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# Complexities in assessing unemployment benefits and policies

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*Employed workers cannot access unemployment insurance as a matter of choice. Benefit periods and benefit amounts vary between groups in the population. Unemployment benefit recipients have not only rights to benefits but also obligations to meet in order to maintain eligibility. The existence of functional equivalent benefit schemes contributes to benefit transition and substitution. All these aspects are of crucial importance both for the economic well-being of families with unemployed members and for policymaking. This article illustrates some of these complex institutional aspects through an analysis of benefits for unemployment in a number of northern European countries in 1996 and by reference to recent Danish experiences.*

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## Two schools

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Cash benefits designed to provide economic support for unemployed workers are a particular illustrative case of social security arrangements in which questions arise concerning the adequacy and equity of benefits versus the promotion of dependency and disincentives to work. These two issues have concerned neoclassical economists since the inception of the first social security schemes. More recently, comparative Welfare State researchers have investigated the social rights aspects of various social insurance schemes, leading them to distinguish between different types or regimes of Welfare States (seminal work by Esping-Andersen, 1990; Palme, 1990; Kangas, 1991). Both schools make sweeping statements on the desirability of generous social security benefits, but while neoclassical economists understand such benefits as the cause of unemployment and other *malaise*, the Welfare State regime researchers see generous benefits as part and parcel of the Good Society. More modestly, this paper argues that both strands of research fail to appreciate the complex mecha-

nism of actual cash benefits for unemployment, and that this has consequences for both theory and policymaking.

### *Welfare State regime theory*

Welfare State regime researchers distinguish between different types of Welfare States according to the extent to which workers have to sell their commodity — labour — or can rely on social security benefits, the so-called decommodification potential of cash benefits (Esping-Andersen, 1990). Unemployed workers are decommodified to the extent that benefit entitlement is easily achieved, and benefits are more than adequate and are payable for extensive periods. In this way, Welfare State regime researchers aim to study the strength, scope and quality of social rights. According to this view, the institutional characteristics of social rights can be used as a yardstick to classify Welfare States into three regimes, namely the Liberal, Corporatist and Social Democratic Welfare State regimes.

Need is the basis of provision in the Liberal regime and merit in the Corporatist. The Liberal and Corporatist regimes show a selective bias by restricting benefits to people who either are economically deprived or have *earned* the right to benefit through their own efforts, typically through work but also perhaps through marriage to a wage earner. *Targeting* is a key word for the Liberal regime, whereas *status maintenance* is crucial to the Corporatist. The third basis for provision, citizenship, covers the whole population and is therefore seen as a universal principle characterizing the Social Democratic regime.

As a rule of thumb, according to this approach, low levels of unemployment benefits payable for restricted periods would classify countries as Liberal Welfare States, whereas generous benefits payable for a longer time span allow countries to be classified as Social Democratic Welfare States. The Corporatist model is characterized by generous benefits for long periods to insiders in the labour market, whereas outsiders can only rely on minimal state support as a last resort in accordance with the principle of subsidiarity.

### *Neoclassical economic theory*

Neoclassical economic theory seems to pursue precisely the opposite logical path to Welfare State regime researchers. Low benefits payable for short periods are seen as the best way of enabling labour markets to clear and thus achieve the optimal economic situation (Friedman and Friedman, 1979). In this view, state intervention in the form of benefits distorts incen-

tives to work by providing a morally corrupting choice between benefits and work, which leads to a suboptimal economic outcome. The idea of involuntary unemployment is generally incompatible with neoclassical reasoning, which asserts that unemployed workers have an inflated sense of the value of labour. Unemployment benefits contribute to this problem by inducing those in work to leave in order to receive unemployment benefits, and those in receipt of unemployment benefits to prolong their unemployment. In this way, cash benefits hinder labour market mobility in professional and geographical terms (for a review of the issues and empirical evidence, see Atkinson and Mogensen, 1993; Pedersen and Westergård-Nielsen, 1993). Finally, the free wage-setting mechanism is distorted because trade unions press for higher wages when their members' fear of becoming jobless diminishes in tandem with increases in benefit generosity. Generally, economists feel that generous benefits lower economic efficiency and may exert a negative impact on economic growth.

In recent years, insights from cognitive theories focusing on issues of information and behaviour have been incorporated into the field of economic analysis of benefits for unemployed workers. Asymmetric information creates problems of so-called moral hazard: the insured can influence the probability and size of risk; and of adverse selection: insurance companies will seek to exclude high-risk individuals. In particular, moral hazard issues are of importance in relation to the supposed free choice between work and benefits, as the insured worker can affect the probability of unemployment occurring without the knowledge of the insurer. The person can quit working voluntarily or, when unemployed, not look seriously for work and turn down potential job and training offers. Although, as Barr (1992) observes, it is possible to justify and thus explain the existence of state-regulated and subsidized unemployment compensation schemes on the basis of moral hazard and adverse selection alone, this cannot explain the different types of schemes in operation in various countries.

