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European Employment Observatory Review

**Adapting unemployment benefit systems to the economic cycle, 2011**

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## **1. Introduction**

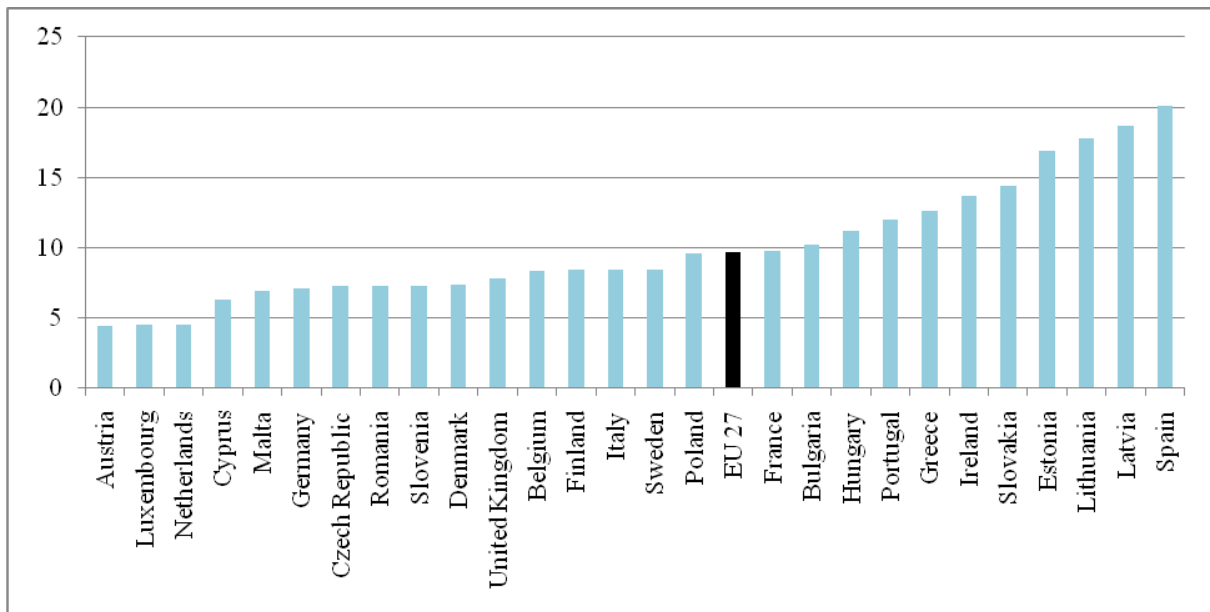
In July 2011, 33 national articles on the theme of ‘adapting unemployment benefit systems to the economic cycle’ were commissioned from the European Employment Observatory (EEO) network of SYSDem experts. This document summarises key messages emerging from these articles and draws links with policy developments, studies and data collected at European and international level. Further detail on the national-level developments discussed in this report can be found in the national articles, which are available on the EEO website (<http://www.eu-employment-observatory.net/>).

This executive summary is split into four sections, in line with the structure of the national articles. The remainder of this introductory section provides a discussion of unemployment and expenditure on labour market policies in Europe using data collected at European level. Section 2 discusses the different unemployment benefit (UB) systems and labour market incentives in place across the 33 countries covered by the Review, including for example how the issue of benefit traps and benefit dependence are addressed. Section 3 reviews the different reforms to UB systems implemented across Europe during the economic crisis and looks at the reasons for implementing these reforms as well as any initial indications of whether they have been successful. In Section 4, the national responses to the reform priorities identified in the Europe 2020 Framework are discussed. Finally, a concluding section sums up the key messages emerging from the national articles.

### **1.1 European context**

The global financial and economic crisis which started in the autumn of 2008 had a dramatic impact across European labour markets, although in some countries the labour markets initially showed good resilience. Between 2008 and 2010, the average unemployment rate in the EU-27 rose from 7.2 % to 9.7 %, an increase of 1.6 percentage points. However, the performance of the Member States varied widely: by 2010, unemployment rates in the EU varied between 4.4 % in Austria to 20.1 % in Spain, as illustrated by Figure 1 below.

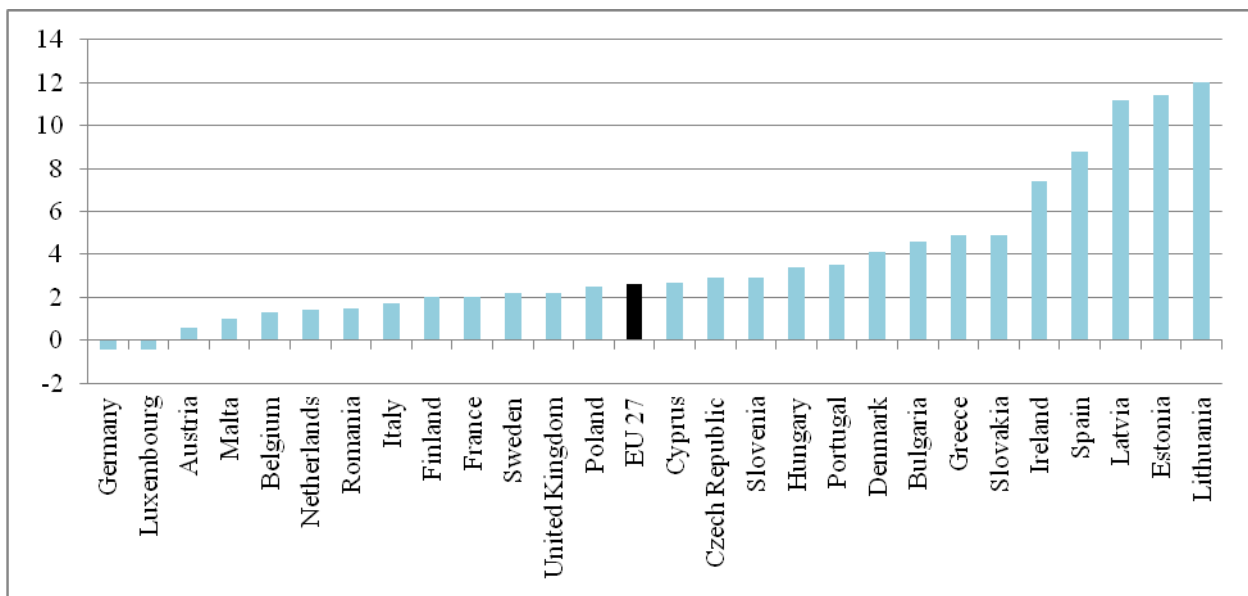
**Figure 1 - Unemployment rates in 2010 (annual average, %)**



Source: Eurostat, LFS

The labour markets of Ireland, Spain, Latvia, Estonia and Lithuania were the most affected by the crisis, with increases of unemployment rates between 7.4 and 12 percentage points between 2008 and 2010, as shown in Figure 2, below.

**Figure 2 – Difference in unemployment rate between 2008 and 2010 (percentage points)**



Source: Eurostat, LFS

As a response to the high levels of unemployment brought about by the recession, European countries have swiftly increased expenditure on labour market policies (LMPs). These include on the one hand Active Labour Market Policies (ALMPs) to help jobseekers return to

employment and passive labour market measures which aim to guarantee a security of income for those outside the labour market. Among passive labour market measures, out-of-work income maintenance and support<sup>1</sup> is defined as financial assistance that aims to compensate individuals for loss of wage or salary and support them during their job search. It is mostly composed of unemployment benefits but can also include other measures such as short-time working allowances, special or one-off allowances.

Overall, expenditure on out-of-work maintenance and support in the EU-27 went up from 0.87 % to 1.32 % of GDP between 2007 and 2009. However this increase did not entail any reduction in budget for other employment policies such as ALMPs: indeed, total labour market expenditure in the EU-27 also increased from 1.60 % of GDP in 2007 to 2.17 % of GDP in 2009.

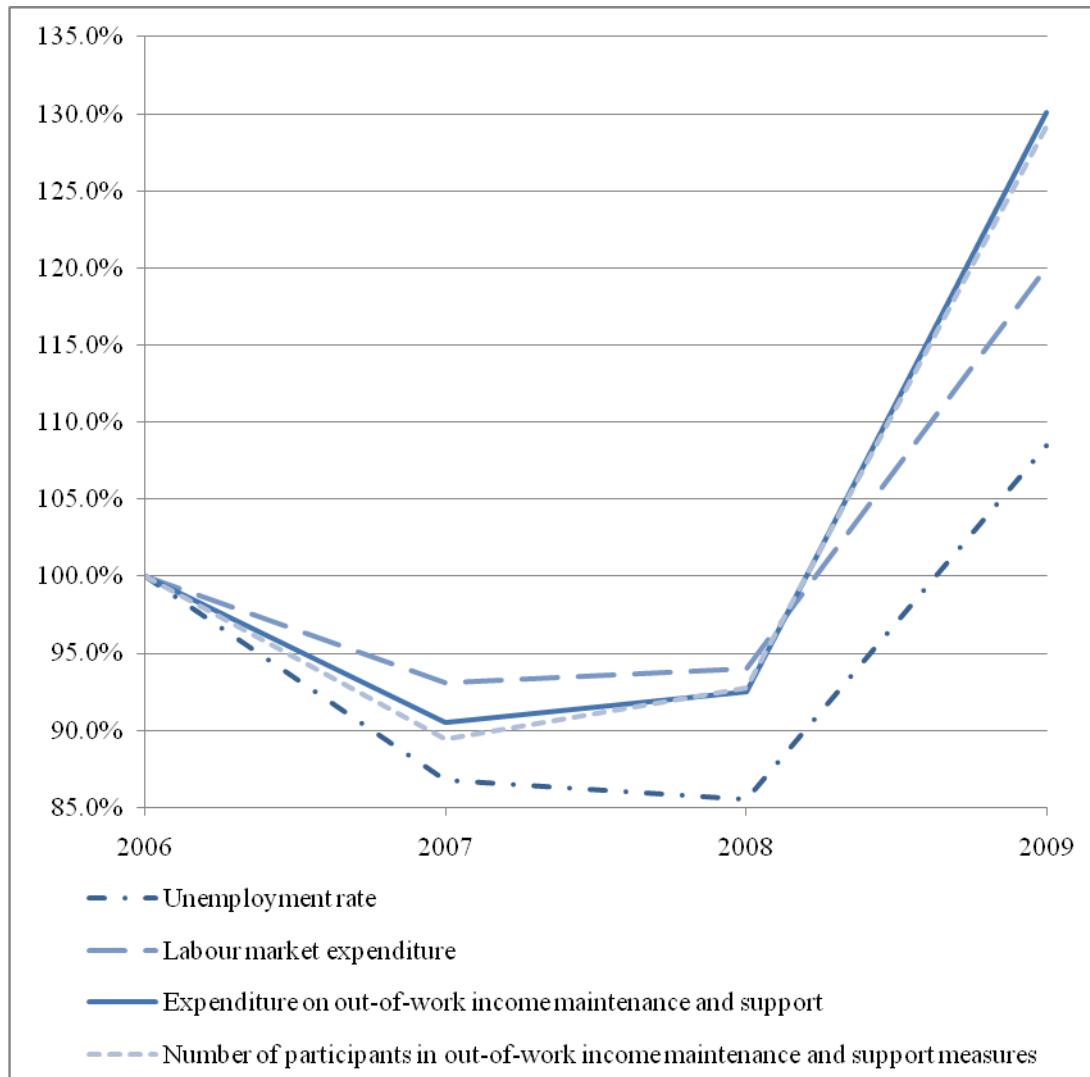
When compared to the evolution of the unemployment rate in the EU-27, the increase in labour market expenditure - and in particular expenditure linked to out-of-work maintenance and support - was steeper, as illustrated by Figure 3 below. This suggests that a majority of Member States have mobilised out-of-work income maintenance and support measures to cushion the social impact of the recession.

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<sup>1</sup> Here we refer to Eurostat category 8 of labour market expenditure 'out-of-work income maintenance and support' in order to provide comparable data for all EU Member States.



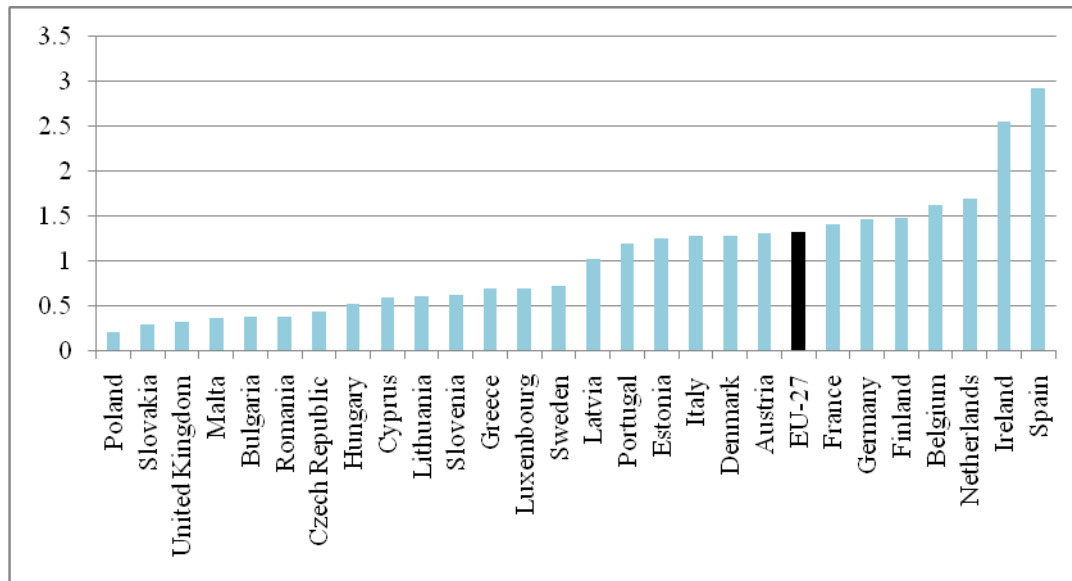
**Figure 3 – Evolution of unemployment and labour market policies between 2006 and 2009 in the EU-27 (in %, compared to 2006 level)**



*Source: Eurostat (latest data available at time of writing, August 2011)*

However, there is wide variation between EU countries in terms of expenditure on out-of-work maintenance and support as a share of GDP, average cost of measures per participant and trends. For instance, expenditure on out-of-work maintenance and support as a share of GDP ranged from 0.21 % in Poland to 2.92 % in Spain in 2009, the EU-27 average being 1.32 %. Both Spain and Ireland spent more than 2 % of their GDP on this type of measure in 2009, as shown by Figure 4 below.

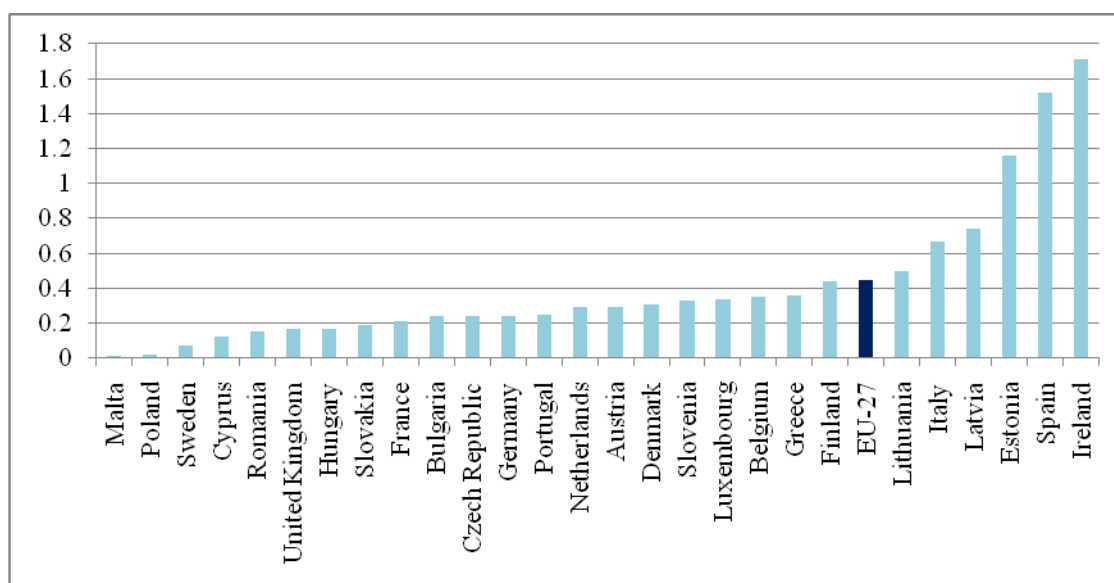
**Figure 4 - Expenditure on out-of-work maintenance and support as a percentage of GDP in 2009**



Source: Eurostat

All EU countries recorded an increase in expenditure on out-of-work maintenance and support as a percentage of GDP throughout 2007-2009, with an average 0.45 percentage point increase. In Lithuania, Italy, Latvia, Estonia, Spain and Ireland higher increases were recorded than the EU-27 average, particularly marked in the case of the latter three countries, as shown in Figure 5 below.

