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Recent reforms of the tax and benefit systems in the framework of flexicurity

Giuseppe Carone, Klara Stovicek, Fabiana Pierini and Etienne Sail

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ABSTRACT:

This paper provides an analysis of recent reforms of tax-benefit systems and a preliminary assessment of their impact on financial incentives to work and on labour supply. Many Member States have introduced policies to “make work pay” and have targeted low-wage workers with the aim of increasing their take-home pay. The labour market improvements observed over recent years are a sign that structural reforms have started to pay off. The reduction of disincentives to work and to hire, especially for the low-skilled, embedded in tax and benefit systems, a greater link with activation policies and a stronger reliance on preventive and targeted active labour market policies (ALMPs), and widespread wage moderation are all factors that have contributed to the structural improvement in the functioning of labour markets. Yet, despite these improvements, in view of the ageing of the population and rapid technological change, more progress is needed to further increase and maintain high levels of employment and participation rates, especially among female and older workers, and to reduce structural unemployment. Member States should continue along the line of reforms followed so far. The Commission has stressed the importance of a comprehensive strategy of labour market reforms (“flexicurity”) that shift the focus from protection on the job to insurance in the market. These reforms would enable workers to move more smoothly from declining to expanding activities, thus easing tensions in the adjustment process, while ensuring adequate income support and responding to potential anxieties among European citizens.

Key words: Employment, Tax and benefit policies, Unemployment insurance, Labour supply, Flexicurity, Structural Reforms.

JEL classification: *J01, J08, J20, J65, E24, J31, J32, H20, H53*

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SUMMARY AND MAIN FINDINGS

This paper provides an analysis of recent reforms of tax-benefit systems and a preliminary assessment of their impact on financial incentives to work and on labour supply.

Recent years have seen a substantial fall in unemployment (from about 10% in 1998 to reach 6.9% in July 2007), accompanied by increases in the employment rate (from 59.3% to about 64.8% in the first quarter of 2007) and participation rates (70.5% in the first quarter of 2007).

However, despite the progress made, Member States still need to reinforce or speed up reforms in various areas.¹ Given the relative under-utilisation of labour resources in many European countries and the need for dealing with population ageing, the Council recommendations of 14 May 2008, issued to all Member States within the framework of the Growth and Jobs Strategy (Lisbon Strategy), aimed at improving the economic and the labour market performance.

A sustained reform activity has been undertaken over recent years, largely aimed at improving the labour utilisation. A central part of many recent tax and welfare reform strategies has been to reduce benefit dependency by making work an economically attractive and rewarding option compared with welfare and by encouraging beneficiaries to actively seek work. Many Member States have introduced policies to "make work pay" and have targeted low-wage workers with the aim of increasing their take-home pay. These policies can be successful in raising employment and cutting poverty. But, as they are costly and must be financed by increased taxes elsewhere or cuts in public spending, they need to be well targeted and implemented carefully, and their interaction with social benefits has to be taken into account.

The analysis of the interaction of tax and benefit provisions and of their recent developments shows that Member States have undertaken a series of reforms since the re-launch of the Lisbon strategy in 2005. Some progress has been made in helping unemployed or inactive people to get a job. Some countries have reduced both the level and duration of unemployment benefits, notably Germany, the Netherlands, Hungary and France. However, looking at the indicators of financial incentives to work, the overall impression is that many of the financial measures adopted in the EU have addressed mainly the part of the tax-benefit system - such as reducing tax rates or social security contributions on low-wages to make work pay and to reduce the cost of labour - that encounters less political resistance. They also show remaining risks of low-wage traps and unemployment/inactivity traps for the unskilled or low income earners in many Member States. The increasing use of in-work benefits is making it more attractive to work relative to non-employment, although often with substantial budgetary impact and at the cost of introducing high effective marginal tax rates at a higher level of earnings.

Many recent reforms that do not appear to directly target financial incentives to work may nonetheless have improved the overall incentive structure of the benefit system. In particular, this is the case for reforms which have aimed at enhancing the enforcement of benefit systems or at tightening eligibility to some benefits. Work-availability conditions have been tightened in a number of countries. These reforms have typically reduced the scope of the unemployed to reject job offers because of occupational incompatibility with the previous job, pay and/or workplace location. Tighter work-availability conditions

¹ European Commission (2006), "A year of delivery" The European Commission's 2006 Annual Progress Report on Growth and Jobs", 12 December 2006, http://ec.europa.eu/growthandjobs/annual-report-1206_en.htm

have often gone hand-in-hand with increasing and more systematic and effective application of sanctions for refusal of suitable job offers. These reforms are very promising as they could go a long way towards reducing disincentive effects. Indeed, as also recognised in the Integrated Guidelines, there are ways other than reducing out-of-work benefits to encourage people to work, in particular activation policies (effective individualised help with job search and close monitoring of job-seeking activities, although they can be costly) and mutual obligations (the requirement to take any suitable work).

Many countries have enacted measures that increase the access to more flexible working time arrangements for both employers and employees (such as working time accounts, part-time, opening clauses allowing deviation from working time schedules agreed in collective agreements). While it is too early to evaluate their overall impact, it is important to underline that the more frequent use of opening clauses has increased the flexibility in the use of the labour force. More flexibility at the workplace can also be achieved by revising company-level legislation (e.g. reviewing the legislation restraining the opening hours of labour intensive sectors, as recently done for the retail sector in Germany, Belgium and Slovenia).

A better reallocation of labour could be achieved through reforms of the labour market and of the welfare state that, in line with the flexicurity approach², shift the focus from protection of workers in the same job for their entire lifetime to protection of workers in the market. Measures increasing flexibility at the margins, through easier access to part-time and temporary forms of work, were enacted by many countries. The reforms of employment protection legislation (EPL) enacted so far have contributed to the emergence of a dual regime, as the increase in the labour market reallocation was achieved mainly with the liberalisation of temporary contracts while leaving almost unchanged the legislation for those workers with open-ended contracts. These reforms may have contributed to sustaining labour demand in periods of uncertain macroeconomic conditions by lessening the impact on firms' hiring and firing practices. On the negative side, one should consider that in some instances partial easing of the employment protection legislation governing temporary contracts, combined with overly-strict protection of permanent contracts, resulted in a surge in the use of temporary contracts in several countries. It also divided the labour market into segments providing different levels of protection. Thus, there is room to rebalance workers' protection in the labour market by revising the legislation for workers employed under permanent contracts.

² See the Commission Communication "Towards common principles of flexicurity: more and better jobs through flexibility and security" (COMM (2007)359), adopted on 27 June 2007.

Conclusions

Although good macroeconomic fundamentals may have played a role, the labour market improvements observed so far are also a sign that structural reforms have started to pay off. In addition to a liberalisation of the labour market (although partial and imperfect), the reduction of disincentives to work and to hire, especially for the low-skilled, embedded in tax and benefit systems, a greater link with activation policies and a stronger reliance on preventive and targeted active labour market policies (ALMPs), and widespread wage moderation are all factors that have contributed to the structural improvement in the functioning of labour markets.

Yet, despite these improvements, in view of the ageing of the population and rapid technological change, more progress is needed to further increase and maintain high levels of employment and participation rates, especially among female and older workers, and to reduce structural unemployment. Table 1 provides a synthetic view of the current country-specific recommendations and of the functioning of tax-benefit systems on the basis of the most recent available indicators. It shows different combinations of flexibility and security, with countries like Denmark and Netherlands featuring a rather flexible employment relation interplaying with a relatively generous social protection system but also rather strict job-search obligations and developed active labour market policies, and other countries characterised by stricter employment relation but relatively less generous social safety net.

Member States should continue along the line of reforms followed so far. The Commission has stressed the importance of a comprehensive strategy of labour market reforms ("flexicurity") that shift the focus from protection on the job to insurance in the market.³ These reforms would enable workers to move more smoothly from declining to expanding activities, thus easing tensions in the adjustment process, while ensuring adequate income support and responding to potential anxieties among European citizens. Policies that enhance the flexibility of labour markets and promote higher labour market participation, such as reforms in the tax-benefit systems, effective activation measures and employment services, together with investment in human capital and an efficient use of policies such as training and lifelong learning that increase the adaptability to change, will contribute to improving the functioning of the EU labour markets as well as enhancing the adjustment capacity of the euro area and thus reap the full benefits of EMU.

Policies should also be evaluated rigorously in order to make employment programmes cost-effective. A high priority should be assigned to identifying and disseminating best practice in this area and to limiting the budgetary impact of policy measures.

³ European Commission Communication "Towards Common Principles of Flexicurity", COM(2007)359. Flexicurity involves the combination of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and modern, adequate and sustainable social protection systems.

Table 1 – Overview Table

MS	Flexicurity related CSRs or PTW				Indicators of tax-benefit systems and EPL							
	Covering at least one of the 4 main policy areas	Flexicurity	Flexicurity	Flexicurity	Net Income Replacement (single 67% average wage)	Net Income Replacement (single 67% average wage)	Net Income Replacement (single 67% average wage; including social assistance)	Implicit tax on returning to work - spouse with 2 children	Tax burden on low-wage	EPL highly restrictive	EPL highly restrictive	Loose availability criteria & job-search obligations
					2007	2007	2007	2007	2007	2006	2006	2004
		Benefit system	Taxation system	Employment protection legislation-EPL	Higher than 80%	Higher than 80%	Higher than 60%	METR higher than 40%	Tax wedge higher than 40%	index for regular employment (0-6)	index for temporary contracts (0-6)	index
				after 2 month	after 1 year	after 5 years			equal to or higher than 2,5	equal to or higher than 2,5	equal or lower than 3	
AT	CSR							x				
BE	CSR		CSR			x	x	x		x	x	
BG	CSR				n.a.	n.a.	n.a.			n.a.	n.a.	
CZ	CSR			CSR			x	x	x			
CY	CSR									n.a.	n.a.	
DK					x	x	x	x				
DE	CSR	CSR	CSR					x	x	x	x	
EE	PTW			PTW						n.a.	n.a.	
ES	PTW			PTW						x	x	
EL	CSR		CSR	CSR							x	
FI							x					
FR	CSR	PTW	PTW	CSR					x	x	x	
HU	PTW		PTW						x		n.a.	
IE							x				n.a.	
IT	PTW							x	x		x	
LT	CSR								x	n.a.	n.a.	
LU	PTW				x					x	x	
LV	CSR				x			x	x	n.a.	n.a.	
MT	CSR	CSR					x			n.a.	n.a.	
NL	CSR				x	x	x	x	x	x		
PL	CSR	CSR						x	x		n.a.	
PT	CSR			CSR						x	x	
RO			PTW		n.a.	n.a.	n.a.	n.a.	x	n.a.	n.a.	
SE	PTW	PTW	PTW				x		x	x	x	
SI				CSR				x		n.a.	n.a.	
SK										x		
UK											x	

Source: Commission services.

1 INTRODUCTION

This paper provides an analysis of recent reforms in tax-benefit systems and a preliminary assessment of their impact on financial incentives to work and on labour supply. The analysis is based on information on most recent reform measures provided by the members of the EPC-Labour Market Working Group (LMWG) in August 2008. In addition, the paper presents the latest available data on existing comparable cross-country indicators of the financial incentives to work, which have been calculated within the framework of a joint Commission (EMPL-ECFIN-TAXUD-EUROSTAT)-OECD research project. By combining information on reform measures with comparable cross-country indicators, it is in fact possible to take a first step towards analysing their possible effects and to gauge whether they are having a material impact on growth and employment.

The reform activity in 2008 largely confirms the importance given to the reduction of benefit dependency by making work an economically attractive and rewarding option relative to welfare and by encouraging beneficiaries to actively seek a job. Flexicurity, which had come to the forefront of the European reform agenda in 2007, has been at the centre of the policy debate this year, and its making-work-pay dimension continued to be a key element of national reform activity.

Some further progress has been made to help unemployed or inactive people get a job, mainly through reforms of the tax and unemployment benefit systems and more effective active labour market policies. Reforms which aimed at enhancing the enforcement of benefit systems or at tightening the eligibility to some benefits also contributed to improve the overall incentive structure of the benefit system. Work-availability conditions in particular, have been further tightened in a wide number of countries in 2008. These reforms have typically reduced the scope for the unemployed to reject job offers because of occupational incompatibility with the previous job, pay and/or workplace location, and have often gone hand-in-hand with more systematic and effective application of sanctions for refusal of suitable job offers.

The remainder of this paper is organised as follows. Section 2 motivates the need for reforming tax-benefit system in order to increase labour supply and employment. Section 3 illustrates the topic of "making work pay" policies and puts it in the context of flexicurity and of the integrated guidelines for growth and jobs. Section 4 illustrates the main policy instruments in the field of taxes and benefits. Section 5 presents the latest available data on quantitative indicators on progress towards removing financial disincentives to work via reforms to both tax and benefit systems. In particular, it presents the estimates for the implicit tax on returning to work (Marginal Effective Tax Rates - METRs) in 2007, which are calculated in a joint OECD-Commission project. Section 6 considers the most recent reforms in the field of tax and benefit systems, based on the information provided by the Members of the EPC-Labour Market Working Group (LMWG) in September 2008. Section 7 comments upon public expenditure on labour market policy interventions across countries and over time.

Annex 1 reports flexicurity related country-specific recommendations and points to watch. Annex 2 presents a description of tax and benefits reforms adopted in the EU27 over 2006-2007, based on the LABREF database. Finally, the Statistical Annex presents the most recent estimates for a wide range of indicators which measure the financial incentives to work for different family typologies and at different wage levels.

2 REFORMING TAX-BENEFIT SYSTEMS TO INCREASE LABOUR SUPPLY: CLOSING THE GAP WITH THE LISBON EMPLOYMENT TARGETS

Despite the overall good performance of labour markets over most recent years, employment and labour force participation rates remain rather low in the EU, and particularly so in the euro area, especially among women and older workers. Policy-makers have started to address this problem with a combination of measures to encourage both job creation (labour demand) and labour participation (labour supply). Removing disincentives to entering and staying in the labour market is an important element of the strategy for increasing labour supply, and therefore for achieving the EU employment targets and for ensuring the long-term sustainability of public finances, in view of the looming ageing of the EU population.

Progress made between 2001 and 2007 towards the Lisbon employment targets (overall, female and older workers employment rate of respectively 70%, 60% and 50% at the horizon 2010) is shown in Table 2. In the period under consideration, the overall EU employment rate rose by about 3 percentage points, to reach 65.4% in 2007.

Table 2 - Lisbon employment targets: required job performance

LISBON PROJECTIONS	2001	2007	2010	Required		Pro memoria	
				2008-2010	Annual	Employment growth	
				New Jobs		1998-2000	2001-2007
Total (15-64)							
Employees (15-64) (000)	200385	214673	234491	19818	3.0%	1.4%	1.2%
Employment rate (%)	62.5	65.4	70				
Population (15-64) (000)	320435	328307	334987				
Older workers (55-64)	2001	2007	2010	New Jobs			
Employees (55-64) (000)	19597	25795	30375	4580	5.6%	1.8%	5.3%
Employment rate (%)	37.5	44.7	50				
Population (55-64) (000)	52312	57721	60750				
Female	2001	2007	2010	New Jobs			
Employees (15-64) (000)	87407	96009	100294	4285	1.5%	2.2%	1.6%
Employment rate (%)	54.3	58.3	60				
Population (15-64) (000)	160935	164596	167157				

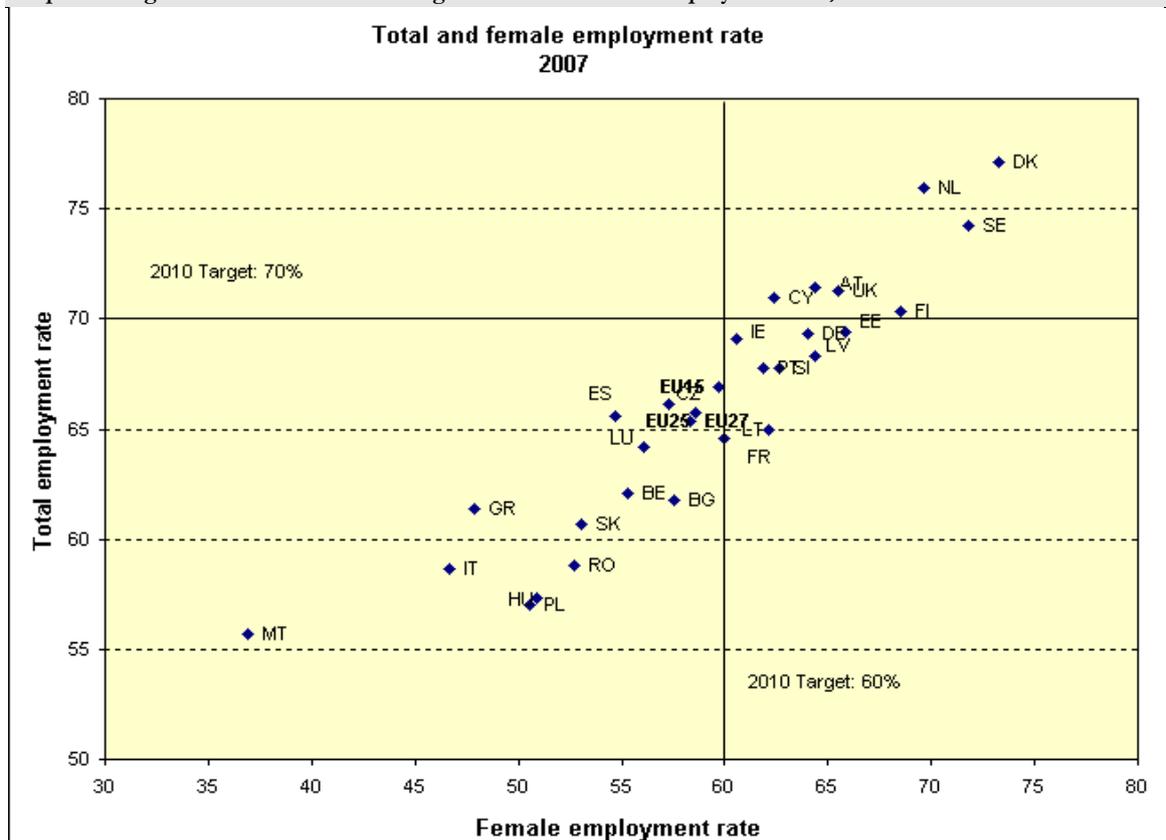
Source: Commission services, DG ECFIN calculation using Eurostat figures (Europop2004 demographic projections)

Only six countries (Denmark, Sweden, United Kingdom, Cyprus, Finland and the Netherlands) exceed in 2007 the three employment targets set under the Lisbon Strategy, while five countries stood out as being particularly far from the three targets (Hungary, Italy, Greece, Poland and Malta) (see Graphs 1 and 2 hereafter).

Between 2001 and 2007, the employment rate of women increased by 4 percentage points in the EU27 (and almost 6 percentage points in the euro area) to reach 60% in 2007. Women from younger generations showed higher participation rates than women from older generations, mainly due to a cohort effect fostered by changes in cultural attitudes and the increasing average level of female education. The female employment target was already achieved by 14 Member States in 2007 (Denmark, Germany Ireland, the Netherlands, Austria, Portugal, Finland, Sweden, United Kingdom, Cyprus, Estonia, Lithuania, Latvia and Slovenia). Among the countries with low female employment rates, Italy and Poland strongly impinged upon the achievement of the target.

Despite considerable recent improvements, in 2007 the employment rate of older workers stood at 44.7%, still far from the 50% Lisbon target. The target had been already exceeded by 12 Member States in 2007 (Denmark, Germany Ireland, the Netherlands, Portugal, Finland, Sweden, the United Kingdom, Cyprus, Estonia, Lithuania and Latvia).

Graph 1 - Progress towards the Lisbon targets: total and female employment rate, 2007



Note: EU objective 2010: 70% for total employment rate, 60% for female employment rate.

Source: Commission services

Staying at data from 2007, reaching the 70% overall employment target by 2010 would require about 20 millions additional jobs to be created – equivalent to an employment growth between 2008-2010 of 3% per year, far above the growth of both the most recent period and the historical average.

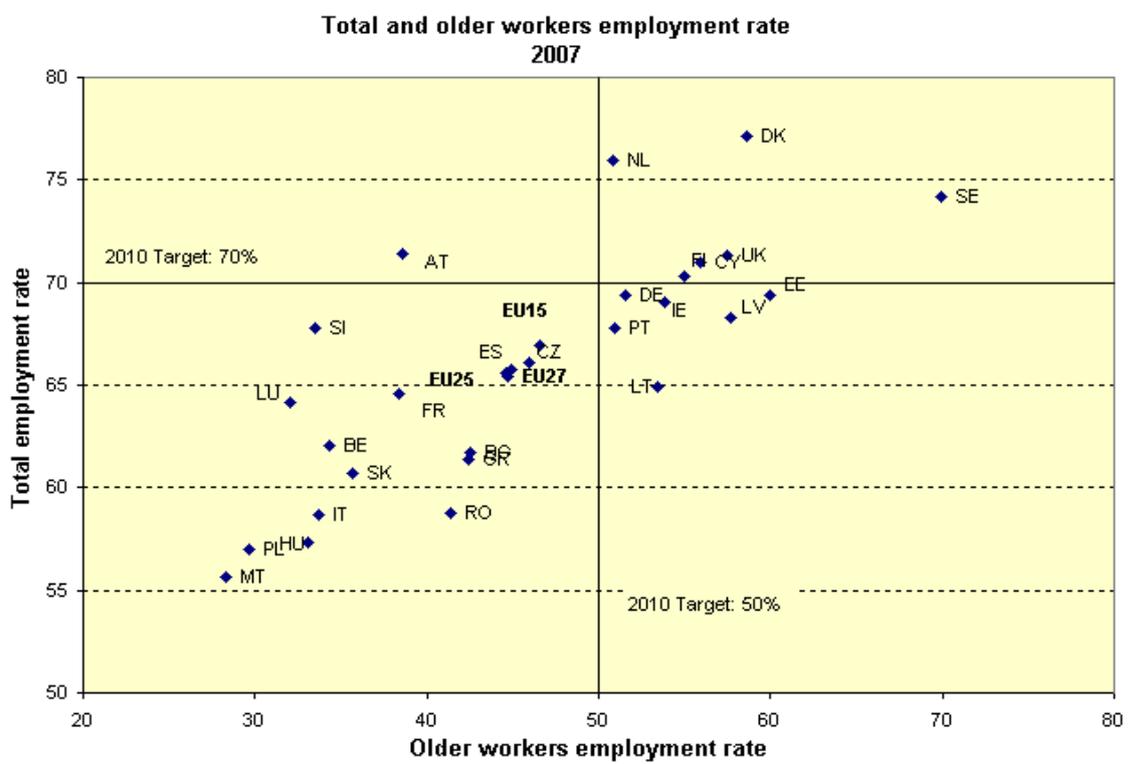
Yet, after several years of favourable growth and of good performance in terms of employment creation, economic conditions have deteriorated rapidly in 2008, mainly due to the impact of a financial crisis which came on top of a correction of in-house prices in many economies. The financial crisis deepened and broadened in autumn 2008 and started to negatively impact economic growth and labour market performance during the third quarter of 2008.