It is not surprising that we have two conflicting approaches within the field of social security since, as noted by Esping-Andersen (1994), the scholarly debate has had difficulties in distancing itself from the ideological battle about the relationship between the Welfare State and the market. Neoclassical economists are representatives of the Liberals, who favour the market and see the Welfare State as the cause of and not the solution to social problems. There is a trade-off between equality and efficiency (Okun, 1975). In contrast, the other main group, here represented by the Welfare State regime researchers and the Catholics and Conservatives (van Kersbergen, 1995), sees the Welfare State as necessary for the good func-

tioning of the market, which, in turn, is seen as the generator of social problems if left untamed (Korpi, 1985).

### *Constraints and complexity*

We argue that both the neoclassical economists and the Welfare State regime approach fail to take adequate account of the actual operation of social security benefits. In the area of unemployment, for example, people are not free to choose whether to work or, alternatively, receive unemployment benefit. Important constraints on people's behaviour and choice exist within the institutional design of social security. Access to unemployment benefits is restricted and entitlement to benefits, as well as amounts payable, depends on a number of conditions related not only to unemployment *per se* but also, for example, to claimants' personal and economic circumstances.

These institutional aspects are complex in the sense that social security schemes interact with other social security schemes and the tax system. This results in different outcomes in terms of net income for different groups in the population according to factors such as age and economic, occupational and family status. Only through close examination of the whole benefit package is it possible to draw conclusions about disincentives to work and degrees of decommodification for a particular group. Moreover, complexities of social security schemes generally vary across countries. This calls for caution in making sweeping statements about the extent of decommodification or work disincentives without careful study of particular national benefit packages for unemployed workers and an understanding of the national system of unemployment compensation and related schemes. Heterogeneity characterizes the population both in and out of work, and this also calls for caution when making generalizations on the effects of systems of unemployment compensation.

This paper aims to illustrate these claims and to draw attention to the need for both research and policy in obtaining a better in-depth understanding of the mechanisms and working of cash benefits for the unemployed. Reference is made to unemployment benefits in eight European countries in 1996 and recent developments in the Danish system.

### **Cash benefits for the unemployed**

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One historical response of governments to unemployment has been the development of poor relief into what today is known as social assistance. Another response was the introduction and development of unemployment

insurance schemes. Interestingly, the original cross-national diversities in the design of unemployment insurance schemes have persisted to the present day in important aspects (Alber, 1981). However, the literature concerned with cash benefits and work incentives often assumes that there is only one type of benefit for unemployed workers — either unemployment insurance or social assistance — and it does not take into account the institutional diversity of either prototype of support for those out of work.

What is more, the main bulk of cross-national social security studies compares one type of scheme across countries, for example unemployment insurance. However, a series of schemes have been introduced and expanded over the past 30 years which can be said to deal with the same basic function as the unemployment compensation schemes, namely income compensation or income insurance for economically inactive people. Such functional equivalent cash benefit schemes include improved sickness and disability benefit schemes, the introduction of early-exit benefits, and special social security and tax benefits for low-income groups. Improvements have also been made in market-related welfare provision such as employment protection legislation, occupational benefits and benefits in kind such as social services, active labour market programmes, education and many other programmes. All these schemes have one important aspect in common: their potential impact on the economic and social situation of recipients and countries.

In practice, the existence of functional equivalent schemes advocates a more holistic view of social security, to replace scheme comparisons with whole system comparisons. A recent study of early-exit benefits from the labour market found, among other things, that cross-national differences became less pronounced when public and private schemes of early retirement, disability and unemployment compensation were included in comparisons of rates of unemployment or share of unemployment recipients (Group of 8, 1997). Similarly, in 1993, for each Netherlands unemployment insurance recipient between 20 and 60 years of age, there were  $2\frac{1}{2}$  Danish recipients, but this ratio fell to  $1:1\frac{1}{2}$  for non-employment beneficiaries (social assistance, unemployment benefits, sickness benefits and disability pensions) (unpublished material from the European Community Household Panel Survey). Another study of non-employment benefits shows that in around half of OECD countries, there are more people in receipt of disability benefits than are registered as unemployed (Blöndahl and Pearson, 1995) — a proportion which is even higher when early-exit benefits and sickness benefits are included. Finally, in the United Kingdom in recent years, expenditures on generous tax relief for severance payments

**Table 1. Unemployment insurance in eight northern European countries, 1996**

	Denmark	Sweden	Norway	Finland	Germany	Netherlands	France	UK
Membership	Voluntary	Voluntary	Compulsory	Compulsory and voluntary	Compulsory	Compulsory	Compulsory	Compulsory
Personal scope of coverage	Wage earners (and the self-employed)	Wage earners (and the self-employed)	Wage earners	Wage earners (and the self-employed)	Wage earners	Wage earners	Almost all wage earners	Wage earners
Allocation criteria	12 months' membership and 26 weeks' work out of the last 3 years	12 months' membership and 5 months' work within 1 year	Income of min. 125% of base amount	6 months' membership and 26 weeks' work out of last 2 years	Paid-up contributions for at least 12 months within 3 years	26 weeks' work out of 39 weeks and 4 years of some work within 5 years	4 months' work with contribution payments made within 8 months	A certain contribution paid and allocated within the 2 most recent years
Setting of benefit levels	90% of wage with low ceiling	75% of wage with relatively high ceiling	Appr. 62% of wage with relatively high ceiling	Flat-rate (compulsory) plus step-wise wage-related (voluntary), no ceiling	60% of wage with high ceiling	70% of wage with high ceiling	57.4% of wage with very high ceiling and minimum, time-wise decreasing dependent on age and work record	Flat-rate amount (lower for young aged 18-24 years)
Waiting days	0	5	3	5	0	0	8	3
Duration in weeks	260	60, but repeated spells	156	100, dependent on age	26-143, dependent on previous work and age	13-234, dependent on age and work record	13-260, dependent on age and work record	26

have exceeded the cost of the National Insurance unemployment benefit scheme (Sinfield, 1997).

