓	–	↓	stricter
SWE	↓	–	↓	↓	↑	↓	stricter
CHE	↓	↑	↓	↓	–	–	stricter
GRC	↑	↑	–	–	–	–	more generous
ITA	↑	–	↑	↓	–	↓	heterogeneous
CZE			(↓)				stricter
HUN	–	↓	↓				stricter
KOR	↑	↑					more generous
POL							no change recorded
MEX	(↑)	(↑)					more generous
TUR							no major changes recorded

**Box 1: Trends of changes in unemployment insurance systems of High level type (early 90s to 1998):**

**High level type**

*Austria:* Reduction of max. benefit level (1993), increase of minimum contribution period to 26 weeks (1995), reduction of replacement rate from 43% to 36%, tighter eligibility requirements.

*Belgium:* Suspension of unemployment insurance for the dependent person if long-term unemployed in two-income households ("Global plan" reform in 1993); tighter work availability and job-search requirements, restrictions in access to benefits, temporary unemployment schemes and part-time unemployment programmes were made financially less attractive, longer contribution periods.

*Denmark:* Extension of the maximum duration of benefit payments from 2.5 to 5 years, but without possibility of further extension (1994), tightening of work availability and eligibility provisions, youth and long-term unemployed are entitled to training, work or work experience program, longer contribution periods, raise of minimum age of recipients.

*Finland:* Introduction of new means-tested "Labour market support benefit", re-qualification options tightened, earning in subsidised jobs create new eligibility (1994), increase of replacement rate, longer contribution periods, longer waiting period.

*France:* introduction of a degressive (1992) benefit system leading to a more generous support in the first 2 years and a less generous support in year 4 and 5 of the unemployment spell; tightening of eligibility requirements (1993), tax reduction for low pay earners, longer contribution period, longer waiting period, strengthening of EPL (1989, 1993).

*Germany:* reduction of unemployment insurance benefit from 63% to 60% for singles and from 68% to 67% for recipients with dependents and reduction on unemployment assistance levels from 56% to 53% and 58% to 57% res. (1993), tightening of work availability requirements, tightening of eligibility rules, strengthening of EPL (1999).

*Iceland:* In 1993 enlargement of unemployment insurance schemes also to non-union employee and self-employed (1993); duration of unemployment benefits limited to a 5-year maximum; more stringent conditions on search and training; funding and responsibility for unemployment services was switched to central government (1997).

*Netherlands:* Tightening of the conditions for earning-related benefit (1993), tightening work-test (1996), reduction of duration of unemployment insurance from 2 to 1.5 years, tighter eligibility requirements, reduction of sick-leave payment, longer contribution period.

*Norway:* Unemployment insurance has been converted from indefinite income support scheme into temporary compensation and re-qualification rules were tightened (previous earnings requirement rose from 75 to 125% of basic amount) (1997).

*Portugal:* Increased benefit entitlements and enlargement of coverage.

*Spain:* Enlargement of contribution periods (1993), reduction of the initial replacement rate from 80% to 70%, tightening of work availability rules but more generous eligibility rules for agricultural workers in certain regions, benefits were made subject to income tax and social security contribution, longer contributions periods (1994).

*Sweden:* Entitlement and obligation for unemployed to participate in training or subsidised work (1993); since September 1997 the standard rate of compensation has been raised from 75% to 80% after it has been temporarily reduced to 75% from former 90%, tightening of work availability and eligibility rules, longer waiting period.

*Switzerland:* Increase of duration with a cut in replacement rate from 80% to 70% for unemployed without children (1993); tightening re-qualification rules. Introduction of waiting period, more stringent definition of "suitable work" (1996); school-leavers have to wait up to 120 days before being eligible for unemployment insurance; reduction of duration of short time and bad weather allowance; extension of unemployment insurance duration to 520 days but with condition to participate in active labour market policy programs (1997).

## 5.2 The medium level type

The unemployment insurance systems of the countries forming the Medium level type show an almost homogenous trend in the direction of a decrease in generosity. Canada and the United Kingdom and New Zealand can serve as the best examples for such a development (Table 2 and Box 2). Concerning the employment protection legislation (EPL), no downward change is recorded because of the already very low level in those countries.

In **New Zealand** three of the five indicators show an downward trend. Eligibility and work availability rules have been tightened and the waiting period has been extended.

In the **United Kingdom** a drastic reduction of the duration of unemployment insurance payments has been introduced. In addition work availability and eligibility regulations have been tightened.

In **Canada**, all the indicators except for re-qualification show a downward trend. This is mostly due to a major change in the Canadian UIS in 1996. The level of initial benefit payment has decreased, the duration of payment have been shortened and tighter work availability and eligibility rules are in force. Despite this clear trend there are also changes that lead to a slightly better situation for some unemployed: a family supplement has been introduced to improve the financial situation for the unemployed who have families (see Box 4 for Canada).

A similarly slightly diverse picture is found in **Australia**. On the one hand we can report the introduction of tighter eligibility and work availability regulations. On the other hand the change from a couple or household based principle of calculation the level of benefits to a more individual principle eases the situation for the non-single unemployed. This could also be interpreted as a change in favour of families although this focus is much clearer in Canada.

The disclosure of the underlying trends in the **United States** unemployment benefit system is more challenging because of its decentralised and fragmented nature. At least some US states have increased substantially the maximum and minimum weekly unemployment benefit level. On the other hand eligibility requirements and work availability rules have been tightened in most states and the overall budget frames for unemployment compensations were limited in the long run.

**Box 2:** Trends of changes in unemployment insurance systems of Medium level type (early 90s to 1998).

Medium level type

*Australia:* Replacement rates for married individuals are calculated independently and reduction of benefit withdrawals (1995); tighter availability and willingness-to-work requirements, tighter eligibility rules.

*Canada:* Reduction of benefit amounts for couples (1993); reduction of initial replacement rate from 60% to 55%, reduction of duration to 45 weeks maximum, hour based calculation of benefit and decline with frequent use, additional family supplement, "workfare" programs for employable persons, reduced maximum insurable earnings, tighter eligibility and work availability rules, longer contributory periods, exclusion of job-quitters from UI (1996).

*New Zealand:* tightened eligibility requirements, introduction of work-test, lengthen of waiting period, work availability tightened for single parents if there is no child under 14 years.

*United Kingdom:* Reduction of unemployment insurance duration from 12 to 6 month, tighter work availability and eligibility rules.

*United States:* Further decentralisation: The base periods for determining eligibility for benefits are set by the state authority, work availability tightened ('work-fare' programs and mandatory training or work regulations).

*Japan:* introduction of a re-employment bonus.

*Ireland:* Abolishment of earning-related elements of unemployment insurance (1995), reduction of the initial replacement rate from 41% to 32%, tighter work availability.

### 5.3 The growing type

Some exceptions from the decreasing overall trend concerning the generosity of the unemployment insurance system are found of the group of the Growing type countries. Starting from a very low level, Mexico and Korea are beginning to build up an unemployment security system. Reflecting financial constraints, these early beginnings are very limited, compared to the highly developed unemployment insurance systems of the High level type countries (Table 1 and Box 3).

In **Korea** a unemployment insurance system was established in 1995. Its features are comparably low replacement rates, short duration of benefit payments and a very low coverage of the working population.

In **Mexico**, a partial conversion of retirement benefit into unemployment benefit is possible, opening a possibility to overcome hardship while temporarily unemployed.

Greece and Italy, belonging to a intermediate Group located between the Growing type countries and the High level type countries, both show a upward trend in their unemployment insurance systems.

In **Italy**, replacement rate of the unemployment insurance system increased significantly from 15% to about 33% of previous earnings. On the contrary, the system has become stricter by tightening the work availability and job search

requirements. Another system of income protection consist of special short-time allowances and mobility payments, both qualifying the system as more generous as the low replacement rate is indicating.

In **Greece** both the level and the duration of unemployment insurance payment has been increased. Despite this development the replacement rate in Greece is still very low, qualifying the Greek unemployment insurance system as comparably week.