Labour market performance is expected to further deteriorate sharply in 2009. Employment is expected to increase by a meagre ¼ million jobs in the EU and ½ million in the euro area over the period 2009-2010, compared with the 6 million new jobs that were created in 2007-2008 in the EU. As a result of the decline in employment, the unemployment rate is expected to increase by about 1 percentage point in the next two years, to some 8% in the EU and 8.75% in the euro area by 2010, with increasing differences across Member States.⁴

⁴ Source: Commission autumn forecast, October 2008.

On the other hand, the increase in the participation rates observed over the last months of 2008, despite the strong headwinds faced by the European economy, seems to go in the opposite direction of what one would expect from a "normal" cyclical reaction of labour supply to a deterioration of the employment opportunities. Available evidence suggests in fact that the labour market has become more flexible and adaptable due to recent reforms. In particular, the reforms of the tax and benefit systems and the less easy access to early retirement seem to have reduced the elasticity of the labour supply to cyclical developments. The availability to work of those less attached to the labour market has in fact increased as the employment opportunities of the main earner in the household deteriorate and family incomes fall. A decline in the labour demand amid an unchanged, if not increasing, labour supply could soon bring the unemployment rate to unprecedented levels. Yet, it may relatively fast revert towards the pre-shock levels when the economy recovers.

Graph 2 - Progress towards the Lisbon targets: total and older workers employment rate, 2007



Note: EU objective 2010: 70% for total employment rate, 50% for older workers employment rate.

Source: Commission services.

3 MAKING WORK PAY POLICIES

3.1 Making Work Pay and Flexicurity

A broad consensus has emerged that labour markets should be adaptable to technological change and increasing heterogeneity of the workforce, and that the failure to reform is a source of poor economic performance. Labour markets should create jobs, not distort the incentives to supply labour, promote the reallocation of labour between sectors and occupations and, especially in periods of rapid change, be able to respond to the demand of security coming from risk-averse individuals, particularly from those at high risks of non-employment. Europe is thus confronted with a *double constraint*, symbolized by the flexibility-security nexus.

Recent policy debate at European level has concluded that flexibility and security, rather than being two conflicting dimensions of a market economy, can be part of comprehensive labour market and welfare state reform strategies. These strategies should help reconcile workers' demand for protection against unemployment and income risks with the need of modern firms to respond quickly to - and anticipate - swings in consumers' preferences and the challenges created by technological progress and globalisation. By combining new forms of flexibility and security, these strategies can help increase adaptability, employment and social cohesion. They have become a key component of the renewed Lisbon Strategy for Growth and Jobs.

The move towards a flexicurity approach has had important implications in the policy debate. First of all, it is helping *develop comprehensive rather than partial approach to reforms* of the welfare state. The recognition of the advantages of more flexible European labour markets has also led to a *rethinking of the design of employment and social policies*. The focus has shifted from measures of unconditional basic income support to measures based on the right and duties of every citizen to receive support if she/he falls in the condition of need (*right and duties* principle). Finally, it has been acknowledged that partial labour market liberalisations have increased the inequality in the treatment of workers with similar characteristics. *A better governance of the labour market relationship* requires reforms of the unemployment insurance system and of the dismissal rules aimed to limit the differences in the treatment of workers with similar characteristics but having different types of contracts.

The Commission and the Member States have reached a consensus that flexicurity policies can be designed and implemented across four policy components⁵:

- *Flexible and reliable contractual arrangements* through modern labour laws, collective agreements and work organisation;
- *Comprehensive lifelong learning strategies* to ensure the continual adaptability and employability of workers, particularly the most vulnerable;
- *Effective active labour market policies* that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;

⁵ European Commission Communication: “Towards Common Principles of Flexicurity”, COM (2007) 359 final.

- *Modern social security systems* that provide adequate income support, encourage employment and facilitate labour market mobility.

One of the key areas of reforms within the flexicurity approach is indeed to attract more people in the labour market and to make the underlying incentive structure in the tax and benefit systems supportive to employment. The aim of this policy objective, known as 'making work pay', is to modernise tax and benefit systems so that they provide effective incentives to participate in training, take up jobs and remain in work, thereby shifting the focus away from passive income support towards active measures designed to get people back to work. Policies to 'make work pay' have largely targeted low-wage workers with the aim of increasing their take-home pay. Given that the labour supply of low-wage workers is estimated to be relatively more elastic, especially with reference to the decision of working/not working (the so-called 'extensive margin'), such targeted measures have become increasingly popular as they may have not only a redistributive property but also contribute to enhance labour market efficiency.

3.2 Making Work Pay in the Integrated Guidelines

Policies to improve financial incentives to work (or to "make work pay") are a key feature of the Integrated Guidelines (see box below) and were for many years central to the Broad Economic Policy Guidelines and to the Employment Guidelines. A widespread consensus has emerged on the fact that policies in the field of tax and benefit systems (including unemployment insurance, social assistance, social security, incapacity/disability or sickness benefits) are key ingredients to mobilising more people into employment, although clearly remaining only one element of the comprehensive set of measures needed to raise labour utilisation and improve labour market performance.⁶

Improving financial incentives to work and raising the employment rates of older workers – key elements in the Integrated Guidelines

Increasing labour force participation, reducing unemployment and increasing employment have been identified as key challenges by a majority of the Member States.

The importance of improving financial incentives to work is recognised in the following guidelines:

- **Guideline 2** indicates that "*Member States should, in view of the projected costs of ageing populations, reform and reinforce pension, social insurance and healthcare systems to ensure that they are financially viable, socially adequate and accessible and take measures to increase labour market participation and labour supply amongst women, young and older workers, and promote a life-cycle approach to work in order to increase hours worked in the economy*".
- **Guideline 5** states that "*Member States should pursue labour and product markets' reforms that at the same time increase the growth potential and support the macroeconomic framework by increasing flexibility, factor mobility and adjustment capacity in labour and product markets. In particular, Member States should renew impetus in tax and benefit reforms to improve incentives and to make work pay ...*"
- **Guideline 18** calls for the Member States to "*... promote a life-cycle approach to work through [...] support of active ageing, including ... adequate incentives to work and discouragement of early retirement and modern social protection systems, including pensions and healthcare, ensuring their social adequacy, financial sustainability and responsiveness to changing needs, so as to support participation and better retention in employment and longer working lives*".

⁶ The broad consensus amongst policy makers is perhaps best reflected in the report on "Making Work Pay" of the Expert Group of Employment Committee (2003), and the conclusion of the Employment Taskforce chaired by Wim Kok in November 2003, which urged Member States to: "*seek to end unemployment, inactivity and low-pay traps by adjusting the balance between tax and benefits*".

- **Guideline 19** calls for the Member States to "... ensure inclusive labour markets, enhance work attractiveness, and make work pay, through ... continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection ...".
- **Guideline 22** calls for the Member States to "... ensure employment-friendly labour cost developments and wage-setting mechanisms, by ... reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid".

3.3 The relevance of "Making Work Pay" policies

In this section the economic arguments on the importance of financial incentives to work are briefly recalled.⁷

The need to reconcile poverty alleviation with labour market efficiency is an old debate in the field of labour economics and also in the political debate.⁸ There is clearly a case for income support programs due to risk aversion, liquidity constrained agents and the lack of private insurance in this area. Unemployment insurance programmes help recipients make efficient job choices and sustain their consumption during a period of financial stress.⁹ They are also particularly relevant in the context of increasing global competition and technological change. Within this framework, there is a need for a policy design that is conducive to the full realisation of the opportunities offered by deeper international economic integration, while at the same time aiming at minimising unavoidable adjustment costs. The challenge here is about how to create well-designed policies, matching flexibility with fairness, which help to equip people with the skills, support and incentives they need to succeed in a changing world. A well designed social security net requires also a better conditionality and control over benefits and eligibility (employment services and search effort by the non-employed), in order to avoid disincentive effects.

Whether the current welfare systems and their interactions with the tax system provide sufficient employment incentives, in particular for unskilled and low wage workers, has become an increasingly relevant policy issue. A central part of many recent tax and welfare reform strategies is to reduce benefit dependency by making work an economically attractive and rewarding option relative to welfare. In combination with measures to improve people's chances of finding employment and working the desired hours, maintaining and improving financial work incentives is an essential component of efforts to improve the functioning of labour markets. In-work benefit programmes are one of the tools that EU countries have used more recently in order to raise the financial returns to work. In order to minimise the budgetary impact of these measures (and avoid deadweight costs), a well-designed targeting has proved to be essential. In order to help the transition from welfare to work, in-work benefits also need to be embedded in more comprehensive strategies, including adequate and affordable child care, efficient public

⁷ For a detailed analysis see Carone G. and A. Salomäki (eds.) (2005), "*Indicators and Policies to Make Work Pay. Proceedings of the workshop organised by the European Commission (DG ECFIN)*", European Economy, Special Reports No. 2, European Commission, and the report on "*Making Work Pay*" of the Expert Group of Employment Committee (2003).

⁸ A clear discussion of the trade-off between equity and efficiency related to redistributive transfers (the so-called "leaky bucket" effect) is in Okun's book published in 1970. For a critical view see R. M. Blank (2002), "Can equity and efficiency complement each other?", NBER, WP. No 8820.

⁹ Another goal of the unemployment insurance schemes is helping to stabilize the overall economy.

employment services and effective active labour market policies (especially job-search assistance or targeted training programmes tailored to local labour market needs).

It must also be stressed that the incentive structure encompasses a broad range of features beyond the financial gains from work, such as eligibility rules for benefits, their duration, related activation and monitoring measures, as well as the enforcement of the systems. In order to ensure incentives and assistance to work, income support should be accompanied by an appropriate set of rights and duties.

4 MAIN POLICY INSTRUMENTS IN THE FIELD OF TAXES AND BENEFITS

Interventions in the field of taxes and benefits are key instruments to improve the financial attractiveness of work relative to welfare and to encourage beneficiaries to actively seek a job. The main areas for policy action can be grouped as follows.

4.1 Labour taxation

Taxes on labour put a wedge between product wage paid by firms and the consumption wage received by employees. Their effect on labour demand and labour supply depends on whether and to what extent the tax burden increases the total labour cost for the employer or is transferred on to the worker, translating into a lower net wage. When increasing the total labour cost, taxes on labour (notably in the form of **employer's social security contributions**) tend to reduce labour demand. On the labour supply side, taxes levied on wages (both **direct taxation on labour income** and **employee's social security contributions**) reduce the net income and drive a wedge between the marginal product of labour and the marginal value of leisure. They thus tend to discourage the availability to work, especially at the lower end of the wage scale.

Typical employment-friendly tax reform packages involve tax-wedge reductions for the low income, including the extension of the tax-free range of income, coupled with tax credits and rebates of social security contributions for low-wage earners. Cuts in employers' social security contributions are also commonly used to boost labour demand and create incentives to hire specific target groups, especially among the groups with the highest difficulties to join the labour market. The success of these policy measures is heavily dependent upon their design and in particular the capacity to minimising the risk of substitution effects (where supported employment creation replaces non-subsidised jobs) or deadweight costs (supporting hires that would have in any cases taken place) and their limit lies in their usually short-term, non-structural nature. To overcome the disincentive effects embedded in joint-income tax systems for second-earners in a couple, and thus improve female labour market participation, Member States are also increasingly introducing the possibility to opt for split family taxation or for individual taxation on incomes. In countries operating joint income tax systems, second earners are in fact likely to face above-average income tax burdens when moving into work as the marginal tax rate is pushed up by the earnings of their partner. This mechanism is particularly relevant in the case of low-wage work.

4.2 Unemployment benefits

Economic theory and empirical research suggest that relatively high unemployment benefits and relatively long benefit duration, insofar as they reduce the gap between labour and non-labour income, reduce job-search incentives and the willingness of the unemployed to accept a job, because if an unemployed person finds a job the benefit is withdrawn. In addition, more generous unemployment benefits (in both level and

duration) may put upwards pressure on wages pushing up the minimum wage workers are ready to accept (so-called "reservation wage"). In both cases they worsen the employment chances of those looking for a job. On the other hand, as long as subsidised job-search allows job-seekers more time to find a better job, it can improve the matching between unemployed and vacancies, by allowing job seekers more time to find a job which matches their skills and thus maximising their productivity.

Interventions on the **level and duration of benefits** nevertheless do not suffice to evaluate the capacity of the tax and benefit system to make work pay relative to staying on unemployment. The incentive structure of the benefit system encompasses in fact a broader range of features that do not appear to directly targeting the financial gains from work, such as **eligibility and work-availability conditions**, related **activation and monitoring** measures as well as the **enforcement** of the system. There is increasing empirical evidence that making the disbursement of unemployment benefits strictly conditional upon complying with eligibility rules (e.g. employment record needed to have access to benefits; waiting periods before unemployment benefits are paid out), work-availability conditions and job-search requirements, can offset the disincentive effects linked to these scheme and have a stronger impact on the decision to work than the level of benefits in itself. Also, since the threat of losing benefits if a job offer is not accepted tends to raise the incentive to work, a properly functioning system of monitoring in conjunction with sanctions should restore search incentives most effectively, thus allowing for higher benefits than otherwise. In order to ensure incentives and assistance, unemployment income support should therefore be accompanied by rights and duties. Since monitoring usually takes place through the public employment services (PES), the quality of services provided by the employment offices and the development of adequate synergies between the unemployment benefit providers and the PES are central to ensuring the enforcement of the job-search criterion.¹⁰

4.3 Other welfare-related benefits

Welfare-related schemes also include in-work benefits, means-tested benefits and family-friendly policies. Besides these, other relevant policy fields the design of which can contribute to increasing the financial incentives to work are disability and sickness schemes.

In-work benefit programmes are designed to create incentives to take up low-paid work, by raising the income from work above out-of-work income levels. EU countries have increasingly used these policy tools over the last years in order to raise the financial returns to work and to support the most recent reforms in the unemployment benefit systems. Their effects on the labour market can be diverse, also in the light of the great variety of measures they can include. In particular, since in-work benefits are phased-out as incomes increase, they may result in high marginal tax rates that generate low-wage traps in the low income/productivity segment and may create an incentive to resort to the shadow economy.

In most countries, jobless persons who are searching for a job but are not eligible to unemployment benefits or who have exhausted their period of unemployment insurance can receive **means-tested benefits**. This is the typical situation of low-income families where one or both the spouses have never worked or are not entitled to unemployment

¹⁰ This is largely reflected in the fact that in those countries where substantial welfare reform programmes were adopted in recent years, the modernisation of the unemployment benefit system regularly involved the development of strong complementarities between passive and active policies and the setting-up of close synergies between the unemployment benefits administration and the PES.

benefits or their eligibility to unemployment insurance has expired, and they thus only qualify for social assistance. Means-tested benefits (minimum-income/social assistance benefits, housing, etc.) granted to non-working families or individuals, often with the primary aim to reduce child poverty, can give rise to strong work disincentives, especially for lone parents, because of the cash benefit withdrawal which follows a transition from labour market inactivity to employment. Empirical research shows that the policy design of out-of-work benefits can play an even bigger role on work attractiveness than the level of benefits in itself. To partly overcome the disincentive effects embedded in these schemes, means-tested benefits are increasingly made conditional upon the participation of benefit recipients in activation and workfare measures (i.e. the requirement that a benefit recipient participate in some work activity/labour market programmes in exchange for benefits). This is particularly relevant, as the duration of means-tested social-assistance is generally very long and can create strong benefit dependency.

Family-related benefits broadly include: family allowances, child benefits/tax credits and childcare benefits. Child benefits are of relevance for the determination of financial incentives to work in those few countries where they are related to the level of the taxpayer's (or family's) income. This is the case in Italy and UK, where means-tested child benefits may contribute to high average effective tax rates distorting female participation incentives. In most other countries, child benefits are universal, without any means-testing, and are paid for each dependant child. In these cases, the child benefit does not in itself create a problem for incentives to work but it may affect the level of earnings up to which social assistance is available to families with children. Given that numerous types of social transfers are specifically targeted towards low-income households, especially if children are present, parents in these households are particularly likely to face adverse work incentives.

Finally, there is a wide consensus in the economic literature that badly designed **disability schemes** have played an important role in distorting the incentives to participate in the labour market. During the past decades, disability pensions awarded on the basis of labour market considerations were often offered to redundant or unemployed elderly workers in response to severe shocks in the labour market. More recently, this trend has been reversed and new employment and support allowances have started to be introduced, requiring incapacity claimants to have an active engagement with employment advisors and the construction of personal paths with the goal of facilitating people from inactivity to work. The **sickness systems** can also become a bridge to inactivity and an alternative pathway to early exit from the labour market. In order to avoid a biased use of these schemes, in a number of countries they were recently reformed in the direction of a stronger insurance component.

5 INDICATORS ON FINANCIAL INCENTIVES TO WORK (2001-2007)

This section presents the latest estimates for quantitative indicators aimed at measuring progress towards the reduction of financial disincentives to work via reforms to both tax and benefit systems.¹¹ Indicators of the implicit tax on retuning to work or METRs have been developed in co-operation by the Commission and the OECD using a micro-simulation model for hypothetical households covering different standardized in- and out-of-work cases, different family types (single/married) and different wage levels. Since these indicators refer to the situation of tax and benefit systems in 2007, they do not incorporate the most recent reform measures as reported in the following section. However, given that these indicators have been collected since 2001, they can provide a useful basis for monitoring and commenting upon progress in the field of financial incentives to work over the last years. Drawing upon the 2008 Commission "Strategic report on the renewed Lisbon Strategy for Growth and Jobs: Keeping up the pace of change", the indicators are shown in parallel to the tax-benefit related country's specific recommendations (CSRs) and points to watch (PTW) (see Table 3). For full text of the CSRs and PTW see Annex 1.

5.1 Measuring financial incentives to work

The design of tax and benefit systems (individually and through their interaction) has an influence on all labour market transitions, that is labour market participation, the schooling/work choice, the early retirement decision and the duration of unemployment. More specifically, taxes and welfare schemes almost inevitably create a potential distortion in some segments of the labour market (notably persons with low earnings prospects and second earner in a couple) in the form of disincentives to work, thereby reducing the potential labour supply in terms of participation and/or hours worked. The impact of the tax and benefit systems is particularly relevant for low-skilled persons (with low earning prospect) and potential second earner in a couple (usually women)¹².

Three typical situations can be described:

- If the level of unemployment benefit is high relative to earnings and its duration long, its effect on the participation decision of the unemployed is negative, discouraging or delaying the job search, because the benefit will be withdrawn when the unemployed person finds a job (this will give rise to a so-called '**unemployment trap**').
- Similarly, an '**inactivity trap**' may arise where a high level of income-tested benefits, which is withdrawn when non-active persons accept a job, reduces the economic incentives to work.
- Finally, a '**low wage trap**' (or '**poverty trap**') is the situation where the increase in earnings due to higher work efforts (working longer, shifting from part-time to

¹¹ For a detailed description of the methodology used and an analysis of the main results see Carone, G., A. Salomaki, H. Immervoll and Paturot, D. (2003), "Indicators of Unemployment and Low-Wage Traps (Marginal Effective Tax Rates on Employment Incomes)", OECD Social, Employment and Migration Working Paper No. 18, OECD, Paris (also published as European Economy Economic Papers No. 197). Details of the METR indicator can also be found in European Commission (2005), "Indicators and policies to make work pay", European Economy Special Report N°2.

¹² But high marginal tax rates can have negative impact also on higher skilled persons as they could influence the hours of work decision (e.g. highly skilled women who prefer to work part-time), but also career / training decisions (giving the lower net returns on education).

full-time or moving to a better job) leads to either no, or only a very small increase in disposable income, owing to the combined effect of higher taxes and the withdrawal of means-tested benefits.

As individuals' incentives to work largely depend on the shape of their budget constraint for a given hourly wage, we are interested in knowing the financial reward to doing any work, measured by some function of incomes in and out of work, and the incentive for those already in work to work harder or to progress in the labour market. A first measure of incentives to work can be provided by the **net replacement rates**. These indicators are obtained by calculating the ratio of net income when not working (mainly unemployment benefits if unemployed or means-tested benefits if on social assistance) to net income in work. A lower replacement rate is associated with a greater incentive to search for and take up a job when unemployed.

On the tax side, the tax barrier to employment can be measured by the 'tax wedge', the proportional difference between the costs of a worker to their employer (wage and social security contributions, i.e. the total labour cost) and the amount of net earnings that the worker receives (wages minus personal income tax and social security contributions, plus any available family benefits). The **indicator of the tax wedge on labour** measures both incentives to work (labour supply side) and to hire persons (labour demand side) and takes into account the income tax and social security components.

Finally, the indicators of the implicit tax on retuning to work , or **marginal effective tax rates** indicators (METRs) are more specific quantitative indicators of progress towards removing financial disincentives to work, since they provide information on how financially rewarding is for an employee to increase working hours or for an unemployed/inactive person to take up employment. They measure what part of a change in earnings is 'taxed away' by the combined operation of taxes, social security contributions and any withdrawal of replacement or means-tested benefits when a person moves from one labour market status to another or increases his/her work effort.

In particular,

- The implicit tax on retuning to work for unemployed persons or **METR for the unemployment trap** measures the part of the additional gross wage that is taxed away in the form of increased taxes and withdrawn benefits in the case where a person returns to work from unemployment. It is calculated as the change in net-of-tax income over the change in gross earnings that results from taking up a job. The 'trap' indicates that the change in disposable income is small and, conversely, the work-disincentive effect of tax and benefit systems is large.
- A similar indicator - the **METR for the inactivity trap** - measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job – in other words the financial incentives to move from inactivity and social assistance to employment. In this case, social assistance (or other last-resort benefit) is the main component of out-of-work income, and thus replaces the unemployment benefits in the calculation.
- Finally, the **METR for the low-wage trap** is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise due to an increase in work effort. This kind of trap is most likely to occur at relatively low wage levels due to the fact that the withdrawal of social transfers (mainly social assistance, in-work benefits and housing benefits), which are usually available only to persons with a

low income, adds to the marginal rate of income taxes and social security contributions.