Looking only at unemployment insurance and social assistance, we find that the former typically pays earnings-related benefits to insured unemployed workers, whereas social assistance is means-tested and payable to, among others, non-insured unemployed workers. Table 1 provides some of the key features of the national unemployment insurance schemes.

In addition to unemployment insurance and social assistance, there are also unemployment support schemes. Five out of the eight countries in this study have special unemployment schemes for groups of unemployed people, namely Sweden, Finland, Germany, the Netherlands and France. In these countries, unemployment insurance is for insured unemployed workers and unemployment support either for unemployed workers whose entitlement to unemployment insurance has expired or for those who have not gained entitlement in the first place. Other types of unemployment support arrangements are targeted on specific groups in the labour market who are regarded as particularly vulnerable or in need of support. These groups are typically young people, disabled workers or older employees, as is the case in the Netherlands, for example.

### *Eligibility — qualification*

In order to target unemployment compensation on the unemployed only, rules stipulate the personal scope of coverage and the allocation criteria to be fulfilled to become eligible for benefit. The complexity of this filtering mechanism is rarely addressed. For example, Welfare State regime researchers typically operationalize social rights as a single parameter indicating the proportion of unemployment insurance beneficiaries of the registered unemployed. Other researchers make a distinction between universal and selective benefits. Universal benefits, according to this view, are those benefits covering the whole population, whereas selective benefits cover only a part of the population and are payable on the basis of either merit or need. Closer examination of the personal scope of coverage and allocation criteria makes it difficult to observe this distinction, just as the parameter on social rights says little about the fine mechanisms at play.

Eligibility for both universal and selective benefits is often dependent on one or more of the following dimensions:

- definition of risk and population group covered;
- definition of recipient (individual/family, individuals/relatives, person at risk/carer, mother/father/child);
- personal circumstances (age, work capacity);

- labour market status (full-time/part-time, insured/non-insured, length of employment career, etc.);
- civil status; marital status (single, married or cohabitant); family status (breadwinner or not).

From these distinctions, important questions on eligibility can be derived. In the case of unemployment insurance, these include the following:

- Is membership voluntary or compulsory?
- What are the conditions for becoming insured?
- How long do the insured have to have worked (work qualification) or paid contributions (membership qualification) before qualifying?

Table 1 sets out some of the crucial aspects, and it can be seen that membership is compulsory in the majority of countries — one way of avoiding adverse selection. In Denmark, Sweden and Finland, however, membership is voluntary. Voluntary membership makes the schemes of social assistance and unemployment insurance more like alternatives, in particular for low-income groups which may be better off economically on a combination of social assistance and housing allowances than on unemployment insurance (Group of 7, 1995).

Table 1 shows great cross-national differences in how long claimants must have been attached to the labour market before becoming unemployed, and also in whether previous employment must have taken place within a particular period. In this respect, Denmark had the most generous rules in 1996, with 26 weeks of work within three years, as compared with perhaps the least generous country, the Netherlands, with 26 weeks of work within 39 weeks. The German system is, like the Danish, quite lenient in allowing access to some unemployment insurance benefit, whereas the UK and Swedish systems are relatively restrictive. However, in 1996, for the first time in the history of Danish unemployment insurance, a distinction was introduced between younger and other insured unemployed workers. This means that there is now greater emphasis on previous labour market attachment and that people under 18 years of age are excluded from the scheme, bringing the system more in line with other countries, at least for younger workers. This change in legislation was backed by an overwhelming majority of the political parties from the Left to the Right, all stating that the purpose was to avoid young people becoming accustomed to living on unemployment benefit. And in 1997, the general work requirement was changed from 26 to 52 weeks of work within three years.

Both the personal scope of coverage and the allocation criteria work to make the cash benefit selective, to target the benefit on the desired population group and, thereby, to achieve an efficient use of resources. However, it also discriminates against certain groups of the unemployed. For exam-

ple, the tougher the work requirements, the more discrimination there is against young people with labour market entry difficulties, women with care responsibilities, some ethnic minorities with poor job chances, the less skilled disproportionately hit by long-term unemployment, and people in atypical and precarious jobs (see, for example, Grimshaw and Rubery, 1997; Jepsen and Meulders, 1997). Work requirements help to exacerbate the divide between labour market insiders and outsiders on benefits (or supported by family or other agencies) and to reinforce gender inequalities more generally. States with strong social insurance traditions like Germany, France and the Netherlands have tried to adapt to changing employment structures and popular pressure by counting periods of child-care as qualifying employment for eligibility for unemployment compensation (Clasen, 1997; Palier, 1997).