In contrast to Korea, Mexico, Italy and Greece, the unemployment insurance systems of the former communist countries Czech Republic, Hungary and Poland a decreasing trend can be expected, reflecting the transition from a socialistic welfare system to a market economy. Because of data problems this expectation can not be verified in an appropriate way. In **Hungary** duration of benefit payment was cut and the eligibility provision were tightened, in the **Czech Republic** the tightening of the eligibility for social assistance can be reported and in **Poland** the benefit payments depend on the level on unemployment in the specific region.

**Box 3:** Trends of changes in unemployment insurance systems of Growing type (early 90ies to 1998).

**Growing type:**

*Czech Republic:* stricter conditions of eligibility for social assistance (1993).

*Hungary:* Reduction of duration from two to one year and eligibility criteria tightened (1993); two-phase system of benefits was replaced by one-phase (1997); beneficiaries are only allowed to earn up to half of the minimum wage without loss in benefit (prior the whole minimum wage); cut of prior unlimited duration of Unemployment assistance to 2 years (1996)

*Korea:* Introduction of unemployment insurance with very limited coverage (1995).

*Poland:* Duration of unemployment insurance depends now fully on unemployment rate in area

*Mexico:* Workers are allowed to use a small fraction of SAR-amount (individual accounts for retirement) for periods of unemployment, but only after 5 years of SAR- contribution (1992).

*Greece:* Ease in eligibility condition to get longer unemployment benefits (1989), extension of benefit entitlements (1991), Unemployment benefit increased (by 30%) family surcharge increased by 20 to 26% depending of number of dependent children (1993).

*Italy:* Introduction of a mobility benefit for unemployed (1991), basic unemployment benefit was increased from 15% to 33% of previous earnings, tightening work availability rules, coverage of benefit has been extended.

#### 5.4 Common trends in unemployment protection systems during the 90s

There has been relatively little change in the countries' groupings into the three broad categories of high level, medium level and growing type unemployment protection systems in the time period of observation. This statement is valid for both aspects of unemployment insurance, mainly discussed in this section, and in fact employment protection. Countries achieving budget surpluses (for example the United States) in recent years have not spent these funds on more generous unemployment benefit levels or longer durations of receipt of benefits. Similarly, countries under severe budgetary pressure to curtail public expenditure, like those organised in the

European Monetary Union, have cut back their benefit levels and sometimes shortened the length of benefit payments, but overall the group membership has been sustained. Probably the group of countries of the growing type systems is most likely to change in composition, although a strong performance in terms of economic growth is needed out of which higher levels of benefits could be financed to accompany rapid technological change or the consequences of the transformation process in the Eastern European countries.

Despite this stability in the broad developments of the unemployment insurance systems we have witnessed common trends across the different levels of the three types of unemployment protection systems as identified at the beginning of this chapter (figure 3). First, In almost all countries the link between benefit claiming and demonstration of job search activities by the unemployed and those at risk of dismissal has been strengthened. A tendency which is likely to reduce the risk of an unemployment trap, whereby the generosity of unemployment benefits is expected to prolong the duration of unemployment (Atkinson and Micklewright, 1991; Addison and Portugal, 1999). Policy reforms which aim at strengthening the insurance principle within the unemployment insurance system are likely to reduce the risk of an unemployment trap for those insured, but are at the same time likely to decrease the coverage of the same system in leaving out new labour market entrants or persons wanting to enter the labour market out of household activities.

The most far reaching reform of an unemployment insurance system and towards a system of employment insurance has taken place in Canada since 1996. The fundamental reform of the unemployment insurance system is scheduled over five years similar to the French labour market policy reform of 1993 of the Five Year Plan<sup>33</sup>. Major institutional change apparently need time to be “digested” by the public concerned and even longer to be implemented successfully. Two examples of far reaching reforms are described in more detail in Boxes four and five.

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<sup>33</sup> Loi quinquennale relative au travail, à l'emploi et à la formation professionnelle (liaisons sociales Supplément au numéro 11590 du lundi 27 décembre 1993.

#### **Box 4: Towards Employment Insurance: The example of Canada**

*Canada's* new employment insurance (as of July 1996) aims at a radical structural change of the old unemployment program to move towards an insurance based program (Nakamura, 1996; OECD 1997b). With the enactment of Lloyd Axworth's Employment Insurance Bill C 12, the Canadian employment insurance undertakes three important changes, which are genuine innovations aiming at more fairness in the treatment of participants:

1. Hours of work as the unit of account, instead of using weeks of work, -the minimum qualifying period for benefits (from 420 up to 700 hours of work) depends on the region's unemployment rate-. This switch should help to reverse the erosion of coverage resulting from increasing amount of employment in part-time jobs, that were ineligible for coverage under the old program rules. It aims at a greater equity of treatment between part-time and full-time workers.
2. The intensity rule, where the replacement rate for insured earnings falls with increased use of the insurance over time, is expected to re-establish employment insurance as a social protection scheme more closely linked to the insurance principles. This is an innovative form of insurance: instead of raising the premiums in response of recent employment insurance claims of an unemployed person, the new employment insurance program reduces the level of benefits provided for those with longer durations of previous claims. When employment insurance benefits are exhausted after the maximum duration of 45 weeks, workers can apply for full or partial social assistance which is means tested.
3. The „clawback provision“ makes it possible that unemployed persons with high incomes will repay part of their benefits through the income tax system. As a consequence of this change well-off unemployed persons or employees who are laid-off with relatively high annual incomes will repay greater amounts of the benefits through income tax.

This structural reform of the old Canadian unemployment system tends to facilitate broader coverage, to better control the costs without more intrusive investigations and regulatory control and to provide a more even-handed treatment of participants. Thanks to a phase-in strategy the Bill C 12 will have progressive impacts on the public to enable a greater success of this reform. For example a family income supplement top-up as of January 1997 until the year 2000 to reach 80 per cent of insurable earnings.

Second, a number of countries have made increased efforts to disclose unjustified receipt of benefits among those mainly the Member States of the European Union although little detailed information is available to what extent these efforts have been successful or have not just caused substitution effects in the form that a person who was not eligible for unemployment benefits was claiming social assistance instead. Still a thorny issue in any evaluation of labour market reforms.

From the perspective of transitional labour markets (Schmid 1998) efforts to strengthen the link between the different employment statuses of employed, unemployed and out-of-the labour force is to be welcomed particularly if new forms of transitions into work are implemented. The trend of enhanced policing of the unemployed is, however, questionable since it increases the already strong and inherent tendency of the unemployment insurance systems to be regarded in isolation from the other social spheres and social safety nets as depicted in figure 2 above.

### **Box 5: Labour Market Reform and Activity Contract: Innovations from France.**

The *French* system of employment policies and at the same time those of unemployment insurance has undertaken a real change of orientation in the 1990s. The main goal is no longer the indemnisation of special risks in the labour market (for example, age related unemployment or of lack of qualifications), but much more the political will to act on the total volume of jobs and on job sharing. The instruments used for this purpose are on one hand the reduction of labour costs through reducing level of social security contributions and the reduction of working hours to 35 hours a week. On the other hand the unemployment insurance tends to facilitate the access of (non) workers to education programs or to new qualifications training by financing those measures with unemployment insurance funds.

Another aspect of the change in the French employment policies is to acknowledge the modification of the legal status of the work contract, still largely based on the subordination principle, which is no longer the common rule in practice. The development of non working activities during the active life, for example in form of further training or other periods of leave (parental leave, leave for start up of a enterprise, retraining leave in case of dismissal), requires the adaptation of the legal status of work. An additional worker status needs to enable the continuation, the addition or even the cumulation of rights during the non working period. The new legal concept (*contrat d'activité*), proposed by a report from the *Commissariat général du Plan* (1995), directed by Jean Boissonnat, aims at maintaining the acquired rights while working on a work contract (which could have been of fixed-term or more permanent duration) or under part-time contracts when employees undertake non remunerated activities during their life of working age.