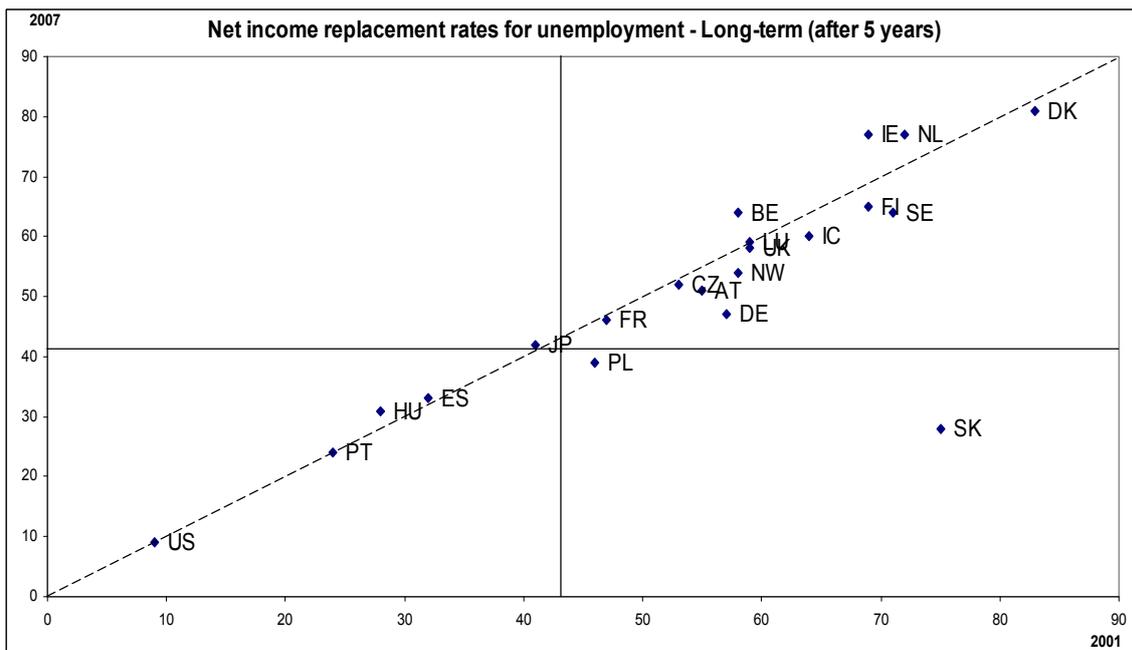
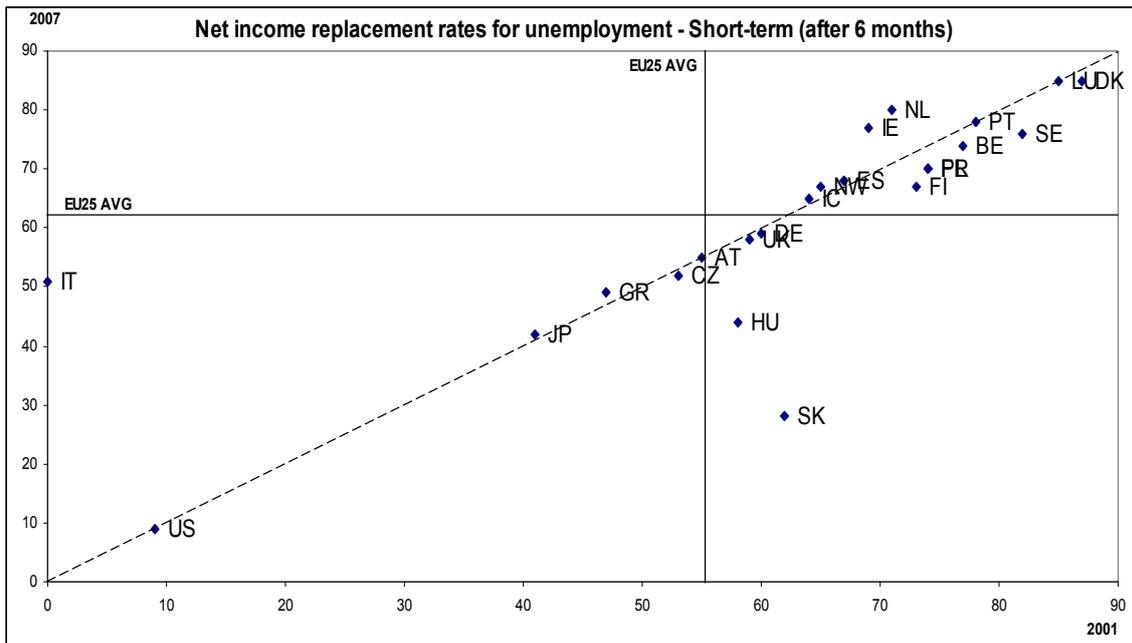
The METRs and the other policy indicators mentioned above, however, do not reflect important features of the unemployment insurance - such as the benefit duration and job-search and work availability requirements – that, as already mentioned, have a relevant impact on the incentive structure of the benefit system even if they do not directly target the financial gains from work. In particular, strict conditionality and work-availability criteria and their consistent enforcement increase job search and can counterbalance the negative effects of high unemployment benefits on job search behaviour. A measure of the strictness of availability criteria is provided by the '**Availability for work requirements**' indicator, which has been developed by the Danish Ministry of Finance and lastly update in 2004¹³ (see Table A12 in the Statistical Annex).

5.2 Net income replacement for unemployed persons (NRRs)

Graph 3 shows the evolution of net income replacement rates after 6 months and 5 years of unemployment for a single person, previously working at a wage level equivalent to 67% of the average wage (see also Tables A9-A11 in the Statistical Annex for other family types). Most Member States register a substantial reduction of the NRRs over the unemployment spell. The EU 25 average NRR after 6 months of unemployment falls down to 51% at the end of the first year of unemployment spell, to drop further to 41% in the long run (after 5 years of unemployment). Since 2001, many countries have reduced their NRRs, with the notable exception of Ireland and the Netherlands, where already high NRRs have been further increased over recent years to reach levels close to 80% in 2007.

¹³ Hasselpflug and Søren (2005): "Availability criteria in 25 countries", Danish Finance Ministry Working Paper, 12, 2005.

Graph 3 - Net income replacement rates over different periods within the unemployment spell
Single person without children, 67% of AW



Source: Commission services.

5.3 Implicit tax on returning to work: unemployment traps

The largest contribution to the $METR_{ut}$ is generally provided by a withdrawal of unemployment benefits, followed by income taxes, social security contributions and the withdrawal of housing benefits, where available.

Table 3 shows figures related to an unemployed person (a single without children) receiving unemployment benefits correlated to a previous job position where gross wages were equivalent to 67% of the average wage (AW)¹⁴. Taking up a new job at the same wage as before unemployment (that is 67% of AW), the marginal effective tax rate measuring the unemployment trap ($METR_{ut}$) remains over 70% in almost all countries in 2007, and close to 90% in Denmark, Luxembourg and Latvia. This means that the net financial rewarding for taking up a job is about only 10% of the earnings in the latter group of countries. Obviously, taking up a job at a wage lower (higher)¹⁵ than the wage before unemployment implies even higher (lower) $METR_{ut}$ in most Member States (see the case for a return to work with a re-entry wage equivalent to 50% of AW earnings¹⁶ in Table A1 of the statistical annex, the first row for each family type). Table 3 presents also a comparison with $METR_{ut}$ in 2001 and shows the evolution intervened between 2006 and 2007. We can see that over the last six years the largest reductions in the unemployment trap have been achieved by France, Slovak Republic, Finland, Sweden, Belgium and Denmark (plus the Czech Republic for one-earner couple with and without children, Austria for lone parents and one-earner couple with children; Ireland for lone parents with children, Spain for two-earner couple with and without children and UK for one-earner couple without children - See also Table A1 in the Statistical annex). In **France**, a significant decrease in unemployment traps, in particular over 2006-2007, was registered for all family types and wage levels above 50% of the AW. This decline followed the introduction of new measures in October 2006 that increased the earning disregards for RMI beneficiaries. Furthermore, for an unemployed single person who receives benefits correlated to a previous wage equivalent to 67% of AW and who takes up a new job with a correspondent wage of 50% of AW, the $METR_{ut}$ has been reduced by 12% over the period 2001-2006. This is largely due to targeted interventions made in recent years, including specific in-work benefits (*Prime pour l'emploi*, PPE), the extensive use of employers' social security reductions for low-wage employees and the development of various activation policies. In the **Slovak Republic**, a large increase in financial incentives to work, in particular for a single person and one-earner couple with and without children, was achieved by the combination of a reduction in social assistance, housing benefits and the introduction of in-work benefits. In-work benefits are indeed largely used to reduce $METR_{ut}$ in some countries, in particular in the Slovak Republic and in **Ireland** (single person without children). In **Finland**, for all the considered family types, the higher earnings disregard for social assistance and income tax reductions strongly contributed to the reduction in the $METR_{ut}$, followed by the in-work-benefits component. In **Sweden** a decline in the unemployment trap for all family

¹⁴ Given that looking only at one point in the income distribution and one typology can not reflect the complex interaction of tax benefit systems, we have reported detailed tables in the statistical annex, showing the METRs for the return to work of unemployed people (eligible for unemployment benefits) for a few representative earnings levels (50%, 67%, 100%, 150% of the AW wage level) and for six household typologies.

¹⁵ Obviously, the $METR_{ut}$ decreases with a higher "post-unemployment" wage: the average $METR_{ut}$ is 63% for a new wage equivalent to 100% of AW and 56% for a new wage equivalent to 150% of AW.

¹⁶ 50% of the AW earnings can be considered as equivalent either to a level close to the minimum wage in many MSs or to a half-time job paying the average wage level.

types and income levels was mainly driven by the introduction of in-work benefits. In **Belgium** the unemployment insurance reform introduced in 2004, together with a reduction in income taxation, increased incentives to work. In the **Czech Republic**, the positive evolutions highlighted in previous years, mainly benefiting families with dependent children, were largely due to the effects of the new regulation of the unemployment benefits system introduced in 2004 and the increase of the average gross wage and minimum wage recorded over recent years, but also to the increased child allowances and social benefits associated with the lowest income band. **Poland** reduced the unemployment trap for all family types without children by reducing net replacement rates and social security contributions (paid by employee).

Furthermore, some countries considerably reduced the unemployment trap for certain family types over the last year (2007), in particular France, Sweden and Poland (plus Spain for two-earner couple with and without children, Portugal and Latvia for single parent and one-earner couple with two children and the Netherlands for single parent without children - See also Table A1 in the statistical annex). With the reform of the personal income tax in 2007, **Spain** strongly reduced the $METR_{ut}$ for two-earner couple with and without children by reducing income tax rates, in particular for the lowest income levels. A revision of family related benefits in **Portugal** in 2007 considerably reduced the $METR_{ut}$ for single parent and one-earner couple with children. A reduction in the unemployment trap for these same family types was achieved also in **Latvia**, mainly by a revision of housing benefits and the reduction of income taxes. Graph 4 and Graph 5 present the components of $METR_{ut}$ for a single person (with and without children) in 2001 and 2007 to illustrate the main sources of unemployment traps and their change over time.

Table 3 - Structural Indicators on financial incentives to work, 2007

	Unemployment and welfare related benefits	Unemployment trap (67%)			Inactivity trap						Low-wage trap indicator						Net replacement rate		
		Single (67% of average wage)			Single (67% of average wage)			1 earner couple with 2 children (67% of average wage)			Single (33-67% of average wage)			1 earner couple with 2 children (average 33-67% of AW)			Single (67% of average wage)		
% of APW	Council's Recommendation of Spring 2008*	2007	Change 2001-2007	Change 2006-2007	2007	Change 2001-2007	Change 2006-2007	2007	Change 2001-2007	Change 2006-2007	2007	Change 2001-2007	Change 2006-2007	2007	Change 2001-2007	Change 2006-2007	2007	Change 2001-2007	Change 2006-2007
BE		83	-2.3	0.1	66	0.1	0.9	66	-0.5	1.2	59	2.3	0.4	47	4.9	0.6	74	-8.9	0.1
DK		90	-1.7	-0.7	88	-1.9	-0.3	93	-2.5	-0.8	56	-3.3	-1.5	89	-4.5	-1.6	85	-2.0	-1.1
DE	CSR	74	-0.5	-1.2	66	0.4	-1.1	84	8.2	-1.0	57	3.9	-2.4	86	6.0	-2.2	59	-22.3	-1.4
GR	PTW	59	2.3	1.8	19	2.0	1.1	16	0.1	0.0	23	4.1	2.2	16	0.1	-0.6	49	-14.2	1.5
ES	PTW	82	1.7	1.3	44	1.6	0.3	52	-5.8	-0.8	26	1.2	-0.3	10	-18.0	-6.7	78	2.4	1.6
FR	PTW	60	-20.5	-20.8	44	-20.0	-17.5	60	-20.4	-20.7	42	-1.9	-0.6	64	-4.9	-0.8	70	-13.3	-5.1
IE	PTW	78	5.9	1.9	79	6.0	2.1	93	6.1	5.0	56	11.6	3.4	86	4.4	9.6	77	7.7	2.3
IT	PTW	72	12.5	0.2	22	2.2	0.2	-8	-0.4	-0.4	34	4.2	0.1	11	-0.6	1.0	64	14.5	0.1
LU		88	0.0	0.3	68	0.3	0.6	89	0.4	0.0	51	7.7	1.0	110	14.6	0.5	85	0.3	0.2
NL		81	1.9	-5.1	84	3.8	-0.8	92	4.7	3.9	57	-4.9	-2.6	78	-3.3	0.1	73	-6.8	-7.2
AT	PTW	68	0.6	0.2	64	-2.8	0.1	82	-6.9	1.5	38	3.1	0.8	65	-17.2	2.8	55	-12.7	0.0
PT		82	0.5	0.0	37	0.4	0.2	57	-0.1	-0.3	22	1.2	0.0	56	-1.5	-0.9	78	-7.9	0.0
FI	PTW	75	-5.4	-1.8	73	-4.3	0.9	92	-5.7	0.3	62	6.7	6.3	100	4.0	0.3	67	-7.0	-2.0
SE	PTW	82	-5.2	-4.8	73	-6.6	-4.0	90	-7.8	-4.7	47	-12.9	-7.8	80	-15.8	-8.1	76	-5.8	-5.5
UK		68	-0.6	-0.1	68	-0.6	-0.1	79	3.5	0.3	57	-0.9	-0.2	86	8.0	0.3	58	-6.0	-0.2
CY		61		-0.1	56		-0.9	104		-1.1	6		0.0	55		5.7	59		-0.1
CZ		72	4.7	8.5	66	3.5	13.3	85	-4.9	13.2	48	8.9	16.8	43	-38.6	-0.8	67	8.7	12.6
EE		63		-0.5	41		-0.2	55		2.8	24		-1.0	22		3.9	55		-0.9
HU		77	5.9	3.1	46	-4.5	3.1	59	1.6	-2.6	37	-4.6	4.7	37	9.1	4.7	73	7.9	2.6
LT	PTW	80		1.0	38		1.0	74		3.0	30		0.0	57		5.5	74		1.0
LV	PTW	86		-0.6	49		-3.4	77		-19.6	32		0.0	53		-37.5	82		-0.9
MT	CSR	62		0.0	62		0.0	69		-0.1	20		-1.3	24		0.9	59		0.2
PL	CSR and PTW	79	-1.5	-3.4	56	-4.1	-2.9	63	-3.8	-2.8	38	0.4	-3.0	72	-4.0	-4.1	70	2.5	-3.9
SK		54	-18.7	-0.5	28	-52.2	-0.4	38	-86.6	-0.3	23	-13.2	0.6	27	-93.0	0.7	61	-15.7	0.2
SI		81		-1.6	63		-1.5	83		-2.6	51		-0.6	62		-4.7	72		-2.3
RO		71	-5.6	10.0							30	1.9	-0.3	19	6.4	-0.3			
BG		74	-0.9	-2.7							16	-5.6	-4.2	19	-56.9	-4.2			

*Flexicurity related country-specific recommendations (CSR) and points to watch (PTW).

AT, IE, IT, LV, LT, PL, ES have PTW in the area of childcare (e.g. availability of childcare, childcare provision, childcare infrastructure, access to childcare). In case of EL, a broad reference to female participation is made without specifying expected policy measures. FI has a PTW that is referring to high structural unemployment; however, no explicit measure to address this issue is specified.

Source: Commission services, based on the joint EC-OECD METR project; Unemployment trap and NRRs refer to the 1st month of unemployment

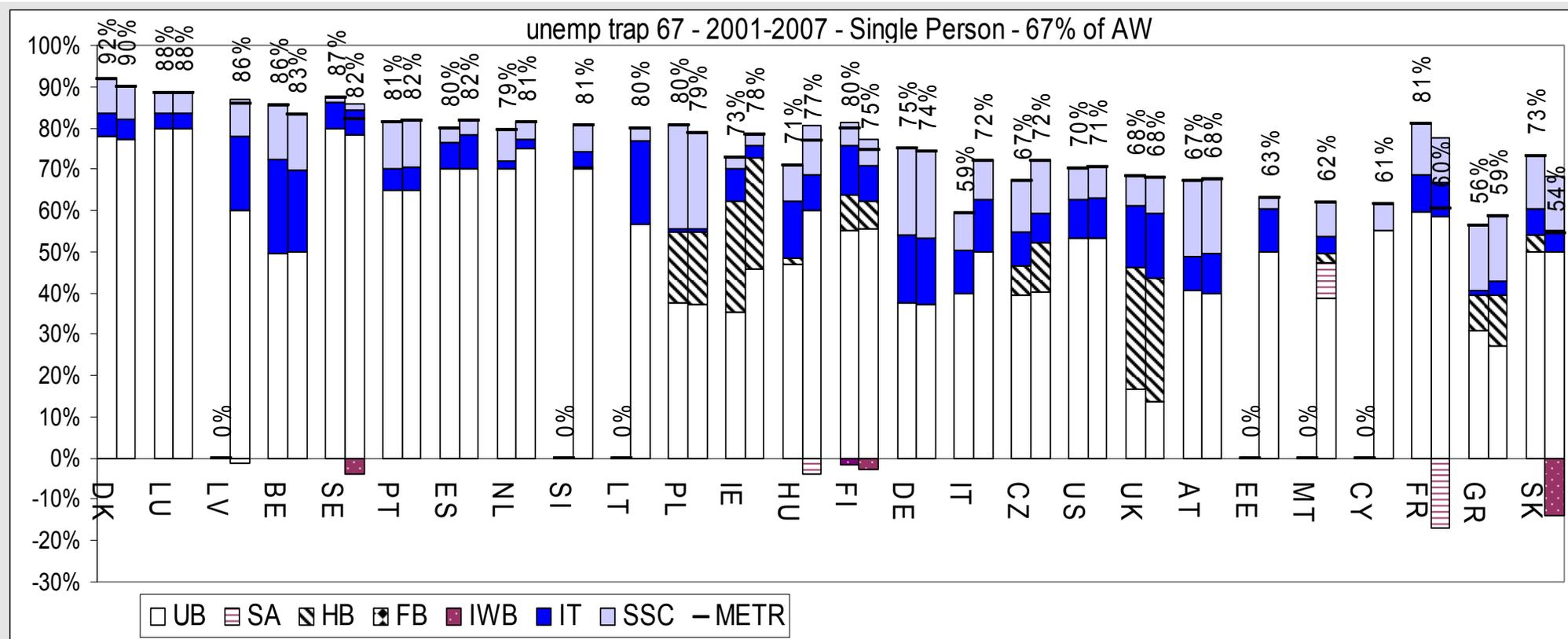
Table 4 - Tax wedge on labour for low-wage workers (67% of AW) and its components

Single person without children, 67% of AW	Labour taxation	Total Tax Wedge 2007	Of which			Difference 2006 - 2007				Difference 2001 - 2007			
	Council's recommendation of Spring 2008*		Personal Income Tax	Social Security Contributions Employee	Social Security Contribution Employer	Total Tax Wedge	Personal Income Tax	Social Security Contribution Employee	Social Security Contribution Employer	Total Tax Wedge	Personal Income Tax	Social Security Contribution Employee	Social Security Contribution Employer
Austria		44.0	7.5	13.9	22.6	0.3	0.4	0.0	-0.1	1.2	1.2	0.0	0.0
Belgium	CSR	49.5	16.6	10.4	22.5	0.2	0.0	0.1	0.1	-1.2	-0.8	0.4	-0.7
Bulgaria		31.1	1.5	10.0	19.5	-4.2	-0.9	0.5	-3.8	-4.9	-2.6	3.8	-6.0
Cyprus		11.9	0.0	5.9	5.9	0.0	0.0	0.0	0.0	-5.2	-0.5	0.3	-5.0
Czech rep		40.5	5.3	9.3	25.9	0.5	0.4	0.0	0.1	-0.7	-0.7	0.0	0.0
Germany	CSR	47.3	13.4	17.3	16.7	-1.1	0.0	-0.7	-0.4	-0.3	-0.2	0.2	-0.4
Denmark		39.2	26.6	11.8	0.9	0.0	0.1	-0.1	0.0	-1.3	-1.1	-0.1	-0.1
Greece	CSR	36.7	2.3	12.5	21.9	0.9	0.9	0.0	0.0	1.5	1.3	0.1	0.1
Estonia		38.4	12.4	2.2	25.1	-1.6	0.8	0.0	0.0	2.4	-0.2	2.2	0.3
Spain		35.5	7.4	4.8	23.2	-0.4	-0.2	0.0	-0.2	0.3	0.5	0.0	-0.2
Finland		38.2	13.4	5.3	19.6	-0.7	-0.7	0.0	0.0	-3.2	-2.8	0.2	-0.6
France	PTW	44.3	8.6	9.7	26.0	0.0	-0.2	0.1	0.1	-3.2	-0.2	0.1	-3.1
Hungary	PTW	45.9	7.4	12.7	25.8	2.7	0.7	2.0	-0.1	-4.9	-6.0	3.4	-2.3
Ireland		15.0	2.9	2.5	9.7	-1.0	-1.1	0.1	0.0	-2.3	-4.5	0.4	1.8
Italy		42.0	10.4	7.0	24.6	0.1	-0.1	0.2	0.0	-0.7	-0.1	0.2	-0.8
Lithuania		43.9	17.8	2.3	23.8	2.9	2.9	0.0	0.0	1.7	1.7	0.0	0.0
Luxembourg		31.3	6.8	12.5	12.0	0.7	0.4	0.4	-0.1	0.2	-0.2	0.3	0.1
Latvia		41.8	15.2	7.3	19.4	1.0	1.0	0.0	0.0	0.6	1.8	0.1	-1.3
Malta		18.4	4.3	7.0	7.0	0.6	0.5	0.0	0.0	1.4	1.4	0.0	0.1
Netherlands		40.1	4.0	22.3	13.9	-0.4	0.3	-0.7	0.0	1.3	0.5	0.9	-0.1
Poland		41.6	4.2	20.4	17.0	-0.9	0.1	-1.0	0.0	0.1	0.4	-0.3	0.0
Portugal		32.5	4.4	8.9	19.2	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0
Romania	PTW	42.2	6.0	13.1	23.1	-0.3	0.7	0.2	-1.2	-3.0	0.6	4.1	-7.7
Sweden	PTW	43.2	13.5	5.2	24.5	-2.7	-2.7	0.0	0.0	-4.6	-4.3	-0.1	-0.2
Slovenia		39.8	6.7	19.0	14.1	0.4	0.2	0.0	0.2	-1.2	-1.5	-0.1	0.4
Slovak rep		35.5	3.8	9.7	22.0	0.0	0.0	0.0	0.0	-5.7	-0.7	0.4	-5.5
UK		30.7	14.2	7.7	8.7	0.1	0.0	0.1	0.0	2.2	0.6	1.0	0.6

*Flexicurity related country-specific recommendations (CSR) and points to watch (PTW).