The diversity in benefit coverage of different population groups is not sufficiently recognized in previous research.

### *Eligibility — disqualification*

There are certain factors which may render the claimant ineligible for unemployment insurance or social assistance benefits, because these factors may be influenced to some extent by the claimant — what economists describe as the problem of moral hazard. Some reasons for unemployment, for instance, result in cash benefits being withheld temporarily or permanently. This is typical in cases where unemployment stems from dismissal because of improper conduct at work and where the claimant has resigned from a job without good reason. Thus, those in employment are not seen as having freedom of choice between remaining in work and becoming unemployed to live on unemployment insurance benefits. For the neoclassical economist, disqualification from benefits in these situations has positive implications, as moral hazard is being policed. In contrast, the Welfare State regime researchers understand disqualification from benefits as eroding social rights at the micro-level and a retrenchment of the Welfare State at the macro-level.

Another way of policing moral hazard or withdrawing social rights is by introducing waiting days which are intended further to deter workers contemplating *voluntary* unemployment. In 1996, there were no waiting days in Denmark, Germany and the Netherlands, but three days in Norway and the United Kingdom, five days in Finland and Sweden, and eight days in France. Waiting days influence both eligibility for cash benefits, by leaving recipients without coverage, and entitlement, owing to the temporary loss of benefit.

While claiming unemployment insurance, recipients have certain obligations which are not incorporated in most economic models of unemployment benefits (Larraín and Velasquez, 1994). These obligations are particularly concerned with availability for work and constitute what are essentially institutional constraints, in the sense that those in receipt of unemployment benefits are not free to do whatever they want. In the real world, national social security schemes do not leave unemployed workers free to make their own choice between working and maintaining entitlement to benefit. Benefit rights are given, but obligations must also be met. This principle of reciprocity dates back to the earliest forms of social security and has played a part in the promotion of social insurance by providing reassurance that the schemes were not open to misuse. In the eight countries, the main method of enforcing availability for work and work requirements includes registration and interviews with an employment service agency, documentation of job search, and participation in job and training programmes.

Moreover, none of the countries pays cash benefits to unemployed workers who are repeatedly reluctant to accept an appropriate job offer without good reason. There are notable differences among the countries in relation to the question whether a job offer has to be within the professional as well as the geographical area of the claimant in order to be deemed appropriate. In most countries, unemployed workers in any line of work are not immediately required to accept a job in a different field. After some time, however, some countries expect unemployed workers to accept jobs outside their previous occupational fields. This is the case in Sweden, the Netherlands and the United Kingdom. The United Kingdom provides the most significant example of this requirement for professional mobility, since no distinction is made between claimants on professional grounds.

Some countries, on the other hand, place much emphasis on geographical mobility, particularly Norway and Sweden. Major problems for geographical mobility occur in countries where there is a more or less equal distribution of unemployment in the country as a whole. Minor differences in regional structures and unemployment rates in such countries minimize incentives for unemployed workers to move from one region to another and also result in relaxation of social security demands for geographical mobility. Finally, some countries, such as Sweden, stress both criteria. In concrete terms, this means that there are differences among the countries in the extent to which unemployed workers are required to accept work even if it is far from home; and whether they must accept work even if it does not correspond to their formal qualifications.

It is difficult to assess and compare general demands placed on workers for seeking and getting jobs, as they vary along a number of dimensions not caught by an analysis of the official rules. One such dimension concerns the daily administration of schemes in which officials normally have some discretion in applying sanctions to those not accepting job offers (for a rare cross-national study on the delivery of cash benefits, see Bolderson and Mabbet, 1997; and, for Denmark, Mabbet, 1996). In Denmark, it has been claimed that some unemployment insurance funds, affiliated to the trade unions, suffer from a paradoxical problem in the sense that they have both a lot of unemployed members and a lot of job vacancies. Since there are no financial sanctions on unemployment insurance funds which do not implement the rules according to the letter of the law, they may have catered to the interests of those members (who are also the members of the trade union) not willing to accept job offers. Trade unions, nevertheless, are not alone in having vested interests in the implementation of unemployment insurance and other schemes for unemployment. For example, street-level bureaucrats like employment agency staff may exercise their discretion to cream off clients to get *successful* cases or allocate clients to other schemes to reduce workloads, or in other ways not implement the rules according to the letter of the law.

Another dimension concerns the political pressure which may be exercised, not so much to change the formulation of rules as to monitor how they are interpreted and implemented by the relevant administrative authorities. In Denmark, for example, the practice of unemployment insurance administrations described above prompted the Social-Democratic-led coalition government to ask in unambiguous terms that the trade unions and unemployment insurance funds change their procedures and practice or, alternatively, risk a political decision to sever the link between the administration of unemployment insurance and the trade unions. As unemployment insurance functions as an important channel of legitimation and recruitment of new members, the relevant trade unions seem to have changed their practice. Political pressure for strict interpretation and implementation of rules may also be weak as governments try to keep down the politically sensitive number of unemployed, although in the Netherlands the number of disabled and registered sick workers may be more sensitive.