The activity contract is not a work contract, but a kind of framework contract in which the worker negotiates and concludes a „professional“ contract („an employment contract“) with a corporate group of employers, a (non profit) association, etc. for a minimum duration of 5 years. It guarantees the worker on the one hand the continuation of a minimum salary and social protection, whilst on the other hand it allows the possibility to participate in training programs and to harmonise his legal status through a succession of legal situations within the status of an activity contract. In this case, the succession of precarious contracts does not tend to increase the risks of general precarity conditions but permits relatively stable earning conditions. With the new activity contract, the group of employers has the possibility of adapting the skills of the employees to new needs and gains contractual flexibility.

There have been only marginal recent changes concerning employment protection. The reflexivity of changing regulations concerning fixed-term employment if changes in overall dismissal protection is hard to tackle has been weakened. Mainly the experience of Spain with persistent high unemployment and youth unemployment and wide-spread use of fixed-term employment has discouraged other countries from following this route proposed by the OECD during the 1980s and early 1990s. Some loosening up of employment protection can be observed but only of a marginal kind, since employment protection is frequently dealt with in sectoral agreements between trade unions and employers or in firm-level collective agreements. This has left to the legislator only a restricted leverage to influence overall trends in employment protection and mainly in the sense to affect the already less protected non-unionised part of the labour force.

An interesting development has occurred in Austria and Germany where high employment protection in form of high levels of severance pay are now increasingly transformed into active social plans whereby a re-orientation of employees to new jobs is already pursued with considerable efforts for job search and retraining while still under contract with the (previous) employer. Additionally, the link between the



sphere of employment protection and unemployment insurance becomes factual reality in the case of the labour market reform in Germany (Sozialgesetzbuch III) where the amount of severance pay is partly taken into account in the calculation of the unemployment benefits and especially in part-time early retirement.

The recent issue of the Employment report of the OECD in its editorial (1998) also considers the development of a sound system of employment protection and a closer link to unemployment insurance as well as social protection at large as an important strategy to fight social exclusion and persistent poverty.

## 6 Conclusion and outlook

In a recent article on the fiscal crises in welfare democracies the eminent scholar James M. Buchanan (1998, p.14) writes: "The 'social model' that many Europeans hold unemployment protection as superior to the somewhat more limited welfare states elsewhere is not economically viable for the twenty-first century." In this chapter we have not dealt with the implications of welfare state arrangements and the economic performance of the different types of employment systems. The danger to social cohesion which originates from the globalisation of the economies has also been largely ignored. According to the results presented in this chapter the detailed description and analysis of the many different forms of welfare provisions in OECD countries including the far reaching and multiple changes already introduced, as well as in progress, give sufficient reasons to expect a survival of key elements of the welfare state particularly in the field of protection against unemployment.<sup>34</sup>

Probably the most interesting development in the OECD countries with respect to income security concerns the multiple forms of co-financing from different funds, which means that welfare state arrangements can build on a large societal consensus which no longer exclusively relies on public funds. Nevertheless, in countries with high unemployment the unemployment insurance payments still foot the largest share of the bill. The OECD-wide discussion of activation of passive labour market expenditure (OECD, 1994a,b; 1997a, b) has also led to rethink both the financial aspects of income support during unemployment as well as organisational aspects of policy implementation, like a stronger role of the private sector in the delivery of active labour market policies and employment services.

Based on the strategy of transitional labour markets (Section 2) we developed a framework which allows to structure the comparison of the complex financial and organisational features of systems of unemployment insurance and employment protection combined into a system of unemployment protection. Only if all relevant elements of the entire social safety net are included into the comparison as functional equivalents a country's whole effort in terms of the broad concept of an employment insurance can be captured. The inclusion of functionally equivalent support systems into far reaching labour market reforms guards against simple displacement of costs to other social budgets.

On the basis of a detailed analysis of systems of unemployment insurance and employment protection presented in Section 3 we identified three broad types of unemployment protection systems (Figures 3 to 5). Each of these types revealed a

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<sup>34</sup> The draft framework agreement between the social partners on non-discrimination between fixed-term employees and open-ended employment contracts which has been attempted for close to ten years in the European Union lends also support for a future for unemployment protection regulation (European Industrial Relations Review Nr. 301 February 1999).

considerable stability and consistency in recent policy efforts to reduce fiscal burdens by, at the same time, preserving key elements of unemployment protection. This allows the conclusion that systems of unemployment insurance and employment protection, when analysed jointly, share a strong historical path dependency. Radical deviations from these paths appear to be difficult to achieve since encrusted in cultural traditions. But continued reforms of the complex systems of unemployment protection are needed to adjust to changing economic fundamentals as well as changing target groups most in need.

Age and gender selectivity in the labour market as a whole and in welfare provision poses a continued challenge to all areas of social protection. We have only outlined the major trends in unemployment in section four, but within the scope of this chapter it was impossible to deal with either the processes at work with cause this selectivity, and in some instances discrimination, or attempts in the field of social policies to counter these tendencies. Only rigorous and permanent efforts of evaluation of social policies in all the fields mentioned will yield early warnings against market and policy failures.

The issue of regionalisation and decentralisation in the implementation and financing of unemployment insurance has not been dealt with in much detail (see appendix I for more information). The trend in most countries favours decentralisation and regional authorities are willing to accept more responsibility in issues of income support or active labour market policies decided upon in the regions. In some countries these developments occurred in line with the abolition of state monopolies in job placement services and moves from public to private employment services.

In the European Union we witness an increased concern about the high levels of long-term unemployment. A policy reaction very much in the tradition of an effective implementation of a right to work for everybody is to be seen in the proposition to provide job offers of a place on an active labour market policy scheme for the long-term unemployed after 12 months of unemployment and already after 6 months for young unemployed persons under 25 years of age. A careful control of potentially growing public expenditure for such measures is needed, but the example from Denmark with both job offers and successfully avoiding a public deficit at the same time indicates that such labour market reforms can be organised as positive sum games.

Many Member States of the OECD have encountered financial constraints to finance their social expenditures partly due to demographic factors, like shrinking birth cohorts or larger middle aged cohorts now reaching retirement age. One escape route for traditional unemployment insurance systems has been to cut down in benefit levels or benefit durations. The other chosen alternative (for example in Canada, see Box 4) is to strengthen the insurance principle which means benefits are only paid to the level of previous contributions. There are some indications that strengthening of the insurance principle displaces costs to other social safety net component, for example health or housing support schemes, without reducing overall

costs. The advantage of such a strategy, however, is that other parts of the social safety net will become aware of their co-financing role of what we call a broad employment insurance system. Through such an evolution of an unemployment insurance system towards an employment insurance system we consider it a feasible step to understand employment insurance as a way of financing the ambitious goal of a right to work for everyone.

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Indicator	Australia	Canada	New Zealand	UK	USA	Ireland	Japan	Austria	Belgium
<b>I. Unemployment Compensation (UC)</b>									
<b>1.1 Title of benefit</b>		Employment Insurance (EI)		Contributory Jobseeker's Allowance (CBJSA)	Financed by tax on payrolls for employers only - "experience rated" (depends on lay off history of each employer), tax rate vary by state (average 2.4%)	Unemployment Benefit (UB)	Employment Insurance System	Arbeitslosengeld	Allocation de chômage (complet)
<b>1.2 Financing</b>	taxes	contributions from employees ('97: 2.7%) and employers ('97: 3.78%)	state-financed	Contribution of the national unemployment insurance		Contributions of employers and employees to the Social Insurance Fund plus subsidies from the Department of Finance	contributions of employers (0.8%, up to 1% in branches with high unemployment risk) and employees: (0.45%, up to 5.5%)	Contribution of employers (1998: 3%) and employees ('98: 3%) to national unemployment insurance, state subsidies	Contributions of employers (1994: 1.41%) and employees ('94: 0.87%); state subsidies cover a substantial part of expenditures
<b>1.3 Qualifying conditions</b>	activity test (active search of work, willingness to take suitable work, even if part-time or casual jobs - activity test are being strictly enforced)	minimum of 420 to 700 hours of work (depending on UER in region, the higher, the fewer) and 910 hours for new and re-entrants (intensity rule); reference period: one year. Workers who quit their job are ineligible for UI	work-test	2 years of contributions worth 50 times the lower weekly earning limit. Entitlement could be suspended if the applicant fails in meeting the conditions	eligibility based on duration of employment/ earnings level and ability/ willingness to take up work, certain dis-qualification (f.ex. job loss), UI covers 90% of all employed	39 weeks of contributory employment in the preceding year	employees of private firms: at least 6 months of insured employment in the previous year;	52 weeks of contribution payment within last 104 weeks. For unemployed under 25 years or those been already unemployed once before at least 6 months of contribution	at least 312 days worked within last 18 months; involuntary loss of job
<b>1.4 Waiting period</b>		2 weeks	(period between leaving or losing a job and benefits was lengthend)	3 days. Suspension of payment until 6 months for voluntary unemployment without proper reasons or due to misconduct		3 days	1 week	none	(for young unemployed claiming waiting allowance between 155 and 310 days depending on age)