Source: OECD, Taxing wages report; Commission services

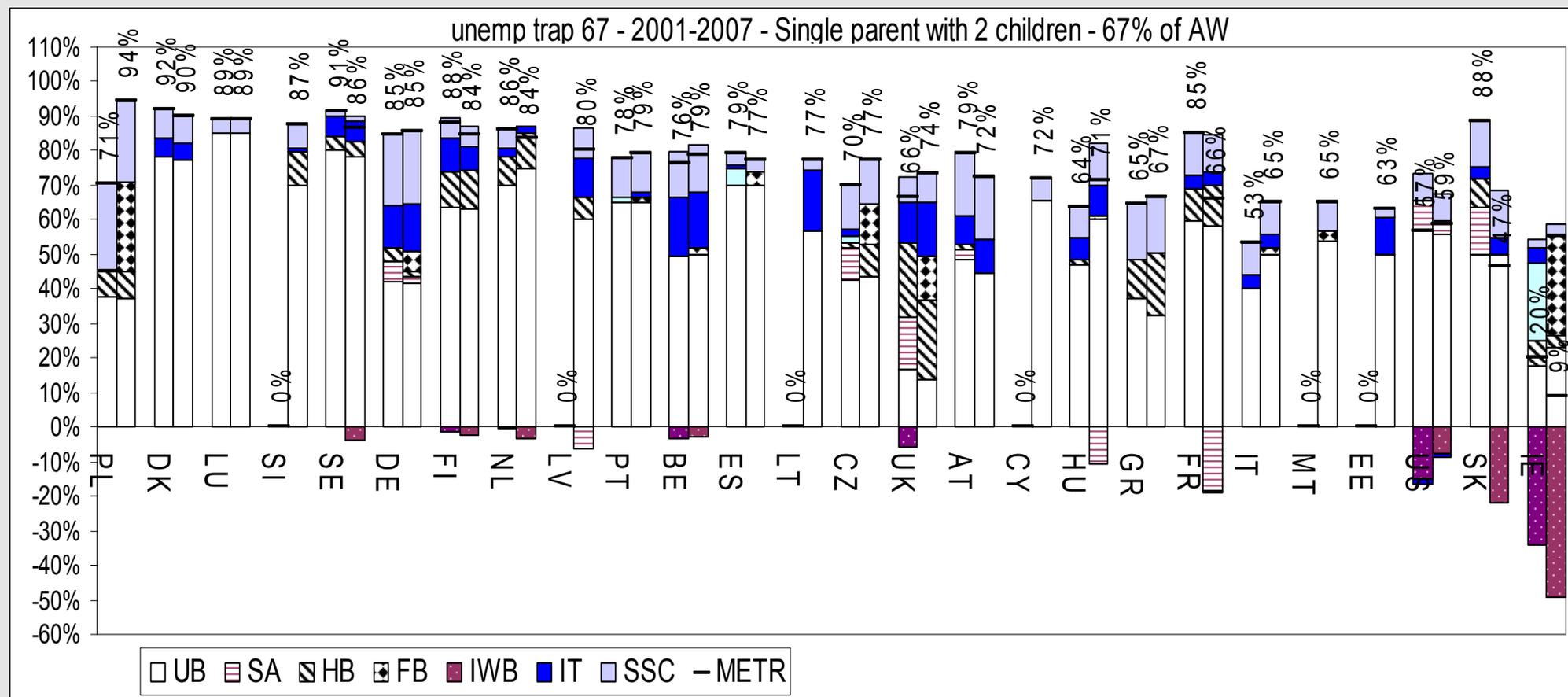
Graph 4 - Components of unemployment trap in 2001 and 2007 (1st month of unemployment)



Source: Commission services.

* First and second column refer to the METR in 2001 and 2007, respectively.

Graph 5 - Components of unemployment trap in 2001 and 2007 (1st month of unemployment)



Source: Commission services.

* First and second column refer to the METR in 2001 and 2007, respectively.

5.4 Implicit tax on returning to work: inactivity traps

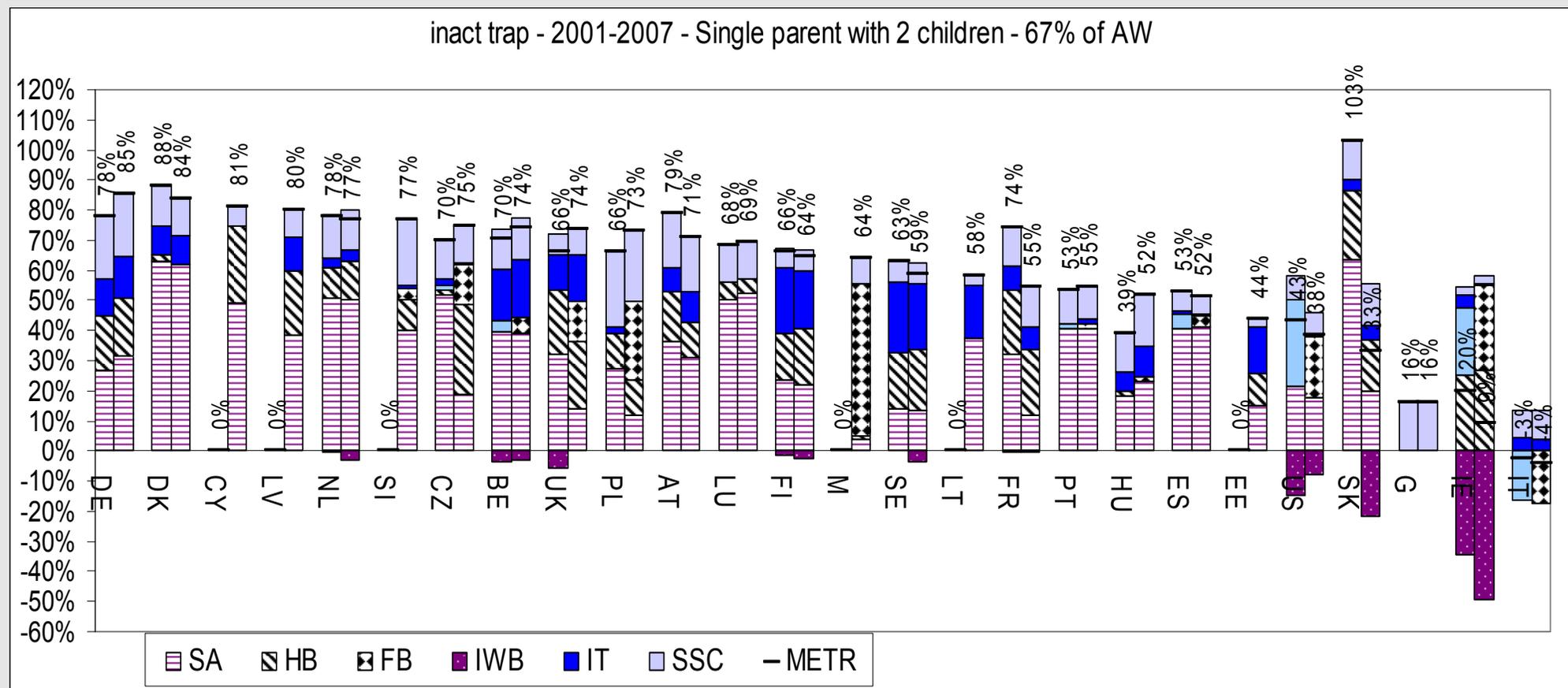
In most countries, jobless persons who are searching for a job but are not eligible to unemployment benefits or who have exhausted their period of unemployment benefits may receive means-tested social assistance benefits. This can be a typical situation for low-income family types where one or both the spouses have never worked or are not entitled to unemployment insurance or their eligibility is expired, and thus they only qualify for social assistance.

The $METR_{it}$ are used as indicators of inactivity trap. Table 3 reports estimates of the $METR_{it}$ faced by recipients of social assistance when they decide to take up a low-wage job (67% of AW). METRs for a move from inactivity to work at different gross wage levels are reported in the statistical annex (Table A3). According to the latest available data (2007), disincentives to work remain particularly relevant for one-earner couple with and without children, that is, the potential breadwinner of a jobless household with two young children and for single parents with two children entering employment at the lowest level of the income scale, while it is relatively lower for single persons. In the case of one-earner couple with two children, even when taking up a job with a wage equivalent to 67% of average wage, net disposable income in and out of work would be roughly the same (the $METR_{it}$ is close to or higher than 90%) in seven Member States: Denmark, Ireland, Luxembourg, the Netherlands, Finland, Sweden and Cyprus. In these countries, there appears to be a higher risk that social assistance recipients remain trapped in long-term benefit dependence. In most cases, this risk is even stronger for lower levels of entry wage (50% and 33% of APW) and for lower-income single parents with two children.

When comparing 2007 and 2001 indicators (for details see Table 3 in the statistical annex), one can notice that several countries registered considerable reductions in the inactivity trap. In particular, for a one-earner couple with children with an entry wage level equivalent to 67% of APW, the $METR_{it}$ has been reduced by 20% in France, by 8% in Sweden, by 7% in Austria, by 6% in Spain and in Finland, by 5% in Czech Republic and as much as 87% in the Slovak Republic. The reduction is mainly due to changes in the social assistance scheme, followed by the introduction of in-work benefits (Slovak Republic and Sweden) and changes in housing benefits (Austria). **France, Sweden, Finland and Slovak Republic** (plus **Poland, Denmark and Belgium**) achieved also significant reductions in $METR_{it}$ for all other family types at different wage levels. Targeted reductions in inactivity traps for certain family types were achieved also in **Hungary** (for a two-earner couple with and without children), the **UK** (for one-earner couple), **Italy** (for two-earner couple with and without children) and **Ireland** (for two-earner couple without children and single parents with children). These positive trends are confirmed when looking at the recent changes in $METR_{it}$ (2007), where reductions have been recorded in particular in **France, Latvia and Sweden**. A decline in the inactivity trap in France and in Latvia was driven by changes in the social assistance scheme and in Sweden by the introduction of in-work benefits.

Graph 6 and Graph 7 present components of $METR_{it}$ for a single parent and two-earner couple with children (useful to assess disincentive to work for the second earner) in 2001 and 2007. The source of the inactivity trap is different for the two family types: while the withdrawal of social assistance is driving the $METR_{it}$ for single parent with children, taxation tends to be the most important component of $METR_{it}$ for two-earner couple with children.

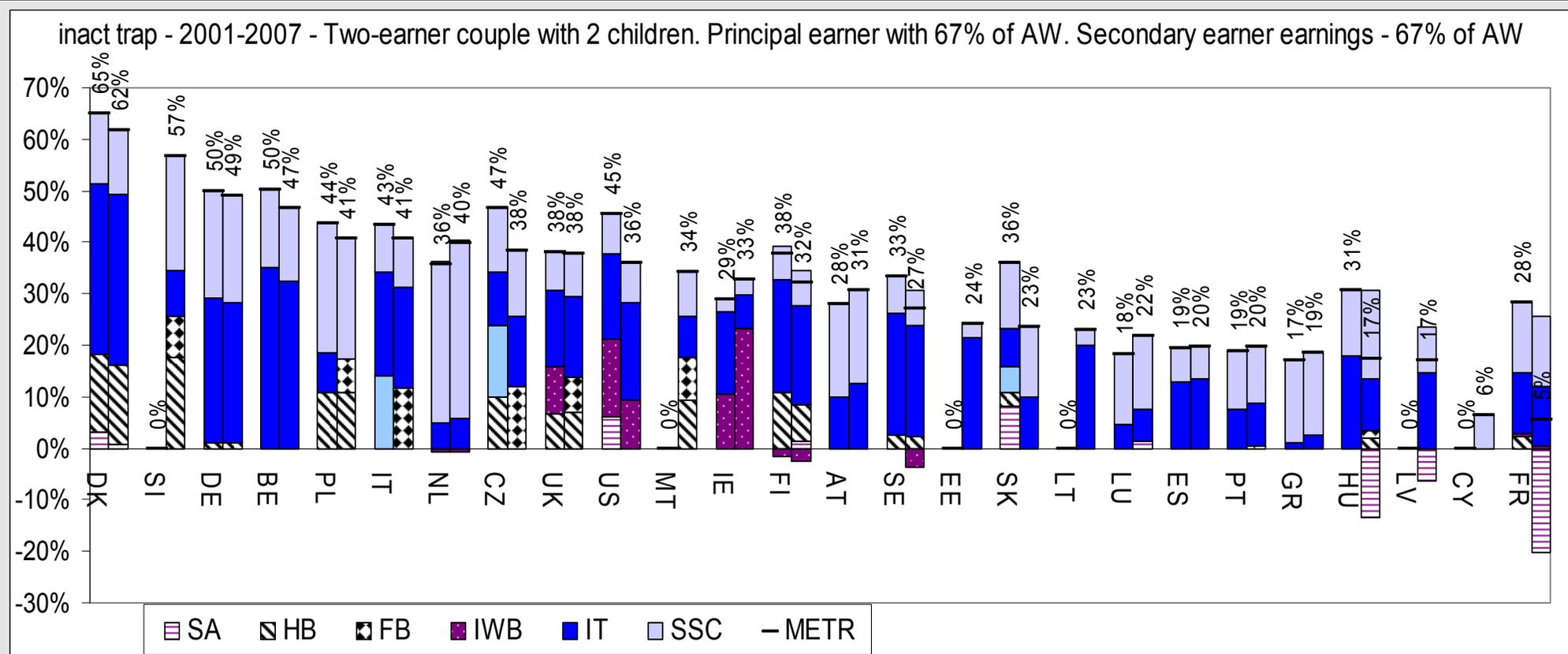
Graph 6 - Components of inactivity trap in 2001 and 2007



Source: Commission services.

* First and second column refer to the METR in 2001 and 2007, respectively.

Graph 7 - Components of inactivity trap in 2001 and 2007



Source: Commission services.

* First and second column refer to the METR in 2001 and 2007, respectively.

5.5 Implicit tax on increasing work effort: low wage traps

Table 3 also presents two structural indicators for low-wage traps ($METR_{lw}$) and reports the average of $METR_{lw}$ over a larger range of earnings (from 33% to 67% of AW). This average can also be used to analyse the financial incentive to move from part-time to full-time work at a low wage level. The component that plays the biggest role in creating high implicit tax on increasing work effort is the withdrawal of social transfers. In most European countries, the various means-tested transfers (mainly social assistance, in-work tax credits and housing benefits) are already completely phased-out before people earnings reach 67% of the AW level. Thus, the monitoring of the range of income below 67% of AW appears the most relevant for assessing the presence of low-wage traps.

Despite improvements in many countries over the period 2001-2007, most recent data confirm that in 2007 the risk of low-wage trap remained somewhat high in a number of countries, especially for couples with one earner and two children, mainly due to the withdrawal of social assistance (86% in Germany, 110% in Luxembourg, 100% in Finland, 86% in the United Kingdom and Ireland, 80% in Sweden, but also 78% in the Netherlands). However, for some countries data for 2007 indicate a strong decline in the low wage trap for a one-earner couple with children, in particular in Latvia (by 38%), Sweden (by 8%), Spain (by 7%), Slovenia (5%), Poland and Bulgaria (by 4%). Over 2001-2007, large reductions in low-wage trap were achieved in the Slovak Republic (by 93%), Bulgaria (57%), the Czech Republic (by 39%), Spain, Austria and Sweden (by about 17%).¹⁷ A large cut in the $METR_{lw}$ in the **Slovak Republic** stems from the introduction of a flat tax-rate regime in 2004.

6 RECENT REFORMS IN TAX AND BENEFIT SYSTEMS¹⁸

This section draws upon information provided by Members of the EPC-LMWG on most recent reforms in the field of tax and benefits. Information on tax and benefit reforms recorded for 2008 also refers to ongoing proposal for reforms of tax and benefit systems contained in draft budget laws for 2009 and other major planned reforms reported by Members of the EPC-LMWG as of end August 2008. This will give a forward-looking view on ongoing reform activity. When considered useful, supplementary information was drawn from the LABREF database.¹⁹

Increasing work attractiveness in general, and for specific target groups in particular, and rebalancing the incentives and protection mechanisms in the labour market appeared to be the main objectives of the reform activity conducted during 2008 in the EU27. Flexicurity, which had come to the forefront of the European reform agenda in 2007, has been at the centre of the policy debate in 2008, and its making-work-pay dimension continued to be a key element of national reform activity. Ongoing discussions in a number of countries seem to reveal a growing awareness of the need for more integrated strategies, encompassing EPL, life-long learning, tax

¹⁷ Reductions in $METR_{lw}$ at least for some family types at low to medium wage levels are also seen in Spain, France, Ireland, the Netherlands, Portugal and Hungary.

¹⁸ This section covers information on reforms up to the end of August 2008.

¹⁹ LABREF is the database of labour market reforms enacted in the EU Member States jointly run by DG ECFIN and the EPC. The database can be freely accessed at:
http://ec.europa.eu/economy_finance/db_indicators/db_indicators8638_en.htm

and benefits systems and ALMPs into comprehensive reform packages aimed at smoothing the functioning of labour market and better combining security with flexibility. Yet, while the policy agenda of many countries presents broad and sometime far-reaching reform programmes, there has been only a limited number of concrete reform measures adopted so far. This calls for focused and more resolute action in order to ensure the implementation of such reform programmes.

Reducing the tax burden on labour continued to be much used to stimulate both labour demand and labour supply. Further but limited effort was also undertaken in 2008 to improve the effectiveness of unemployment and welfare-related benefit systems and their capacity to contribute to improving the incentive structure of tax and benefits systems. Most interventions in the field of unemployment benefits focused on strengthening the eligibility and work availability requirements. Very limited or no action was recorded in the field of employment protection legislation (EPL), which can have strong interactions with tax and benefits systems because of their combined effects (together with other labour market institutions, notably active labour market policies) on labour market transitions.

6.1 Fighting benefit dependency and improving employability

Reforms efforts continued in 2008 to increase the effectiveness of unemployment and welfare-related benefit schemes and their capacity to contribute to improving the incentive structure of the overall tax and benefit system.

6.1.1 Unemployment insurance

Over the last years, substantial reform programmes were initiated in the field of unemployment and welfare-related benefits. Policy action involved reducing the level and duration of benefits (France, Germany, Ireland, the Netherlands), strengthening the control mechanisms (Belgium), introducing stricter work availability criteria (France, Germany, the Netherlands, Spain) and streamlining the financing for active labour market policies and labour market subsidies with income support mechanisms (Germany, Hungary, France). The reform of the unemployment benefit system introduced in **the Netherlands** in 2005 involved a sharp cut in the unemployment benefit maximum duration (from five years to 38 months), a new system of calculation of the duration of the unemployment benefit on the basis of actual employment history and more stringent requirements. A tightening of the reintegration obligations was also imposed on benefit recipients. Also in **Germany**, the merger of the unemployment assistance scheme and the social assistance scheme into the Unemployment Benefit II Programme involved substantial cuts of unemployment benefits, approximately at the level of social assistance, and a standardised and integrated system of provision of welfare benefits and active assistance for job seekers at local level. To encourage the long-term unemployed to take a first step back to work, a new category of low-paying jobs was introduced to supplement welfare benefits, which are offered to the unemployed by the local PES against a small hourly compensation, without replacing the jobs offered on the labour market. If a job offer is not accepted, beneficiaries may lose or have reduced their social assistance. A renewed unemployment benefit scheme was also introduced in **France** in 2006. The benefit is granted for a reduced duration under tightened eligibility conditions and is calculated on the basis of a stronger link with the age and contribution history of the concerned person.

Following the substantial reform programmes initiated over previous years, measures adopted in this area were rather marginal in 2008, often dealing with adjustment of previous broader interventions. Most reform measures in this field mainly involved a strengthening of eligibility

and work availability conditions (e.g. **France**, **Portugal**, **Denmark**, **the Netherlands**, **Bulgaria**, planned in **Belgium**), but they also concerned the level and duration of benefits (only in **Latvia**), stricter controls (e.g. in **Spain**), stricter application of sanctions for refusal of suitable job offers (e.g. **Czech Republic** and **Bulgaria**), and reinforced complementarities with ALMPs. Increased investment in lifelong training and measures aimed at improving the efficiency of the job search structures were indeed introduced in most countries to underpin welfare reforms, notably with a view to better integrate activation policies and employment support services in such a way to effectively encourage people back to work.