Administration and political supervision constitute what is in effect the institutionalization of benefit schemes. As in most other organizations, the institutional set-up of benefits is in constant flux as a result of conflicting interests and, more generally, changing contexts. The latter is the third dimension along which the actual operation of benefit schemes varies over

time and between regions and professions; namely the economic cycle. For example, the administration of availability-for-work criteria is likely to be more lax in times of high unemployment but less so when unemployment is low. Similarly, political pressure for strict interpretation and implementation of these criteria is likely to fluctuate with upsurges and downturns in the economy. Work tests generally become more problematic when there is a shortage of job vacancies. In Denmark, during the economic downturn of the 1980s and early 1990s, it was relatively easy to qualify for unemployment insurance and similarly difficult to lose a benefit. This led some observers to say that unemployment insurance is virtually a *citizen's wage* (e.g. Goul Andersen, 1996). During the present positive economic climate, however, there is an increased emphasis on job and training offers for unemployed workers and unemployment insurance can no longer be seen as simply the wage when not working. As part of the 1996 change in unemployment insurance rules for young people under 25, an educational offer of at least 18 months beginning after at most six months of the unemployment spell became compulsory for recipients if they were not to lose eligibility.

The fourth dimension according to which the enforcement of availability and work requirements varies is the profile of recipients. Everybody is not treated equally under the law. The unemployed population is very heterogeneous. Some groups lacking skills and human capital need special programmes such as subsidized or sheltered jobs, as labour ability and demand may be low. This leads on to the final dimension, namely the range and quality of other types of public and private arrangements to help recipients into work. Childcare, education and training programmes are among the instruments to facilitate entry or re-entry into the labour market. Often countries, such as the Scandinavian ones, make use of active labour market programmes to test and increase work availability and work capacity.

Governments in Europe are trying in different ways to make social security more *employment-friendly* (Bosco, 1997). Their chief remedies include the tightening of eligibility criteria and making benefits increasingly conditional on behavioural requirements. This may have important consequences for our understanding of the social protection of the unemployed. First, the more social insurance becomes conditional, the more blurred is the demarcation line between social insurance and social assistance (Kvist, 1997). Second, when the tightening of qualification and disqualification does not lead to more people in employment but results in fewer people receiving unemployment compensation, this blurs the distinction between the economically inactive part of the population and those unemployed

**Table 2.** *Illustration of benefit-income relationship and categorization of national schemes for the unemployed*

		Positive relationship to previous income	
		Yes	No
Negative relationship to current income	Yes	Earnings-related, and income-tested	Flat-rate, and income-tested
		<i>Unemployment support in Germany</i>	<i>Social assistance in all countries, and unemployment support in Sweden and Finland</i>
	No	Earnings-related <i>Unemployment insurance in all countries (except UK)</i>	Flat-rate <i>Unemployment insurance in the UK, and unemployment support in the Netherlands and France</i>

Note: National schemes are indicated in italics.

without access to unemployment benefits (Atkinson and Micklewright, 1991). Third, in so far as, for example, the conditionality of benefits does lead to employment, then social security may have contributed to preventing marginalization from the labour market (Berghman, 1997). Close examination of actual rules and offers as well as their implementation and effects over time is necessary before reaching otherwise premature conclusions on the desirability or otherwise of the *policing of moral hazard* or the *withdrawal of social rights*.

#### *Entitlement — amount of benefit*

After having discussed the conditions governing eligibility to benefits in the case of unemployment insurance, we now turn to the amounts those eligible for benefit can receive, and for how long; in other words, the factors that determine the amount and duration of benefit.

The amount received is often determined by claimants' personal circumstances and civil status, but is also subject to another criterion — income. For the sake of simplicity, we have excluded the issue of wealth for further investigation (but see Eardley et al., 1996). Benefit amounts may be related both to income from previous employment and, especially in unemployment support and social assistance benefits, to current income

from sources other than their own employment, including, perhaps, a partner's earnings. This gives us four principal types of benefits, as illustrated in Table 2. In addition, Table 2 categorizes the main existing schemes which provide benefits to unemployed people in the eight countries in this analysis.

Table 2 shows that no country has income-tested unemployment insurance schemes and that all countries have income-tested social assistance schemes. Another similarity is that all countries operate earnings-related unemployment insurance schemes except the United Kingdom, which has a flat-rate scheme. What may come as a surprise to many is the German system of unemployment support, which is based on previous earnings but depends on the current income of the claimant and the claimant's spouse. In particular, this income test will reduce the benefit of an unemployed worker living with a wage earner.

The benefit formulae for unemployment insurance given in Table 1 show that, in the setting of benefit levels, Denmark and Sweden appear to be the most generous, since benefits seem to amount to a large proportion of previous earnings. An upper ceiling to the benefits, however, means that middle- and high-income groups do not have as high an income replacement rate as would be indicated by the earnings replacement ratio (see Group of 7, 1995). The UK system of unemployment insurance, however, differs markedly from those of the other countries because of its modest flat-rate benefit.