Indicator	Australia	Canada	New Zealand	UK	USA	Ireland	Japan	Austria	Belgium
<b>1.5 Rates of benefit (initial)</b>	depend on family circumstances, means-tested	replacement rate at flat rate benefit, 55% (max. 413C\$, = 235EUR), low income claimants with dependants: 60% (plus supplement); reduced benefits for repeat users and claimants with relatively few hours worked	flat rate benefit, income-tested, depending on family circumstances	JSA: Replacement rates depending on the contribution the claimant saved.	based primarily on previous wage level, but vary between states; benefits for most US workers fall in the range of 20-40% of prior wages.	60,40 Pound Single (62,50 Pound Long term unemployed = 15+ month) plus 13,20 to 37,50 Pound with dependants	benefits usually represents 60% of average basic wage (for low wage earners up to 80%)	Change: Reduction of max. benefit level, increase of contribution period. Basic sum: ca 57% of former net wage plus family surcharge: 651 ATS Maximum benefit: 1.3.962 ATS	a) with dependant relatives : 60% (at least 1.178 BEF); b) single: 60%; c) cohabitant without dependants: 55%
<b>1.6 Duration and dynamics of benefits</b>	indefinite; no dynamics	up to 10,5 months (in low unemployment regions 8 months)	indefinite; no dynamics	6 months	up to 6 months (plus additional 3 months when unemployment rate is unusually high)	up to 15 months; under 18: up to 6 months	3 to 10 months depending on age and insured employment; extended duration for individual, regional, national hardship cases	5 to 12 months depending on age and insured employment; up to 48 months for participants of "Arbeitsstiftungen"	indefinite; digressive for b) and c); benefit suspendable (only for c)) if unemployment exceeds 2.5 times the regional average
<b>1.7 Aver. net replacement rates of benefit (per cent) (1994/95) according to OECD: a) Single person (2) b) Couple, no children initial c) Couple, 2 children, incl. housing support, initial d) Couple, 2 children, incl. housing ben., 60th month of unempl.</b>									
	a) 30 b) 49 c) 71 d) 71	a) 58 b) 63 c) 67 d) 47	a) 25 b) 48 c) 70 d) 70	a) 23 b) 35 c) 77 d) 77	a) 58 b) 60 c) 68 d) 17	a) 34 b) 49 c) 64 d) 64	a) 63 b) 43 c) 42 d) 68	26 (gross, not comparable) (5)	a) 65 b) 64 c) 66 d) 70
<b>1.8 Alternatives to regular unemployment compensation</b>		Family supplement, sickness-, maternity-, retirement benefits, disability benefits				Redundancy payments (usually by employer)	50% (66% in small firms) wage subsidies for firms in cyclical crisis paid for up to one year (extension possible) by UI in order to avoid lay offs	Pensionsvorschuß Sonderzuschuß für Bergleute Ausbildungs-Arbeitslosengeld	short-time allowance, waiting allowance f. young first-time jobseekers, transition support f. students searching part-time job, rehabilitation support; redundancy allowance

Indicator	Australia	Canada	New Zealand	UK	USA	Ireland	Japan	Austria	Belgium
<b>II. Unemployment Assistance (UA) / Guaranteed Minimum Income (GMI)</b>									
<b>2.1 Title of benefit</b>		Social assistance		Income-based Jobseeker's Allowance (IBJSA), Substitute for Income Support (IS), GMI	Food stamps, AFDC (Assistance to Families with Dependent Children) - being replaced by TANF (Temporary Assistance to Needy Families); Supplemental Security Income (SSI), Earned Income Tax Credit (EITC)	Unemployment assistance (UA)	no UA	Notstandshilfe	no UA
<b>2.2 Financing</b>		financed by provinces and municipalities		National unemployment insurance		Department of Finance (general taxation)			
<b>2.3 Qualifying conditions of UA</b>				Unemployed and Part-time unemployed (less than 16h per week) that are not qualified for CBJSA, can choose between IBJSA and IS		exhausted or did not qualify for UB, age 18 to 66, capable of work, available for work, genuinely seeking work, satisfies a means test; also self-employed can claim UA		416 weeks (= 8 years) of contribution payment within last 10 years	
<b>2.4 Size and duration of UA</b>		regulations and obligations for recipients of social assistance differ substantially across the provinces		Flat rate depending on status, 47.90 £ per week (DM 136,-) for single persons over 25, means-tested additions (Income of partner, capital can disqualify), unlimited		unlimited		between 92-95% of previous unemployment compensation benefit, unlimited, conditions of eligibility are checked every year	

Indicator	Australia	Canada	New Zealand	UK	USA	Ireland	Japan	Austria	Belgium
<b>2.5 Coverage of UI/UA: Beneficiary rates (7) and General minimum</b>		a) 42% (decline from 83% in 1990)		a) 59 (1996)	a) 40 (1997)	a) 69 (1996)	a) 36 (1990, not comparable)	a) 73 (1996)	a) 89 (1996) Minimum: person or couple with children: BEF
<b>2.7 Average replacement rate of social assistance benefit in per cent (OECD) (2): a) single person; b) couple no children; c) couple 2 children</b>	a) 38 b) 50 c) 71	a) 27 b) 47 c) 54	a) 41 b) 57 c) 64	a) 52 b) 63 c) 76	a) 7 b) 12 c) 49	a) 34 b) 49 c) 70	a) 35 b) 49 c) 72		a) 39 b) 46 c) 59
<b>2.8 Special national features</b>	meanst-tested program, thus UI-benefits are in the nature of social assistance	generosity of UI (period of entitlement, qualifying conditions)/depend on regional unemployment rate	meanst-tested program, thus UI-benefits are in the nature of social assistance	UA (IBJSA) payments are on the level of SA	UI - and social assistance-arrangements differ according to state	Level of UB is not income-related	special funds for public service employees, seamen, seasonal workers, day-labourers		
<b>III. Additional indicators</b>									
<b>3.1 Stricthness of EPL index (End of 80s) (8)</b>	3,2	1,7	0,7	2,3	0,4	2,8	3,7	9,0	10,5
<b>3.2 Proportion of fixed-term contracts in per cent(9)</b>	23,5	8,8	*	6,5	2,2	9,4	10,4	*	5,1
<b>3.3 Trade union density 1995 in per cent (10)</b>	35,20	37,40	24,30	32,90	14,20	48,90	24,00	41,20	51,90
<b>3.4 Coverage of collective bargaining (per cent)</b>			37	26	11	9	25		
<p>(1) Periods of training leave for unemployed persons are included in the total unemployment benefit period since 1995.</p> <p>(2) Source: OECD (1997): Making Work Pay. Data represent the situation in 1994/1995.</p> <p>(3) Average replacement rate for a 40 year old APW (average production worker) who has been working continuously since age 18 one month after the unemployment spell.</p> <p>(4) See note 2. Single earner household, 1994.</p> <p>(5) OECD (1998b: 100)</p> <p>(6) Source: Schmid/Reissert 1996</p> <p>(7) Sources: Japan, Switzerland, Norway = OECD (1994b: 188). USA = Internet. Czech Republik, Hungary = OECD Economic Surveys. Others: Eurostat 1997</p> <p>(8) Stricthness of employment protection legislation index according to OECD (1994b), for an update, see OECD (1999c)</p> <p>(9) Source: OECD 1996</p> <p>(10) Source: ILO, World Labour Report 1997-98.</p>									