**Figure 5 – Difference between expenditure on out-of-work maintenance and support as a percentage of GDP in 2007 and 2009 (in percentage points)**

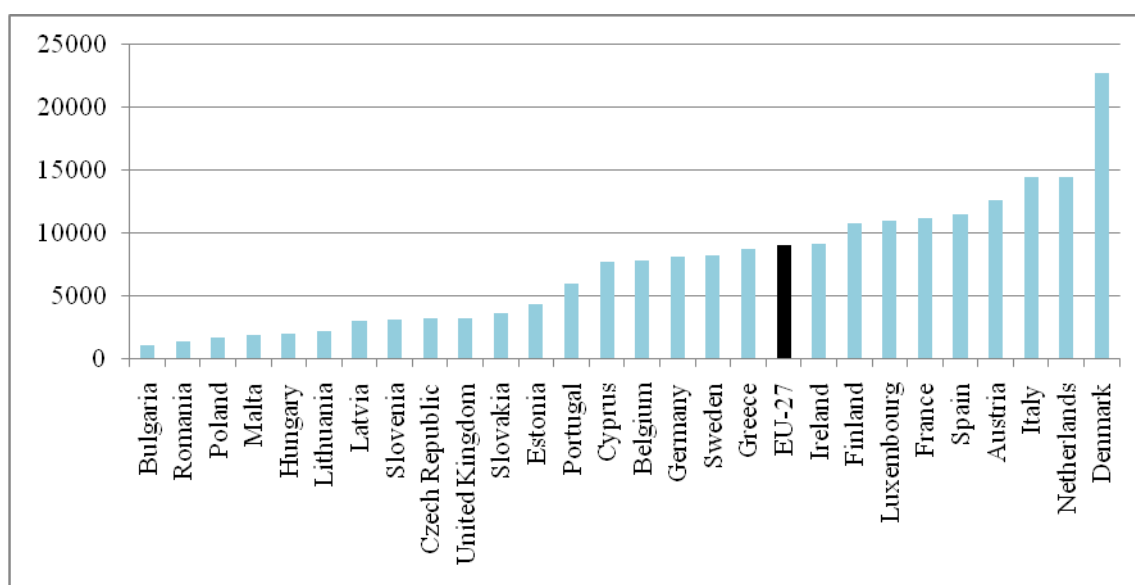


Source: Eurostat

Differences between the levels of expenditure across countries are linked with variations in the average cost of out-of-work income maintenance and support measures. For instance, unemployment benefits are calculated in different ways across all countries. The length of benefit, level of benefit and eligibility criteria differ across national systems, as will be discussed in more detail below.

In the EU, the average costs of out-of-work income maintenance and support measures are close to EUR 9 000 per year per participant, the lowest average cost of measures being in Bulgaria and the highest in Denmark, as shown in Figure 6 below. The average costs per year per participant across the EU-27 have remained broadly unchanged since 2007, however average costs rose by more than EUR 1 000 in Slovakia, Spain, Latvia, Finland, Denmark and Estonia, while a significant decrease of over EUR 2 600 was recorded in Slovenia<sup>2</sup>.

**Figure 6 – Average cost of out-of-work income maintenance and support measures in EUR per year and participant in 2009**

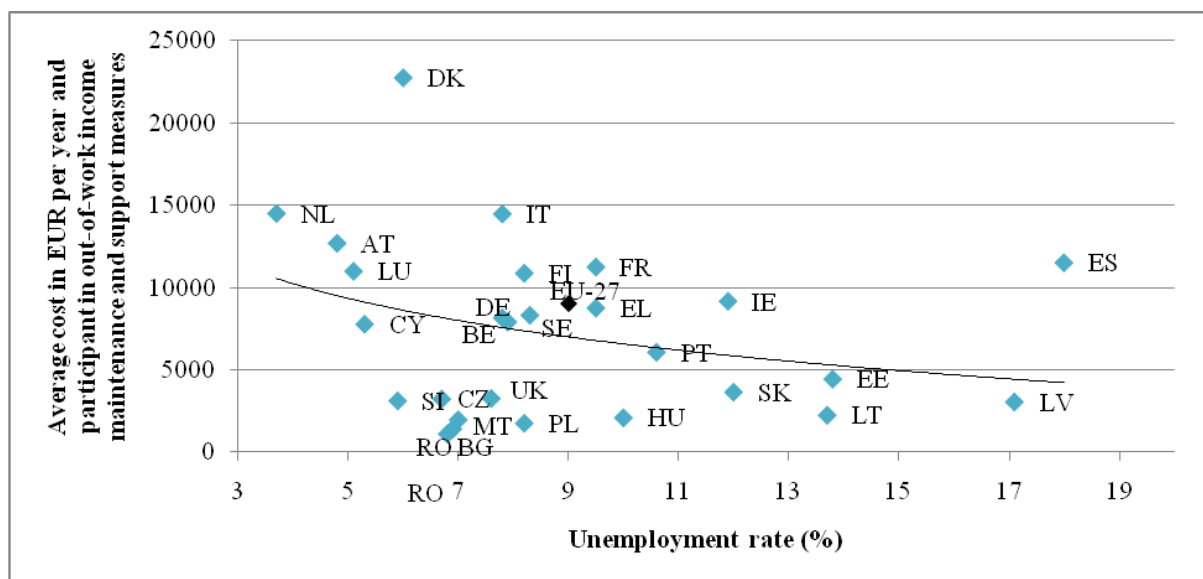


Source: Eurostat

It is worth noting that the average cost of these measures per participant per year is not necessarily linked to the level of unemployment. For instance, as shown in Figure 7 below, Austria and Spain, two countries with dramatically different unemployment rates, have similar average costs per participant.

<sup>2</sup> In addition a very significant decrease of over EUR 9 000 is recorded in Luxembourg. However as this figure is so high it is possible that the data is not reliable.

**Figure 7 – Unemployment rates and average cost of out-of-work income maintenance and support measures in EUR per year and participant in 2009**



Source: Eurostat

European countries thus differ considerably in terms of the payment levels, composition and design of their UB systems. Some countries have traditionally relied more than others on higher unemployment benefits. These differences are predominantly linked to the differences in size and organisation of the welfare state and a different overall institutional set-up in relation to providing income support to unemployed people. The following section will provide an overview of the approaches taken by the 33 countries covered by this Review to the provision of unemployment benefits.

## 2. UB systems and labour market incentives in the EEO countries

### 2.1 The design and financing of UB systems

Across the 33 EEO countries, it appears that the majority of UB systems are funded via contributions from employees and / or employers. Only in the **Netherlands** is the UB system financed by employers alone. There, in 2009 it was agreed that contributions would no longer be required from employees following a tripartite agreement between the government and the social partners. In return, the social partners agreed to a wage development for the year 2009, intended not to exceed the wage growth of 2008.

State funding and contributions (sourced for example from tax revenues) to UB systems appear to be less common, although some form of state contribution is made to either UB systems or other income support in Belgium, Denmark, Germany, Cyprus, Luxembourg,

Hungary, Malta, Poland, Sweden and the former Yugoslav Republic of Macedonia (FYROM). In **Sweden** for example, the public unemployment insurance system is administered by the trade unions' unemployment insurance funds but is regulated and subsidised by the State. While the contribution from the trade unions' funds covers approximately 30 % of the costs, the State subsidises the remaining 70 %. In **Denmark** too, state contributions play an important role in enabling the country's 27 unemployment insurance funds to meet extra demand in times of high unemployment and are an important contributing factor to the automatic fiscal stabilisation of the Danish macro-economy. The members of the unemployment insurance funds are only obliged to pay a fixed membership contribution, independent of the actual overall level of unemployment or the specific risk of unemployment for the individual unemployment insurance fund. It is the share of public funding that depends on the total number of unemployed; in periods of high unemployment as in the early 1990s, the Government's share increases up to 80 %, while it falls to less than 50 % during economic upswings. Similarly, in **Hungary**, the UB system is insurance-based and financed from contributions, plus funds from the central budget if benefit payments exceed contributions. In **Poland**, the main source of financing of unemployment benefits is the Labour Fund, to which employers pay contributions amounting to 2.45 % of gross salaries and additional financing is provided by EU-funded projects and budgetary donations.

In a number of countries (e.g. Bulgaria, Denmark, Finland, Sweden), there are parallel compulsory and voluntary unemployment insurance schemes. For example, in **Bulgaria**, the social insurance system for unemployment includes a compulsory state scheme and voluntary private schemes. In **Finland**, the most common way for people to obtain UB is to be a member of one of the 30 unemployment insurance funds, which requires a payment of an annual membership fee of between 1 % and 2 % of the employee's gross pay. For those who do not belong to a fund, there is a basic unemployment allowance granted by the Social Security Institution (KELA).

In addition, in most countries there are complementary systems of UB and/or social assistance. Firstly, there are a number of countries where UB itself is made up of two parts - a contributions-related part (financed through contributions by employers and employees) and a welfare assistance part (generally financed through taxation and the state budget). This is the case for example in Cyprus, Spain, Estonia, Ireland, Malta and Portugal. In **Ireland**, the UB system has two main components, involving two different types of benefit payment. Firstly, there is a support system financed from the National Social Insurance Fund, called

‘Jobseekers Benefit’ (JB), for unemployed persons who have made weekly employment-based contributions to this Fund (Pay Related Social Insurance, PRSI contributions). Alternatively, persons who do not have such insurance, or whose PRSI entitlement is insufficient, or has run out, can apply for a ‘Jobseekers Allowance’ (JA). The cost of the latter benefit is funded from the national exchequer. In **Spain**, the UB system is composed of a contributory strand and an assistance strand: the contributory strand applies to workers who have paid contributions for a sufficient period and have finished their employment contract, who are entitled to ‘unemployment benefit’ (prestación por desempleo). The welfare assistance strand applies to people who have exhausted their unemployment benefit and is called the ‘unemployment subsidy’ (subsidio de desempleo).

Secondly, in addition to unemployment benefits, social assistance benefits provide a ‘safety net’ for people who are not eligible for UB or whose UB has expired, to ensure they have some income and are protected from falling (further) into poverty. These systems become ever more important in the context of an economic downturn, when more and more families face reduced incomes. They seem to be generally funded by the state and tend to be means tested. Furthermore the duration of social welfare benefit payments tends to be unlimited. For example in **Spain**, in addition to the UB and unemployment subsidy, there is the active insertion income (renta de inserción activa), which is a social benefit linked to training and active job search. In **Estonia**, in addition to unemployment benefits, the unemployed are entitled to means-tested subsistence benefits, which are administered by the municipalities.

In **Italy**, as described in Box 1 below, there are three types of benefit, depending on the circumstances of the individual concerned.

### **Box 1: Unemployment benefits in Italy**

In **Italy**, the UB system is characterised by three types of benefit:

- 1) partial unemployment benefits granted in the case of a temporary reduction of working hours or suspension of economic activity (Cassa Integrazione Guadagni, CIG schemes);
- 2) full unemployment benefits granted to laid-off workers, in the case of individual and collective dismissals (unemployment and ‘mobility’ allowances, respectively); and
- 3) special regimes covering sectors characterised by high levels of seasonal employment (agriculture and construction).

The system is funded on an insurance basis, i.e. through the payment of social contributions by employees and employers.

There are also exceptional unemployment benefit schemes (ammortizzatori sociali in deroga) which are financed through general taxation. Recourse to these schemes has dramatically increased during the crisis. The Italian system does not include a universal means-tested benefit, except for the over 65s. Moreover, self-employed and ‘project’ workers are not covered by ordinary schemes, which are available only to employees.

Responsibility for the administration and management of the UB systems generally resides with the Public Employment Services (PES), either national and/or regional. This is the case for example in Estonia, Greece, Austria, Romania, Croatia, Iceland and Norway. In Latvia and Slovakia, there are ‘social insurance agencies’ which administer the unemployment insurance. In **Malta**, unemployment benefits are awarded by the Social Security Department (SSD), while in order to claim such benefits, a person must register for employment with the Employment and Training Corporation (ETC), the country’s PES. Thus, the management of the UB system in Malta falls under both the PES and the SSD.

In some countries, the social partners are also involved in the UB system (e.g. Belgium, France, Sweden and Iceland). This is particularly notable in **France**, where the unemployment insurance benefit system is managed by social partners via Unédic, a kind of foundation composed of the main French social partners. The allocation of responsibilities within the system is also unusual: with the agreement of the Ministry of Employment, the French social partners can decide on rules of compensation and financing while in most other

Member States these are generally fixed by the state, with the social partners playing a consultative role.

## **2.2 Entitlement and eligibility criteria – who is eligible to receive unemployment benefit?**

UB claimants are subject to both ‘entitlement’ and ‘eligibility’ conditions. The OECD defines ‘entitlement conditions’ as those which restrict benefits to people who either have a sufficient record of contributions or a low total income (depending on the type of benefit), whereas ‘eligibility conditions’ are those which relate to being able to enter work at short notice, as well as undertaking active steps to look for work and meeting certain administrative requirements<sup>3</sup>. Some of the most commonly cited entitlement and eligibility criteria are listed below.

- *A minimum contribution / employment history in recent years.* In most countries it is necessary to have contributed to the unemployment insurance fund in order to receive benefits. The duration of the contribution history required varies between countries. For example in **Slovakia**, claimants must have contributed to the unemployment insurance fund for at least two years over the last three years (or the last four years for those previously employed in fixed-term jobs). In **Turkey**, the reference period is the past three years before job loss and the required minimum employment record is 600 days. Of these, at least 120 days must have been accumulated in the past year. In **France**, only four months of work history in the last 28 is required.

In **Austria**, the duration of the qualifying period depends on the age of the unemployed person and whether it is a first-time claim or a repeat claim (26 weeks within the last year for young persons under 25, 52 weeks within the last two years for first-time claims and 28 weeks within the last year for people not claiming for the first time). In Finland, Poland and Norway, claimants must also have earned a certain level of income (e.g. an income equal to at least the minimum wage in Poland) during this period in order to qualify for UB. In **Sweden**, the claimant must also have worked a minimum number of hours (80 per month over 12 months, or at least 480 hours over six consecutive calendar months and at least 50 hours in each of these months) during the qualifying period.

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<sup>3</sup> OECD, 2000, ‘Eligibility Criteria for Unemployment Benefits’, in *Employment Outlook 2000*. Internet: <http://www.oecd.org/dataoecd/10/46/2079577.pdf>



- *The claimant must be available for or capable of and actively seeking work:* As described below, active job search is often monitored by the PES, for example through the use of individual job search / action plans.
- *The recipient must accept any 'reasonable' job offer:* The definition of a 'reasonable' or 'suitable' job can vary from country to country and might relate to previous earnings or the skills and level of education required to carry out the role. For example in the **Netherlands** a suitable job is defined as a job with 70 % of the income of the individual's previous job. In **Slovenia** and **FYROM**, the definition relates to the skills required to carry out the job. The definition of 'reasonable' relates to the location of the job in **Finland** – job offers may be located anywhere within the 'commuting area', which consists of a person's home town and those towns to which it is possible to commute in one day.

The definition of what is a 'reasonable job offer' may also vary in relation to the duration of unemployment. For example, in **Denmark** an unemployed person who has been unemployed for more than three months must accept any job offered by the PES that the person could perform. In the **Netherlands** again, once the duration of UB has ended and the claimant moves on to social security benefits, he or she must accept any job available, regardless of how much it pays.