In Norway, Finland and Germany, unemployed workers with dependants are entitled to higher amounts of benefit. Unemployed claimants with dependent children receive flat-rate amounts in Norway and Finland. In Germany, cash benefits provide a greater proportion of previous earnings for claimants with dependants than for those without. Top-ups from social assistance or housing allowance are possible in the United Kingdom, and to a varying extent in some of the other countries. Finally, the tax system may contribute economic support to the unemployed, for example by leaving cash benefits tax-exempt as in Germany. In no country does it make sense to speak of the relative economic position of workers before and after the occurrence of unemployment without detailed study of the tax system.

In previous research, this complexity of cash benefits and their relation to other schemes has rarely been appreciated. Often use is made of replacement rates, a summary measure of the generosity of benefits which indicates the ratio of benefit to the former wage. For the neoclassical economist, replacement rates measure the degree of work incentives. The higher the benefit, and thus the replacement rate, the less the incentive to work. In

contrast, for the comparative Welfare State regime researcher, replacement rates measure the quality of social rights. The higher the benefit, the better the social right.

In practice, replacement rates can be more or less refined. So far, owing to lack of cross-national data on replacement rates for the real population, use has been made of hypothetical, stylized cases. In the earliest studies, benefit levels were simply expressed as the benefit ratio of annual average wages before taxes and social security contributions. This is a very misleading measure, as benefit replacement rates vary according to former wage, current income, civil status, composition of family, length of benefit spell, interaction with tax/benefit system and so forth (see Group of 7, 1995; and, Martin, 1996). Moreover, even the most refined calculated replacement rates suffer from the problem of representativeness. Only by combining institutional knowledge with panel or register data is it possible to get a proxy of benefit generosity and its effect for the real population. However, it is necessary to appreciate the complexity of the benefit systems and the heterogeneity of the population before starting to make any generalizations or policies, as groups of beneficiaries within a given country may be very differently off and thus face dissimilar problems and opportunities. This need is even more acute in cross-national comparisons. It is therefore unfortunate that the Organisation for Economic Co-operation and Development takes an index measure of replacement rates for different income groups, family compositions and benefit periods, and uses this index measure to claim that increased benefit generosity since the 1960s can explain a significant part of the rise in unemployment rates (see, for example, OECD, 1994; Scarpetta, 1996). Thereby, otherwise crucial information on the diversity of benefit generosity for different groups is lost and correlation is mistaken for causation.

Another, perhaps better measure of the incentive for the already unemployed to take up work is the benefit reduction rate; that is, the rate at which benefits are reduced as income from work increases. In particular, high benefit reduction rates provide work disincentives for low-income groups, part-time workers, contractual workers and other people in atypical jobs (see, for example, Doudeyns, 1996). These unemployment traps, of course, run counter to government attempts to decrease the level of structural unemployment and to encourage atypical and flexible jobs (see, for example, Esping-Andersen, 1994; Grimshaw and Rubery, 1997). Moreover, as women in most countries are overrepresented in atypical and part-time jobs, high benefit reduction rates may also increase financial dependency on male earners, which, again, runs counter to the trend towards dual-earner couples.

*Entitlement — duration of benefit*

There are great differences among the countries in the length of time unemployed workers remain entitled to receive unemployment insurance (see Table 1). Briefly, each country applies one of two possible principles:

- a fixed maximum period; or
- a variable maximum period.

The variable periods may be dependent on previous work performance (labour market status), the age of claimants (personal status) and whether they have dependent children or a spouse (civil status). The benefit formulae are related to factors other than the occurrence of a risk, including previous earnings or current income. These conditions determine both how much a person can receive and for how long.

The German unemployment insurance system stresses that previous earnings and employment are the guiding principles, in that the maximum duration of unemployment insurance benefit increases with the length of previous attachment to the labour market. This is also the case with the Netherlands and French unemployment insurance schemes. The Netherlands system also allows unemployed claimants with dependants to receive cash benefits for a longer period. In France and Germany, the duration of benefit is also linked to the claimant's age: older unemployed workers are entitled to receive benefits for a longer period than younger claimants. Thus, older unemployed workers in Germany can often receive unemployment benefits up to pensionable age.

This is also evident in several other countries, although they make other arrangements for older unemployed workers through specific schemes, for example in Denmark and in the Netherlands. In this respect, the UK unemployment insurance system is again unique because it operates with a fixed period of six months. By contrast, in some of the Scandinavian countries, unemployed workers are entitled to receive unemployment insurance for longer periods and after or during this period are typically entitled to receive or obliged to accept a job or training offer which, in turn, provides further entitlement to unemployment insurance benefits. This recycling of benefits for perhaps the most vulnerable unemployed people has led to discussion about the reality of a maximum benefit period, since repeated renewals of benefit result in *de facto* unlimited duration. There has also been discussion whether the process of transition back and forth between various benefit programmes was harmful rather than beneficial to recipients as well as the economy. As a result, in Denmark since 1994, acceptance of job or training offers does not provide further entitlement to unemployment insurance. Similar initiatives were discussed and almost

implemented in Sweden (Ackum Agell et al., 1995; Palme and Wennemo, 1997).