Indicator	Denmark	Finland	France	Germany	Iceland	Luxembourg	Netherlands	Norway	Portugal	Spain
<b>I. Unemployment Compensation (UC)</b>										
<b>1.1 Title of benefit</b>	Arbejdsløshedsforsikring	Työttömyyspäiväraha (basic or wage related benefit)	Allocation unique dégressive	Arbeitslosengeld			salary-related "Werkloosheids Uitkering" (WW)		Subsidio de desempleo	Prestación por desempleo
<b>1.2 Financing</b>	Wage related plus fixed membership contribution of employers and self-employed to UI funds, employers contribution (0.3% of wages and 3% of VAT), state subsidies cover about 80% of expenditures	Contributions of employers (1997: 3%) and employees (97: 1.5%); State finances (taxes) 62.5%, employers 32% and employees 5% of total costs. Basic entitlement: 100% state-financed	Contributions of employers ('98: 3.97%) and employees ('98: 2.21% to 2.71%); increasingly subsidised by the state.	Contribution of the employer ('98: 3.25%) and employees ('98: 3.25%) to the national unemployment insurance	financed half through wage taxes and half through general revenues; self-employed: social security tax payments		contribution of employers and employees	Contribution of employers (0-14.1% depending on zone) and employees (7.8%), State subsidies covers 30.7% of expenditures	Contribution of employers (4%) and employees (3.5 to 4%)	Social security contributions of employers (6.2%) and employees (1.6%) plus state subsidies
<b>1.3 Qualifying conditions</b>	12 months of membership and 52 weeks of contributory employment (part-timers 34 weeks) in the 3 years preceding the unemployment spell		at least 4 months of contributory employment in the 8 months preceding the unemployment spell (no requirement in case of firm's closure)	At least 12 months of contributory employment in the 3 years preceding the unemployment spell	employees: at least 425 [1700] hours worked during previous 12 months for minimum [full] benefits. Self-employed: previous contributions (see 2.) and closing of business		at least 26 weeks of employment during the last 39 weeks and at least 52 day of employment per year in 4 of the 5 preceding years; voluntary unemployment/refusal of job offer leads to exclusion from benefits	all insured persons, annual income of at least 125% of the basic amount (29423 Nkr in 1996) in the previous year (or previous 3 years average)	540 days of employment in the last 24 month prior to the unemployment spell.	At least 360 days of contributory employment in the last 6 years preceding the unemployment spell
<b>1.4 Waiting period</b>	none	7 workdays		none, except if job voluntarily quit (12 weeks)				3 workdays		none

Indicator	Denmark	Finland	France	Germany	Iceland	Luxembourg	Netherlands	Norway	Portugal	Spain
<b>1.5 Rates of benefit (initial)</b>	max. 90% of previous gross wage, ceiling of 2630 DKr (1997) per week (= 1500 EUR, 3000 DM per month)	Basic unemployment allowance: ca. 515 EUR/month in 1997. Income related benefit: ceiling of 90% of the former earning.	day rate of AUD-benefit: 44.4% of previous day wage plus lump sum (FF 59.63 in 1997) or 57.4% of previous day wage (more favourable calculation is chosen); minimum: FF 145.37 in 1997	60 % of net wage (67% for claimants with children), ??ceiling still at DM 4680 (5226) West /5900 (Ost)? OECD 7800 DM (7600 andere Quelle))	Full basic benefits: 52729 IKr (nearly 800\$), per month in 1996 + child surcharge (4% per child under 18) - benefits are taxable. (Benefit flat level is almost equal to the negotiated minimum wage of workers in fisheries)	means-tested	70% of last-earned wage	daily rate of 0.2% of the previous annual income not exceeding NKr 235.380 in 1996	65% of the average earning of the last year of occupation. Minimum: level of the highest minimum wage level, ceiling: triple the level of the highest minimum wage	70% of the average gross wage of the last 6 month,
<b>1.6 Duration and dynamics of benefits</b>	up to 60 months; over 60: 30 months; under 25: 6 months plus employment or vocational training with 50% of UC guarantee (1)	up to 24 months	up to 60 months depending on age and insured; employment; digressive (-15 or 17% every 6 month until a minimum rate of FF 104,16/day); period of normal rate: 4 to 27 months; period of degressive rate: 4 to 33 months	6 to 32 months depending on age and insured employment	up to 60 months (time spent on training or courses does not count for 60 months-limit); no dynamics	up to 12 months in a 24-months period; no dynamics	6 to 60 months depending on age and length of service; flat-rate extension at 70% of the minimum wage for another 2 years	18 or 36 months (the latter if previous earnings exceed NKr 85000)	depending on the age at which the employees started the job of which he got unemployed. Examples: age of 30: 15 months, age of 40: 21 month.	4-24 months depending on insured employment; digressive (reduction to 60% after 6 months)
<b>1.7 Aver. net replacement rates of benefit (per cent) (1994/95) according to OECD: a) Single person (2) b) Couple, no children initial c) Couple, 2 children, incl. housing support, initial d) Couple, 2 children, incl. housing ben., 60th month of unempl.</b>										
	a) 70 b) 69 c) 83 d) 83	a) 63 b) 63 c) 88 d) 98	a) 67 b) 69 c) 80 d) 65	a) 68 b) 60 c) 78 d) 71			a) 69 b) 77 c) 84 d) 80	a) 66 b) 67 c) 73 d) 83	35 (gross, not comparable)	a) 72 b) 75 c) 74 d) 46
<b>1.8 Alternatives to regular unemployment compensation</b>		Training benefits for unemployed in ALMP measures; Unemployment pension for long-term unemployed aged 60 or over;	Early retirement schemes (Fund financed FNE), disability schemes not very strong				Additional benefits to top up the unemployment benefits, disability pensions and early retirement schemes	After exhaustion of UI-benefits unemployed accepting offered ALMP receive a non-taxable allowance (nearly at UI-level) "Transition Allowance"; special family allowance targeted on single parents in need)	Short-time arrangements	

Indicator	Denmark	Finland	France	Germany	Iceland	Luxembourg	Netherlands	Norway	Portugal	Spain
<b>II. Unemployment Assistance (UA) / Guaranteed Minimum Income (GMI)</b>										
<b>2.1 Title of benefit</b>		UA: Cash labour market support (CLMS); "Työmarkkinatuki"	UA: "Allocation de solidarité spécifique (ASS)" GMI: "Revenu minimum d'insertion" (RMI)	Arbeitslosenhilfe (UA), "Sozialhilfe" (GMI)	no UA	general assistance scheme: "Revenu minimum garanti" (RMG)	UA: Werkloosheids wet (WW) SA: Algemene Bijstandswet (ABW)	no UA ?	Subsidio social de desempleo	UA: Subsidio por desempleo
<b>2.2 Financing</b>		state-financed	ASS: state-financed RMI: state-financed	Budget of the Ministry of Employment and social affairs		state-financed?	UA: state-financed SA: state-financed			Social security contributions and state (see UI)
<b>2.3 Qualifying conditions of UA</b>		Exhausted or not entitled to UI. Recipients have to be available for work. New entrants of labour market: waiting period of 3 month and test of means.	ASS: 5 years of contributory employment within last 10 years; RMI: minimum age 25	Registered as unemployed, but (a) not qualified for UI or (b) has exhausted UI; in case (a) at least 150 days insured employment in preceding year		minimum age: 30 yrs; official resident in Lux. for at least 10 yrs in previous 20 yrs; avail. for work (80% of recipients exempted in 1995 bec. of age, incapacity, caring responsibilities)	UA: at least 26 weeks of employment during the last 39 weeks SA: obligation to look for work (exemption only for single parents with one child younger than 5 years)		Employment of at least 180 days in the year prior to the dismissal, exhausted UI.	Exhausted UI and dependents or special status of the unemployed
<b>2.4 Size and duration of UA</b>		for unemployed having exhausted UI-benefits: 180 days full amount of CLMS (ca. 20 EUR/day in 1997 plus child grants; after 180 days same as unemployed not entitled to UI; means-tested; unlimited duration	ASS: normal day rate: FF 80,02 (old unemployed: FF114,64) in 1997; duration: 6 months renewable; RMI: FF 2500 per month; unlimited	53% of net earnings (57% for recipients with children), means tested, unlimited, conditions of eligibility are checked every year		depending on household status and other income sources (which lead to substantial reductions); f.ex. single person: 71.2% of legal minimum wage	UA: 70% of the minimum wage, maximum of 6 months SA: 100/ 70/ 50% of minimum net wage for families/ single parents/ singles (additional allowance up to 20% can be granted); unlimited		70% of national minimum wage, higher if dependent spouses. Duration same as UI, in case of exhausted UI: half the duration of UI.	6 to 18 months