- *The reason the person left his or her previous job may be taken into account (i.e. they must have left their job involuntarily):* Persons who leave their job voluntarily, or as a result of employee misconduct, may not be eligible for any UB, or may have to wait a certain period before they can claim. In **Croatia** for example, the termination of employment should not have been voluntary or due to misconduct, unless it is caused by unacceptable behaviour of the employer. In **Lithuania**, unemployed persons who were at fault for their dismissal are not granted benefits until three months after the date of registration at the local labour exchange, LLE (normally the benefit is granted eight days after registration). **Estonia** is an exception here, where from 2013 onwards it is foreseen that workers who leave their job voluntarily should be eligible for unemployment insurance benefits (providing they meet certain other eligibility criteria)<sup>4</sup>.

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<sup>4</sup> This change has been agreed by social partners. However, due to the high increase in expenses that this would entail, it is not sure whether the agreement will be fully implemented.

- *The 'proportion' of (un)employment:* In some countries it is not necessary to be unemployed 'full-time' in order to claim benefits and it is possible to work either part-time, or on short-term contracts but still to claim benefits. This makes it possible either to maintain or to build a new link with the labour market. In the **UK** for example, those eligible for Jobseekers Allowance (JSA) must currently work less than 16 hours per week. In **Cyprus**, when an unemployed individual holds a job earning above a prescribed cut-off and for which the employer makes social security contributions, s/he is not considered unemployed for those days; thus, their maximum of 156 days of benefit is not used up and re-entry into the labour market is facilitated. In **Hungary**, work is permitted to some extent for UB claimants – for short-term work (up to 90 days) during which benefit is suspended. In **Greece**, as in Italy, there is a specific seasonal UB which is offered to persons belonging to occupational groups employed on a seasonal basis (e.g. construction workers).
- *The person must not be claiming a pension or other (e.g. sickness) benefit:* In the **Czech Republic**, retired people who have already claimed a state pension are not eligible for UB even if they have contributed to the system for over 12 months during the base period. UBs are also not provided during periods of receipt of sickness benefits and when collecting benefits related to retraining. Moreover, the UB level is also set extremely low for those returning to the labour market from parental leave who do not satisfy the contribution condition in the base period. In the **Netherlands**, employees are excluded from UB if they are entitled to sickness benefit, full disability benefit or maternity leave benefit.
- *Age:* Age limits imply that the young unemployed and older workers who are approaching retirement may not be eligible for benefits. For instance, in **Ireland**, JA is not available to persons who are aged under 18 and/or have been out of school for less than three months. In the **Netherlands**, employees are excluded from UB if they are 65 years or older. In the **UK**, JSA recipients must be over 18 and below the state pension age.
- *Family situation:* The number of dependents is taken into account when calculating benefit entitlements in certain countries (e.g. Belgium, Ireland, Spain, Luxembourg, Austria and Finland). In **Austria**, while the average monthly UB is generally 55 % of

previous net earnings, family supplements are granted for children and partners who have no income above the marginal earnings threshold.

There are also certain procedures a person must go through in order to receive benefits and /or to enable the PES to monitor eligibility and compliance with conditions. Often the unemployed must first register with the PES before they can receive UB. The period within which they have to do this varies across the countries covered by the Review. In **Finland** for example the jobseeker must register on the first day of unemployment whereas in **Croatia** the timeframe is within 30 days of the termination of employment.

Following registration, regular attendance at the job centre is a requirement in certain countries. In the **UK** for instance, JSA claimants are normally required to attend the job centre on a fortnightly basis, although this interval may be extended where the claim goes beyond 13 weeks. In **Spain**, the intervals are less regular and unemployed people benefiting from both contributory unemployment benefit and from unemployment assistance have to sign up every three months in the PES in order to continue receiving their benefits. In **Belgium**, it is not until the 21<sup>st</sup> month of unemployment (15<sup>th</sup> month for those aged under 25) that the PES sets up an interview with the individual.

Job search plans, or individual action plans, are used both to support and monitor the unemployed in their job search in a number of countries, including the Czech Republic, Latvia, Hungary, Portugal and Croatia. In **Portugal** for example, the Personal Employment Plan (PEP) is considered to play an important role in the process of job search conditionality, monitoring and control. Here, since 2006, individuals' registration in the job centre is cancelled and therefore they lose the right to any kind of benefits or allowances if, without relevant justification, they refuse: job centre attendance (every two weeks), vocational training, occupational programmes, PEP actions, active job search and suitable job offers. In **Croatia**, active job search is monitored through job search plans which are revised every six months. Job search conditionality is the same for all of the unemployed and requires monthly registration, participation in activation-related events organised by the PES and the job search plan, and an obligation to respond to all calls from the PES.

In certain countries, sanctions are applied to those recipients of UB who do not comply with the relevant eligibility conditions. For example, in **Estonia**, the unemployment allowance is suspended for 10 days if the person does not complete their job search plan, refuses an offer of suitable work or does not attend the PES on a fixed date for the first time. The benefit is

stopped altogether if the same conditions are violated for a second time. In **Ireland**, in early 2010 the Social Welfare (Miscellaneous Provisions) Act was introduced, which provides for sanctions to be applied to registered unemployed persons unreasonably refusing take up employment offers or to participate in training and education. This means that the conditionality now embraces not only requirements regarding availability and job search but also the beneficiary's response to specific offers of work or training. A person cannot put forward unreasonable restrictions such as the nature or location of employment, hours of work, pay rates, etc. In **FYROM**, people who are registered unemployed and do not fulfil the active job search criteria (regular re-registration in the Employment Service Agency, ESA, attending interviews with employers arranged by the ESA, accepting a suitable job offer in terms of educational attainment and knowledge, accepting participation in ALMPs, etc.) are deleted from the unemployment register for one year and lose the right to receipt of UB.

In certain countries (e.g. Czech Republic, Ireland, Malta, Slovenia), the conditions associated with receipt of UB have been tightened over recent years (in some cases, as a response to the economic crisis – see Section 3 for further details). In **Slovenia** for instance, in 2006 tighter conditions were introduced regarding the obligation to accept work. The amended Employment and Insurance against Unemployment Act (2006) stipulated that the right to UB may be claimed by an insured person who was employed with one or more employers for at least 12 months during the last 18 months prior to the termination of the employment contract. This condition made access to UB harder for mainly younger unemployed persons who were on fixed-term contracts with several and/or lengthy job interruptions. The 2006 amendments also introduced a new definition of a 'suitable job' or 'suitable employment' which forced unemployed persons to become more flexible in accepting job offers. Thus, people who were unemployed for up to three months were obliged to accept suitable employment with required skills at one educational level lower than attained and people who were unemployed for six months should accept suitable employment with required skills at two levels lower. The amended act also defined sanctions for not accepting such employment – up to expelling the person from the unemployment register. In **Malta** too, over the past five years, the Employment and Training Corporation (ETC) has increased the obligations placed on registered unemployed persons who wish to continue receiving UB. Newly registered unemployed persons must take part in job search skills courses and job clubs to facilitate their insertion in employment. The registered unemployed are also obliged to attend all compulsory employment and training activities assigned to them. If they fail to do so, they are required to

fill out a justification form giving the reasons for their absence. If it is decided that such reasons are not justified, they are struck off the unemployment register, losing UB for six months.

As a result of these eligibility criteria, certain groups may find themselves excluded from unemployment benefits. In particular, according to the national articles for this EEO Review young people and the self-employed are often excluded. Thus in **Italy** for example, the self-employed and ‘project’ workers are not covered by ordinary UB schemes, which are addressed to employees only. Young people are excluded in **Croatia**, where groups without work experience, including first-time labour market entrants and students are not eligible for UB. In **Slovakia**, it is not just first-time labour market entrants but also those young people who were on fixed-term contracts with several and / or lengthy job interruptions who find it hard to access UB.

Sometimes, young people may be subject to different conditions, or entitled to a different amount or duration of benefit, rather than fully excluded from the system. For example, in **Finland**, an additional precondition for young people (17–25 years old) wishing to receive the earnings-related unemployment allowance is to have a vocational qualification. If the young person does not have a vocational qualification he/she must have at least five months working history or five months of participation in active measures. In addition, 18–25 year olds who do not have a relevant qualification may receive a labour market subsidy provided that they are applying to at least three different educational institutions per year. Persons aged 17–18 are entitled to a subsidy provided that they are taking part in active measures.

### **2.3 The level and duration of unemployment benefits and the question of ‘benefit traps’**

As explained above, the level and duration of unemployment benefits and the way they are calculated vary considerably across Europe. Replacement rates depend for instance on the previous level of earnings, the length of previous employment and also the family income. Available data from the OECD show for instance that net replacement rates<sup>5</sup> (taking into account unemployment benefits but also other types of benefit) during the initial phase of unemployment can vary from 33 % for a single individual without children in Ireland to 92 % for a two-earner couple with two children in Luxembourg<sup>6</sup>.

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<sup>5</sup> Earning level: average wage

<sup>6</sup> Data is for net replacement rates during the initial period of unemployment, for individuals earning 100% of the average salary in 2009. Source:  
[http://www.oecd.org/document/3/0,3746,en\\_2649\\_34637\\_39617987\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/3/0,3746,en_2649_34637_39617987_1_1_1_1,00.html)

Most countries seem to calculate the level of benefit to be paid in relation to the previous income of the claimant. In **Germany** for example, Unemployment Benefit I (UB-I) is a regular unemployment benefit for single people providing 60 % of the last net income for 12 months (for parents the benefit rate is 67 %). In **Latvia**, beneficiaries initially receive 55 %, 60 % or 65 % of their average registered gross wage over the 12 months prior to unemployment, depending on the duration of contributions (1-9 years, 10-19 years and 20-29 years). Several countries (e.g. Lithuania, Romania and Sweden) calculate the benefits to be paid on the basis of a combination of a fixed amount, together with an amount calculated in relation to the individual's previous wage. For instance in **Sweden**, in addition to the general basic insurance of SEK 330 (EUR 36) per day, income-related benefits for eligible beneficiaries amount to 80 % of the previous income during the first 200 days of unemployment and 70 % thereafter.

The duration of UB payments also varies across Europe. It is particularly long in **Portugal**, at a maximum of 900 days (for individuals aged over 45 with longer careers), whereas in the **UK** benefits are paid for up to six months. In some countries (e.g. France, Slovenia, Turkey and Croatia) the duration of benefit payment depends on the contribution or employment history of the individual or his / her previous income. For instance in **Turkey**, the maximum duration of benefits is from 180 to 300 days, depending on the employment record. In **Norway**, the length of the allowance (104 weeks or 52 weeks) depends on whether the jobseeker's income in the calendar year before submitting the claim was above or under NOK 151 282 (EUR 19 403).

Interestingly, in **Poland**, the period of UB collection depends on the rate of unemployment in the local labour market and is six months for the unemployed living in areas where the unemployment rate does not exceed 150 % of the average unemployment rate and twelve months for the unemployed in areas where the unemployment rate exceeds 150 % of the average unemployment rate in the country.

In many countries, the amount paid in UB is gradually decreased over time. For example in **Italy**, unemployment benefits are paid for eight months (twelve for claimants over 50 years old). For the first six months the replacement rate is 60 %. It then falls to 50 % until the eighth month and finally to 40 %.

Although the amount of benefit to be paid is often calculated in relation to the claimant's previous income, many countries impose a ceiling on the amount that can be paid out. In

**France** this ceiling is particularly high in comparison with other European countries, at EUR 5 800 per month. Sometimes the ceiling is fixed in comparison to the national average or national minimum wage, as in **Slovakia** for instance, where the maximum level of UB payments cannot exceed three times the national average gross wage. In **Turkey**, unemployment benefits are equal to 50 % of the last four months' average gross earnings of the individual but these benefits cannot be higher than the official minimum wage. In **Malta** the ceiling is set according to the number of contributions paid by the individual.

In some countries (e.g. Spain, Portugal, Serbia), both minimum and maximum amounts are set. For instance the UB replacement rate in **Serbia** is 50 % of the average wage of the unemployed person but it cannot be higher than 160 % or lower than 80 % of the minimum wage.

The timeframe over which UB is paid and the amount of benefit paid can also depend on the age of the recipient – both younger and older workers may be subject to different rules. In **Ireland**, young people aged under 18 receiving JB are paid only for a maximum of six months. Furthermore, from January 2011 there has been an age differentiation in rates for persons in receipt of Jobseekers Allowance (JA). For an applicant aged from 18 to 21 years the basic personal rate was reduced to EUR 100 and to EUR 144 for those aged 22 to 24 years. (There are, however, a number of circumstances where JA at the full rate is payable to young people, including participation in training or education courses or in certain other ALMPs, applicants with dependent children etc.) In **Luxembourg** and **Greece**, there are specific provisions for older jobseekers. In Luxembourg, those aged 50 and over who have worked for 30 years benefit from a 12-month extension on the normal maximum of 12 months of benefits, while those who have worked for 25 years are eligible for a 9-month extension. Jobseekers aged 45 with 20 years of work experience can apply for a 6-month extension. In **Greece**, the maximum duration over which unemployment benefits are paid is one year. However, extensions can be granted to individuals aged between 45-64 years who have received the benefit for 12 months and have remained unemployed for another 12 months.

Another factor taken into account is the family status of the individual concerned. For instance in **Belgium**, the level of benefits varies according to family status and whether the person is 'head of the household'. In **Cyprus**, the basic benefit is increased by one third for the first dependent and by one sixth for each additional dependent (up to a total of three

dependents). In **Sweden**, it is the duration of benefits which varies, at 450 days for parents of children under 18 years of age, compared to a standard benefit period of 300 days.

In some countries, the national articles observe that the UB replacement rates have decreased in recent years or that they are particularly low. For instance in **Greece**, estimates of the net replacement rates (NRR) over 60 months of unemployment indicate that these drop to very low levels (26), one of the lowest NRR recorded for the EU countries for which data exist. In **Poland**, data indicate a gradual reduction of UB replacement rates in recent years; while in 1995 unemployment benefits amounted to 42 % of the average wage, currently the ratio of unemployment benefits fluctuates at around 22 %. In **Sweden**, the ceiling for income-related benefits of SEK 680 (EUR 75) per day has been constant since 2002, which implies a decrease in the level of benefits in real terms. In the **UK**, according to a recent review<sup>7</sup> the replacement rate has fallen significantly over the past 40 years – in 1970, for example, it was 19.2 %, almost double the 2010 rate of 10.9 % when comparing the basic level of the JSA with average earnings. This drop is attributed mainly to the decision in the 1980s to link UB with changes in prices rather than wages.

Benefit traps and benefit dependence were identified as being an issue in a small number of countries (Estonia, Spain, Malta, Poland, Finland and Croatia) although the issue was highlighted only in relation to specific groups in three countries (the long-term unemployed approaching retirement in Croatia, the low-paid in Estonia and precarious workers in Spain). In **Spain**, the way in which the duration of contributory benefits is calculated means that some workers who experience intermittent unemployment can lose their entitlement to UB during subsequent unemployment spells. It is suggested that this may encourage some temporary workers to exhaust all their unemployment benefits in order not to lose them and only then look for a job, thus trapping them for longer in the benefit system. In **Croatia**, some groups of the long-term unemployed who have gained access to permanent benefit until retirement are rarely actively seeking work, since their skills and their age make them less attractive to employers. Most women above the age of 50 have long stopped looking for work and a recent analysis<sup>8</sup> has shown that the PES will prefer not to mediate for these groups given that there

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<sup>7</sup> New Statesman (2011) *Why unemployment benefit is worth less than ever* (February). Internet: <http://newstatesman.com/blogs/the-staggers/2011/02/unemployment-benefit-forty.pdf>

<sup>8</sup> Sanja Crnković-Pozaić and Branka Meštrović (2011): Women on the labour market, IPA project, component IV. Survey of unemployed women on the unemployment register and an analysis of the position of women from the Labour force survey 2008.



are many younger and more qualified unemployed people who are much more attractive to employers.

In **Malta**, the benefit trap is thought to affect almost half of the unemployed, as explained in Box 2 below.