The general diversity in the duration of benefit periods for different groups in the population undermines the validity of standard unemployment benefit periods in describing national unemployment schemes. Standard periods are further invalidated by the conditionality of benefits potentially making the periods much shorter. In contrast, transition between benefit schemes may *de facto* prolong unemployment benefit periods beyond the so-called maximum period. Finally, after having exhausted benefit periods, beneficiaries in most countries are referred to other benefit schemes, although sometimes the income and wealth of themselves or their partners may disqualify them. Benefit transition makes any measure of a scheme's benefit period questionable and directs our attention to the dynamics of benefit receipt. Two such aspects are taken up in the following sections.

### *Benefit transition*

Unemployed workers whose entitlement to unemployment insurance has expired are referred to other forms of unemployment support or social assistance, an aspect rarely addressed in previous research (but see Hansen, forthcoming). Unemployed workers in Germany are transferred to unemployment support after their period of cash benefits through insurance rights has expired. In Denmark, Norway and the United Kingdom, the claimants are transferred to social assistance after their period of unemployment insurance benefits has expired. In France, unemployed workers who are not entitled to insurance benefits are entitled to receive unemployment support for a year, during which time the allowance is at a fixed amount (higher for those over the age of 55), after which the claimant is transferred to social assistance.

The transition from unemployment insurance to social assistance or unemployment support is important in the setting of benefit levels for unemployed workers. Whereas none of the countries makes use of income testing in the setting of benefit levels in unemployment insurance, it is usual in unemployment support and social assistance (see Table 2). The investigation of personal circumstances — such as means and income — may be associated with a certain stigmatization of the applicant. Income testing is used in the German unemployment support system and its Finnish equivalent. In France, on the other hand, non-income-tested flat-rate amounts are applied. When the income of a partner is taken into consideration, the recipient becomes more dependent financially on the partner.

This may reduce labour supply if one partner's earnings reduce the other's benefits.

In all countries, social assistance schemes work as a social safety net for the whole population, including those unemployed with few or no rights to unemployment insurance and unemployment support. Social assistance schemes differ less in their institutional design across countries. They are means-tested and financed by taxes. Thus, whereas countries may appear different in their unemployment insurance schemes, this is less the case for their social assistance schemes (but see Eardley et al., 1996). Importantly, in all eight countries, the State takes over the financial responsibility after a certain period and thereby ultimately bears the marginal cost of increased unemployment.

Generally, the level of social assistance is lower than that of unemployment insurance, although this varies according to income group, civil status and length of a benefit spell (see Group of 7, 1995). Typically, but not always, higher-income groups, dual-earner couples and short-term recipients are better-off economically on unemployment insurance than on social assistance.

### *Benefit substitution*

However, the transition from unemployment insurance to unemployment support and social assistance is just one of many possible transfers between social security schemes. Although different schemes in principle have different objectives, ensured by different eligibility, entitlement and requirement criteria imposed on recipients, in practice this is not always the case. Many schemes are *de facto* functional equivalents with regard to providing income support for people without employment. Because not all the unemployed make a transition from unemployment compensation into work, a lot of people move from one branch of social security to another, for instance from unemployment to sickness and, perhaps, to disability. The flow of beneficiaries between branches of social security is largely underresearched in comparative studies, but it seems likely that the way national benefit systems are designed has an impact on the filtering and flows of beneficiaries.

These flows are also likely to be influenced by changes in the economy and other factors. For example, in Denmark during the recent economic upsurge, an estimated one in three unemployment beneficiaries getting job offers became sick, not because of some epidemic but because they were unable to work and had hitherto not been confronted with any work test. An opposite situation can also be imagined where people capable of work

are in receipt of sickness or disability benefits — what has become known as *the Dutch disease* (see Aarts and de Jong, 1996).

As discussed earlier, governments and administrators have an interest in placing people in non-employment benefit schemes other than unemployment compensation. The employers may have an interest in laying off workers without resorting to unemployment (see the Netherlands example above) and particularly older workers, as they are likely to be eligible for other non-employment benefits. The unemployed themselves may also have preferences with regard to level of benefit, work conditions and other behavioural requirements, and the degree of social stigma. Thus, to the extent that the unemployed do have a choice, this may not be between work and benefits but rather between various benefit schemes. The institutional design of social security systems frames the individual's constraints as well as opportunities in getting benefits.

### Concluding remarks

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As we have seen, the institutional complexity of cash benefits for unemployment allows no free choice between work and benefit receipt. People cannot choose to take up social security benefits as they please. For example, where unemployment insurance is concerned, it becomes clear that eligibility to benefit depends on the reasons for unemployment; previous contribution/membership or employment/earnings record; and availability for work with largely unknown requirements about geographical and professional mobility. Moreover, benefits are paid for a limited duration in some countries, depending on labour market status, personal circumstances and civil status. All of this contradicts traditional assumptions about unemployment insurance as an alternative to employment.

All of these aspects, moreover, vary greatly not only across countries but also across different groups in the population along the dimensions listed above. Unemployment benefits will discriminate more, when duration of, access to and conditions for benefits become stricter. In this way, older, highly paid, permanently employed white males may be favoured at the expense of young, low-paid, part-time or temporarily employed ethnic-minority women.