Indicator	Denmark	Finland	France	Germany	Iceland	Luxembourg	Netherlands	Norway	Portugal	Spain
<b>2.5 Coverage of UI/UA: Beneficiary rates (7)</b>	a) 61 (1996)	69 (1996)	a) 44 (1996) RMI: 2500 FF plus housing and family allowances	a) 74 (1996)		a) 33 (1996)	a) 50 (75% of employed are covered by UC)	a) 61 (1991, not comparable)	a) 25 (1996)	a) 21 (1996)
<b>2.7 Average replacement rate of social assistance benefit in per cent (OECD) (2): a) single person; b) couple no children; c) couple 2 children</b>	a) 65 b) 68 c) 95	a) 61 b) 72 c) 100	a) 49 b) 57 c) 65	a) 51 b) 59 c) 59			a) 62 b) 74 c) 80	a) 46 b) 62 c) 83		a) 27 b) 33 c) 46
<b>2.8 Special national features</b>	Self-employed are included		degressive development of UI payments		self-employed included, (nearly) unlimited UI-payments					
<b>III. Additional indicators</b>										
<b>3.1 Strictness of EPL index (End of the 80s) (8)</b>	3,25	10,50	9,50	12,00	*	*	7,25	9,75	12,50	11,25
<b>3.2 Proportion of fixed-term contracts in per cent(9)</b>	12	13,5	11	10,3	*	2,9	10,9		9,4	33,7
<b>3.3 Trade union density 1995 in per cent (10)</b>	80,10	79,30	9,10	28,90	83,3	43,4	25,6	57,7	25,60	18,6
<b>3.4 Coverage of collective bargaining (per cent)</b>	55		9							82
<p>(1) Periods of training leave for unemployed persons are included in the total unemployment benefit period since 1995.</p> <p>(2) Source: OECD (1997): Making Work Pay. Data represent the situation in 1994/1995.</p> <p>(3) Average replacement rate for a 40 year old APW (average production worker) who has been working continuously since age 18 one month after the unemployment spell.</p> <p>(4) See note 2. Single earner household, 1994.</p> <p>(5) OECD (1998b: 100)</p> <p>(6) Source: Schmid/Reissert 1996</p> <p>(7) Sources: Japan, Switzerland, Norway = OECD (1994b: 188). USA = Internet. Czech Republik, Hungary = OECD Economic Surveys. Others: Eurostat 1997</p> <p>(8) Strictness of employment protection legislation index according to OECD (1994b)</p> <p>(9) Source: OECD 1996</p> <p>(10) Source: ILO World Labour Report 1997-98.</p>										

Indicator	Sweden	Switzerland	Greece	Italy	Czech Rep.	Hungary	Korea	Poland	Mexico	Turkey
<b>I. Unemployment Compensation (UC)</b>										
<b>1.1 Title of benefit</b>	Arbetslöshets-försäkring			Trattamento ordinario di disoccupazione						
<b>1.2 Financing</b>	Employers: tax on wage sum; contribution of employees (approx. 3%); state subsidies are planned to be terminated until 1997	Contribution of 3% of payrolls split between employers and employees	Contribution of the employers ('97: 2,67%) and employees ('97: 1,33%); state subsidies	contributions of employers and state subsidies	Payroll taxes: employers ('97: 3,2%) and employees ('97: 0,4%); ALMP is also financed by this contributions	special payroll taxes of employees ('97: 1,5%) and employers ('97: 6%) to "Labour Market Fund"				
<b>1.3 Qualifying conditions</b>	12 month of membership and 6 months of contributory employment (70h per month or more) in the year preceding the unemployment spell	at least 6 months of contributory employment within last two years (people spent time previous to unemployment in training/ education are also entitled); prove of "apt-for-placement", "active-job-search"	at least of 125 days of contributory employment within last 14 month; for first time unemployed at least 160 days (80 days each year) within last 2 years	registration at PES, 1 year of contributory employment in the past 2 years plus 1 year of contributory employment before.	12 months of work within preceeding 36-months period	at least 360 days of contribution to insurance during previous 4 years	only workers in firms with more than 30 employees; contribution to UI for at least one year; not eligibility to benefits if voluntary quit	minimum 365 days of work during last 18 months, income below half of minimum wage; no more than one job offer refusal		
<b>1.4 Waiting period</b>		5 days (introduced in 1996)		30 day if voluntarily unemployed		none, except if job voluntarily quit (90 days)	two weeks	7 days		



Indicator	Sweden	Switzerland	Greece	Italy	Czech Rep.	Hungary	Korea	Poland	Mexico	Turkey
<b>1.5 Rates of benefit (initial)</b>	80% of the last gross wage, Ceiling of 580 SEK per day.	without children: 70% of previous gross earnings (floor at SF 130 per day) ; with children: 80% of previous gross earnings	Benefit is composed by a basic sum of 40% (workers) or 50% (employees) of previous wage level plus a family surcharge of 10% for each dependent entitled to maintenance Min. (1997): 1803,33 Dr/day	30% of the previously (last 3 month) earned wage; ceiling of 775 EUR per month.	maximum replacement rate: 60%, benefits are subject to relatively low ceiling (1,5 times Minimum Living Standard) so average benefits at about 25% of recipients previous earnings	Replacement rates vary considerably between 100% for workers with a prior income at the floor level of UI, (floor =10350 forint) and 48% for those with prior wage at the UI ceiling level (ceiling = 20700 forint) in 1997	50% of worker's average salary during the preceding 3 months (taking account of taxes, replacement rate at 55%)	flat ZI 340 per month in 1997 (more generous in areas classified as distressed or for individuals with long work tenures)		
<b>1.6 Duration and dynamics of benefits</b>	10 - 15 months, renewal possible if qualifying conditions persist (availability and intention to work)	up to 17 months with merely passive benefits limited to first 5 months (8/13 months for recipients aged over 50/60) further 12 months under condition of participation in ALMPs	5 to 12 months depending on insured employment within qualifying period	6 months (5 months if voluntary unemployed or because of lockout)	up to 6 months, digressive (reduction to 50% after 3 months)	up to 12 months depending on insured employment	1 to 7 months depending on age and insured employment	6 to 18 months depending on regional unemployment rate		
<b>1.7 Aver: net replacement rates of benefit (per cent) (1994/95) according to OECD: a) Single person (2) b) Couple, no children initial c) Couple, 2 children, incl. housing support, initial d) Couple, 2 children, incl. housing ben., 60th month of unempl.</b>										
	a) 75 b) 81 c) 89 d) 99	a) 73 b) 77 c) 89 d) 89	22 (gross, not comparable)	a) 36 b) 37 c) 47 d) 11	47 (gross, not comparable)	16 (gross, not comparable)		28 (gross, not comparable)	*	
<b>1.8 Alternatives to regular unemployment compensation</b>	insolvency protection	short-time benefits (duration reduced from 24 to 12 months in 1996); bad weather allowance (reduced from 12 to 6 months in 1996)	specific unemployment compensation for seasonal workers	Short-time allowance (CIG) (80% of former wage level, ceiling at EUR 750, paid by employers and employees contrib.) and other schemes (special UB, redund. payments, development funds, work funds, early retir., disability sc.	Training Allowance (replacement rate up to 70%), early retirement	20% (!) of working age population benefit of other labour market related benefits as parental/ sick-leave, disability and early retirement programmes	[Special re-employment bonus (unemployed who take up job before halfway point of their benefit duration receive 50% of their remaining benefit)]		since 1992 workers are allowed to use a small fraction of SAR-amount (individual accounts for retirement) for periods of unemployment, but only after 5 years of SAR-contribution; severance pays	Social security net directed at formal workers covers pensions, health care, maternity benefits, occupational injury, sickness insurance and disability; severance pays