Tighter conditions on job acceptance for long-term unemployed were notably introduced in **the Netherlands**, where unemployed persons will now have to accept all job offers including those below their education or experience; those accepting a job with lower status or pay will be compensated by a wage insurance scheme that is expected to be introduced in 2009. In the **UK**, eligibility criteria have been tightened for lone parents whose youngest child is 12 years or older. Also **Bulgaria** tightened the eligibility criteria and sanctions. In **Sweden**, as of 2008, the unemployment benefits for part-time unemployed will be limited to 75 days, and the waiting period increased by two days. Similarly, in **Austria** a job seeker taking on a part-time work can still benefit from a part of the unemployment allowance, on the condition that she/he continues looking for a full-time job. **Denmark** reduced the maximum period for receiving supplementing unemployment insurance in 2008 to create a better stimulus to change from part-time to full-time employment. **Malta** launched in 2008 several measures to promote employment of individuals that are at the greatest risk to become long term unemployed. Furthermore, it established incentives to unemployed to take up temporary employment without losing their eligibility for benefits. The unemployment insurance coverage was extended in **Lithuania**.

In the **Czech Republic**, the government plans to shorten unemployment duration and increase benefit compensation, combined with stronger support for individual action plans and stricter sanctions. Applicants will be free to work as far as their average monthly wage is below 50% of the minimum wage. Also **Hungary** plans to intensify existing job search incentives.

6.1.2 *Means-tested benefits*

Means-tested benefits were the subject of a deep rationalisation effort in **France**, where the President announced in the 2008 the nationwide extension of the Active Solidarity Income (RSA) for excluded groups as of 2009. This measure, introduced in 2007 on an experimental basis, is aimed at reducing inactivity traps and the number of working poor. It will be complemented by reinforced personalised support services for job searching and by the introduction of a single subsidized job creation scheme, the so-called *contrat unique d'insertion* (CUI). A means-tested minimum income, amounting to 747 € pre tax per month, is envisaged to be implemented in **Austria** as of 2009 for those people who are impoverished and willing to take up or resume work. In both countries availability to work was put as condition for eligibility to these new means-tested benefits.

In **Bulgaria**, with the introduction of the flat tax income rate, the previous tax reliefs for children were removed in 2008. The amount of the monthly child allowance and the average income threshold for receiving the allowance were both raised. The maximum duration for receiving social assistance benefits for unemployed was also shortened up to 12 months.

A tightening of eligibility criteria for social assistance is envisaged in the **Czech Republic**. A reform of the social assistance system is also underway in **Hungary**, aimed at ensuring that all

claimants who are able to work are given the opportunity to earn the needed income from work and not from social assistance.

To encourage a spouse to move into employment **Denmark** introduced "300 hours rule" which implies the loss of rights to social security payments for a spouse (in relationship where both partners are recipients) who has less than 300 hours of employment within the previous 2 years.

6.1.3 In-work benefits

In the area of in-work benefits, the **UK** introduced in 2008 an additional package of in-work support to help single parents, following the extension of existing in-work credits and working tax credits over previous years, while **Spain** launched specific in-work benefits for unemployed workers over 52 years in the textile sector. In **Belgium**, the amount of the allowance "guarantee of income", according to which a job seeker taking on a part-time work can still benefit from a part of the unemployment allowance, was increased in order to remove remaining job traps.

6.1.4 Sickness and disability

Quite extensive reform measures were adopted or planned in a number of countries in the field of sickness and disability schemes, aimed at improving working incentives and helping those with some working abilities to move into employment.

The reform of the national sickness insurance system passed in **Sweden** in the second quarter of 2008 introduced a new rehabilitation chain and clarifies the relevant benefit rules. At the latest after three months of sick leave, an assessment will be made of the ability of the insured person to perform work other than his/her normal tasks. At the latest after six months of sick leave an assessment will be made of whether the person insured is able to perform any work in the labour market. An opportunity is thereby given to the individual to transfer to unemployment insurance and receive support in returning to the labour market even if it is not possible to return to his/her previous workplace. Normally, those who have a capacity to work in the labour market will return to work or become registered jobseekers with the PES within the first 12 months. The sickness benefit will remain in place and will only be payable in exceptional cases for a period of more than 12 months. If work capacity is still reduced after this period, an "extended sickness benefit" can be granted, for a maximum of 18 months and with a lower level of compensation (75% of previous income as compared with 80% in the sickness benefit). Early retirement pensions have been restricted to cases where the ability to work has diminished permanently. Following the experience of the "new start jobs" from 2007, "well again jobs" were also introduced in 2008 for people receiving sickness benefits, rehabilitation benefits, sickness or activity compensation for at least one year, involving a twice as high rebate in employer's social security contributions as for the "new start jobs". Also the policy changes passed in **Hungary** at the end of 2007 put an emphasis on rehabilitation. The new disability benefit system that came into effect on January 2008 aims to encourage the return to the labour market of new claimants who have been assessed as having remaining work capacities. These individuals have to participate in a rehabilitation plan designed by the employment office and to accept any job offer received through the employment authority during the course of the plan. A transitory rehabilitation benefit has replaced the disability pension, and the duration of the rehabilitation benefit is commensurate to the length of the rehabilitation process – albeit capped to three years. The new rehabilitation system also involves a focus on training. The broad pension reform passed in the **Czech Republic** foresees the implementation of three levels of disability as of January 2010, to allow for a better evaluation of the level of disability and support economic activity. In **the UK**, the Incapacity Benefit for new claimants will be replaced, starting from late

2008, by a simplified and integrated "Employment and Support Allowance", with clearer rights and responsibilities, and will be accompanied by a Work Capability Assessment. A partial sickness allowance was introduced in **Finland** in 2007, to encourage employees to return to working life

In **the Netherlands**, the government has tabled a reform of the disability benefit scheme for young people. Under the new rules, a definitive assessment of earning capabilities will take place at age 27 (as opposed to age 18) for those applicants that are deemed to possess at least some capacities to work. Young people with disabilities will in principle not receive a welfare benefit, but will instead receive extensive support to find and keep jobs, including training and counselling by job coaches. People with severe disabilities that rule out a perspective on labour market participation will not be affected by the new rules. The new scheme is planned to take effect on 1 January 2010 and will apply to new cases only. The introduction of a new formula for the calculation of disability pensions, based on a funded pension mechanism is being discussed in **Poland**. It is also envisaged to raise the allowed additional earning limit for workers receiving disability pension, in order to reduce the inactivity trap. Between 2009 and 2011, **Cyprus** will implement a new system to assess the work abilities of disabled persons together with their training and employment needs.

6.1.5 Family-related schemes

As already in recent years, also in 2008 a growing number of countries stepped up their efforts to facilitate the labour market participation of women, by means of an improved set of allowances and policies to reconcile work and family life.

Austria introduced a new child care benefit allowing parents to choose between three withdrawal periods (36, 24 and 18 months) and corresponding monthly grants (€436, €624 and €800). In **Slovenia**, from September 2008 a higher number of families will be exempted from paying kindergartens for their second and more children. In **Greece**, means-tested child-care benefits were introduced and the maternity leave prolonged 6 months, with a benefit at the level of minimum wage. In the **Czech Republic**, changes were introduced in the parental leave regulations to promote return to work after extended periods of childcare at home.

In **the Netherlands**, as of July 2008 female self-employed workers will get a legal right to paid pregnancy leave of a minimum of sixteen weeks. The publicly funded self-employed and pregnant (ZEZ) benefit is based on previous earnings of the self-employed up to the statutory minimum wage. Furthermore, in addition to the universal child allowance, left unchanged, an income-tested child benefit was introduced in 2008, to replace the previous child benefit income tax credit that did not benefit those low-income households which were exempt from paying income taxes. In **Latvia**, a parent's benefit was introduced in January 2008 to replace the 'child raising benefit' for socially insured persons with children below one year of age. The benefit amounts to the previous net working wage, with no upper limit, to promote father's participation in family life. In **Portugal**, a new means-tested parenthood benefit was introduced in 2008 allowing families earning a per-capita income below 80% of the Social Insertion Income to receive social transfers for events such as child birth, adoption and legally protected abortion. With a view to reducing child poverty, the universal family benefit was increased in **Hungary** by 4.5 % for every family-type (in families with three or more children, and single parent families by 6.1-7.9 %). For the same reason, starting from 2009 **the UK** will provide a higher financial support to families and withdraw the child benefit from the calculation of Housing and Council Tax Benefit.

6.2 Reviewing the incentives to work embedded in the tax system

Given the potentially adverse effect of high tax wedges on employment and on labour market efficiency, including via their influence on the size of the shadow economy, interventions in the field of labour taxation remained a major tool to stimulate both labour demand and labour supply over recent years (see Table 4), there including in 2008, which is the focus of this section.

The share of social security contributions was modified in favour of the employer in **Bulgaria** (from 65% to 60% for the employer and up from 35% to 40% for the employee) and in **the Netherlands** in 2008. **Spain** reduced social security contributions for self-employed workers in specific sectors (e.g. the textile) and for employers offering permanent contracts. Social security contributions paid by employers and employees were also cut in **Germany**, **Poland** and **Romania**. **Austria** reduced the unemployment insurance contributions paid by employers and raised by one year to 57 the age limit for the relief of these contributions. In **Belgium**, the 'work bonus', consisting in a digressive reduction of individual social security contributions, was reinforced, in favour of the lowest-income workers. In **Slovenia**, the decline in the payroll tax continued in 2008 and the tax will be completely eliminated in 2009.

Social security contributions are expected to decline in the **Czech Republic**. On the opposite direction, but starting from a very low tax wedge, the reform package presented in **Cyprus** in 2008 envisages seven phased increases in contribution rates on insured income, by 1.3 pp each time, every 5 years from 2009, with the aim of ensuring the long-run sustainability of public budget.

In view of the entry into force of the new Labour Code, a general reduction of employers' social security contributions on open-ended contracts is planned in **Portugal**, along with an increase in social security contributions paid on fixed-term contracts. Moreover, social security contributions paid by employers will be reduced by 50% during 3 years in the case of former self-employed workers who are offered a permanent contract. This incentive applies only for hires carried out in the 6 months following the entry into force of the new Labour Code. Temporary reduction in social security contributions paid by employers was introduced in **Malta** (for self-employment of long-term unemployed above the age of 45 and disabled persons) and in **Sweden** (for new hires of persons receiving sickness or rehabilitation benefit for at least a year). Finally, the **French** government proposed the introduction of a conditionality clause over the reduction of social security contributions on low-wages employees in order to ensure that companies and sectors fulfil their obligations in terms of pay negotiations. One of the aims of the measure is to inject some dynamism to the social partners' negotiations on pay and to keep under control and rationalise the evolution of the statutory minimum wage.

In order to improve the net earnings of low income workers, **Belgium**, **Cyprus**, **Denmark**, **Finland** and **Malta** extended the basic tax-free range of income in 2008. Tax allowances were granted in **Finland** on earned income and on a second house for work purposes, and in **Austria** on commuting and mileage - both to promote labour mobility. Tax allowances were also introduced in **Belgium** (on professional expenses to support R&D), in **Lithuania** (for parents, depending on the number of children) and in **Latvia**. **Denmark** introduced (under certain conditions) lump-sum tax reduction for 64 years old tax-payers and a basic personal allowance for old-age pension recipients who wish to work. The **UK** increased the personal allowance to compensate individuals affected by changes introduced in the number and level of tax brackets and **Bulgaria** came up with a compensation for those workers in the budgetary sector that were adversely affected by the newly introduced flat-tax rate (10%) which replaced the previous progressive tax scale in 2008.

To reduce the tax pressure on the lowest tax brackets, the earned income tax credit was raised in **Sweden, Denmark and the Netherlands**, along with tax rebates for the second earner and a reduced tax credit for earners in households with children in the latter country. **Spain** enacted a 400 Euros tax break in the income tax, while **Slovenia** introduced a one-off income dependent tax relief as a response to relatively high inflation in 2007. The income tax of wage earners was reduced in **Finland** by raising the allowance on earned income and by relaxing the income tax scale.

Estonia reduced the personal income flat tax rate from 22% to 21% in January 2008, while a reduction in the flat tax rate from 15% to 12.5% (along with a decline in tax deductions) is planned in the **Czech Republic** for 2009. **Lithuania** reduced personal income tax rates from 27% to 24% in 2008 (last phase of the income tax reform launched in 2005), while tax reform measures adopted in **Greece** in 2008 stipulate a reduction of tax rates from 29% to 27% and from 39% to 37%. In **Denmark**, from 2009, the third tax bracket (out of four) will be raised. Conversely, **the Netherlands** slightly increased the tax rate for earnings between € 17,579 and € 31,589, while the tax wedge of low-wage workers was moderately increased in **Hungary**, as a result of the abolition of the supplementary tax refund and the simplification of tax refund. A flat tax rate of 10% for the part of the wage linked to productivity or extra hours worked was introduced in **Italy** on an experimental basis from the second half of 2008, applying to private sector employees only.

6.3 Modernising job protection

Most planned reforms in the field of employment protection legislation (EPL) remained at the stage of proposals in 2008.

In **Portugal**, the long-lasting debate on the reform of labour relations, started in 2006, reached a crucial phase in June 2008 with the agreement between the government and the social partners on a series of legislative proposals. The main goals of the reform are to increase the adaptability of companies in the field of working time, parental leave and vocational training, to reform the legal system governing redundancies, to promote collective contractual regulations and finally to combat segmentation and precariousness, by adapting and better articulating labour law, social protection and employment policies. This reform was preceded in 2007 by the redefinition of the legal framework for temporary work agencies, aimed at enforcing the duties and responsibilities of temporary work agencies, increasing the rights and guarantees of the workers and at improving the control and supervision of temporary work.

In **France**, the agreement on the modernisation of the labour market, signed by the national social partners in January 2008 and transposed into Law in June, involved a rather comprehensive, but still incomplete reform of labour regulation, including an easing of open-ended labour contracts with the creation of a conventional firing mechanism, the introduction of a new fixed-term contract for the realisation of specific projects with duration between 18 and 36 months and improved conditions for benefiting from lay-off allowances. In line with a ruling based on an ILO convention ratified by France, the CNE (*Contrat Nouvelles Embauches*), which had been introduced in August 2005, was abolished in 2008. Following the change in the fiscal regime of overtime work introduced in 2007 (TEPA Law), the possibility to convert holidays into pay was also introduced in 2008. In **Italy**, the new Government introduced greater flexibility for the renewal of fixed-term contracts after 36 months of duration and reduced the administrative burden for the authorisation of extra worked hours. Moreover, Italy's Ministry of Labour published a Green Paper for consultation, to open a debate on welfare system and labour market institutions. To raise employment, the Green Paper considers removing legal disincentives to work more important than introducing financial

incentives. Moreover, it argues that Social Partners should play a greater role in agreeing bilaterally in the funding or provision of social or training services.

In **Slovenia**, following an agreement by the social partners at the end of June 2007, the dismissal procedure was simplified and the notice period shortened. The most important changes in the Employment Relationships Act include greater flexibility of hours worked; clearer and more efficient regulation of dismissal; more flexible regulation of working time; and incentives for reconciliation of working and family life.

In **Estonia**, a proposal to modernise labour law was agreed by the social partners in April 2008. The draft regulates for the first time new forms of work such as temporary agency work and telework and reduces severance payments and notice periods. Along the lines of the flexicurity approach, it also proposes a strengthening of the social security of employees in periods of unemployment and the development of vocational training and job counselling system. Labour market services and unemployment insurance will be merged into one single body. In **Poland**, proposals were brought forward at the beginning of 2008 to modernise the Labour Code, increase the flexibility in the labour market, decrease labour costs and facilitate a work-life balance. Labour market policy initiatives included completing the reform of the social insurance system and the development of a National Lifelong Learning Strategy.²⁰

The 2008 Commission "Strategic report on the renewed Lisbon Strategy for Growth and Jobs: Keeping up the pace of change" shows countries with recommendations (CSRs) and points to watch (PTW) in the field of employment protection legislation.²¹ The table and graphs below show the change in the EPL indicators calculated by the OECD between the 2003 and 2006. As it is clear from the picture, the regulatory framework of both permanent and temporary contracts has recorded only very modest changes over recent years.

²⁰ Source on Poland: EEO, Quarterly Report, April 2008.

²¹ For full text concerning flexicurity related country's specific recommendations and points to watch in the 2008 Commission Report see Annex 1.

Table 5 – Employment protection legislation

Index scale of 0-6 from least to most restrictive

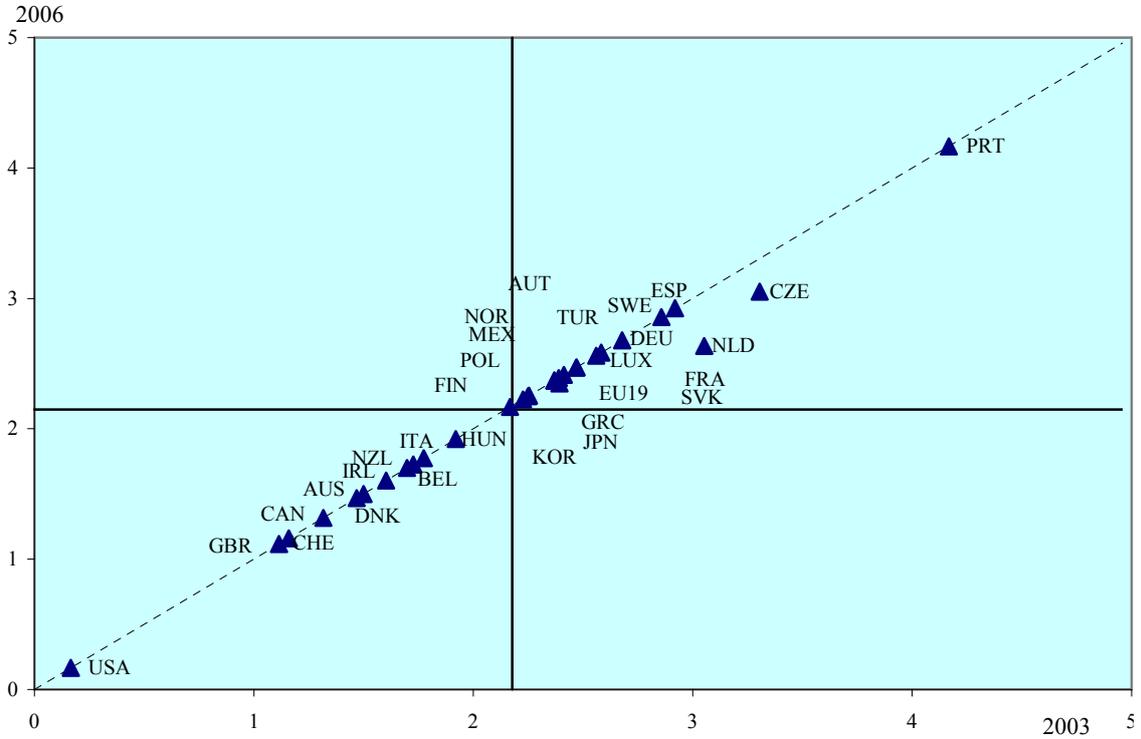
	Job protection	Regular employment		Temporary employment	
		2003	2006	2003	2006
	Council's recommendation of Spring 2008*				
BE		1.7	1.7	2.63	2.63
DK		1.5	1.5	1.38	1.38
DE		2.7	2.7	1.75	1.75
GR	CSR	2.4	2.4	3.25	3.25
ES	PTW	2.9	2.9	1.75	1.75
FR	CSR	2.5	2.5	3.63	3.63
IE		1.6	1.6	0.63	0.63
IT		1.8	1.8	2.13	2.13
LU		2.6	2.6	4.75	4.75
NL		3.1	2.6	1.19	1.19
AT		2.4	2.4	1.50	1.50
PT	CSR	4.2	4.2	2.75	2.75
FI		2.2	2.2	1.88	1.88
SE		2.9	2.9	1.63	1.63
UK		1.1	1.1	0.38	0.38
CY					
CZ	CSR	3.3	3.1	0.50	1.13
EE	PTW				
HU		1.9	1.9	1.13	1.13
LT					
LV					
MT					
PL		2.2	2.2	1.25	1.75
SK		2.5	2.5	0.38	0.38
SI	CSR				
RO					
BG					

Source: Commission services, OECD, Going for Growth, 2007

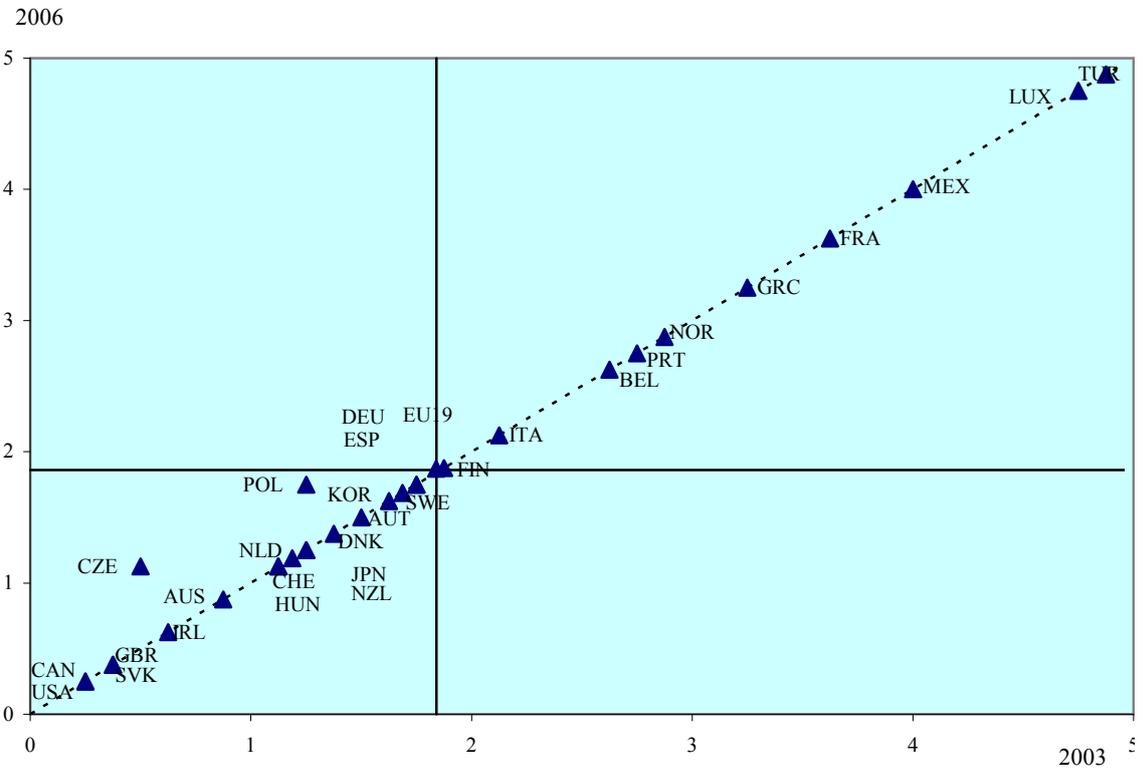
*Flexicurity related country-specific recommendations (CSR) and points to watch (PTW)

Employment Protection Legislation (EPL)
Index scale of 0-6 from least to most restrictive

A. Restrictiveness of protection legislation on regular employment



B. Restrictiveness of protection legislation on temporary employment

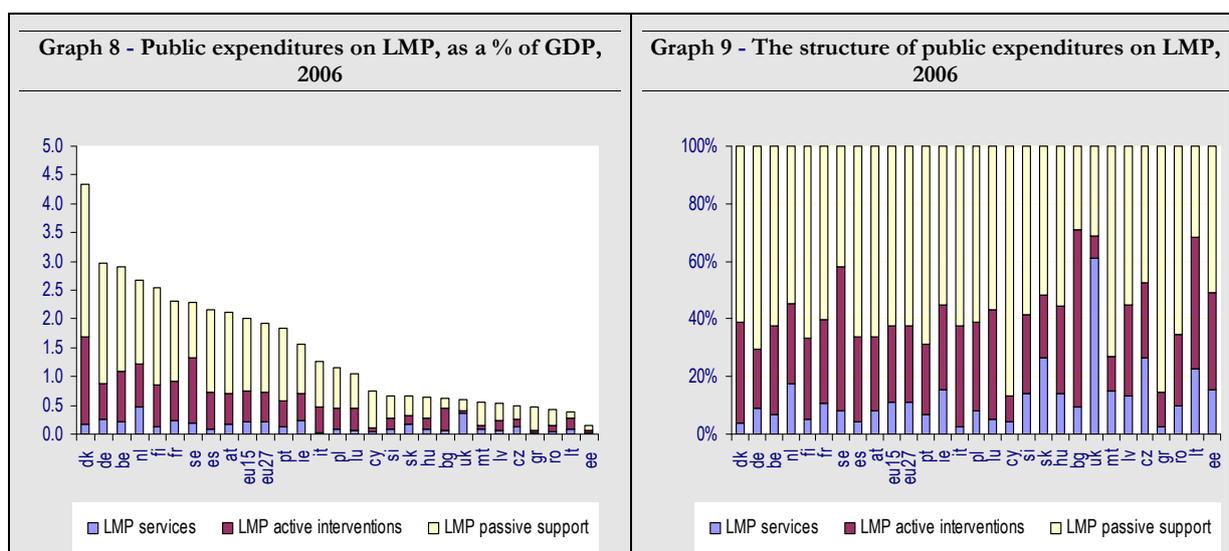


Source: OECD, [Going for Growth, 2008 Edition](#)

7 TRENDS IN LABOUR MARKET POLICY EXPENDITURE

This section illustrates the evolution of public spending on labour market policies since 2000. Looking at the distribution of social protection expenditure among passive income support and active labour market policies in the various Member States can provide useful insights on recent trends in policy strategies in the field of making work pay. The datasets used hereafter have been extracted from ESSPROS and the Labour Market Policy (LMP) database²², with the former providing complete time series on the overall social protection expenditure up to 2005, and the latter providing recent data on total expenditure, passive income support and active labour market interventions up to 2006.