#### **Box 2: Benefit traps, Malta**

In **Malta**, ETC employment advisors are reported to estimate that around 49 % of the unemployed easily get caught in the benefit trap. Those below the poverty line are affected, as the benefits of the other unemployed tend not to be generous and cease after 156 days. The unemployment assistance package is comparable to the minimum wage; about 80 % of the unemployed are low skilled and can aspire to earn only this amount. Indeed, research<sup>9</sup> has shown that persons receiving special unemployment benefits or married persons would lose money if they found a part-time job and it has also described how the benefit system may discourage unemployed individuals from becoming self-employed, since while they would have to pay social security contributions they would not receive any unemployment or special unemployment benefits if their business fails. The system unintentionally encourages the low-skilled registered unemployed to continue receiving their benefits and engage in the hidden economy.

The system has changed in recent years and persons who have been unemployed for three months or over cannot refuse a type of job for which they have signed up. After a year, they cannot refuse other similar occupations, even if they are temporary in nature. Despite such changes, the Maltese government's expenditure on long-term unemployment assistance is still much higher than that on short-term unemployment benefits.

Countries where, according to the national articles, benefit traps do not appear to be a significant problem include Cyprus, Estonia (apart from the low-paid, as mentioned above), Spain (apart from workers on temporary contracts - see above), Greece, the Netherlands, and FYROM. In **Spain**, the reason given is that the level of benefits is low (below the poverty threshold). The **Estonian** national article suggests that since both taxes and social expenditure are relatively low, in general, they generate high motivation to actively participate in the labour market. Yet at the same time, in some cases the Estonian benefit schemes can generate

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<sup>9</sup> Zerafa, M. A., 'Unemployment benefits and incentive to seek employment in Malta', *Bank of Valletta Review*, No. 36, Autumn 2007. Internet: [http://www.bov.com/filebank/documents/33-56\\_maryanne%20zerafa.pdf](http://www.bov.com/filebank/documents/33-56_maryanne%20zerafa.pdf)

disincentives to job search, especially in the case of low-paid jobs or entering employment with a part time job.

Measures taken to address benefit traps include providing a lump-sum payment to those who do find a job (e.g. Slovakia and Romania), providing incentives to take up low-paid work (see below) and providing benefits to people who work part-time (see below). There are incentives for the unemployed in **Romania** to re-enter employment before the termination of their legal UB period and in **Slovakia**, providing the jobseeker starts to work before the lapse of the support period (six months or four months) but not sooner than after three months, he/she is entitled to a one-off payment of 50 % of the remaining sum.

Many countries allow workers to supplement their income with benefits when taking up low-paid or part-time work (e.g. Ireland, France, Malta, the Netherlands, Austria, Portugal, Slovakia, Sweden, Croatia, FYROM, Iceland and Norway), as this enables the beneficiaries to forge a link with the labour market and may be helpful in shortening unemployment durations and preventing in-work poverty. Some examples are listed below.

- In **Belgium**, in certain circumstances, when an unemployed person takes up a part time job, he/she may receive a top-up allowance from the national employment office to supplement his/her earnings (the income guarantee allowance).
- In **Ireland**, a person can be eligible for a reduced rate of benefit if working part-time or in casual employment. The eligible circumstances are: if working hours are reduced by the employer; if the applicant is job sharing (involuntarily); or if he/she can only acquire casual or part-time work. It is interesting to note that the number of persons receiving benefit who are working on a casual or part-time basis has increased significantly during the recession – from 21 600 in January 2008 to 85 600 in June 2011. The latter figure represents almost 19 % of the total.
- In **Poland**, persons with the right to UB are entitled to an additional activation allowance if they undertake part-time employment with a wage lower than the minimum wage, as a result of a referral by the local labour office. (However, the low amount of the additional activation allowance does not influence the decision of active job search during the unemployment period. As existing studies show, the unemployed postpone the decision to actively search for a job to the end of their benefit entitlement period.)

- In **Portugal**, a number of changes were made to the UB system in August 2010, including enabling the accumulation of UB with part-time work or independent work, when this is associated with low income. The scope of the Unemployment Partial Benefit (UPB) was therefore extended to include not only part-time work as defined by previous legislation but also, under certain conditions, independent work, facilitating the return or transition of unemployed people to active life.
- According to the law in **Serbia**, unemployment benefits shall be suspended for the duration of a contract on temporary and casual work. After the expiration of the contract the unemployed person regains the entitlement to UB payment for the remaining period for which the right to UB is recognised (if he/she registers and files an application within 30 days). However, in 2009 an innovative incentive was introduced which grants a subsidy to benefit recipients who find a new job before the expiration of their entitlement, equal to 30 % of their remaining net benefits.

## **2.4 Strengths and weaknesses of national UB systems**

Across the countries covered by the Review, a range of strengths and weaknesses of the current unemployment systems have been identified. Strengths were identified in the national articles for Latvia, Lithuania, the Netherlands and Sweden, including for example the opportunity to work part-time but continue to receive benefits and financial support for a sufficient period in order to find a new job (Netherlands), providing incentives to job search (Germany) and including conditions to limit misuse (Sweden). Weaknesses, which are discussed in more detail below, include for example the complexity of the systems and procedures and systems not being sufficient to prevent certain groups from being vulnerable to poverty.

The UB systems were not considered to provide adequate support to prevent poverty in Estonia, France, Austria, Slovenia, Finland, Croatia and Turkey. In **France**, nearly one third of unemployed people are thought to be at risk of poverty. The tightening of eligibility criteria and 2006 reform measures of the **Slovenian** UB contributed to a medium-term increase of the at-risk of poverty rates among the unemployed – from 33.4 % in 2006 to 43.6 % in 2009. Nevertheless, this social security system, despite all the changes in the employment system

and labour market, and despite the declining share of GDP allocated for social security<sup>10</sup>, was and still is relatively successful in amortising the negative effects and creates a relatively low overall at-risk of poverty rate. In **Croatia**, the UB system is not considered to be a sufficient income support facility due to its limited level and coverage (unemployment tends to last longer than the duration of UB). Furthermore, the level of UB is too low to protect from poverty any unemployed individual, who has only this source of income. (However, in Croatia, the family is still the last income safety net and any financial gain, including UB, is often only one from among the several income strands.)

The national articles for the Czech Republic, Greece, France, Italy, Slovakia, Finland, Sweden, Croatia and Turkey suggest that the UB systems in these countries leave certain vulnerable groups without support. As discussed previously, it is mainly the young and the self-employed who are affected. Thus in **Slovakia**, young people and recent graduates are disadvantaged by the existing eligibility criteria for unemployment insurance benefits, which require an employment record of two years in the last three years. In addition, self-employed persons are not obliged to pay unemployment insurance and as a result the majority of them remain uncovered. In **Romania**, strict eligibility conditions mean that in certain cases young people and workers on short and part-time contracts might not benefit from UB in all instances. The **Greek** UB system has been criticised for being inequitable, since large categories of the labour force (e.g. the self-employed) and of the unemployed (new entrants in the labour market) are left practically without coverage, while seasonally employed workers (such as construction workers, hotel and restaurant employees and education workers), enjoy regular support year after year although in practice they do not face unemployment. These seasonal workers who are registered as unemployed are exempted from activation measures, being classified as unemployed workers not seeking a job.

In Latvia, Romania, Croatia and Serbia, undeclared work (UDW) is also identified as a problem among the unemployed and in **Croatia**, it is suggested that controls of the informal economy are still too weak to prevent opportunistic behaviours where, typically, small benefits are added together to provide relatively acceptable income support for the family, especially if some informal work is engaged in to top up the benefit-related household budget. In **Romania**, the new version of the Labour Code provides for a strengthening of sanctions

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<sup>10</sup> According to Eurostat, the share of Slovenian GDP used for social security has constantly been decreasing since 2001. Thus, in 2001 the share was 24.5 %, in 2003 it decreased to 23.7 %, in 2005 it was 23.0 % and in 2008 the share was 21.5 %.

and penalties for the recourse to UDW, with individuals and not only companies resorting to UDW now being targeted by the recently introduced measures.

Another issue raised in the national articles is the complexity of the UB systems in certain countries (e.g. France, the Netherlands and the UK). In France and Belgium, the complexity of the system is attributed to the fact that responsibilities are shared across different actors. In **France** the system is mainly composed of three kinds of benefit: insurance benefits managed by Social Partners; assistance benefits managed by the state; and social benefits managed by the Local Authorities. This makes the system quite complex, due to the separation of responsibilities. In the **UK**, the proposal for a new ‘Universal Credit’ system is in part an attempt to simplify the current system, as described in Section 4 of this report.

In **Romania**, it is suggested that the UB system is in need of reform. A recent survey carried out by the World Bank<sup>11</sup> found that the current legal framework for unemployment insurance is no longer adequate. The system is poorly financed, with the serious risk of running into deficit whenever the economic cycle enters into downturn and is thus unable to provide an automatic stabiliser. Its active measures are too rigidly constructed and fail to attract participants. The benefit clearly follows the moves of the cycle and fails both to shield beneficiaries from falling into poverty as well as to induce them to actively search for a job. The training provisions are inadequate and it seems that in spite of the generosity with which the ESF-financed instrument has been shaped with regard to the Romanian PES, little progress has been achieved to date.

In some countries, the PES seem to be overburdened and unable to cope with the volume of demand they face, or there are many registered claimants who are not actively seeking work. For example, in **Hungary**, the PES is in contact with only about 52 % of the non-working population and a mere 18 % of the registered unemployed are in contact with the office on a regular basis. The apparently poor overall performance of policies targeting the non-working population cannot, however, be attributed only to the PES, but is also a result of the operation of the system of old age pensions, disability benefits, social benefits and parental allowances. Research suggests that generous transfers were put in place to dampen the initial shock of the Hungarian political and economic transformation. Having locked a large number of people in a welfare trap, the PES has little chance to activate them. In **FYROM**, the unemployment registry is ‘inflated’ by a high number of people who are not actively looking for a job, since

the definition of active search includes individuals with different job search intensities: some individuals search for jobs only by registering in the ESA, while ‘more active’ seekers undertake several activities to search for employment. The incentive for the ‘over-registration’ as unemployed is the provision of free health insurance for the registered unemployed. Thus although there are a range of eligibility criteria in place for continued receipt of unemployment benefit, in practice re-registration is usually the main and sole ‘activity’ in the job-search requirement, given the low labour demand in the country, relatively small scope of ALMPs and the high workload of the ESA officers (on average, an ESA officer serves about 700 unemployed persons).

### **3. UB reforms during the crisis**

In response to the economic crisis many European countries have taken measures to support labour demand and household income security. Existing UB arrangements have played an important role in their capacity as an ‘automatic stabiliser’, delivering income support to households in need while providing macroeconomic stabilisation. Furthermore, discretionary policy changes in various countries have been implemented to widen the scope of UB systems, including increasing the duration and level of benefits and granting access to groups previously not covered by the UB systems – changes which could be characterised as ‘anti cyclical’; i.e. the business cycle went down and the protection level of unemployment systems went up. In this section, changes to the UB systems which were taken during the economic downturn are discussed, including the priorities set and approaches taken, followed by reasons given by governments for taking such actions and concluding with comments on preliminary analysis of their success. It is important to note however that while all of the changes described took place during the economic crisis, they were not all necessarily a direct *response* to the crisis and a number are in fact structural reforms which had been planned in advance.

#### **3.1 Reforms and adjustments to UB systems during the economic crisis**

In a small number of countries (e.g. Latvia, Romania, Iceland), the generosity of the UB systems, either in terms of the amount of benefits paid or the duration of the benefit payments, was increased during the economic crisis or is planned to increase as a result of the crisis

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<sup>11</sup> World Bank Country Partnership Strategy (Romania), Consultations (Social Inclusion, Social Assistance & Social Insurance), Stakeholders Survey, round Apr.2011.

(Estonia). In **Slovenia**, the new Labour Market Regulation Act, LMRA (described below) also increased the generosity of the benefit system.

In **Latvia**, although previously considered to be relatively inflexible, the UB system has been adapted in response to the crisis. From 1 July 2009 until 31 December 2011, the duration of UB was fixed at nine months for all UB recipients (instead of a duration varying from four to nine months depending on the social insurance record of the individual). In **Iceland**, the maximum UB period was extended in late 2010 from three to four years for individuals who had begun to draw benefits in the period after 1 May 2008. These individuals will therefore be insured until the spring of 2012. The amount of benefits was also increased in Iceland during the crisis, first in January 2009 and then in June 2011, and basic and earnings-related benefits now stand at ISK 161 523 (EUR 973) and 254 636 (EUR 1 534) respectively. The latter increase corresponded to increases in the new general wage settlements in both the private and public sector. In accordance with that settlement, recipients of UB receive a one-off payment of ISK 50 000 (EUR 301), and would also be paid a Christmas bonus of ISK 63 457 (EUR 382). Christmas bonuses were paid out for the first time in 2010.

In **Romania**, in March 2009 the Government decided to extend the period for which unemployment benefits were paid by three months, as such extending the entitlement period from a minimum of six months to nine months and from a maximum of 12 months to 15 months, thus enabling certain categories of worker to receive UB for periods longer than one calendar year. In this way, the Government has shown that while Romania's UB system has no automatic adjustment clause, it is nevertheless flexible enough and can perform its automatic stabiliser function in accordance with the country's needs. The most visible effect of this was a surge in unemployment which was at only 4 % in mid-2008, then jumped to more than 5 % at the end of 2008 and the beginning of 2009, to reach a maximum of more than 8 % (according to national data). Subsequently, as the provisions of the 2009 act were terminated at the end of the year, the unemployment rate began to drop as scores of the previous registered unemployed were simply exiting the records of the NAE. While boding well for the Government as it led to budgetary savings, this did not necessarily translate into a return to work but rather a slide into inactivity, as the number of vacancies available was, and is (as of 2011), still at an all-time low.

Significant changes to the UB system have been proposed in **Estonia** in response to the crisis but their implementation has been postponed until January 2013. The proposed changes foresee an increase in benefits as well as a significant widening of eligibility. In July 2009, the

new Employment Contracts Act took effect, together with some changes in the unemployment insurance scheme. The intention was to move the system closer to the concept of flexicurity by making it easier and cheaper to lay off workers (increased flexibility) and raising unemployment insurance benefits (increased security). However, because of the fiscal crisis only the first part has been implemented so far. There have been<sup>12</sup> plans to raise the unemployment insurance benefit in 2013 from 50 % to 70 % of previous earnings during the first 100 days of unemployment, and from 40 % to 50 % after that period. In addition, there have been plans to raise unemployment allowance benefits to 50 % of the national minimum wage per month.

In the **Czech Republic**, although the replacement ratio (of UB relative to previous net monthly wage) was increased in January 2009, at the same time the duration of benefit payments was decreased. In the pre-crisis period, the replacement ratio was set at 50 % during the first two months of UB receipt and at 45 % thereafter. In January 2009, the ratio was increased to 65 %, 50 %, and 45 % for the first two months, the second two months, and for the remaining period of UB collection, respectively. However the entitlement period (the maximum length of UB collection) was also cut from six to five months in January 2009. (Registered unemployed over the age of 50 (55) can collect benefits for an additional 3 (6) months.) At the same time the eligibility criteria were also changed. Until 2009, it was possible to count specific non-working spells of up to 6 months, such as participation in education, towards the 12-month contribution period required. However this option was cancelled with the arrival of the crisis.

The duration of benefit payments was also decreased during the crisis in **Serbia**, from a maximum of 18 months to a maximum of 12 months and in **Ireland**, where in October 2008 the maximum durations over which JB was paid were reduced from 15 and 12 months (depending on the individual's contributions history), to 12 and 9 months (6 months for young people aged under 18). These changes were made as part of the wider financial consolidation which has been implemented in Ireland.

In **France**, over the last 20-25 years, with a continual growth in unemployment, there have been many changes to the system of unemployment insurance, due most of the time to economic crises and their financial consequences for the system. During the 1980s, the duration of insurance was widely extended to address the beginning of the rise in

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<sup>12</sup> Although these changes are part of a social partner agreement, it is not certain that they will be implemented



unemployment, but since 1990, Unédic representatives chose in the context of an increase in structural unemployment to reduce both the duration and levels of admission to insurance benefits. The benefits cover for long-term unemployment has been progressively reduced and instead a minimum wage has been introduced, which is guaranteed by the state. Over the years, the position of Unédic can be summarised as ‘more employees eligible but for a shorter period of insurance cover’. Thus, the French social partners’ approach to managing the UB system is pro-cyclical – i.e. to decrease the system’s generosity when unemployment is increasing.