Indicator	Sweden	Switzerland	Greece	Italy	Czech Rep.	Hungary	Korea	Poland	Mexico	Turkey
<b>II. Unemployment Assistance (UA) / Guaranteed Minimum Income (GMI)</b>										
<b>2.1 Title of benefit</b>	Kontant arbetsmarknadsstöd (KAS) replaced in January 1998 by a new unemployment insurance fund ("grundbelopp")	UA in 16 out of 26 cantons; (SA: means-tested communal social welfare)	no UA		Social Assistance, Social State Support	UA	Social assistance only for those unable to work (handicapped, elderly, children)	Social Assistance		Social assistance and solidarity scheme (SAS) (-> accounted only for 0.3% of GDP in 1994)
<b>2.2 Financing</b>	Employers' contributions and state funds	canton-financed?			state-and local government financed; decentralised	cost-shared; since 1997 75% financed by Solidarity Fund, the rest by local governments				
<b>2.3 Qualifying conditions of UA</b>	no membership in insurance fund, 6 months of employment (70h per month or more) in the year preceding the unemployment spell	means-tested; exhausting of UI-entitlement			exhausted UI recipients have to be available for work; means-and asset-tested	Exhausted UI, total per capita household income less than 80% of minimum old-age pension	means-tested, family-support tested	income per family member below minimum pension; impossibility to work due to care of a disabled child		only very needy persons looking for work (f.ex. Green Card programme health care only for those earning less than 1/3 of minimum wage)
<b>2.4 Size and duration of UA</b>	Flat rate, 240 SEK per day, duration: 150 - 450 days, depending on age	average duration (of 16 cantons): 125 days; average benefit level: 88% of previous insurance benefits				80% of the minimum old-age pension. Recently UA benefits have been limited to a two-years-maximum (until 1996 they were of unlimited duration)	[significantly below the subsistence level of income]	Discretion of social worker (capped at Zi 287 in 1997)		kind and lump-sum payments rather than regular income support

Indicator	Sweden	Switzerland	Greece	Italy	Czech Rep.	Hungary	Korea	Poland	Mexico	Turkey
2.5 Coverage of UI/UA: Beneficiary rates (7)	a) 69 (1996)	a) 53 (1991, not comparable)	a) 6 (1996)	a) 6 (1996, plus approx. 10% CIG)	a) about 50% in 1996 Minimum Living Standard, for a single:3040	a) due to tightened criteria fall from 65% in 1992 to 31% in 1994	GMI: only for those unable to work			
2.7 Average replacement rate of social assistance benefit in per cent (OECD) (2): a) single person; b) couple no children; c) couple 2 children	a) 62 b) 83 c) 100	a) 49 b) 61 c) 66		a) 0 b) 0 c) 11	25 (not comparable)					
2.8 Special national features				short-time allowance arrangements (CIG) covered 1% of labour force in 1994			UI was not introduced before 1995		no UI, only severance pay, unempl. are entitled to medical care (8 weeks (minimum)), some ALMP programmes	no UI, only severance pays, informal sector of economic very strong
<b>III. Additional indicators</b>										
3.1 Strictness of EPL index (End of the 80s) (8)	8,50	1,75	11,00	14,25						
3.2 Proportion of fixed-term contracts in per cent(9)	13,5	*	10,3	7,3	*	*	*	*	*	*
3.3 Trade union density 1995 in per cent (10)	91,10	22,5	24,30	44,1	42,8	60	12,7	33,8	42,8	33,7
3.4 Coverage of collective bargaining (per cent)	85		9							
<p>(1) Periods of training leave for unemployed persons are included in the total unemployment benefit period since 1995.</p> <p>(2) Source: OECD (1997): Making Work Pay. Data represent the situation in 1994/1995.</p> <p>(3) Average replacement rate for a 40 year old APW (average production worker) who has been working continuously since age 18 one month after the unemployment spell.</p> <p>(4) See note 2. Single earner household, 1994.</p> <p>(5) OECD (1998b: 100)</p> <p>(6) Source: Schmid/Reissert 1996</p> <p>(7) Sources: Japan, Switzerland, Norway = OECD (1994b: 188), USA = Internet, Czech Republik, Hungary = OECD Economic Surveys, Others: Eurostat 1997</p> <p>(8) Strictness of employment protection legislation Index according to OECD (1994b)</p> <p>(9) Source: OECD 1996</p> <p>(10) Source: ILO, World Labour Report 1997-98.</p>										

## Appendix 2: Methods to distinguish between the main types of unemployment **benefit systems**

### Cluster analysis

An appropriate technique to create groups of cases that show similar characteristics is the cluster analysis. In our study the analysis consists of a maximum of 29 countries (=cases). The reliability of the cluster analysis rises with the number of cases and decreases with the number of clusters to be created (Norušis 1992).

The following conditions were set in the beginning of the first cluster analysis:

1. restriction of the number of clusters to be created to 3,
2. exclusion of cases with one or more missing values,
3. selection of hierarchical cluster technique (Norušis 1992, 83ff.).

The second restriction reduces the number of countries which are included in the cluster analysis to 19 cases. The countries are Canada, UK, USA, Ireland, Japan, Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Greece and Italy. The result of the hierarchical cluster analysis is depicted in *Output 1*.

The hierarchical cluster analysis were computed by using the statistical software package SPSS<sup>®</sup>. We used the procedures 'proximities' and 'cluster' to execute the calculation. We performed a z-transformation on the four variables to control for their different scales and as the clustering method we used the linkage between the groups.

*Output 1* shows the 3 clusters. Cluster 2 consists of Canada, UK, USA, Ireland and Japan. Cluster 1 includes Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. The cluster 3 is formed by Greece and Italy.

In order to complete our grouping of the countries, we had to undertake a second cluster analysis. Because of several missing values the exclusion of Turkey, Mexico, Poland, Korea, Hungary and the Czech Republic are irreversible. But the less accurate K-Cluster analysis provided by SPSS gives us a chance to align countries with only one missing value into a cluster analysis. These countries, Australia and New Zealand could be grouped into the first group of countries by using the procedure 'quick cluster' after performing a z-transformation on the four variables. *Output 2* shows the result of the K-Cluster analysis using SPSS<sup>®</sup>.

Australia and New Zealand are grouped into the cluster 2, Portugal is sorted into cluster 3. This result could be interpreted as follows: Portugal has a larger distance from cluster 1 than the other countries of cluster 1 in *Output 1*.