In 2006, the countries of the European Union spent on average 1.9% of their GDP on targeted LMP interventions. Of the total expenditure on LMP, 57% was devoted to unemployment benefits, more than 26% to active labour market programmes and 11% to labour market policy services for jobseekers. Training interventions still accounted for more than 41% of the expenditure for active labour market programmes, but employment incentives (typically wage-subsidies or exemptions to employer's social contributions) were increasing in importance (24%).



Source: Eurostat (LMP database), Commission services.

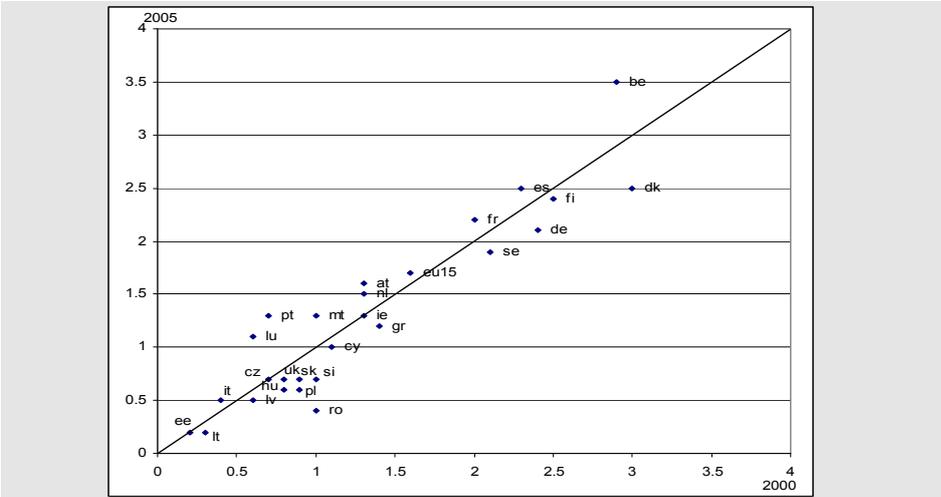
* Expenditures on labour market policies (LMP) include expenditures for services provided by public employment services (category 1), active interventions (such as training, job rotation/sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives - categories 2-7) and passive supports (unemployment benefits and early retirement - categories 8-9).

The majority of EU countries thus devoted the highest share of GDP to passive supports (unemployment benefits and early retirement) in 2006, followed by active interventions (training, job rotation/sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives) and by services provided to jobseekers by the public employment agencies. Passive support exceeded 70% of total LMP

²² The Eurostat Labour Market Policy (LMP) database classifies LMP interventions into three main groups: services, measures and supports. **LM services** cover the costs of providing services for jobseekers together with all other expenditure of the public employment services (PES) in each country. **LMP measures** cover active interventions to help the unemployed and other disadvantaged groups (training, supported employment and rehabilitation, direct job creation and start-up incentives). **LMP supports** include out-of-work income maintenance and support and early retirement and largely relate to unemployment benefits.

expenditure varied considerably across countries between 2000 and 2005.²⁴ Roughly two groups of countries can be identified according to the size of unemployment-related expenditure as a % of GDP in 2005. The first group includes both countries that have unemployment-related expenditure at above the EU15 average (1.7% of GDP), in particular in the range between 1.9% and 3.5% (BE, DK, ES, FI, FR, DE and SE), and countries that have unemployment-related expenditure levels below the EU15 average and still above 1% (AT, NL, PT, IE, MT, GR and LU). The second group has unemployment-related expenditure levels up to 1% of GDP and includes the newly acceded Member States (except MT), IT and the UK. Passive support measures accounted for 64% and 52% of all LMP expenditure respectively in the first and second group of countries, while services provided by the public employment agencies accounted respectively for 8% and 18% of all LMP expenditure. Both groups of countries spent about an equal share of LMP budgets on active interventions.

Graph 11 - Unemployment-related expenditures, as a % of GDP, 2000-2005*



Source: Eurostat, (ESSPROS), Commission services.
 *Unemployment-related expenditures include cash benefits (full and partial unemployment benefits, early retirement benefit for labour market reasons, vocational training allowance, redundancy compensation and other cash benefits) and benefits in kind (mobility and resettlement, vocational training and other benefits in kind).
 **database ESSPROS contains data up to 2005.

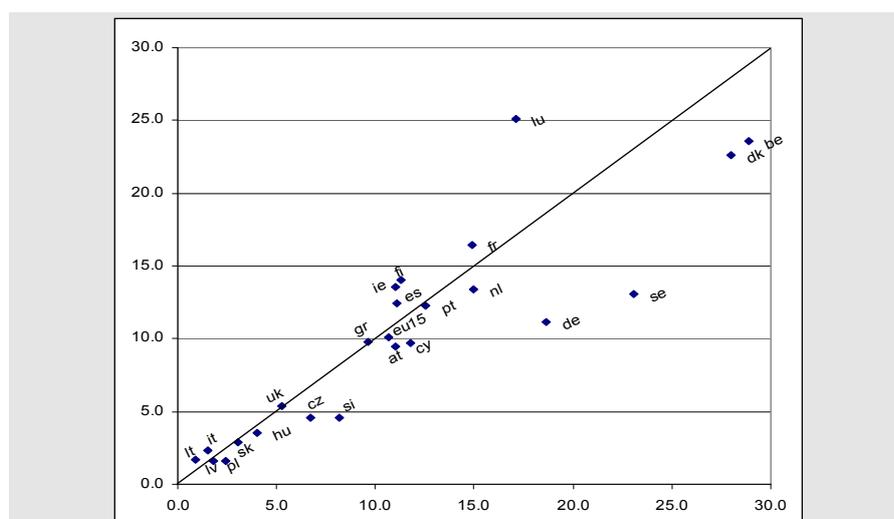
The period 2000-2005 did not see any convergence in the level of unemployment-related expenditure. While newly acceded Member States (except MT) reduced or kept unchanged the share of unemployment-related expenditure as a % of GDP, old Member States saw either an increase (in particular BE, PT, LU and AT) or a decrease (in particular DK, DE, GR and SE) of public spending on unemployment-related benefits. It is particularly difficult to attribute such changes to a specific factor as these diverse trends reflect, at least in part, a wide range of variables, such as cyclical or structural changes in the functioning of labour markets (as reflected in the number of persons who are unemployed or would like to work), or reforms of the benefit systems (as reflected in changes in the replacements rates, in the benefits duration, entitlement conditions, eligibility criteria, benefits take-up rate or tax structure).²⁵

²⁴ To notice that this variation is also linked to the extent of non-targeted support in some countries, i.e. of policies which do not target exclusively unemployed and other groups with difficulties in the labour market and that, for this reason, are not included in the coverage of the LMP data collection.

²⁵ See e.g. European Economy (2005): "The 2005 projections of age-related expenditure (2004-50) for the EU Member States: underlying assumptions and projections methodologies".

Large differences in the evolution of unemployment-related expenditure across the EU remain even once these expenditures are calculated per person wanting to work.²⁶ Graph 12 shows the level and evolution of this indicator (as a % of GDP per person employed) over 2000-2005. Newly acceded Member States, along with IT and UK, continued to record considerably lower unemployment-related expenditure levels per person wanting to work than the remaining old Member States (4 and 15% of GDP per person employed on average, respectively). However, also old Member States - in particular SE, DE, DK and BE - generally saw a large decline in the respective indicator over 2000-2005, reflecting the extensive reform measures taken in this period.

Graph 12 - Unemployment-related expenditures per person wanting to work, % of GDP per person employed, 2000-2005*

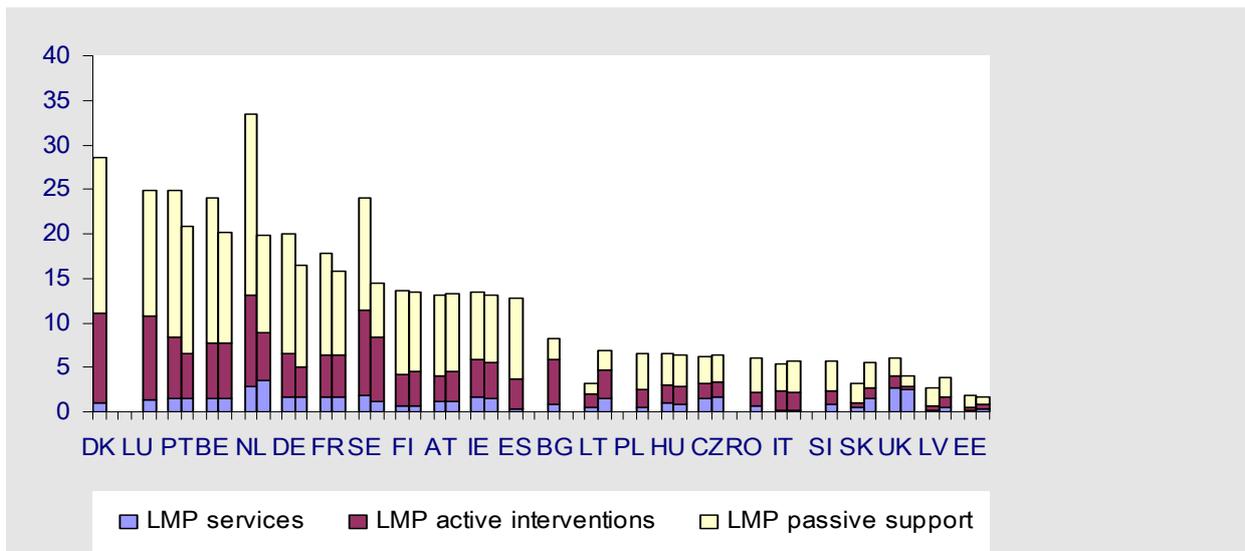


Source: Eurostat, (ESSPROS), Commission services.
 *Unemployment-related expenditures include cash benefits (full and partial unemployment benefits, early retirement benefit for labour market reasons, vocational training allowance, redundancy compensation and other cash benefits) and benefits in kind (mobility and resettlement, vocational training and other benefits in kind).
 **database ESSPROS contains data up to 2005.

To conclude, a shift of resources from passive to active policies can be observed in a number of countries over the period under consideration, in particular in the newly acceded Member States. A majority of countries experienced indeed a decline in passive supports in overall LMP expenditure per person wanting to work in 2004-2006. In the recently-acceded Member States, this decline reflects an increasing importance of active interventions and services to jobseekers. In the old Member States, the decline in the level of passive support (per person wanting to work) was particularly evident in NL, SE, BE, FR and the UK, and was in some countries accompanied also by a fall in the level of expenditure on active interventions per person wanting to work (NL, SE and UK).

²⁶ Persons wanting to work include unemployed according to the LFS (Labour Force Survey) and labour reserve. Labour reserve is represented by inactive population wanting to work and includes persons that are seeking employment but are not LFS unemployed and persons that would like to work, however they are not seeking employment for various reasons.

Graph 13 - LMP expenditure per person wanting to work, as a % of GDP per person employed, 2004-2006



The first column refers to 2004 and the second column to 2006.

Source: Eurostat (LMP database), Commission services.

* Expenditures on labour market policies (LMP) include expenditures for services provided by public employment services (category 1), active interventions (such as training, job rotation/sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives - categories 2-7) and passive supports (unemployment benefits and early retirement - categories 8-9).

8 ANNEX 1: FLEXICURITY RELATED COUNTRY'S SPECIFIC RECOMMENDATIONS AND POINTS TO WATCH

	Full text in the Commission's Strategic Report 2008	Council Conclusions 2008
AT	Among the strengths shown by the 2007 Austrian Implementation Report are: good practices to boost innovation, such as the innovation voucher; increased budgets for R&D in line with the 3% target; the creation of a climate and energy fund; the successful implementation and further development of its flexicurity model.	Positive points
AT	In addition, it will be important for Austria to focus over the period of the National Reform Programme on the following challenges: strengthening the fiscal adjustment in order to achieve a balanced budget before 2010; increasing competition in services, in particular, in professional services; strengthening entrepreneurship education; identifying further emission reduction policies and measures; tackling the gender segregation of the labour market, including by further improving the availability of childcare.	Points to watch
AT	Further improve incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training, adaptation of working conditions and tightening the conditions for early retirement and improve education outcomes for vulnerable youth.	Recommendation
BE	Continue efforts to further reduce the tax burden on labour towards the average of its neighbouring countries, especially by reducing the tax wedge on low skilled workers, while strengthening fiscal consolidation.	Recommendation
BE	Reinforce the policy measures to improve the performance of its labour market through a comprehensive strategy, in accordance with an integrated flexicurity approach, to enhance labour market participation, lower regional disparities and increase participation in lifelong learning.	Recommendation
CZ	Among the strengths shown by the 2007 Czech Republic Implementation Report are the coherent strategy to improve the regulatory framework for enterprises, reforms to make work pay, reforms of the curricula for primary and secondary education, to increase participation in tertiary education and the adoption of the lifelong learning strategy.	Positive points
CZ	Within an integrated flexicurity approach, further modernise employment protection, including legislation; improve the efficiency and equity of education and training, especially its responsiveness to labour market needs; provide incentives to invest in training particularly for older workers and the low-skilled and increases the diversification of tertiary education supply.	Recommendation
CZ	In addition, it will be important for the Czech Republic to focus over the period of the National Reform Programme on the following challenges: improving the protection of intellectual property rights; speeding up progress in the ICT area, including by implementing and monitoring a fully enabled legal environment for e-government; improving access to finance for innovative companies, in particular through further developing the venture capital market; increasing the coverage of entrepreneurship education; better integrating disadvantaged groups into the labour market; reducing regional disparities; reconciling work and family life; tackling the gender pay gap; and implementing the active ageing strategy.	Points to watch
FI	It will be important for Finland over the period of the National Reform Programme to focus on the following challenges: continue reforms to improve competition and productivity in services, and create the necessary leverage to reduce high price levels; implement announced measures to reach its Kyoto target; continue reforms to address bottlenecks in the labour market, with a particular view to tackling high structural unemployment, especially unemployment of low skilled workers, including young people, and taking into account the contribution economic migration can make.	Points to watch
DE	Tackle structural unemployment by maintaining the path of the reforms outlined in the National Reform Programme. Focus should be placed on integrating the low skilled into the labour market through a flexicurity approach combining better access to qualifications with the implementation of the announced comprehensive tax and – benefit reform and more effective employment services for unemployed recipients of basic income support.	Recommendation

DE	Among the strengths shown by the 2007 German Implementation Report are: the consolidation of public finances; the strengthening of high-class research and innovation; the progress in tackling youth unemployment and the determined approach to increasing childcare facilities.	Positive points
DE	Tackle structural unemployment by maintaining the path of the reforms outlined in the National Reform Programme. Focus should be placed on integrating the low skilled into the labour market through a flexicurity approach combining better access to qualifications with the implementation of the announced comprehensive tax and – benefit reform and more effective employment services for unemployed recipients of basic income support.	Recommendation
EE	It will be important for Estonia over the period of the National Reform Programme to focus on the following challenges: improving macro-economic stability and containing inflation through adequate structural reforms and determined fiscal policy; reinforcing efforts to ensure that R&D results are translated into innovative services or products; encouraging closer cooperation between universities and enterprises; launching the new immunity and leniency programme and strengthening competition enforcement; reinforcing active labour market policies and increasing the supply of skilled labour by implementing a comprehensive lifelong learning strategy that responds to labour market needs; reducing labour market rigidities by urgent progress towards labour law modernisation and by promoting flexible forms of work.	Points to watch
EL	Amongst the strengths shown by the 2007 Greek Implementation Report are: good progress made to consolidate public finances, promoting female employment, implementing internal market legislation, and improving the business environment. There are promising signs of progress to fix a timetable to implement pension reforms designed to improve long-term fiscal sustainability.	Positive points
EL	In addition, it will be important for Greece over the period of the National Reform Programme to focus on the following challenges: contain inflationary pressures and the current account deficit; accelerate efforts to set up a research and innovation strategy and increase investment in R&D; improve further the transposition of internal market legislation; speed up progress towards meeting the SME policy targets set by the 2006 Spring European Council; strengthen competition in the area of professional services; protect the environment by prioritising effective solid and water waste management and curb greenhouse gas emissions; encourage further female participation in employment; reduce early school leaving and put in place a coherent active ageing strategy	Points to watch
EL	Within an integrated flexicurity approach, modernise employment protection including legislation, reduce the tax burden on labour, strengthen active labour market policies and transform undeclared work into formal employment.	Recommendation
ES	Among the strengths shown by Spain's 2007 Implementation Report are: a faster than targeted reduction of government debt; good progress on implementation of the R&D and innovation plan; and satisfactory progress towards the employment rate objective, in particular for female employment.	Positive points
ES	In addition, it will be important for Spain over the period of the National Reform Programme to focus on the following challenges: contain the current account deficit and inflationary pressures and monitor developments in the housing market; raising competition in professional services and retail markets; improving the regulatory framework; implementing environmental measures, in particular to reduce CO2 emissions; further modernise employment protection, including legislation, in order to foster flexicurity in the labour market to counter segmentation and promote the attractiveness of part-time work; raising productivity by raising skill levels and innovation; integrating immigrants into the labour market; further increase of access to childcare; and implement pension and healthcare reforms so as to improve long term fiscal sustainability.	Points to watch
FR	It will be important for France over the period of the National Reform Programme to focus on the following challenges: further strengthening competition in regulated trades and professions, further enhancing better regulation policies by including impact assessments; continuing to increase labour supply and making work pay.	Points to watch
FR	Within an integrated flexicurity approach, improve the efficiency of lifelong learning and modernise employment protection, in order notably to combat labour market segmentation among contract types, and make it easier to switch between fixed term contracts and permanent contracts.	Recommendation