Other countries which have taken a ‘pro-cyclical’ approach, by reducing the amount of benefits paid during the economic crisis, include Ireland, Lithuania and Croatia. In **Lithuania**, the maximum amount of unemployment insurance benefit (UIB) was reduced considerably on 1 January 2009 from LTL 1 042 (EUR 302) to LTL 650 (EUR 188). Amounts paid to old-age pensions were also reduced considerably (up to 70 %) for employed pensioners and less so (up to 12 %) for pensioners not in employment. State pensions, annuities and other social benefits were also reduced. All of these reductions were introduced on a temporary basis until the end of 2011. The reduction of UB had negative implications for the income of unemployed families and as a result, many were forced into a situation of applying for social assistance, mainly for social allowance, which directly compensates for reduction or loss of income (including UB); the number of recipients of social allowances grew from 48 500 people in the middle of 2008 to 236 000 in the middle of 2011. In **Ireland**, due to the over-riding necessity of pursuing fiscal consolidation, the changes which have been made to the benefit system since the start of the economic crisis have taken the form of further constraints, rather than enhanced supports. The most significant changes which have been made relate to across-the-board reductions which have been applied to all levels of UB payments. These were a reduction of 4 % announced in the December 2009 National Budget, followed by a further cut of the same magnitude in the Budget of December 2010. When taken together, these adjustments involved a reduction of EUR 16 per week in the basic JB and JA payments, from EUR 204 down to EUR 188, with of course pro rata decreases at other benefit levels. Concerning structural aspects, the only changes made have been to reduce the duration of payment of JB (as outlined above) and the downward adjustment in the rates of JA paid to persons under 25 years. The main purpose of the latter change was related not so much to

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due to the economic situation and availability of resources.

achieving cost reductions but to encouraging young people to avail of training or further education opportunities.

In **Croatia**, a number of changes were made to the UB system over the period of the crisis, as described in Box 3, below.

**Box 3: Adjusting unemployment benefits in response to the crisis, Croatia**

The first signs of the recession were felt in **Croatia** in the last quarter of 2008. During that year the UB system had been made significantly more generous, when the Act on Employment Mediation and Unemployment Rights increased the level of UB to 70 % of the wage earned in the previous three months (minus the amount of mandatory contributions but including income tax) for the first 90 days, to be followed by a replacement rate of 50 % and 40 % for those who gain access to permanent UB until their first employment or retirement. Before this time, the UB was practically a flat rate benefit of around HRK 1 200 or EUR 164 per month.

Within less than a year the economy began to feel the effects of the recession and unemployment had risen by 51 000. Given the extreme difficulties experienced in funding the national budget, the decrease in employment and the liquidity problems experienced by many firms in the economy, the priority measure for the Croatian economy was to cut costs. This prompted the new amendments to the Act on Mediation and Unemployment Rights in 2009, which basically defined the maximum amount of UB according to the minimum wage (minus mandatory contributions including income tax) during the first 90 days of unemployment and reduced the replacement rate for the unemployment period thereafter to only 80 % of the minimum wage, minus contributions, regardless of the duration of work before unemployment. For the long-term unemployed who had permanent benefits, the share of the minimum wage was reduced to 60 %. At this time no minimum amount of UB was envisaged, which meant that unemployed persons with low wages received very low benefits.

The budgetary difficulties arising from the crisis prompted a second change in the Croatian Act on Mediation and Unemployment Rights in 2010 which changed back the link of UB from the minimum to the average wage, as it was previously in the Act from 2008. As a result of the changes, UB for the first 90 days was calculated at 70 % of the average wage, reduced by the amount of mandatory contributions (as was the case in the Act dating from 2008); thereafter the amount of UB for all beneficiaries came to only 35 % of the average wage, reduced by the amount of mandatory contributions. The biggest effect of this change was felt by those with above average wages, so it can be said that these measures helped to ensure that the most disadvantaged to date did not fall into greater poverty.

In **Poland**, although there was a change to the UB system on 1 January 2010 – changing the payment from a continuous flat rate to a reduced rate by 20 % after three months of unemployment - this change was not intended as a response to the crisis and had been planned beforehand. The same goes for **Serbia**, where a major legislative change regulating unemployment benefits (making entitlement criteria and replacement rates less generous) occurred some eight months after the start of the crisis but in fact had been driven by pre-crisis experience and dynamics. Thus according to the national article for this country, these ‘pro-cyclical’ changes introduced by the new law have prevented the UB system from fulfilling its role as an automatic stabiliser.

In a recession, it is disadvantaged groups which find themselves at greater risk of losing their job and of encountering difficulties in finding a new one, in the context of greater competition for a smaller number of job vacancies. Furthermore, due to structural reforms of the labour markets in some countries in recent years, an increasing share of workers is employed on temporary contracts or part-time working schedules<sup>13</sup>, making it easier for employers to lay them off at short notice and meaning that they may be less likely to qualify for unemployment benefits. Other vulnerable groups include young people and older workers, the self-employed and the long-term unemployed.

A number of European countries, including Belgium, Bulgaria, Spain, Italy, Portugal, Slovakia and Finland, have taken steps to protect particular groups over the course of the recent economic crisis. A temporary programme is being carried out in **Spain** during 2011, linking the receipt of unemployment benefits to participation in activation measures. In addition, UB has been extended to cover also the self-employed, as described in the box below.

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<sup>13</sup> OECD, 2009, ‘The Jobs Crisis: What are the implications for employment and social policy?’ in *OECD Employment Outlook, Tackling the Jobs Crisis*. Internet: <http://www.oecd.org/dataoecd/6/1/45219634.pdf>

#### **Box 4: Targeting vulnerable groups, Spain**

In Spain, a temporary programme has been introduced in 2011, which targets certain vulnerable groups: the young, the long-term unemployed over 45 and low-skilled people who worked in the construction sector or who are considered to be the most affected by the economic situation over the last three years. The Royal Decree Law 1/2011 of 11 February 2011 on urgent measures to encourage the transition to stable employment and the professional requalification of unemployed people has established the right to participate in an individual path with particular training actions. Active participation in these actions is mandatory in order to receive an unemployment subsidy of EUR 400 a month, for a maximum of six months, which is means tested.

In addition, in response to the crisis, access to the welfare unemployment subsidy has been extended. The number of people receiving the subsidy has increased from 448 441 persons in 2008 to 1 074 270 in 2011. Furthermore, Law 14/2009 created the ‘extraordinary subsidy of the temporary protection programme for unemployment and insertion’, which was especially designed for the current situation, for those having exhausted the UB and subsidy. This temporary welfare unemployment benefit is the so-called ‘EUR 420 subsidy’ in 2009 and the ‘EUR 426 subsidy’ in 2010, with a maximum duration of six months. However this programme was not extended in 2011.

Moreover, a structural change has been made to the contributory UB system, which has been extended to cover self-employed workers who have seen their incomes reduced by more than 30 % in the last year. In these cases, the contribution period criteria are stricter for those who used to be self-employed than for hired workers, ranging from two months’ benefits for contributions of at least twelve months up to a year of benefits for those self-employed who have contributions of 48 months or longer.

In **Belgium**, the Win-Win Plan which has been in place since 1 January 2010, concerns the activation of UB for young people (aged under 26), older workers (aged over 50) and long-term (from one to two years of unemployment) jobseekers during the years 2010 and 2011. In **Luxembourg**, particular attention has been paid to older workers, who have been particularly affected by the crisis and have benefited from an extension in the duration of payment of unemployment benefits as well as being targeted by other schemes to facilitate their return to, or retention in, the labour market. In **Italy**, several emergency measures were introduced

immediately after the downturn became evident. The measures aimed mainly to increase the number of potential beneficiaries and to extend the scope of short-time working arrangements and exceptional unemployment benefits. The following adaptations to the existing system were made:

- (i) conceding the ordinary unemployment allowance to ‘suspended’ (i.e. temporarily laid-off) employees in firms that cannot apply for the CIG schemes (see below);
- (ii) conceding the reduced unemployment allowance to employees who are temporarily laid off but who only meet the requirements for the reduced benefit (that is, 78 days worked during the previous year, plus the same insurance requirement);
- (iii) extending, for the 2009-2011 period, the ordinary unemployment allowance to apprentices – either ‘suspended’ or laid off – with at least three months of experience;
- (iv) introducing, for the 2009-2011 period, a special lump-sum indemnity for project workers who work for a single employer (regime di monocommittenza) and whose income for the previous year falls within specific thresholds;
- (v) offering the possibility to apply for exceptional unemployment benefits to all types of employees (including fixed-term employees, temporary agency workers and apprentices).

In **Finland**, a change was also made to accommodate people affected by temporary lay-offs as a result of the crisis. In the Social Wage Agreement of January 2009, the social partners agreed, among other things, that the ‘Change Security’ activation measure should be extended to temporary lay-offs, so that people who are temporarily laid off would be eligible for training or upskilling measures. The Change Security measure is a package of support for long-term employees who have been laid off (for production-related reasons), which includes a bonus allowance for a return to learning, as well as enhanced face-to-face job seeking support and related services. It involves early cooperation between employers, employees, unions, public officials (particularly PES) and other stakeholders in cases where there is the threat of redundancies.

In **Portugal**, addressing long-term unemployment was a particular concern during 2009 and at the beginning of 2010. In order to support the long-term unemployed, the government introduced a series of exceptional temporary measures in relation to the Unemployment Social Allowance (USA). In March 2009, Decree 68/2009 temporarily extended by six

months the period during which claimants were entitled to receive the USA, after the expiry of their entitlement to UB. In June 2009, Decree 150/2009 and in March 2010, Decree 15/2010 extended that period successively by six months. As a result, recipients could receive the USA for up to a maximum of 18 months. This daily amount was accrued by a bonus of EUR 41.90 for each child in the household, thus giving priority to the long-term unemployed with children.

Parents of young children were the target group of a reform in **Slovakia**, where an amendment to the Act on social insurance stipulated that as of 1 February 2010, the period during which a person is on parental leave should be included in the unemployment insurance record. The main objective was to protect parents caring for children up to three years of age. Previously, if not paid voluntarily, individuals on parental leave were not covered by unemployment insurance and therefore not entitled to UB if they were dismissed after returning to work.

Changes to the eligibility criteria and conditions associated with receipt of unemployment benefits were made by a number of countries over the course of the crisis, including the Czech Republic (as mentioned above), Denmark, Greece, Latvia, Lithuania, Portugal, Romania, Slovenia, Sweden and FYROM. Some of these changes relate to the amount of contributions or employment history required in order to receive benefits, while others relate to the conditions imposed on those in receipt of benefits (such as job search requirements).

Changes to the contributions and employment history requirements seem to be mainly reductions in the amount or duration required. Some of these changes were temporary – as in **Sweden**, where the membership condition for income-related UB was temporarily lowered from one year to six months during 2009, while the requirement for having to work in order to join a fund was abolished, creating the possibility for the unemployed and students to join an unemployment insurance fund. Others are permanent changes - for instance in **Latvia** from 1 July 2009 the period of qualification for UB was (permanently) decreased from 12 to 9 months. Contribution requirements were also reduced in Romania (as discussed above) and in Slovakia.

In **Slovenia**, the new Labour Market Regulation Act (LMRA) introduced in 2011 expands the range of compulsorily insured persons (employed and self-employed) and people who can voluntarily insure themselves against unemployment. It therefore expands entitlement to UB for the time of unemployment. The condition for receiving UB is now to have been employed

for 9 months in the last 24 months (previously it was 12 months in the last 18 months). It thus increases the right to UB, especially for young people, who often have little professional experience and are employed on fixed-term contracts. The act also increases the minimum (EUR 350 gross) and maximum (three times the minimum level) level of UB, increases the amount of UB in the first three months of receipt (80 % of the average wage instead of 70 % so far) and reduces the period for determining the average wage to 8 months (previously 12). Furthermore, in an attempt to improve the financial situation of the unemployed it offered the opportunity to unemployed people to work to a limited extent (for up to EUR 200 per month), whilst preserving the right to UB and introduced the concept of partial unemployment. In the case of part-time employment the previously unemployed person retains the right to a proportion of UB. The Act also introduces new ALMP measures such as ‘job rotation’ and ‘job sharing’ and removes unnecessary administrative burdens on businesses and job seekers.

In other countries it is the conditions and monitoring applied to those already in receipt of unemployment benefits that have changed. In **Portugal**, new measures increasing job search conditionality, monitoring and control were taken in 2006 and reinforced in 2010. In **Bulgaria**, the conditionality of UB payment on registration at the labour office was strengthened during the crisis. Since the beginning of 2011, an additional requirement exists stipulating that, in order to be entitled to UB, a person should register as unemployed in the Employment Agency within seven days after the date of suspension of insurance. After this latest change, every Bulgarian will be able to exercise the right to mobility and to ‘export’ the UB to another EU Member State, if registered during the seven-day period. This change also stimulates the contact of unemployed persons with the labour administration and activates job search. In **FYROM**, one of the changes to the ‘Law for Employment and Insurance in Case of Unemployment’ made during the recession was to tighten the administrative requirement for re-registration of unemployed persons who do not receive UB.

In **Lithuania**, in order to encourage unemployed recipients of social allowance not to delay looking for a new job and engaging in economic activities, from July 2010 recipients of social allowance have been included in the group of LLE customers provided with priority service (priority in being offered new jobs or opportunities to participate in ALMPs). Also, in an effort to tackle undeclared work and abuse of the benefits system, the local labour exchanges intensified their monitoring efforts, as described in the box below.



**Box 5: Strengthening the monitoring of UB recipients, Lithuania**

As a result of reduced unemployment and social benefits, some unemployed individuals in Lithuania started to look for additional sources of income in the shadow economy. Once they had found a job in the shadow economy, they would stay registered with their local labour exchange (LLE) as unemployed and therefore receive the full social support due to them. In response to this, the LLE began conducting various checks, applying stricter requirements, and regulating visits to the labour exchange units and participation in ALMPs. Surveys conducted by the LLE in 2009-2010 found that approximately 30 % of persons registering with the exchanges were not seeking employment and registered as unemployed only in order to obtain the social guarantees that depended on the registration at the LLE.

In order to tighten controls on people registered at the LLE, the Procedure for Labour Market Monitoring Conditions was amended and updated on 22 July 2010. Control over visits to LLE units was tightened and registrations with the LLE were cancelled more often as a result of violation of registration rules. During the past years the LLE also began to have close cooperation with the State Labour Inspectorate (SLI) in order to improve the identification of undeclared work.

As mentioned in Section 2, some countries also provide financial support to the unemployed who have only lost a portion of their existing working hours or who are laid off on a temporary basis. In response to the crisis, several countries have introduced part-time unemployment benefits to complement short-time working measures which are intended to enable employers to maintain their existing labour force but at the same time reduce their labour costs. Others have changed the regulations in place to enable people who are unemployed on a temporary basis to access some form of UB.

In Germany, France, Luxembourg and the Netherlands, unemployment benefits have been made available to employees involved in short-time working measures.

- The **German** adaptation to the economic recession in 2009 was achieved by short-time work (Kurzarbeit). In 2008 the Federal Government began to adjust the short-time work programme to the needs of the upcoming crisis. Employees losing more than 10 % of their income were eligible for the scheme. In terms of the level of income support, unemployment insurance paid social contributions during the first six

months for short-time workers participating in training measures and after six months for all short-time workers. The Federal Government extended the maximum period of short-time work from the regular 6 months to 24 months and refunded social contributions made by employers under the condition that training would be provided, or that short-time work of more than 6 months be offered. The maximum duration from January 2009 to December 2009 was 24 months and from January 2010 it was 12 months. Provisions were also extended to allow for cyclical and seasonal short-time work. Moreover, the criterion that one third of the staff would have to be affected by short-time work was cancelled. See Box 7 below for an analysis of the success of this measure.