### Output 1:

Label	Case	3
Canada	1	1
United K	2	1
United S	3	1
Ireland	4	1
Japan	5	1
Austria	6	2
Belgium	7	2
Denmark	8	2
Finland	9	2
France	10	2
Germany	11	2
Netherla	12	2
Norway	13	2
Portugal	14	2
Spain	15	2
Sweden	16	2
Switzerl	17	2
Greece	18	3
Italy	19	3

### Output 2:

COUNTRY	Cluster	Distance
<b>Australi</b>	<b>2</b>	<b>1.634</b>
Canada	2	.918
<b>New Zeal</b>	<b>2</b>	<b>1.754</b>
United K	2	1.380
United S	2	1.314
Ireland	2	1.027
Japan	2	1.311
Austria	1	.576
Belgium	1	1.364
Denmark	1	1.163
Finland	1	.660
France	1	.768
Germany	1	.991
Netherla	1	.537
Norway	1	.318
<b>Portugal</b>	<b>3</b>	<b>1.416</b>
Spain	1	1.863
Sweden	1	.500
Switzerl	1	1.586
Greece	3	.709
Italy	3	1.295

## Common characteristics of the three categories

The three clusters and the group of countries that had to be excluded from the cluster analysis can be described using the four main variables. Comparing the level, the duration the coverage and the employment protection legislation we distinguish between three main types of unemployment benefit systems (see Chapter 3):

- I. the *medium level type* (cluster 2),
- II. the *high level type* (cluster 1),
- III. the *growing type*.

This distinction is based on four statistical criteria: the level (LEV) and duration of unemployment compensation payments (DUR), the coverage of the unemployment insurance (COV) and the strictness of employment protection legislation (EPL). Categorising each country we use these four indicators in a cluster analysis. Due to the lack of information in the category "*Growing Type*" we had to take additional information into account, e.g. the historical background of the unemployment insurance system and the direction of change on the chosen indicators (see Chapter 5).

## Level of unemployment insurance payments (LEV)

As an indicator for measuring the level of unemployment benefit payments we use the average net replacement rate of benefits for a single person (as defined by the OECD<sup>1</sup>). Data refer to 1994. The scale ranges from 0 (TUR, MEX) to 75 percent (SWE), no data is available for GRC, AUT, ISL, LUX, PRT, CZE, HUN, KOR, MEX, TUR, POL => see Appendix I, column I.7. (and I.5).

1. The *medium level type* is characterised by an average net replacement rate of less than 60 percent, UB-benefit payments are partly means tested (AUS, NZL). Thus countries classified as medium level type concerning the level of unemployment benefit payments are: AUS, CAN, NZL, GBR, USA, IRL and ITA.
2. The *high level type* is characterised by a net replacement rate of more than 60 per cent. JPN, BEL, DNK; FIN, FRA, DEU, ESP, CHE, NLD, SWE, NOR do classify for this category (no data available for AUT, ISL, LUX, PRT but they are likely to comply with the high level type).
3. Concerning the *growing type* no data for net replacement rates is available but probably these rates are rather low (taking the gross rates of benefits into account) or zero in countries lacking any unemployment insurance systems (TUR, MEX). Concerning the level of unemployment benefits CZE, HUN, KOR, MEX, TUR, POL are placed in this category.

## Duration of benefits (DUR)

For measuring the duration of benefits the grouping refers to the maximum duration of UB-payments plus the maximum length of UA-payments if the level of UA-payments is higher than the level of social assistance (appendix 1, column I.6, II).

1. *Medium level type* unemployment insurance systems pay benefits for less than one year (unemployment insurance benefits in AUS and NZL are unlimited but the unemployment insurance level in these countries equals social assistance). AUS, CAN, NZL, GBR, USA and JPN fall in this category.
2. Countries disposing of a maximum duration of benefit payment of one year or more (up to unlimited duration) are marked as *high level type* systems concerning the length of unemployment insurance payments: Those countries are IRL, AUT, BEL, DNK; ISL, LUX, PRT; FIN, FRA, DEU, ESP, CHE, NLD, SWE, NOR, GRE, HUN and POL.
3. *Growing type*-systems pay benefits for a maximum of seven months (or lack unemployment insurance system (MEX, TUR). ITA, CZE, KOR, MEX and TUR are assigned to this type.

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<sup>1</sup> The average net replacement rate is calculated at national average earnings. The model refers to a production worker being 40 years old and having worked continuously since the age of 18. Replacement rates are for the first month of unemployment after waiting period have been met OECD (1997, p.23, table 5).

## Coverage (beneficiary rate) (COV)

Coverage describes the proportion of all unemployed that is actually receiving UI-payments (UB and UA - when level is higher than SA). Unfortunately data for coverage is rather rare (comparable data is only available for the European Union, no data for AUS, NZL, ISL, CHE KOR; POL; TUR; MEX) => see table, column II.5

1. UI-systems that cover between 40 and 60 per cent of all unemployed are classified as *Medium Level Types*. Those countries are GBR, USA, CAN, FRA, NLD
2. *High Level Type*-systems are characterised by a coverage of more than 60 per cent. ILR, AUS, BEL, DNK, FIN, DEU, and SWE fulfil this criterion.
3. UI-systems with a coverage of less than 40 per cent are counted as *growing type* -countries. This applies for JPN, LUX, PRT, ESP, ITA, GRE, and HUN. (MEX and TUR have a coverage of 0 percent since no unemployment insurance system exists to our knowledge.

## Strictness of employment protection legislation (EPL)

The OECD index of the overall strictness of the employment protection legislation (EPL) covers different aspects of employment protection legislation such as statutory notice periods, procedural inconveniences, the level of severance pay and rules governing unfair dismissal (OECD, 1994, pp. 69-73). The result of this index is a weighted ranking of the OECD countries covered. The common picture the different clusters of countries are reflecting is also consistent in respect of the strictness of employment protection legislation.

The medium level countries are characterised by a low EPL-index. The values are located between 0.36 (USA) and 3.26 (Australia) with a mean value of 1.65. The high level type countries are characterised on the average by high values in the EPL-index with a mean value of 8,81. However the picture in the high level country cluster is much more divers. The values range from 1.75 in Switzerland to 12.50 in Portugal. Although the EPL index for Switzerland and Denmark are as low as some of the EPL indices in the medium level cluster, they are qualified for the high level countries through their high scores in the level, duration and coverage of their unemployment insurance systems. In both these countries sectoral agreements particularly in larger firms provide more extensive EPL.

## The Growing Type: additional criteria (cluster 3)

As to the Growing Type we pay attention to an additional criterion: the history of national unemployment insurance systems. Thus Growing Type countries are characterised as states where unemployment insurance systems do not yet exist (as in the case of TUR and MEX), were recently created (KOR) or have undergone sharp changes due to the transformation process within former socialistic states (CZE,

HUN, POL). Those unemployment insurance systems are supposed to have still a frequently changing structure and the direction of development is not predictable (in contrary to Greece and Italy).

## Summary

The following table recapitulates the above classification and pools each country according to the various criteria and their weighting (see above) into one of the three categories: I. Medium Level type, II. High Level type, III. Growing type.

	LEV	DUR	COV	EPL	Cluster
Australia	I	I	I	I	Type I
New Zealand	I	I	I	I	Type I
UK	I	I	I	II	Type I
United States	I	I	I	I	Type I
Canada	I	I	I	I	Type I
Ireland	I	II	II	I	Type I/II
Japan	II	I	I	I	Type I/II
Austria		II	II	-	Type II
Belgium	II	II	II	I	Type II
Denmark	II	II	II	II	Type II
Finland	II	II	II	II	Type II
France	II	II	I	II	Type II
Germany	II	II	II	II	Type II
Iceland	-	II	-	-	Type II
Luxembourg	-	II	III	-	Type II
Netherlands	II	II	I	II	Type II
Norway	II	II	-	II	Type II
Portugal		II	III	-	Type II
Spain	II	II	III	I	Type II
Sweden	II	II	II	-	Type II
Switzerland	II	II	-	II	Type II
Greece	-	II	I	-	Type II/III
Italy	I	I	III	I	Type II/III
Czech Rep.	III	III	-	-	Type III
Hungary	III	III	-	-	Type III
Korea	III	III	-	-	Type III
Poland	III	II	-	-	Type III
Mexico	III	III	III	-	Type III
Turkey	III	III	III	-	Type III





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