FR	Among the strengths shown by French 2007 Implementation Report are: the reform of R&D and innovation strategies; the concrete results of measures in the area of ICT; the announced, comprehensive set of measures to improve the functioning of the labour market, including through changes in legislation.	Positive points
HU	Among the strengths shown by the 2007 Implementation Report are: strong improvements on fiscal consolidation, the adoption of various structural reform steps, the shortening of the setting-up time for businesses and the efforts to reduce administrative costs, the introduction of further incentives to work and to remain on the labour market and the transformation of undeclared work into formal employment.	Positive points
HU	In addition, it will be important for Hungary over the period of the National Reform Programme to focus on the following challenges for the future: further reforming the public research system, increasing the effectiveness of public R&D expenditure and improving linkages between public and private R&D; reducing and redirecting state aids; improving the regulatory environment through further reducing administrative burden and legislative simplification; introducing further incentives to work and to remain in the labour market; ensuring better reconciliation of work and private life; completing the establishment of the integrated employment and social services system; transforming undeclared work into formal employment and implementing the lifelong learning strategy.	Points to watch
IE	It will be important for Ireland over the period of the National Reform Programme to focus on the following challenges for the future: speeding up progress in formulating concrete measures to reform pension arrangements; an intermediate target for R&D investment should be set for 2010; accelerating progress in increasing labour market participation, including by establishing a comprehensive childcare infrastructure; further developing the policy framework for the labour market and social integration of migrants and placing a particular emphasis on support to older and low-skilled workers. Developments in the housing market, affecting short and medium-term growth, should be carefully monitored	Points to watch
IT	In addition, it will be important for Italy to focus over the period of the National Reform Programme on the following challenges: increasing R&D investment and efficiency, where despite welcome policy developments, further efforts are needed to reach the 2010 target and to enhance the efficiency of public spending; increasing efforts to meet the CO2 emission reduction targets; improving the quality of regulation by strengthening and fully implementing the system of impact assessment, notably for SMEs; implementing plans to improve infrastructure; increasing childcare provision with a view to reconciling work and family life and fostering labour market participation of women; putting in place a consistent active ageing strategy to increase employment of older workers with a view to improving pension adequacy.	Points to watch
IT	Improve the quality and labour market relevance of education, promote lifelong learning, tackles undeclared work and ensures the efficient operation of employment services, within a flexicurity approach and with a view to reducing regional disparities.	Recommendation
LV	It will be important for Latvia over the period of the National Reform Programme to focus on: improving further the regulatory environment, notably by means of an explicit better regulation policy and improving access to childcare.	Points to watch
LT	It will be important for Lithuania to focus over the period of the National Reform Programme on the following challenges: improving macro-economic stability and containing inflation; increasing foreign direct investment; improving the efficiency of regulatory environment with particular focus on legislative simplification; improving youth employability; expanding entrepreneurship education; increasing the availability of childcare and strengthening occupational health and safety.	Points to watch
LU	Among the strengths shown by the Luxembourg's 2007 Implementation Report are: investments to integrate the economy into the international context, efforts to develop an extensive simplification policy focussed on business needs, the development of childcare infrastructures, reform of professional training and the introduction of new forms of employment.	Positive points
MT	Step up efforts to attract more people into the labour market, particularly women and older workers; maintain efforts to tackle undeclared work and take further action on the benefit system to make declared work more attractive.	Recommendation
NL	Among the strengths of the National Reform Programme and its implementation are: the efforts to reduce administrative burden and to improve the business climate; the ambitious plans in the area of energy and climate change and incentives to improve childcare provision.	Positive points

PL	With a view to developing an integrated flexicurity approach, increase the level and efficiency of active labour market policy, notably for older persons and groups vulnerable to poverty, review benefit systems to improve the incentive to work, put in place the lifelong learning strategy and modernise education and training systems in view of labour market needs.	Recommendation
PL	In addition, it will be important for Poland over the period of the National Reform Programme to focus on the following challenges: upgrading transport infrastructure; speeding-up the business registration process; ensuring timely implementation of the e-government programmes; improve the transposition of internal market legislation; and increasing the provision of childcare facilities.	Points to watch
PL	Among the strengths shown by the 2007 Poland's Implementation report are: the attention paid to developing entrepreneurship; initial steps to bring down the tax burden on labour; the priority and funding allocated to active labour market measures; and the strong linkage of the National Reform Programme priorities with EU funding.	Positive points
PT	Continue efforts to modernise employment protection, including legislation to reduce the high levels of labour market segmentation, within the flexicurity approach.	Recommendation
RO	Implement an integrated approach to increasing employment, activity rates and productivity levels, especially by accelerating reforms of the education system to respond better to labour market needs, by reducing early school leaving, by significantly increasing adult participation in education and training and by transforming subsistence/semi-subsistence farming into sustainable employment.	Recommendation
RO	The programme's strengths include initiatives aimed at implementing a medium-term expenditure framework, reducing non-wage labour costs and reforming research structures.	Positive points
RO	In addition, it will be important for Romania over the period of the National Reform Programme to focus on: taking further measures to ensure the long-term sustainability of public finances, in particular with regard to potential risks in terms of adequacy and sustainability of pensions; reinforcing measures to tackle fragmentation of the research base whilst ensuring that planned increases in public research funding yield effective returns by vigorously implementing the national R&D and innovation strategy and by regularly monitoring its results; pursuing a more integrated approach to infrastructure development and roll-out of ICT; intensifying efforts to tackle undeclared work; improving the effectiveness and geographical scope of public employment services, particularly to assist vulnerable groups.	Points to watch
SE	Among the strengths shown by the 2007 Sweden's Implementation Report are: the action plan for regulatory simplification and the commitment to improve the impact assessment system; the progress with increasing labour supply and reducing unemployment; the sustainable use of energy and the progress made on increasing public investment in R&D.	Positive points
SE	It will be important for Sweden to take further regulatory measures to increase competition, notably in services and to focus on the implementation and impact evaluation of recent reforms to increase work incentives; to tackle youth unemployment; to raise the employment rate of immigrants and to reintegrate people on sickness-related schemes.	Points to watch
SI	Within an integrated flexicurity approach, promote more flexible contractual arrangements and improve the effectiveness of employment services, particularly in relation to persons with low employment prospects, in order to counter labour market segmentation mainly affecting young people.	Recommendation
SK	Among the strengths shown by the 2007 Slovak Implementation Report are: the foreseen reduction of the public finance deficit to below 3% of GDP in 2007; the adoption of a number of strategy documents in the area of R&D and innovation, energy efficiency and renewably energy; the partial implementation of a one-stop-shop for start-up companies; the revision of employment legislation; the adoption of the lifelong learning strategy and efforts to revise active labour market policies to better comply with labour market developments.	Positive points

9 ANNEX 2: MAIN FEATURES OF RECENT TAX AND BENEFIT REFORMS - BASED ON LABREF

Reforms of welfare-related benefits

2006	In-work benefits	Means-tested, sickness and family-related benefits	UB Coverage	UB Duration	UB Entitlement	UB Net replacement rate
Austria	Integrating allowances and employment projects to support people re-entering into the labour market. Unemployed returnees are supported by specially trained consultants at all local PES.					
Belgium	UB recipients and those on invalidity benefits can continue receiving increased family allowances for an increased period of two years (instead of six months) when finding a new job, subject to an income ceiling. The eligibility conditions for receiving the income supplement when going back to work are also eased.					
Bulgaria	Giving persons who start work without intermediation of PES employment subsidies for 12 months	A) Limiting access to monthly social benefit for unemployed people in working age to 18 months, after that they are out of social assistance for 1 year; B) 1) Fixing at 180 BGN the amount of the benefit for childrearing up to 2 years of age of the child. 2) Increasing the length of maternity leave from 135 to 315 days, 45 of which before childbirth. The maternity benefit shall correspond to 90% of the daily average	Introducing a benefit of maximum 30 months of duration for long-term unemployed under the following conditions: have been unemployed for at least 12 months; are older than 60 for men and 57 for women and have an insurance			Setting the minimum amount of the UB at 90 BGN and the maximum amount at 180 BGN.

		remuneration or of the insurance income during the previous 6 calendar months and cannot exceed the average daily net remuneration for the period of reference and be less than the minimum wage.	career up to 60 months less than the minimum required by law; have not been granted a pension; do not practice any labour activity.			
Czech Republic	Introducing a job-search bonus scheme and strengthening in-work benefits	A) Reforming the sickness insurance scheme: 1) employers (not anymore the state) will pay wage compensation for the first 14 days of sick leave; 2) lowering the level of employers' health insurance contributions from 3.3% to 1.4%; 3) Ensuring greater proportionality between the level of sickness insurance benefits and employers' contributions; 4) strengthening the protection against abuses. B) Doubling the one-off grant on the birth of each child up to CZK 17.50 and introducing a new one-off allowance for families with children going to the first year of primary school. C) Changing the definition of subsistence minimum so that additional members of a household count for less than 1 and introducing a new 'minimum living' for persons in working-age.				
Estonia					Extending to 3 years the requirement of 12 months working period during the previous two years in order to be entitled to UB. Additionally, recipients of UB will no longer lose their employment record during the period they	

					claim assistance, so that they are incited to take short-term or temporary work in order to fulfil the necessary qualification period for insurance benefits.	
Finland	Keeping the housing allowance of long-term unemployed returning to work during the first three months of employment.	Introducing a voluntary partial daily sickness allowance. Employees may return to their own job on a part-time basis after 60 days of daily allowance sick leave.				
France	1) Supplement to wage for unemployed persons who accept to work for a salary at least 15% lower than the daily salary which had been used as a reference for the UB and who are either aged at least 50 or have been receiving the UB for at least 12 months. 2) Unemployed people who accept an occasional or reduced job (maximum 110 hours per month with a wage of up to 70% of previous reference salary) can continue to receive fully or in part the <i>aide au retour à l'emploi</i> during a period of maximum 15 months. This fifteen-month limit does not apply to people aged 50 or more. 3) Beneficiaries of solidarity minimum income (RMI) working more than 78 hours per month are allowed to cumulate wage and allowance during the first three months of work.			Reduced duration of the reformed UB, which following the age and the contribution history of the concerned person goes from a minimum of 7 months for a person having paid contribution to the unemployment insurance for 6 months during the previous 22 months to a maximum of 23 months. The maximum duration is up to 36 months for unemployed persons aged 50 years or more. Special conditions apply to unemployed aged 60 years. It is estimated that the tightening of the prior insurance period will save UNEDIC € 474 million over a three-year period.	Tightening eligibility conditions, especially for long-term unemployment. The new <i>allocation d'aide au retour à l'emploi</i> is granted to those unemployed persons who: 1) had been working for at least 6 months during the last 22 months prior to unemployment, 2) are actively and regularly looking for a job or are enrolled in a training programme in the framework of the <i>projet personnalisé d'accès à l'emploi</i> and do not refuse adequate offers, 3) are aged less than 60.	Calculating the benefit on the basis of the previous daily salary and varies according to the age and contribution history of the concerned person. The benefit amounts either to 40,4% of the daily reference salary (DRS) plus a fix amount, or to 57,4% of the DRS. It cannot be lower than €25.51 per day, nor higher than 75% of the DRS.

Germany		New tax allowances covering the cost of child care for all parents. Up to the age of 14, two thirds of the costs of childcare can be deducted from income up to the amount of €4,000.			Introducing rapid offers (unemployed entrants to be offered jobs or training courses immediately in order to test their willingness to accept work) and sanctions (recipients of UB will lose 60% of their benefits if they reject more than two jobs offers in a year; this will also affect rent allowances).	
Hungary		Evaluating the eligibility to the main social benefits on the base of the equivalent family income rather than the per capita household income. The benefits will act as a top up of the family's income so that the equivalent income would reach the minimum pension. Also, eligibility to a reduced benefit can be retained, during the first six months of re-entrance into employment, unless the employment is temporary.				
Ireland	A) Introduction of a tapered withdrawal rate for Disability Allowance and Blind Pension recipients who engage in employment of a rehabilitative nature or self-employment. B) Reduction in the qualifying period for Jobseeker's benefit recipients to qualify for the Back to Work allowance programme for the self-employment and employee strands from 3 to 2 and 5 to 2 years respectively.	Increasing the upper income limit for the one Parent Family Payment by 28% to €375 a week.				

Italy		Extraordinary plan to set up an integrated system of kindergartens, so as to reach coverage of 33% of national territory by 2010.		Making permanent the longer duration of ordinary UB which had been introduced on a provisional basis in 2005 only for the year 2006 (from 6 to 7 months for workers aged under 50 and from 9 to 10 months for workers aged 50 or more).		Making permanent the higher levels of ordinary UB introduced on a provisional basis in 2005 only for the year 2006. The level of the ordinary UB is now permanently raised from 40% to 50% of reference salary for the first 6 months and is set at 40% during the 7th month for workers aged less than 50. The level is raised to 50% of reference wage (from 40%) for the first 6 months and is set at 40% for the following 3 months and 30% during the 10th month for workers aged over 50.
Latvia		Increase in reference state-support income from LTL 155 (€45) to LTL 165 (€ 48). The state-support income is used in the calculations of the size of social benefits/ allowance paid to families with low earnings.				
Lithuania		A) Social assistance is extended to all those who are registered at the local PES and: 1) are in age off pre-retirement (no more 5 years till retirement pension); 2) are senior who graduated school; 3) have a disability of group III; 4) are mothers/ fathers raising at home a child over 3; 5) had fixed-term, seasonal, temporary contracts of employment; 6) are nursing a family member; 7) had returned from correctional institutions. B) Improving the delivery of social services to families at risk and families with disabled, elderly people or other people who need care.				

Malta		Granting vouchers as a subsidy to the surcharge on utility bills to low-income families who are on social benefits.				
NL		Welfare benefits-recipients doing voluntary work as a part of a reintegration scheme, are allowed to receive €1500 annually (€750 previously) without no consequences for their welfare benefits		1) Cut in UB maximum duration from 5 years to 38 months; 2) Determination of the duration of the UB on the basis of actual employment history, with one month's benefit for each year worked (after the third month of unemployment). This criterion will apply gradually.	1) More stringent employment-history requirements: in order to be eligible for short-term 3 months benefits, UB claimants must have worked for 26 weeks over the last 36 weeks (against 26 weeks out of the last 39 before). To claim benefits longer than 3 months, claimants must have worked for at least 4 out of the last 5 years. 2) As of 01-01-2007: Tightening the reintegration obligations imposed on UB-recipients during the first 3 months of benefit. 3) As of 01-10-2006: Informal in-family healthcare workers and voluntary workers claiming UB can be exempted from job application duty under certain conditions. 4) In order to receive UB, employees no longer have to legally challenge the decision of the employer to make him/her redundant.	Increase of first 2 months of UB levels: unemployed will receive benefits at 75% of the last-earned wage for the first two months and then 70% for any following months (it used to be 70% for the whole duration).
Portugal		Eligibility criteria to social allowances will take into account household income of the last month (or 3 months average if variable), instead of 12 months.		1) Reinforcing the mechanisms to promote the activation of beneficiaries; 2) introducing stricter rules concerning beneficiaries obligations and clarification of the concept of "convenient job"; 3) changing the		Abolishing the increased benefit amount previously granted to unemployed beneficiaries with children and very low incomes. A clause now states that the net benefit amount cannot be higher than the net wage previously earned.

				eligibility conditions for access to unemployment insurance, to 470 days of contributions in the previous 2 years; 4) Strengthening the link between PES and social security.		
Romania						Redundant workers receive an amount representing the net average wage (registered in January in the year of laying-off), UB and an additional monthly income depending on the working stage of each person.
Slovak Republic		Increase of allowance for the first born child from SK 11000 to SK 15460			Those employed for a short-term period can receive UB for 4 months, if they have been insured against unemployment for at least 2 years within the last 4 years. Also possible to receive UB for 6 months, if insured for at least 3 years within the last 4 years.	.
Spain		Establishing on a permanent basis the active integration income scheme (it was previously regulated on an annual basis); access to this scheme becomes a subjective right for those fulfilling the requirements (previously conditional on the existence of budget resources). Social security contributions will be paid by the PES on behalf of the beneficiaries. The scheme is targeted to unemployed workers with special economic needs and	Extending the contributory UB to the following groups: unemployed over 45 years without family responsibilities; temporary hiring by co-operatives; workers with permanent contracts with zero hours worked due to reduction of			

		difficulties in finding a job. It provides an income and requires participation in actions aimed at increasing employability.	production for cyclical reasons. Temporary workers can now also benefit from the Wages Guarantee Fund.			
Sweden	Introducing an annual in-work tax credit of SEK 5.000 – 11.000 depending on the municipal tax rate, with the purpose of making work economically more rewarding relative to unemployment or inactivity. For those aged 65 or more, a higher credit worth SEK 13 000-18 000 is granted.	1) Lowering the ceiling in the sickness insurance system. 2) Abolishing the responsibility of employers for co-financing sickness benefit costs for employees who are on full-time sick leave.		Shorter benefit duration – maximum of 300 days, except for those with dependent children who will be able to claim UB for 450 days. When the benefit period ends, the person will be transferred to a job and development guarantee with a gross replacement rate of 65%.	Requiring longer work tenure to qualify for the benefits. Studies will no longer qualify for benefits	Fixing the maximum UB level at SEK 680 a-day (before the maximum was SEK 730 a-day during the first 100 days and 680 afterwards). The gross replacement rate will decline from 80% to 70% after the first 200 days. The basis for calculation of the level of UB passed from the last 6 months' income to the last 12 months. When the benefit period ends, the person will be transferred to a job and development guarantee scheme with a gross replacement rate of 65%.

2007	In-work benefits	Means-tested and family-related benefits; sickness schemes	UB Coverage	UB Duration	UB Entitlement	UB Net replacement rate
Austria		Making the childcare benefit scheme more flexible in terms of benefit payments and period of benefit eligibility, with the introduction of three options: in addition to the current option of receiving monthly payments of € 436 for a period of 30 months one may opt for payments of €800 or €624 for a period of 15 or 20 months respectively. The maximum amount of additional	Extending social insurance coverage to self-employed, in particular those that are considered 'economically dependent'. Self-employed people working under the same conditions as employees will be obligatory covered by unemployment insurance or, like genuine self-employed people, may opt for this scheme on a voluntary basis.		Maximum commuting time is set at 2 hours per day. Minimum working time has increased from 16 to 20 hours. Sanctions for undeclared work by unemployed are tightened. It will be obligatory for unemployed persons to accept job offers from external partners of the PES and it will be possible to place them in jobs in socio-economic	

		earnings on top of the childcare benefit payments has been increased from €14,60 to € 16,200 annually.			enterprises.	
Cyprus		Improving support for single-parent families, individuals undergoing detoxification, people with sight impairment and other people with disabilities. Additional student subsidy for families with three children and extension of the existing annual subsidy beyond the minimum regular period required to complete a programme.				
Czech Republic		1) Expanding child tax credits (bonuses deducted from tax, not from tax base); 2) Lowering the income eligibility threshold for child benefits.			Lowering welfare support for inactive long-term unemployed people.	
Estonia		1) Investing 1.4 billion kroons (EUR 0.09 billion) in the creation of new childcare places and increasing the wages of the teachers in kindergartens over 2008-2012. The state will support investments by local municipalities aimed at building up childcare facilities, renovating the existing ones and increasing the wages of teachers in kindergartens. 2) Fathers will have the right to receive family benefits when the child is 70 days old instead of the current 6 months requirements.				
France	Introduction of an Active Solidarity Income (<i>Revenu de solidarité active</i> , RSA) on a trial					

	basis in 25 'departments' or geographic districts. The RSA is designed to prevent those on social benefits earning less when they return to employment.					
Germany		Introduction of a tax free Parental Allowance on top of existing child-care allowances or other benefit. Parents who work no longer than an average of 30 hours a week during the first 14 months of their child's life receive a parental allowance amounting to 67% of the labour income earned one year before the birth (at least €300, at most €1,800), also if the parents did not work prior to the birth. In the case of incomes below €1,000/month the allowance is between 67% and 100% of the labour income earned one year before the birth. Parents receive the allowance for 12 months only; exceptions for single parent families.				
Greece		Setting up a National Social Cohesion Fund (ETAKS) providing targeted assistance. The Fund is expected to operate a variety of integrated income support programmes, including subsidies for the purchase of heating oil by households below the poverty line, so as to view to improve the cost-effectiveness of the national income support for the weakest groups of population.	Setting up a Special Fund for Social Solidarity (ETKA) to provide increased incomes and social protection to long-term unemployed people aged over 50, previously working in sectors or regions facing decline and confronted with the danger of social exclusion. Beneficiaries must meet the following two conditions: be insured with the Social Insurance Foundation-Unified Insurance		Introducing new work availability conditions and sanctions for UB recipients: the refusal of suitable work or to participate in employment programme will imply an automatic full benefit stop. In order for the sanctions to apply, the benefit recipient must refuse offers twice, while the distance from the job may not be in excess of 30km.	Increasing UB from €311 to €404, along with the scheduled yearly benefits indexation.

			Fund for Employees (IKA-ETAM); and have at least 7,500 days of insurance contributions. The new fund finances income support measures for the unemployed participating in (re)training activities. The support granted to workers consists of either 80% of pay at the time the employment relationship is terminated or a sum of up to € 900 for people taking part in training and retraining programmes.			
Hungary	1) Introducing the possibility to cross over from assistance to public work: if a local authority employs the recipient of assistance, it may draw the amount of benefit from the state budget and convert it into wages; 2) people in public work may receive the difference between their wage and previous assistance, if the latter is lower.	1) Fixing the maximum amount of total regular social benefit granted to one family at the level of the net minimum wage; 2) strengthening the child poverty reduction effects of the universal family benefit. The benefit was raised in every family-type by 4,5 %; in the case of family types with the highest poverty risk (families with three or more children and single parent families) it was the raised by 6,1-7,9 %.				
Latvia		Introducing a new parent's benefit, replacing the 'child raising benefit' for socially insured persons with children below one year of age. The mother or father of a newborn baby will receive a benefit amounting to 70% of the previous wage. The minimum payment is LVL 50 per month, with no upper limit.		Making the UB duration depend on volume and duration of social insurance contribution: for 1-9 years of contributions, the UB will be 4 months, for 10-20 years – 6 months, over 20 – 9 months.		