- In **France**, in May 2009 a measure called ‘short-time working of long duration’ was proposed. Under this scheme, the insurance system, with the support of the state, participates in a financial arrangement offering employees the possibility to receive compensation for an amount of 75 % of their wage for a reduction of activities under the legal working time during a long period decided by their company. In return, the company must agree: 1) to maintain the employment during a period that represents double that agreed in the convention on short-time working; and 2) to have an individual interview with each employee to examine possibilities for training actions or skills assessment. It is interesting to note that, in certain circumstances such as redundancies or compulsory retirement, companies have the obligation to reimburse the amount to the state and social partners.
- In **Italy** the Cassa Integrazione Guadagni (CIG) schemes are partial unemployment benefits granted in cases of temporary reduction of working time or suspension of economic activity. They have been extended during the crisis (‘exceptional CIG’, or *CIG in deroga*) to workers and firms previously not eligible. This was mainly achieved through making exceptions to existing legislation, and by leaving up to the Regions the responsibility to determine the categories of potential beneficiaries and the duration of the benefits. Taking into account the degree of CIG utilisation, it is estimated that 362 000 full-time equivalent workers were covered by CIG in 2009 and 368 000 in 2010: had these people been unemployed, it is estimated that the unemployment rate in 2010 would have been 9.7 % instead of 8.4 %.

- In **Luxembourg** new benefit distribution provisions for short-time working arrangements have been introduced. In essence, the 2009 law sought to improve short-time working arrangements and underlying unemployment schemes by making two temporary adaptations. The first measure consists of reimbursing the employer's share of the compensation allowance through the National Employment Fund in order to reduce the financial burden on companies during the crisis. In addition, the law enables the number of days off work each month to be adapted to the economic situation. At the same time, additional grand-ducal legislation in 2009 has raised the allowances (to be reimbursed by the government) for jobseekers in the context of short-time working schemes from the normal 80 % (85% if the jobseeker has one or more children) of the unemployment allowance to 90 % of the allowance if these jobseekers participate in a training measure.
- The **Dutch** government only took one crisis-related measure within the scope of the Dutch UB system, which was the scheme for part-time UB (*deeltijd-WW*), implemented in October 2008. Providing employees met all the requirements, the PES paid out UB for the number of hours by which the working time was reduced at a rate of 70 or 75 % of the normal wage. This scheme is described in more detail in Box 8 on Page 44.
- In July 2010 the **Croatian** Parliament passed a law to make it possible for employers to reduce the number of hours worked. This measure is also discussed in more detail on Page 45.
- In **Iceland** amendments made to the Unemployment Insurance Act in November 2008 made it possible for employees who had been forced to reduce their level of employment to complement their earnings with partial unemployment benefits. In addition, individuals eligible for earnings-related benefits could make up for their loss of income by spreading the earnings-related benefits over a longer period than the three month maximum. The amendments also applied to the self-employed who had been forced to reduce their level of operation or temporarily close down their business.

In Belgium and Norway, changes have been made in order to provide further support to workers who have been temporarily laid off. The **Belgian** temporary unemployment scheme was extended to white-collar employees to limit job losses resulting from the recession, following consultation with the social partners in June 2009. Furthermore, the level of

temporary UB was increased for all workers, from 60 % to 75 % of previous earnings, depending on the family status. In **Norway**, there has been a series of changes concerning the UB available to individuals who have been temporarily laid off: since 1 February 2009, an employer can temporarily lay off employees for 52 weeks (instead of 30 previously) during a period of 18 months; from 1 April 2009, the obligation for companies to pay unemployment compensation in the case of temporary lay-offs was reduced from 10 to 5 days; from July 2009, a person who has been temporarily laid off is entitled to UB after a period of five days.

Other changes to income support for the unemployed during the economic crisis include:

- *Supporting the unemployed to continue to meet their mortgage payments (Poland and Portugal).* For example, in **Poland** the government introduced a temporary measure in August 2009 offering support to unemployed persons to pay their mortgage instalments. The measure was intended to stabilise the financial situation of people with a credit obligation, who had lost their jobs, were registered as unemployed and were entitled to unemployment benefits. People who lost their job or closed their business after 1 July 2008 could apply for this support. Eligible persons could apply for a refund of a maximum of PLN 1 200 (around EUR 300) per month for a period of 12 months. Repayment would begin two years after the end of the support, in the form of interest-free, equal monthly payments over eight years. This measure, like unemployment benefits, was financed through the Labour Fund.
- *Additional resources to enable the PES to cope with increased demand (UK):* One of the main changes taken in the **UK** in response to the crisis (in relation to UB) related to providing more resources for Jobcentre Plus (JCP) to handle the extra demand. In the April 2009 budget, an extra GBP 1.3 billion (EUR 1.4 billion) was allocated to JCP in recognition of its increased workload. This was used to recruit an extra 4 000 staff, contributing to an overall increase of around 15 000 staff since the start of the recession.
- *Changing the system of payment of UB (Finland):* The clearest change in unemployment benefits made in **Finland** in response to the crisis was in 2009, when the legislation was changed so that at least the basic level of unemployment allowance could be paid in advance. This was done to address the large backlog of payments due to the sudden downturn in big industries.

- *Using the unemployment insurance fund to finance employer subsidies (Turkey):* An ‘emergency package’ was adopted in **Turkey** in late 2010, which through the reduction of social security contributions, aimed to provide employment for 200 000 persons in the private sector. The government twice prolonged the premiums, which were paid for by the unemployment insurance fund.

In **Latvia**, in addition to a number of changes made to the UB system during the crisis, the ‘Work with a stipend’ programme was introduced to support those unemployed who had exhausted their entitlement to benefits. It is described in the box below.

**Box 6: Work with a stipend, Latvia**

As unemployment surged in Latvia in 2009 it was recognised that measures were needed to address the growing number of individuals who had run out of UB and remained unemployed. This resulted in the development of the ‘Work with a stipend’ emergency public works programme, introduced in September 2009. This measure was set up with technical assistance from the World Bank and is co-financed by the European Social Fund (ESF).

The measure aims to provide work and income support for the unemployed who no longer receive unemployment benefits but are willing to engage in community jobs offered by the municipalities. Participants currently receive a grant of LVL 80 (around EUR 114) per month<sup>14</sup> based on full-time participation. The work placements must be newly created and an individual must participate in a placement for a maximum period of six months and a minimum period of two weeks per year.

From September 2009 until 30 April 2011 a total of 91 116 individuals participated in the programme. An evaluation was carried out by the Latvian Academy of Agricultural and Forestry Sciences, the results of which were published in July 2011. The main findings are as follows.

- The average participant in the programme is over 45 years old with a professional or general secondary education.
- The majority (94 %) of participants acknowledged that the measure provided significant or very significant income support during the economic crisis period.

<sup>14</sup> Initially, from September 2009 until the 1 July 2011 the allowance was equal to 100 LVL (EUR ~ 142) and purchase and/or rent of small equipment was also covered. Other costs such as transport, wage supplements for supervisors and those organising the workplaces in municipalities are still covered (a fixed maximum amount for one workplace) by the programme.

- For persons participating in the measure, their household income per person is higher than for persons waiting to participate in the measure or for those having recently participated in the measure. However, the study has shown that the measure was not able to completely eliminate the risk of poverty for the participants. The income level of individuals participating in the measure in general was lower than the poverty threshold set by the Central Statistical Bureau of Latvia.
- The measure has relieved the pressure on local government budgets, thereby reducing the social benefits burden.
- The measure has contributed towards increasing the skills of unemployed participants. According to the survey of participants, 50 % have increased their interest in searching for a job, with approximately 27 % of participants increasing their ability to find one. At the same time the survey revealed that approximately 39 % of activity involved individuals who were not looking for a permanent job on a regular basis.

As indicated elsewhere in this document, a number of changes were introduced in Latvia in response to the crisis. The majority of these changes will be phased out in the future. In terms of the 'Work with a stipend' programme, the allowance has been reduced to LVL 80 (EUR 114) from the second half of 2011. The aim is to lower the financial attractiveness of the measure, thereby motivating the unemployed to seek employment and return to the labour market or take part in alternative employment measures.

Finally, it is worth noting that there are a number of countries where the UB systems were not used as a tool to address the economic crisis, including Cyprus, Hungary, the UK and Turkey. In **Cyprus**, the government chose instead to deal with the increasing unemployment, long-term unemployment, and the implied hardship through a series of new programmes which support employability and focus on the reform of the PES. **Hungary** has also not changed its UB system and in the **UK**, the financial crisis and the ensuing recession, did not result in significant changes to UB, although a major reform of the system has been now been proposed (see Section 4). In **Turkey**, while the unemployment insurance fund was used to fund employer subsidies, as noted above, no changes to actual unemployment benefits were made. Instead, the government tried to devise policies to increase the employability of young people and provided incentives for the employment of women and youth.

### **3.2 Rationale for adapting unemployment systems and initial assessment of the reforms' success**

The national articles cite a range of reasons for adapting unemployment benefit systems during the economic crisis. These range from protecting UB beneficiaries and sheltering companies from the effects of the recession to cutting public budgets and increasing incentives to search for jobs. In terms of success, although it is early to make an assessment of most of the measures described above, in some countries it is possible to observe initial results, as discussed below.

In Latvia, Portugal and Romania, the reasons cited for the reforms to the UB systems were linked to the protection of the unemployed from the effects of the crisis. Thus in Portugal and Romania the duration of UB payments was extended to take account of the fact that in a recession, there are less jobs available and people are therefore more likely to stay unemployed for longer. In **Latvia**, the main reason given by the government for the aforementioned changes to the UB system is that they would mitigate the social strain in society created by high and prolonged unemployment and reduced incomes.

In the Czech Republic, Italy and Turkey, the UB systems are credited with having played an 'automatic stabiliser' role during the economic crisis. According to the national article for the **Czech Republic**, the UB system clearly played a stabilising role over the more recent business cycle, both as a fiscal stabiliser and from the worker security perspective. In **Italy**, the availability of short-time working arrangements from the very beginning of the crisis has proved to be a strength of the system and acted as an automatic stabiliser not only on the income side, but also on the unemployment side. Although no changes were made in response to the crisis in **Turkey**, existing UB arrangements did play an important role in their capacity as an 'automatic stabiliser' by delivering income support to households in need.

In Germany, Italy, the Netherlands, Croatia, Iceland and Norway, measures (often measures supporting short-time working through the payment of short-time UB) were taken to protect companies from the recession and thereby prevent unemployment. In **Norway**, the changes concerning the UB available to individuals who have been temporarily laid-off were requested by social partners to make it easier, for companies strongly exposed to competition, to survive the crisis. The changes introduced aimed to provide individuals with an opportunity to secure a financial income, enabling companies to benefit from the skills an individual can bring to the company for this specified period and providing companies with more flexibility

in managing lay-offs. In **Iceland**, the amendments made to the Unemployment Insurance Act in November 2008 aimed at cushioning the fall in income and making it more attractive for firms to increase part-time employment rather than make workers redundant. The amendments also applied to the self-employed who had been forced to reduce their level of operation or temporarily close down their business.

As mentioned above, **German** policy during the recession was targeted at preserving existing jobs through short-time working measures. The policy is considered to have been successful, since together with economic stimuli and adjustments at the company level, the German economy did not experience a considerable increase in unemployment in 2009 and 2010. More detail is provided in the box below.



**Box 7: Short-time working (Kurzarbeit), Germany**

Short-time work was used in various cyclical crises in Germany during the 1970s and 1980s and it was successfully applied during unification. It is designed to compensate temporary slumps in labour demand by a reduction of working hours in companies. Reduced wages are partly compensated by unemployment insurance, while employers continue to pay for social security at previous income levels. Employees receive lower incomes due to shorter working hours but see their jobs preserved at least for the duration of short-time working. As outlined earlier in this report, in 2008 the Federal Government began to adjust the short-time work programme to the needs of the upcoming crisis. Companies had great flexibility in applying the short-time work programme and small companies had better chance to use this system.

The programme worked. Together with economic stimuli and adjustments at the company level, the German economy did not experience a considerable increase in unemployment in 2009 and 2010. While the number of short-time workers increased to almost 1.5 million in the second quarter of 2009, the number of unemployed persons rose by not more than 0.5 million. In the meantime, the level of unemployment declined to the pre-crisis level and short-time work almost disappeared. Working time adjustments, therefore, were a key element to reduce the effects of the crisis on employment and to return rapidly to high capacity utilisation in the upswing.

It is one of the astonishing outcomes of the crisis that employment started to increase in Germany with the first signs of economic growth. Earlier recoveries were characterised by long time lags in employment growth due to previous labour hoarding (retaining more workers than is required at present output levels). This time it was different and such levels of labour hoarding have not been observed. Economic growth was strong enough to absorb the productivity potentials quickly and the expected jobless growth did not happen.

The short-time work programme demonstrates that long-term planning rather than short-term action is important in labour market policies: having played a marginal role over almost a decade, it became highly important during the crisis and provided the right instruments to bridge the economic downturn.

In **Luxembourg**, the new temporary measures - mostly regarding short-time working arrangements - are also attributed to having helped so far to avoid mass unemployment and to keep wage earners in work. Financial incentives contributed to retaining skilled workers in

work so as not to require companies to recruit a new workforce when the economy recovers. Furthermore, the UB system has worked efficiently and generously as the financial burden of measures has been met by sufficient financial resources put aside over the past boom years.

In the **Netherlands**, data suggest that the use of part-time UB has to date successfully prevented the majority of participants from losing their jobs, as described in the box below.

**Box 8: Part-time unemployment benefit, the Netherlands**

The Dutch government introduced a scheme for part-time UB (deeltijd-WW) in October 2008 as a follow-up to the short-time working arrangement which was used by companies when the crisis first affected the Dutch economy. The scheme aimed to prevent unemployment and also made sure that companies could retain valuable personnel whom they would need after the crisis.

Employers wanting to make use of the scheme had to reach an agreement, with employees and employee representatives, to reduce working hours by between 20 % and 50 %. The contracts of employees in the scheme could not be terminated, including through (early) retirement or expiry of temporary employment. Employers had to use the arrangement for at least 26 weeks and after the scheme ended, workers involved were required to return to working their regular number of hours again for at least 13 weeks. In addition, the employer was required to propose training to his or her employees in order to improve their position on the labour market. Moreover, the employees concerned were able to temporarily work at another employer (on secondment).

If the employees met all requirements, the PES (UWV) provided them with UB for those hours by which their working time was reduced. The benefit was paid at 75 % of the normal daily wage for the first two months, and 70 % thereafter. This meant that employees did not get wages for the hours they did not work - the scheme assumed that the employee was not entitled to his/her salary over the lost hours.

The scheme was prolonged until the end of June 2011, albeit with some restrictions. New companies were able to enter the scheme but companies that had already made use of the scheme could not re-apply. The prolonged arrangement was mainly intended to help to avoid problems in sectors with long-term orders, where companies were likely to encounter the effects of the crisis only in the longer-term.

Until July 2010, about 90 % of the employees that had been in the part-time UB scheme and were no longer in the scheme, had kept their jobs. A survey of employers showed that 14 % had retained superfluous personnel (labour hoarding). The main reasons for doing so were to prevent the loss of valuable personnel (67 %), high dismissal costs (31 %) and a perceived shortage of labour in the near future (21 %). About 4 % of these employers used the part-time unemployment benefit scheme to finance labour hoarding.

The number of participants in the scheme has quickly dropped as a result of the economic recovery. By December 2010 about 8 500 people were participating and in February 2011 there were 6 000. The inflow into the scheme also fell significantly. In total 75 000 people made use of part-time unemployment, of which 62 000 have already left the scheme.

In contrast to the Dutch experience, the short-time working measure applied in **Croatia** has had a very different outcome; the take-up of the measure was very low. It is suggested that the measure was introduced too late in the recession - by the time the measure was introduced, the recession had already deepened and the outflows from employment were already underway, since other conditions such as ability to pay had been reduced to a level which had repercussions across the economy. Thus it was too late for measures initially meant to retain workers while cutting production. Furthermore the method of implementation is also said to have been inappropriate; there was a lot of administrative red tape and the level of subsidy was very small, somewhat in excess of HRK 1 000, i.e. EUR 137 per person.