In so far as we may be able to speak of a choice at all, it may be more realistically seen as a multiple choice in the sense that the design of social security systems not only frames the extent of choice to a given scheme but also offers alternative *possibilities* of schemes. Not only do all eight countries operate more than one scheme for unemployment, but the other schemes, despite having different rationales, serve essentially the same

function of providing economic support for persons not employed (and, in some cases, their relatives). This results in benefit transition and benefit substitution. Thus, the institutional design of social security systems constitutes both constraints and opportunities for individuals, though leaving little room for their choice.

Hence, making generalizations about unemployment insurance systems, both within and between countries, is difficult. But, as Atkinson and Micklewright (1991) conclude in a critical review on unemployment compensation, "this does not justify treating benefits as *the wage when not working* nor does it justify reducing comparisons of actual benefit systems to single parameters like the benefit rate (replacement rate) or the duration of benefit". Nor does it justify reducing comparisons of actual benefit systems to single parameters like the beneficiary coverage rate.

This has important implications for both research and policymaking. Researchers can invest more in institutional knowledge in order that their analysis is informed by the complexity of social security systems and their effects on work incentives, welfare and other issues. As we have seen, researchers tend to assume similarity of benefit schemes, when in reality there are differences due to largely unobserved variations in work requirement and other conditions and their implementation. Greater institutional knowledge may lead researchers to appreciate better that different groups in the population have different coverage and entitlement, and this is even more important to bear in mind in cross-national analysis. Hence, it may be fruitless to make generalizations about the effects of a scheme within a country, not to mention between countries, without taking into account how the scheme interrelates differently with different groups in the population.

These systems are not only constituted by formal rules but also shaped by the norms and habits of the staff implementing the systems, as well as the political pressure and economic context in which they are situated. Nevertheless, neoclassical economists treat unemployment compensation systems as fixed. Individual economic behaviour takes place in an institutional void. In reality, however, individual behaviour is very much a matter of individual-institutional interaction. To better understand individual behaviour, one may have to better understand the social institution of social security. In our case, this is the institutional design and working of unemployment compensation.

Similarly, it may also prove fruitful to give consideration to more aspects of social protection. Both Welfare State regime researchers and neoclassical economists focus primarily on cash benefits. Social services, education and active labour market policies may have positive effects on hu-

man capital and the employment performance of countries. It is important to acknowledge that different designs of social security schemes and systems may interrelate differently with the economy. And this may be an important area for future social security research.

Neither neoclassical economists nor Welfare State regime researchers have fully grasped the conditionality and implementation of benefits. Their quantitative measures do not portray the constraints and choices affecting recipients. At present, classifications of Welfare States or social security systems according to the instruments of social security (that is, the institutional design) are often too simplistic. It is largely overlooked that different instruments may be applied to achieve the same objectives and vice versa. For example, a residual strategy in the traditional sense of using selective, targeted or activation measures may not in itself result in a residual Welfare State — these instruments may also serve objectives associated with an institutional Welfare State, such as redistribution and full employment. It is the outcomes of the institutional design of social security that matter, not the design *per se*.

In sum, research is needed into the institutional design of benefit systems — not schemes — in order better to appreciate the existence of functional equivalent schemes and the interaction between schemes. This may help further understanding how different benefit schemes and systems interact differently with different groups in the population and, similarly, how different benefit schemes and systems interact differently with the economy. Perhaps some social security systems are old systems in a new world. This is because most social security systems have basically the same main features as when they were originally put in place, whereas the worlds of work and families have changed dramatically in the meantime.

There is little doubt that governments can decrease the use of unemployment insurance or social assistance through tougher eligibility criteria, work and other requirements, stricter time limits and, perhaps, also reducing benefits. There is more doubt whether this will make the unemployed and their families better off economically and socially. Cutting may cost more. Owing to benefit substitution it is doubtful whether governments save by cutting in one scheme, and whether recipients end up in employment or just turn up in some other and, perhaps, more inefficient scheme. In other words, when changes are made to unemployment compensation, there is a risk that recipients will reappear in schemes that were originally designed for bad health (sickness and disability), age (early-exit schemes) or need (social assistance). An important set of questions for policymakers and researchers to address is the effects of being in one type of scheme as compared with another, for individual and broader welfare.

Previous research has not fully understood the mechanisms of social security. However, this has not prevented researchers from making sweeping statements on the ranking and categorization of countries. The time is ripe for moving on to studies of the difference that the design of social security and its organization and financing make to different groups in the population and to the economy. A quarter of a century ago, the American economist Henry J. Aaron proclaimed that there was no easy, cheap and quick way of getting rid of unemployment. Unfortunately, he has proven to be right. Policymakers and researchers should bear this in mind when studying and making policies in the field of social security.

### Acknowledgements

Comparative analysis of social security is an exercise in collaboration across borders, professions and disciplines. Hence, I am indebted to national experts and colleagues, including Sue Morris, Hans Hansen, Bruno Palier, Niels Ploug, Aksel Hatland, Jørn Henrik Petersen, the Sinfields and an anonymous referee.

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