Timing was also felt to have been an issue in **Slovakia**, where discussions concerning revisions to the unemployment support scheme began at the beginning of 2009, following the significant increase in unemployment. However, hesitant political positions together with a rapidly declining fiscal situation resulted in a restricted revision of the UB scheme that was only approved in February 2010. The timing of the policy measures (effective from 1 September 2010) was considered too late to support groups most affected by the crisis, so that the changes had little 'anti-cyclical' effect.

In other countries (e.g. Ireland, Estonia, Latvia, Lithuania, Iceland) where the reforms decreased the generosity of the UB systems, the priority was to cut the costs of the systems to the public budgets or maintain the financial sustainability of the systems. In **Estonia** for instance, recent changes have mostly concentrated on maintaining the sustainability of the unemployment system during the crisis (by increasing employers' and employees' contributions) rather than increasing expenditure (through wider eligibility or increased

generosity of the system). In **Latvia**, some of the changes described above were intended to reduce the budgetary burden of the UB system, for example through introducing the benefit ceiling. In **Iceland**, as mentioned previously, it was suggested that the amendments to the Unemployment Insurance Act would generate more funds for ALMPs and counselling.

The cuts in **Ireland** have proved to be highly controversial. The decreases in basic JB and JA payments were not mitigated by any counterbalancing adjustments elsewhere and in fact were only part of a wider range of benefit cuts which applied to all welfare support, except for State pensions and invalidity supports. Furthermore, other household supports, such as child benefit, have also been substantially reduced in recent Budgets. Some groups, the trade unions in particular, have been highly critical of the approach taken, arguing that the scale of the welfare reductions, when taken with the numerous other budget adjustments, is such that it will impact negatively on aggregate demand and suppress economic growth – thus making it more difficult address the deficit in the State finances. The more widely held view is that the problems in the national finances have to be addressed first, since if the deficit position is allowed to drift, the economic problems will intensify and correction will be much more difficult.

The **Lithuanian** government placed the key focus during the economic downturn on the stabilisation of the national budget, with less of a focus on employment and labour market policy measures. The main instrument for stabilising the national budget was saving, i.e. wage cuts in the public sector and the reduction of other budget expenses. As a result, the maximum amount of UIB was reduced considerably from 1 January 2009. However, the Government's approach in respect to UIB payment and labour market policy is not considered to have been effective and has not reached the intended results – the reduction in the amount of UIB led unemployed people to apply for social allowance and other social guarantees. As a result, what was saved by reducing UIB had to be spent on social allowances and the provision of other social guarantees. Furthermore, the wider participation of the unemployed in the social assistance scheme drew them into a poverty trap and increased participation in the shadow economy. Declining living standards and the overall limitation of social guarantees (particularly reduction of old-age pensions and unemployment benefits) reduced the confidence of Lithuanian residents in the national social welfare system and contributed to the spread of emigration and the shadow economy.

In **Serbia**, as noted previously, the 'pro-cyclical' changes introduced by the new 2009 law are said to have prevented the UB system from acting as an automatic stabiliser. However, the

total spending on unemployment benefits increased both in 2009 and 2010 because of the removal of benefit arrears. Therefore, despite the less generous replacement ratios, the unemployed who were eligible for the benefits were at least protected much more efficiently, as the data on overall expenditures show, by receiving their benefits when they needed them the most. In fact, although the legislative change regulating unemployment benefits occurred some eight months after the start of the crisis in Serbia, the draft of the new law on employment and unemployment insurance was largely prepared before the start of the crisis. Therefore, the new solutions were driven by pre-crisis experience and dynamics. The philosophy behind the new (2009) law was simple; it was meant to strike a better balance between active and passive labour market policies and to promote the activation of the unemployed, including the recipients of unemployment benefits. Until 2009, spending on passive measures comprised some 90 % of total spending on labour market policies, despite the fact that the benefit coverage rate hardly ever exceeded 10 % of the total registered unemployed persons. Put simply, 10 % of benefit recipients were receiving some 90 % of the total available resources for labour market policy aimed at the unemployed.

Incentivising the unemployed to find work (more quickly) or to pursue training opportunities was the rationale behind the policy changes in other countries, including the Czech Republic, Denmark, Ireland and Lithuania. In the **Czech Republic**, it is suggested that the introduction in January 2009 of a higher replacement ratio during the first two months of unemployment, and thus the steeper decline in replacement ratios during unemployment spells, would provide the unemployed with a stronger incentive to leave the unemployment register as they see their benefit levels decline. In **Denmark**, although the reform of the UB system will lead to an increase in the number of persons losing the right to unemployment benefits, it has been argued that it will help increase in the labour supply in the longer run, which will lead to a corresponding increase in employment. In **Lithuania**, the inclusion of recipients of social allowance in the group of LLE customers provided with priority service was made in order to encourage these benefit claimants not to delay looking for a new job and engaging in economic activities. Under the priority service, unreasonable refusal of a job offer or failure to appear at the LLE is a basis for the cancellation of registration with the LLE and, as a consequence, loss of the right to receive social allowance. As noted above, the changes made to the rates of JA paid to persons under 25 years in **Ireland** were mainly intended to encourage young people to avail of training or further education opportunities.

In Bulgaria, Estonia (see page 26) and Slovenia, the reforms introduced are intended to be a step further in the implementation of the concept of flexicurity. In **Bulgaria**, a daily UB was introduced in 2010, calculated as 60 % of the average daily remuneration (or average daily insurance income), instead of the previously applied monthly benefit. This change was made in order to stimulate employment flexibility and sustainability. As a response to the economic crisis the **Slovenian** government adopted (relatively late) in October 2010 and introduced in January 2011 the new Labour Market Regulation Act (LMRA), as mentioned above. The main objectives of the new act are to introduce the concept of flexicurity in the labour market by increasing the security of persons who have lost their jobs, by increasing the effectiveness and efficiency of active employment policy measures, by reducing administrative burdens for businesses and people in the labour market and by strengthening the control of institutions in the labour market. The aim is also to extend labour market measures (e.g. career guidance, preparation for employment, etc.) to cover both the unemployed and those who are in the process of losing their employment.

### **3.3 Duration of the measures**

In the context of the European Employment Strategy, developments in the field have been monitored by the 2010 Joint Employment Report (JER) prepared by the Council and the European Commission<sup>15</sup>. The JER noted that throughout the crisis, European social protection systems have suffered a strong stress test with the sharp increase in unemployment. However, they have played an instrumental role as ‘automatic stabilisers’, by cushioning the immediate social impact of the downturn and mitigating the risk of the unemployed falling into poverty. The JER indicated that if some passive measures introduced in past recessions (such as early retirement, exit towards disability and sickness benefit schemes) are counterproductive, income support measures have provided relief to many in need since the onset of the crisis. This explained the fact that in a number of Member States, the duration, level or coverage of unemployment benefits were adjusted.

However, it is important that anti-cyclical measures are temporary, in order to maintain the sustainability of public finances. Furthermore, while it is important to provide both re-employment assistance and income support to people who lose their jobs as a result of the economic crisis, at the same time the provision of income support needs to be designed to

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<sup>15</sup> <http://register.consilium.europa.eu/pdf/en/10/st05/st05037.en10.pdf>

avoid the risk of high social benefit dependency after the recession has ended<sup>16</sup>. Thus an important issue to be considered, in relation to the use of ‘automatic stabilisers’, is how these will be phased out. For instance, the 2011 JER of the Council and the European Commission<sup>17</sup> recommended that temporary extensions of benefits and of the duration of unemployment insurance introduced in the context of the economic crisis should be reviewed as the economic recovery becomes more stable and when more jobs become available.

In a number of countries, the measures described above were introduced on a temporary basis and in some countries have already been phased out. In **Bulgaria** for example, entitlement to long-term UB came into force during 2007 to 2010. However in 2010, the share of long-term unemployed persons (of the total number of unemployed) increased to 46.4 % due to the crisis, creating an additional burden on the Unemployment Fund. Thus in 2011 the entitlement to long-term UB was revoked.

In **Portugal**, the UB reforms during the crisis can be divided into two very different phases. There was a first phase of measures taken in 2009 and at the beginning of 2010 which included increasing the duration and the amount of certain benefits and granting access to groups previously not covered by the UB. The second phase started in the second half of 2010, reversing not only this increased protection level but also some of the protection level that existed prior to the crisis. In fact, most of the temporary anti-crisis measures in Portugal were withdrawn before their expiry, leading to decreased protection levels due to the austerity measures introduced in June 2010.

In other countries, austerity measures have meant that the measures introduced during the crisis will be prolonged or deepened, or that new changes have been made or are planned for the UB systems. In **Ireland**, the process of cutting UB payments is likely to continue; as fiscal correction is scheduled to continue for at least three more years, there have been clear signals that these rates are likely to be reduced again.

In the **Czech Republic**, in January 2011 a special low replacement rate of 45 % (of UB relative to previous net monthly wage) was introduced for those unemployed who left their last job voluntarily or without ‘serious reasons’ (loosely defined by the law). This tightening of the UB system was mainly motivated by the austerity programme of the newly elected government. Since 2011, UB is also not provided during the months when the unemployed

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<sup>16</sup> OECD, 2009, ‘The Jobs Crisis: What are the implications for employment and social policy?’ in *OECD Employment Outlook, Tackling the Jobs Crisis*. Internet: <http://www.oecd.org/dataoecd/6/1/45219634.pdf>

<sup>17</sup> <http://register.consilium.europa.eu/pdf/en/11/st07/st07396.en11.pdf>

worker collects severance pay (the UB eligibility period is postponed rather than reduced). A problem with this clause is that eligibility for severance pay automatically leads to delaying UB disbursement even if severance pay is not actually paid by the employer. This tightening of the UB system in 2011 was introduced within the across-the-board austerity drive as the increase in 2009 replacement rates was not seen as a temporary anti-crisis measure<sup>18</sup>. Other changes include for example the cancellation of the opportunity for earned income (from low-paid or part-time work) to be supplemented with benefits; this option was abolished in January 2011 (within the ‘austerity’ package) as it was suspected that it facilitated significant UB misuse.

In pursuit of its tough austerity programme, the current **Romanian** Government reduced by a further 15 % the amount of UB as well as of all other associated benefits in mid-2010, in what was a radical internal devaluation aimed at re-balancing the country’s budget. While preserving for the whole of 2009 and even in 2010 the principle which allowed for the calculation of the basic component of the UB in relation to the minimum salary (75 % of the latter), the Romanian Government moved finally to sever this link in January 2011 and make the UB dependent on the reference (benchmark) social indicator, set at the value of RON 500 (EUR 119) (minimum salary at RON 670 / EUR 159).

The **Romanian** Government also tightened, at the end of 2010, the eligibility conditions for UB in an attempt to prevent abusive use by enterprises and individuals alike, of repeated spells of UB within a period of less than 12 calendar months. As such the minimum eligibility condition of 12 full months of contribution during the 24 months preceding the application for benefit has been further tightened, calling now for a minimum of 12 months in between two successive applications and thus removing the possibility to repeat claims in the span of 24 months through the cumulative use of contribution periods used by the same beneficiary for an earlier benefit claim. This condition however, while justified in terms of financial sustainability and prevention of abusive practices, creates a certain disadvantage for workers in temporary or seasonal jobs as well as for young people.

In other countries, changes have only recently been implemented or are proposed for the coming year. For instance, in **Belgium**, in March 2011 the ceilings used to determine the UB rate were increased by 1.25 % and the benefit rate for single workers in the second period of unemployment was also raised from 53 % to 55 %. From 1 September 2011, the minimum

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<sup>18</sup> The lower social security contribution rates for low-wage workers were already phased out by the end of 2010



and flat-rate levels will be raised by 2 %. In **Bulgaria**, the government took a decision to abolish the upper threshold of UB in 2011 while preserving its protected minimum amount. This entails an increase in compensation for job loss, allowing the unemployed to preserve their previous living standard.

#### **4. Reform priorities within the Europe 2020 framework**

In January 2011, the European Commission released its first ‘Annual Growth Survey’ (AGS)<sup>19</sup> which sets out 10 priorities for tackling the EU’s main economic challenges. The AGS is the first step in a new system to help national governments to coordinate their responses. The AGS brings together the different actions which are essential to strengthen the recovery in the short-term, to enable Europe to keep pace with its main competitors and to prepare the EU to move towards its Europe 2020 objectives.

The 2011 AGS stresses that reforms to UB systems need to focus on strengthening employment incentives. Hence, under the sixth priority action ‘Getting the unemployed back to work’ the AGS calls for reforms oriented towards:

- (i) designing activating UB systems which reward unemployed people returning to work or entering self-employment;
- (ii) tax and benefit systems ensuring that work pays; and
- (iii) unemployment insurance systems that adequately adapt to economic conditions.

The Joint Employment Report (JER)<sup>20</sup> which accompanies the AGS also stresses the need for UB systems to provide the right incentives to work, while ensuring income support and adaptability to the business cycle. The JER also highlights that further reforms to UB systems and other benefit schemes should aim to combine efficiency gains and fairness. It suggests that unemployment and other employment-related benefits systems should continue to ensure an adequate level of protection at any phase of the economic cycle and be sufficiently flexible to enable benefits to be easily adjusted to fluctuations of the cycle.

These recommendations are also in line with the Guidelines for the employment policies of the Member States<sup>21</sup>, which should orientate national reforms in this area during the current cycle of the European Employment Strategy and the Europe 2020 Strategy. In particular, Guideline 7 on ‘Increasing labour market participation of women and men, reducing

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<sup>19</sup> [http://ec.europa.eu/europe2020/tools/monitoring/annual\\_growth\\_survey\\_2011/index\\_en.htm](http://ec.europa.eu/europe2020/tools/monitoring/annual_growth_survey_2011/index_en.htm)

<sup>20</sup> [http://ec.europa.eu/europe2020/pdf/3\\_en\\_annexe\\_part1.pdf](http://ec.europa.eu/europe2020/pdf/3_en_annexe_part1.pdf)

structural unemployment and promoting job quality’ draws attention to the need to set up adequate social security systems to secure labour market transitions, accompanied by clear rights and responsibilities for the unemployed to actively seek work; while Guideline 10 on ‘Promoting social inclusion and combating poverty’ also states that benefit systems should focus on ensuring income security during transitions and reducing poverty, in particular among groups most at risk of social exclusion.

This section reviews recent measures and those proposed/planned in the 33 EEO countries which are of relevance to the structural reform priorities set out in the AGS and JER. Given that the adaptation of unemployment benefits is discussed in the previous section, the focus here is on measures to strengthen activation policies and ALMPs and those to improve the coverage of benefits. Some additional proposed reforms are also described.

#### **4.1 Measures to strengthen activation policies and ALMPs**

In addition to income support measures, it is important that the unemployed are supported through activation measures and ALMPs during a recession, in order to facilitate their return to work and thereby ensure that the benefits ‘safety net’ functions ‘as a trampoline and not as a passive net’<sup>22</sup>.

A number of countries have put forward plans or proposals to strengthen ALMPs and activation measures, including Belgium, Greece, France, Latvia, Luxembourg, Hungary, Portugal, Slovakia, FYROM and Norway. For instance, the **Latvian** National Reform Programme (NRP) for the period 2011-2013 focuses on strengthening and developing ALMPs in order to increase the efficiency and quality of the unemployment training process, among other objectives. As the economic situation improves, emphasis has turned to providing job search assistance and matching activities. A public works programme will be introduced from 2012, resuming a previously implemented measure for those in long-term unemployment. The **Portuguese** Initiative for Competitiveness and Employment (Iniciativa para a Competitividade e o Emprego), launched in December 2010, includes the goal of implementing active employment policies throughout 2011, to enhance the employability of the unemployed and young people seeking employment. The initiative also foresees plans to (further) strengthen activation policies in relation to qualification and vocational training.

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<sup>21</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:308:0046:0051:EN:PDF>

<sup>22</sup> OECD, 2009, ‘The Jobs Crisis: What are the implications for employment and social policy?’ in *OECD Employment Outlook, Tackling the Jobs Crisis*. Internet: <http://www.oecd.org/dataoecd/6/1/45219634.pdf>

In **Belgium**, the economic crisis and increasing unemployment led to a debate on the effectiveness of the activation procedure. A new unemployment support scheme has been adopted; however, negotiations have yet to be held with the regions in order to finalise a new cooperation agreement. The activation procedure should now be more rapid and more individualised as soon as unemployed individuals register with a regional PES. The elaboration of the personal action plan by the regional PES and the first interview with the federal employment service will take place sooner. Monitoring will be suspended if the jobseeker engages in at least 20 hours of training per week or if he/she is declared 'at a distance from the labour market'. Exclusion from UB will occur only after a six-month period during which UB will be reduced by 25 %.

In **Hungary**, as part of the newly proposed 'Hungarian Work Plan' UB recipients will be obliged to take part in public works programmes. Although this programme has the potential to activate a large number of non-working individuals, it also has risks, as explained in the box below.

**Box 9: Public Works Programme, Hungary**

Reaching and activating the non-working population is a major challenge for employment policy in Hungary. The recently introduced 'Hungarian Work Plan' (HWP) includes a public works programme, which means that unemployed people who want to receive cash benefit must accept any public work offered to them, regardless of their level of education. At the same time, the unemployment insurance receipt period has been dramatically shortened and UB has been abolished. This means that what remains is a restructured social assistance system which is now essentially based on public works.

Remuneration for public works has a lower limit at a special minimum wage, which is below the minimum wage applicable to the open labour market. One reason for this is the intention of motivating participants to enter the open labour market; another is that public employment is expected to come with a set of fringe benefits such as support for commuting and temporary accommodation if the work is undertaken in a remote area. Public works can be organised by the state, by municipalities and by churches and cover a wide range of jobs from building to community service. An interesting feature is that it will be possible to outsource participants to private companies operating in certain areas (such as forestry) under similar conditions (contractual arrangements and wages) to those in the actual public works. This

ALMP is thus used as both a way of delivering some cash to the poor but is also an attempt to activate the longer-term unemployed, providing wage flexibility in an unorthodox way.

If delivered efficiently, the HWP has the potential to activate around 200 000 non-working individuals who will be shown as employed in the employment statistics. They will be able to obtain cash benefit only through work, thereby motivating them to work. Similarly, a lower than market wage will certainly provide some genuine motivation to enter the open labour market. However, it is yet to be seen how this motivation will relate to other factors which may strongly affect outcomes, such as the ability of the affected individuals to work (which is currently often very poor). All we know at the moment is that in the past, under more prosperous economic climates, public works participants have benefited less than those in other programmes or those participating in no programmes at all. Studies have shown that participants in public works have lower employment chances than other unemployed people, which can be caused by several factors, including the lack of time for job search. This shows that it will be very difficult to make this ALMP work well.

Thus, although there are a number of similarities in the aims and actions proposed by the HWP to the structural reform priorities set out in the Annual Growth Survey (AGS) and Joint Employment Report (JER) (e.g. the need for fiscal consolidation, labour market reforms for higher employment, making work attractive, and getting the unemployed back to work) there are also a number of questions regarding the policy programme. These relate for instance to the fact that the direct cost of public works is yet to be seen, the risks of crowding out both private investments and workers on the open labour market, and the fact that the short unemployment insurance period makes it easier to dismiss workers and re-hire them as public workers, among others. There is also a risk of a poverty trap and segmentation that can seriously endanger social inclusion efforts.

In **Norway**, activation policies to improve job search efforts by people receiving benefits are high on the policy agenda. For the last 10 to 15 years, policy changes have been aligned with the international trend connected with ‘workfare’ policies, activation policies to avoid long-term or permanent inactivity and reforms to make working life more ‘inclusive’. One particular issue to be tackled in Norway is the structural low unemployment rates among immigrants and one measure proposed to increase their employment rate is to make participation in different forms of training courses compulsory.

The **Dutch** government will actually introduce budget cuts for reintegration tools starting in 2012. The effects are likely to have an impact on people furthest from the labour market and people who work while receiving some kind of support, for instance people whose employer receives wage costs subsidies. In particular costly programmes are likely to disappear, such as wage subsidies to compensate for the lower productivity of people with disabilities which have an impact on their work. As a consequence, an increase of 45 000 people claiming social assistance (WWB) is expected, partly due to the proposed integration of the three benefit schemes for people at a greater distance from the labour market. This contradicts the aim of increasing labour participation and could moreover result in an increase in the number of people or families in poverty.

In **Ireland**, activation measures have recently been extended and reformed. To a large degree this initiative derives from an OECD review of activation policies in Ireland published in 2009<sup>23</sup>. This report found that the Irish welfare system applied a somewhat benign approach to what the study called ‘benefit gatekeeping’, particularly in regard to the application of conditionality provisions and monitoring job search. The study also considered that Irish benefit rates were somewhat high, particularly when viewed in the context of the relatively low levels of activation measures in place. The activation initiative will encompass a reform of the National Employment Action Plan (NEAP), which is to be refocused in order to establish clearer pathways to employment by ensuring that State services interact early with those who have lost their jobs to provide opportunities for facilitating job search, work experience placements or education and training as appropriate. However, it is of interest to note that a recent study<sup>24</sup> recommended that, given the current economic context, ‘it would be particularly appropriate at present to focus more heavily on the provision of short-term training programmes for jobseekers. The objective would be to enhance their skills in areas where jobs are likely to emerge in the future’. This would seem to be a relevant point to raise, given that employment opportunities are likely to remain scarce in Ireland for several years.

The latter point may also be relevant for other countries suffering from continuing high unemployment as a result of the crisis. In a similar vein, the OECD suggests that the evaluation criteria of labour market programmes should shift somewhat in the context of a jobs crisis ‘from achieving immediate gains in employment and earnings to preserving the

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<sup>23</sup> OECD (2009). *Activation Policies in Ireland*. Social, Employment and Migration Working Papers, No. 75. Paris.

<sup>24</sup> McGuinness, O’Connell, Kelly, Walsh (2011). *Activation in Ireland: An Evaluation of the National Employment Action Plan*. ESRI Research Series 20. Dublin

integrity of the mutual-obligations approach to activation and keeping the growing number of long-term unemployed connected to the labour market'. Thus the introduction of labour demand supports such as public sector job creation – targeted appropriately - should be considered as a support to activation regimes at such a time<sup>25</sup>.

#### **4.2 Improving benefits coverage and ‘making work pay’**

Reforms to improve the coverage of benefits and introduce the principle of ‘making work pay’ have been recently introduced or are proposed in several countries.

In terms of coverage, in **Sweden** for instance, the government has opened a debate concerning the introduction of a mandatory social insurance and intends to reform the UB system in two ways: to make income-related benefits cover all persons in employment; and to make the conditions for economic protection during unemployment and the basis for deciding the level of compensation equal for all workers. A Government committee is due to present its proposal on this reform in March 2012. In **Slovakia**, a reform to streamline ALMPs is being prepared and a new intermediate labour market programme is expected to encourage the unemployed, in particular long-term unemployed recipients of welfare benefits, to take up low-paid employment while providing them with temporary financial assistance and other forms of support to facilitate (re-)entry to the labour market. In **Turkey**, it is suggested that the reform priority should be to increase eligibility coverage, since for example part-time workers and the self-employed are not currently covered by unemployment insurance.

The self-employed are the target group of measures in Austria and Finland. In **Austria** since 2009 self-employed persons have been given the opportunity to voluntarily opt into the unemployment insurance system and improve their social protection, while in **Finland**, the self-employed and other entrepreneurs will be one of the targets of the government’s efforts to streamline and simplify unemployment and social benefits. Although unemployment benefits for this group have been improved by several successive Finnish governments, they still lag behind the benefits received by wage earners.

In Austria and France the duration of benefit payments has recently been extended, in combination with measures to support the unemployed to return to work. In **Austria**, from 2011 onwards the UB period was extended to 78 weeks for beneficiaries participating in a vocational rehabilitation measure. This change was not a direct response to the crisis but was

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<sup>25</sup> OECD, 2009, ‘The Jobs Crisis: What are the implications for employment and social policy?’ in *OECD Employment Outlook, Tackling the Jobs Crisis*. Internet: <http://www.oecd.org/dataoecd/6/1/45219634.pdf>

intended to guarantee a better level of social protection in cases when immediate re-integration into the labour market could not be achieved. In **France** the professional securing contract (contrat de securisation professionnelle, CSP) will allow employees who have been laid off to keep nearly the same wage as they earned previously over a year while they find a new job. Now opened to precarious working contracts, the measure will be mostly financed by Unédic (two thirds) and partly by the state (one third). In return, jobseekers will have reinforced support by Pôle Emploi, to return more quickly to employment.

In **Norway**, changes in rules relating to UB were introduced in 2011 in relation to parental benefit, maternity benefit and sickness benefit in connection with pregnancy, so these can now be counted as earned income for the minimum income requirement to be eligible for UB.

In relation to the concept of ‘making work pay’, reforms taken in Turkey and Croatia can be mentioned. In **Turkey**, one of the urgent measures taken in response to the economic crisis was to provide health insurance coverage for student apprentices in the workplace, which is considered a good move for making work pay. In **Croatia**, the national Programme of Economic Recovery aims to reduce the cost of labour by avoiding all additional taxes such as contributions for water management and the chamber of commerce and to reduce the number of income tax brackets and the progressiveness of the tax. Reducing the total labour cost will make work pay more, but it is questionable whether this will be low enough to compete with the rate in the informal sector since the take-home pay for informal work is higher than in the formal sector, making this type of work more financially attractive. In **Malta**, it is also suggested that the government needs to continue developing innovative ways to make work pay, with a focus on the low-skilled, especially the recipients of special unemployment benefits, married people and those with large households, who have fewer economic incentives to find work.

In the **UK**, the government’s proposal for welfare reform, described in Box 10 below, aims to make the system fairer, to focus on making work pay and to combat abuse of the benefit system. The reforms are consistent with the first two areas of reform highlighted in the 2011 Annual Growth Survey (designing activating UB systems which reward unemployed people returning to work or entering self-employment, and tax and benefit systems ensuring that work pays).

### **Box 10: The ‘Universal Credit’, United Kingdom**

In the UK, the government has proposed to replace the existing system of benefits (including unemployment benefits) with a ‘Universal Credit’, as part of its proposed Welfare Reform Bill. The main elements of the bill are as follows:

- the Universal Credit will provide a single streamlined benefit that will ensure work always pays;
- there will be a stronger approach to reducing fraud and error with tougher penalties for the most serious offences;
- a new claimant commitment will be introduced showing clearly what is expected of claimants while giving protection to those with the greatest needs;
- the Disability Living Allowance will be reformed through the introduction of the Personal Independence Payment;
- a fairer approach to Housing Benefit will be created to bring stability to the market and improve incentives to work;
- abuse of the Social Fund system will be driven out by giving greater power to local authorities;
- the Employment and Support Allowance (a benefit for people who are unable to work due to illness or disability) will be reformed to make the benefit fairer and to ensure that help goes to those with the greatest need;
- there will be changes to support a new system of child support which puts the interests of the child first.

Welfare reform is embodied in the introduction of the Universal Credit. The receipt of benefits will be linked to tough tests on ‘conditionality’ through the ‘Work Capability Assessment’ which will assess what a claimant is capable of, given their own individual circumstances such as disability, care commitments, etc.

The new system will be introduced from October 2013. Any overall cost savings for the welfare budget are not clear. The Institute for Fiscal Studies (IFS) reports that because the new system is likely to be easier to access for claimants, this may increase the take-up of benefits and thus increase the overall size of the welfare budget. More positively, they also



report that the new system is likely to create work incentives for the majority of benefit recipients, except for second income earners in couples, since their benefits will be reduced sooner under the new system.

These changes constitute a radical reform of the welfare system in the UK. However, some commentators feel that the package of reforms is insufficient. The Institute for Economic Affairs (IEA), for example, while in general supporting the direction of the reforms, suggests that they fail to go far enough. With regard to UB, the report proposes that continuing work requirements should be placed on those claimants not in full-time work but receiving benefits, the administration of which would be done at a local level with appropriate delegated responsibility.

### **4.3 Additional reforms**

Reforms of the existing systems of UB, or the PES, are in train or are recommended in a number of countries, including Bulgaria, Ireland, Spain, Italy, Luxembourg, Romania, Slovakia, Sweden, the UK (see Box 10 above) and Croatia. For instance the national article for **Romania** suggests that a new unemployment insurance law is more than due. The current act, although modified and updated, remains tied to the past, paying tribute to a market reality that is itself foregone. In **Italy**, the country's largest trade union (the CGIL) has put forward a proposal for the UB system to be streamlined from the current seven instruments down to two: a universal UB and a short-time working arrangement covering temporary suspensions of workers and replacing the different typologies of CIG which are currently in place.

In **Bulgaria**, the focus is on ensuring the quality of the PES which is considered to be key to future reforms. The 2011 Employment Promotion Plan foresees the introduction of PES quality standards and their certification.

In **Sweden**, a reform of the system of funding UB is currently under debate and there has also been a proposal by the Fiscal Policy Council to make benefit levels dependent on the current level of unemployment, as described in Box 11 below.

**Box 11: Proposal for a systematic adjustment of unemployment benefits, Sweden**

The Swedish Fiscal Policy Council has suggested that benefit levels could be dependent on the current level of unemployment in relation to average unemployment during the two previous years. For example, the benefit level could increase above its normal level if unemployment is 1.5 % above the previous two-year average level of unemployment (and decrease below normal level when unemployment reaches 1.5 % below the previous two-year average level). Under this rule, benefit levels would increase during periods when unemployment is increasing and benefit levels would decrease when unemployment is falling.

Undeclared work is an issue which needs to be tackled in several countries, including the Czech Republic, Croatia and Turkey. In **Croatia**, it is suggested that before the flexicurity principles can be applied in order to achieve both income security and a more flexible labour market, integrated policies need to be put in place to discourage work in the informal economy while also aiming to legalise as many of the economic activities as possible and bring them within fiscal reach. In **Turkey**, the broader challenge relating to unemployment benefits is said to be in formalising workers who work in the informal economy. It is also recommended that existing rigid employment protection regulations should be relaxed and hiring and firing practices should become more flexible.

Increasing flexibility on the labour market is being pursued in **Romania**, where the Government has made dramatic revisions to the UB system in line with the priorities set in the Europe 2020 framework. In the meantime, the Government revised both the Labour Code and the legal framework on social dialogue in spring 2011. As such, more flexibility has been induced on the market, negotiations have been decentralised, a new role has been given to social dialogue bodies and the link between the public and private sector with respect to both salaries and the negotiation of collective labour agreements severed.

The **Slovenian** government has also recently produced a number of strategic and legal documents with the aim of creating a relatively comprehensive response to the challenges of the Slovenian economy and labour market and to introduce the concept of flexicurity more decisively into Slovenian society, as a frame for a new social security.

## **5. Conclusions**

As a result of the economic crisis, unemployment has increased across Europe, leaving many people in need of financial support to avoid falling into poverty as well as help to find a new

job. In response to the high levels of unemployment brought about by the recession, aggregate data show that European countries have increased expenditure on LMPs, including both ALMPs and passive measures providing income support, such as unemployment benefits.

UB systems vary considerably across Europe in terms of their structure, generosity, entitlement and eligibility criteria. Across Europe, Governments have made a range of changes to national UB systems during the crisis, including both increasing and decreasing the generosity of the benefits, adjusting the eligibility criteria, widening access to include certain vulnerable groups, tightening the monitoring of UB claimants and utilising unemployment benefits to support short-time working measures. The reasons given for making these changes range from protecting UB beneficiaries and sheltering companies from the effects of the recession to cutting public budgets and increasing incentives to search for jobs. In terms of success, although it is early to make an assessment of most of the measures described above, in some countries the use of UB to support short-time working measures appears to have had some positive impact on the workers and companies concerned.

Many of these measures were temporary and, in some cases, new adjustments have been made as part of ‘austerity measures’ which are now being implemented in order to improve public finances. Looking to the future, a number of countries are taking steps towards implementing two of the recommendations in the AGS in relation to UB systems – to reward unemployed people returning to the labour market and to ensure that ‘work pays’. Plans for a range of activation measures and ALMPs are mentioned in several countries and further adjustments to the UB systems are also ongoing in some countries. In relation to the AGS recommendation that unemployment insurance systems should adequately adapt to economic conditions, the only notable example can be found in Sweden, where it has been proposed that benefit levels could be dependent on the current level of unemployment. However as this Review has shown, many countries are already utilising their UB systems to respond to changes in the economic climate.