Lithuania			Extending the unemployment insurance coverage. All persons getting compensations for specific working conditions would get unemployment insurance benefit.			Modifying the way the maximum unemployment insurance benefit is calculated to take account of the state support income
Luxembourg		Introduction of a child bonus of € 922.50 per year for tax-exempt households.				
Malta		Reforming the Children's Allowance benefit scheme: entitling every child below the age of 16 to at least €250 every year, regardless of parental income.				
Netherlands		Giving single parents on minimum wage an income-based child tax credit which will be converted into an extra allowance payable from the 'parents' budget'. This is expected to increase the incentive to accept work for single parents and single-income households with children who are claiming social assistance benefit. Lone parents on welfare with children up to the age of 5 no longer need to search for work but will be compelled to participate in education.				
Portugal		Abolition of the clause that allowed for an increased amount of family benefits to be given to beneficiaries of UB with children and very low income, which was conditional to the unemployed situation.	1) Defining more accurately non-voluntary unemployment, in order to determine the right to UB. Unemployment is non-voluntary when the employer terminates the employment contract. Exceptions: a	Making the length of the benefit depend not only on the beneficiary's age, but also on the period of time s/he has contributed to the	1) Clarification of the concept of "convenient job", which now refers to job offers that cannot be refused by UB recipients. If the unemployed refuse a job offer which is compatible with the worker's capacities and	The amount of the benefit cannot any more be higher than the net value of the previous earned income. The daily amount of UB is based on 65% of the unemployed person's gross monthly wage, calculated on the

			<p>dismissal based on ‘fair reason’ (<i>justa causa</i>) invoked by the employer; expiration of a contract based on ‘fair reason’ invoked by the employee; expiration of a contract without the provision of pension entitlements. Unemployment is also considered non-voluntary when the contract ends by mutual agreement between the employer and the worker in the case of company restructuring, or when companies are faced with financial difficulties. Collective dismissals also fall into the category of non-voluntary unemployment. 2) In case of restructuring, restricting the number of workers in each company who are entitled to UB when the employment contract ends by mutual agreement, depending on the company’s size: in companies with less than 250 workers, a maximum of 25% of the workforce are entitled to receive UB up to 3 years following dismissal; in companies with more than 250 workers, up to 20% of the workforce with a limit of 80 workers are entitled to UB.</p>	<p>social security system. Different age brackets are to be considered: unemployed younger than 30 years who have worked for less than 2 years are entitled to 9 months’ UB. For those who have worked more than 2 years, the entitlement can be up to 360 days, plus an extra 30 days per five years worked. Unemployed persons who are older than 45 years are entitled to up to 2 years of UB where they have worked 6 years, or up to 900 days if they have worked for more than 6 years; they are entitled to extra 30 days for each five-year period of social security contributions made.</p>	<p>skills, and which meet certain wage conditions, they risk losing their UB; 2) New criteria for awarding UB: only those who have worked at least 450 days in the two years preceding unemployment are entitled to receive UB.</p>	<p>basis of a 30-day month.</p>
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Romania		<p>1) Allowing widowers in receipt of a public pension below the threshold of RON 364 (EUR 100) to receive a state-budget financed benefit equal to 25% of the deceased spouse's pension; 2) Introducing a universal, fixed amount benefit of RON 700 (EUR 206) for the newly married couples, provided it is their first wedding.</p>				
Slovakia		<p>1) Increase of social allowances for single-parent families. 2) Parental benefits until the children are three years old have also increased. 3) A monthly bonus on top of child benefits will be provided to pensioners taking care of children.</p>				
Spain		<p>1) One-off allowance for child birth or adoption; 2) Creation of around 50,000 new places in public nursery schools.</p>				

<p>Sweden</p>		<p>Implementing a 'rehabilitation chain' with fixed points during sick leave for reviewing a person's capacity to work, to facilitate the re-entry into the labour market of people on long-term sickness. Introduction of a rehabilitation guarantee improvement of occupational health services. Employers can deduct double employer's social security contributions when they employ people who have been receiving sickness benefit, rehabilitation cash benefit or sickness or activity compensation for at least a year ("Well Again Jobs" measure).</p>			<p>Introduction of a further two qualifying days for receiving UB, reduction of income replacement rates and shortening of benefit duration. Part-time workers will receive UB for a maximum of 75 days, as opposed to the previous maximum of 300 days. Single parents will still be compensated over an extended period of more than 75 days through the 'job and development guarantee'. Under the previous system, after 300 days, the unemployed person could choose to continue working part-time without receiving UB or to resign from part-time work and, if the necessary conditions were met, obtain compensation based on the income received from part-time work.</p>	
<p>UK</p>	<p>1) Extending the In-Work Credit for lone parents. A £40 benefit is paid to lone parents for the first 6 weeks of work to ease the transition from benefits back into employment. In London, the payment will be £60. Where training is required, a budget is available for the first year. Lone parents are also guaranteed job interviews if they take steps to find work, including participating in sessions with employers</p>					

	that will help them develop the skills required to find a job. 2) Changes in Income Support, to encourage lone parents to actively seek employment.					
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Reforms of labour taxation

2006	Employees' SSC	Employers' SSC	Income taxation
Belgium		Introducing a special SSC on certain complementary allowances in the framework of the execution of the Solidarity Pact between Generations.	1) Increasing deductible lump-sum expenses from personal income tax. Increasing the first bracket of these expenses 1.1% in 2006. Another increase of 1.1% has been introduced in 2007. As a result, the worker receives higher net earnings. 2) Raising the rate of the partly exemption from payment of withholding tax on premiums for shift and night work from 5.63% to 10.7%.
Bulgaria		Changing the distribution of SSC to 60% for the employer and 40% for the employee. The level of contributions for employers will thus be of 20.65% and 13% for the employee.	1) Increasing the tax-free allowance to BGN 200 (from BGN 180 in 2006); 2) Increasing the deductible income from the taxable income by BGN 60 for one child (up to BGN 420), BGN 60 for two children (up to BGN 840) and BGN 120 (up to BGN 1260) for three or more children.
Cyprus		SSC relief for employers employing persons with disabilities.	
Estonia			Doubling the minimum monthly rate for self-employed people from January 2007. This follows a previous increase in January 2006. Another increase is planned for 2008. In 2007 self-employed people will have to pay at least 905EEK (€58) per month and this will increase to almost 1300 (€81) in 2008.
Finland			Further reductions in taxation supporting the income agreement. Reduction of taxation on earned income by an annual amount of €840 and inflation adjustment of 2% made in the central government income tax scale.
Hungary	1) Employees' contributions increase by 2,5%; 2) introducing a minimum SSC of HUF 125,000 (131,000 from 2007) for self-employed	Employers may claim a 50% reduction on SSC for particular groups of employees (long-term unemployed, persons returning back from child care, low-skilled and older workers).	Increase in income tax for those with earnings above HUF 6 million (€ 21,000) creating a new income tax threshold of 40%.
Ireland	1) Increasing the threshold for the payment of the 2% health levy;		1) Increasing the employee credit and the personal credit to ensure that the minimum wage remains outside the tax net; 2) Increasing the standard rate band to ensure that the average wage is not liable to tax at the higher rate.

	2) increasing the employee entry point to PRSI to ensure that minimum wage earners are fully exempt from PRSI, thus keeping 100% of earnings.		
Italy	Increasing the level of SSC up to 23% for those working as bogus self-employed who have no other forms of coverage and are not retirees; fixing at a higher 16% the level of SSC for all other economically dependent workers.	A. New employers' social security cuts for each new employee hired - either full-time or part-time - on an open-ended basis, in the form of: 1) a deduction of € 5,000 per worker and per year (€ 10,000 in the South of Italy); 2) employers' social security deductions per newly hired worker with an open-ended contract, equal to 50% of total taxable amount in the first half of 2007 and to 100% of total taxable amount from July 2007; 3) cuts in the fees linked to apprenticeships, to vocational training contracts and to hiring people with disabilities; 4) state support to paying employer's SSC for workers whose contract has been transformed from bogus self-employment to standard work contract. B. Fixing at 10% the employer's SSC for apprentices and for companies employing less than 10 people, varying with the length of employment contracts.	1) Reduction of the tax wedge by five percentage points on average, 3% of which will benefit enterprises and 2% will benefit workers; 2) new income tax rates, along with new deductions and provisions for families.
Latvia			Increase in the tax free allowance threshold from €45 to €57 per month, and in the tax relief for dependent persons from €3 to €40 per month. The new tax free allowance threshold equates 15% of the current gross monthly average wage (€382) and 44% of the minimum wage (€128). Gradual increase of the tax relief for special social groups, targeted to disabled persons, politically repressed persons and the members of national resistance movement to ensure that increase of the applicable tax relieves is in line with the gradual increase of the basic income tax allowance. (1) The increase tax relief for disable persons is of: 1) LVL 720 per annum (LVL 60 per month) for disable persons (I and II invalidity group); 2) LVL 564 per annum (LVL 47 per month for disable persons (III invalidity group); (3) LVL 720 per annum (LVL 60 per month) for politically repressed persons and the members of national resistance movement.
Lithuania			Increasing the basic tax-exempt amount of income from 290 LTL (€ 84) to 320 LTL (€ 92.6). Extending the individual tax-exempt amount of income (when calculating taxable income either the basic tax-exempt amount of income or an individual tax-exempt amount of income is applied) to further 5 categories of individuals (e.g. individuals with 3 or more children).

Luxembourg		Reduction of employer's SSC in case of hiring job seekers.	
Malta			1) Introduction of a tax credit of € 1.600 for 2 consecutive years for women who return to work after being absent for 5 years. 2) Tax deductions in respect to childcare facilities. 3) Extension of lower tax on part-time work to spouses working only part-time where their spouse is in full-time employment. 4) Possibility for spouses in the family business to register as an employee with the business.
Romania		Reducing employer's SSC by 1.5 percentage points as of 12/2008; reducing the employer's contribution for unemployment by 1% beginning with January 2008 and further diminishing it with 0.5 percentage points beginning with 12/2008.	
Slovenia			Replacement of the previous 5 tax rates (from 16% to 50%) on personal income tax by 3 tax rates (from 16% to 41%)
Spain		1) 0.25% reduction of the employer's contribution to UB for permanent contracts starting July 2006 and another 0.25% reduction starting July 2008. 2) 1% reduction for temporary contracts through temporary agencies, from July 2006. 3) Additional 0.2% reduction for all contracts, starting July 2006. 4) Halving the employer's contribution to the Wages Guarantee Fund which ensures payment of a minimum level of socially acceptable wages and compensation to workers made redundant by enterprises in a state of crisis or considered to be insolvent. 5) The Employment Promotion Plan, establishing rebates for permanent hires from the groups with the greatest difficulties in joining the labour market, is extended to other typologies of employment (unemployed male aged 16 to 30; female hired after 5 years of inactivity) and the length of deductions increased from 2 to 4 years. Proportional rebates on employer's SSC are replaced by a flat rebate amount in order to boost permanent hiring of lower-wage workers; 6) Further rebates in the employer's SSC for permanent hires, as follows: a) 0.25% reduction in the employer's contribution to UB for permanent contracts starting July 2006 and another 0.25% reduction starting July 2008; b) 0.2% reduction in the employer's contribution to the Wages Guarantee Fund which ensures payment of a minimum level of socially acceptable wages and compensation to workers made redundant by enterprises in a state of crisis or considered to be insolvent. 7) Extraordinary Conversion Plan for fixed-term contracts that are converted into permanent ones before 31-12-2006. 1) Existing social security rebates for persons over 60 on permanent contracts who have been working for the employer for at least 5 years are extended to workers aged 55 to 59 employed in the textile sector; 2) Specific rebates for permanent hires, additional to the ones included in the Job Creation Programme, are established for unemployed workers affected by layoffs in the textile sector. Employers' from any sector can benefit from those rebates.	

Sweden		1) Employers' SSC abolished for people who have been receiving social welfare allowances for more than one year (new start jobs).	A special wage tax for persons aged over 65 and born after 1937 has been abolished.
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2007	Employees' SSC	Employers' SSC	Income taxation
Belgium		Changes in the tax reduction foreseen for the employment of workers aged 50 and over, in the form of greater time limits given to the employer to register with the PES. Increase in the bonus paid to employees from EUR 172.31 to EUR 175.76 per month.	
Bulgaria	Increasing the insurance thresholds, i.e. the average minimum income on the basis of which social insurance contributions are calculated, for 50 of the 73 economic activities by between 27% and 44%. The increase in the minimum social security threshold is most significant for highly-skilled workers. For low-skilled employees, the insurance threshold is close to the minimum wage rate.	1) 3% reduction in SSC, along with the 6% reduction already introduced at the beginning of 2006; 2) more stringent controls and increased penalties for employers who violate the law; 3) change in the proportion of SSC paid by the employer and ensured persons in favour of the employer - from a ratio of 65:35 to 60:40	Rise in non-taxable monthly income from BGN 180 (€43) to BGN 200 (€102).
Czech Republic	Working pensioners continue to pay health and SSC.		1) Introduction of an unusual flat personal income tax rate (applied to the so-called 'super gross wage', including employer contributions); 2) Abolishing joint taxation of married couples and allowing parents to choose different combinations of entitlement, length and benefit level for parental allowances (but keeping the quantitatively more important spouse tax deduction); 3) Introduction of tax credits for retirees. Working pensioners will receive the same tax credit (deducted from tax, not tax base) as anyone else (namely 24,840 CZK per year). In 2007, a working pensioner had no tax credit at all.
Denmark			Continued tax freeze combined with 10 billion Dkr. tax reduction in 2004 and 9,5 billion Dkr. tax reduction in 2010. Aim of the measure is to ensure that no tax will increase and to reduce taxes when fiscal scope is available in order to increase incentive to work. Lower taxes on income are accompanied by higher taxes on households' energy consumption.
Estonia			Increasing the monthly base rate for social tax. The number people for whom the state pays social tax based on their remunerations will be expanded.

Finland		Extending the experiment to reduce SSC to Eastern and Northern Finland involving a 30% reduction in labour costs during the first year and 15% in the second year. Over 100 new municipalities will participate in the experiment.	
France			Introducing tax cuts to promote work and jobs: 1) reducing the 'tax shield', which sets a maximum income tax rate, from 60% to 50%; 2) students' earnings will not be taxed up to the equivalent of three times the national minimum wage; 3) creating a tax credit on mortgage interest for the purchase of an individual's main residence, amounting to 40% in the first year and 20% for each of the four following years. In this regard, a ceiling of €3,750 has been set for single people and €7,500 for couples.
Germany	Reduction of unemployment insurance contributions (from 2.1% to 1.65%) for both employers and employees.		
Greece			Extension of the tax-free range of income for wage-earners by €1000 to €12.000 and abolition of tax stamp (previously 3.6% on house rent amount). Gradual reduction of labour income taxes, so that the middle-income earners will end up paying a tax rate of 25%.
Hungary	Reducing SSC (by 15% and 7%) for 2 years for mothers going back to work from child subsidies. Mothers receiving child subsidies will be allowed to work.		
Latvia			Raising the untaxed income threshold from LVL 50 to 80 (€71 to 114), in line with rise of minimum wage; raising the tax allowance for a dependant from LVL 35 to 56 (€ 50 to 80). Introducing a sliding scale of reliefs for a variety charges and payments such as transport or housing, and in the long term (2011) a guaranteed minimum consumption threshold.
Lithuania			1) Extending the tax-free range of income; 2) reducing the personal income tax rates from 27% to 24% as of 2008 (last phase of the income tax reform launched in 2005)
Netherlands	Reducing the unemployment contribution for employees from 3.85% to 3.5% in 2008. In 2009 the contribution will be reduced to 0%.		The Income-Based Supplementary Combination Tax Credit aimed at lowering the marginal tax rate of the partner with the lowest level of income (often women) and to stimulate labour participation (especially of married women) and labour tax credit will be raised in 2008 and tax credits for working people will be dependent on

			individual income. The individual transferable tax reduction will be abolished over a 15 year-period.
Poland			Introduction of tax exemptions for families as a component of family policy laws package.
Portugal		5.9% increase in SSC for 2008	Continuing the gradual convergence of pension income taxation to labour income taxation began in 2006, through a cut in the deduction of pension income for tax purposes (an amount that is deducted from the annual income, both for pension income and labour income. This amount is bigger in the case of pension income, which implies an average tax rate for pension income lower than for labour income). This convergence can contribute to decrease incentives to retirement and therefore disincentives to work.
Slovenia			Replacing the 5 tax rates from 16-50% with a 3 tax rates from 16-41%, thus reducing the progressiveness of the tax system.
Sweden		'New start job' initiative involving a reduction in the payroll tax for employers who hire an unemployed person. Persons that have been unemployed or on sick-leave benefits for one year or more (6 months for young people) are eligible. An employer hiring an eligible person is credited between 50% and 200% of the employers SSC (32% at present), depending on the characteristics of the persons hired.	Introducing an income tax deduction implying an average tax rate reduction for labour income by 1.5%.

Source: European Commission, LABREF (DG ECFIN) - http://ec.europa.eu/economy_finance/indicators/labref/

STATISTICAL ANNEX: POLICY INDICATORS DESCRIBING FINANCIAL INCENTIVES TO WORK

Table A1 - Unemployment trap (1st month of unemployment)

Marginal effective tax rate for an unemployed person

(previous work= 67% of the APW wage level) returning to work at (2007)

Family Type	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	US	JP
Single	50%	90	106	83	69	97	79	97	81	107	93	75	101	88	99	78	80	80	76	89	97	104	74	95	63	96	85	90
	67%	83	90	74	59	82	60	78	72	88	81	68	82	75	82	68	61	72	63	77	80	86	62	79	54	81	71	73
	100%	74	77	68	53	64	51	62	61	73	69	60	66	64	66	56	45	62	50	72	63	68	54	64	46	67	57	57
	150%	69	73	63	46	54	48	56	56	65	62	56	57	59	61	49	39	53	41	66	52	56	51	53	47	59	51	48
1 earner couple	50%	81	104	86	73	96	69	100	76	102	95	84	89	90	100	78	94	79	76	88	97	100	85	77	62	96	82	88
	67%	75	90	74	61	78	51	103	68	96	92	74	79	87	85	68	72	71	62	75	80	82	67	80	49	86	68	71
	100%	67	76	66	54	61	44	77	58	73	76	65	60	63	68	56	45	61	50	71	63	66	58	64	39	73	54	55
	150%	63	70	58	48	51	39	62	54	61	66	59	51	65	63	49	44	52	41	65	52	54	48	54	42	63	46	46
2 earners couple *	50%	80	106	97	52	92	75	59	84	103	88	81	105	79	99	40	80	76	76	85	97	108	25	71	88	96	85	93
	67%	75	90	85	46	77	53	52	74	85	77	72	85	68	82	38	61	64	63	73	80	89	25	62	73	80	71	74
	100%	68	75	75	44	61	46	45	62	69	67	63	68	60	66	36	45	52	50	70	63	70	26	52	59	67	57	58
	150%	65	70	66	41	52	42	38	56	61	60	58	57	56	61	36	39	46	41	64	52	57	32	46	49	59	49	48

(with 2 children)	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	US	JP
Single parent, 2 children	50%	86	103	88	84	96	80	-16	89	115	86	82	90	90	99	68	44	82	76	82	93	97	81	79	52	95	62	79
	67%	79	90	85	67	77	66	9	65	89	84	72	79	84	86	74	72	77	63	71	77	80	65	94	47	87	59	76
	100%	71	81	75	58	61	52	36	60	71	72	63	64	75	74	67	52	68	50	70	62	64	57	78	41	79	54	58
	150%	67	78	66	50	52	45	36	59	63	65	58	56	66	67	57	44	57	41	64	51	53	53	61	43	69	46	49
1 earner couple with 2 children	50%	78	91	88	87	96	70	100	89	101	92	95	63	90	100	76	108	79	76	77	97	92	86	100	51	100	60	85
	67%	73	90	84	69	77	64	93	61	104	91	82	61	92	90	79	82	69	62	67	80	77	69	87	42	83	60	87
	100%	66	80	73	59	60	51	82	58	76	77	70	59	82	73	73	59	58	50	68	63	62	60	74	33	80	54	66
	150%	63	75	62	51	50	43	65	57	63	69	62	51	71	66	60	49	50	41	63	52	52	54	61	38	68	46	54
2 earners couple with 2 children*	50%	80	104	102	59	95	78	64	87	107	87	87	104	86	99	44	94	88	76	77	97	93	35	82	88	96	88	93
	67%	75	92	89	51	79	55	55	79	88	78	77	84	73	82	41	72	77	63	67	80	77	34	67	73	84	73	74
	100%	68	76	77	47	62	47	47	69	72	69	66	68	63	66	39	52	61	50	66	63	62	34	55	59	69	58	59
	150%	65	71	66	43	52	41	40	61	63	63	60	57	58	61	38	44	51	41	61	52	52	37	48	49	61	49	49

Change 2001 - 2007

Family Type	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	US	JP	
Single	50%	-6	-2	0	0	0	-9	10	12	0	2	-1	0	-2	-5	0	0	1	0	8	0	0	0	-2	-26	0	1	1	
	67%	-2	-2	0	2	2	-21	6	13	0	2	1	1	-5	-1	0	5	0	6	0	0	0	0	-2	-19	0	0	1	
	100%	-2	-2	-1	5	1	-15	4	8	0	5	1	1	-4	-4	0	8	0	7	0	0	0	0	-1	-11	0	0	2	
	150%	0	-2	-2	2	1	-9	2	7	-1	4	0	2	-4	-3	0	0	7	0	5	0	0	0	-1	-2	0	1	3	
1 earner couple	50%	-7	0	-2	0	0	-12	0	10	0	2	-1	0	-7	0	-4	0	-20	0	8	0	0	0	-21	-43	0	-3	2	
	67%	-2	-2	-1	2	1	-24	16	11	8	5	-1	0	-3	-8	-10	0	-11	0	5	0	0	0	-2	-48	0	-5	2	
	100%	-2	-1	-1	5	1	-16	10	5	8	1	0	-5	-6	-6	0	-8	0	6	0	0	0	0	-1	-35	0	-4	3	
	150%	-1	-2	-1	2	1	-11	8	5	3	6	0	1	-4	-4	-4	0	-3	0	5	0	0	0	-1	-17	0	-3	3	
2 earners couple *	50%	-4	-2	-1	-5	-5	-21	5	9	1	-2	-1	1	-3	-5	-1	0	0	0	5	0	0	0	-2	2	0	0	-1	
	67%	-2	-2	-1	-2	-3	-27	4	10	1	-1	1	1	-4	-5	-1	0	0	4	0	0	0	0	-2	3	0	0	0	
	100%	-2	-3	-1	3	-2	-19	3	6	1	3	2	2	-3	-4	0	0	1	0	5	0	0	0	0	-2	4	0	0	1
	150%	0	-3	-2	0	-1	-14	1	5	1	2	1	1	-3	-3	0	0	2	0	4	0	0	0	-1	2	0	0	2	

(with 2 children)	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	US	JP	
Single parent, 2 children	50%	-3	3	-7	3	-2	-6	-15	16	0	-6	-9	2	-4	-4	9	0	0	0	12	0	0	0	0	-53	0	5	-6	
	67%	3	-2	1	2	-2	-19	-11	12	0	-2	-7	2	-3	-5	7	0	7	0	8	0	0	0	24	-42	0	2	-5	
	100%	1	-3	0	5	0	-14	-1	7	3	4	-4	3	-5	3	0	1	0	9	0	0	0	0	12	-29	0	0	-2	
	150%	2	-2	0	2	0	-9	-1	7	1	5	-3	3	-4	-3	1	0	-3	0	7	0	0	0	4	-16	0	2	0	
1 earner couple with 2 children	50%	-5	0	-2	2	-2	-7	5	12	0	0	-5	2	-10	0	5	0	-21	0	6	0	0	0	1	-55	0	2	0	
	67%	0	-2	2	2	-1	-21	6	7	8	4	-7	0	-6	-8	4	0	-21	0	4	0	0	0	1	-69	0	3	2	
	100%	-1	-2	1	5	0	-15	10	5	7	8	4	0	-6	-7	1	0	-16	0	7	0	0	0	-2	-55	0	-2	3	
	150%	0	-2	0	2	1	-9	9	4	5	8	-3	1	-5	-4	0	0	-16	0	6	0	0	0	-1	-32	0	-3	3	
2 earners couple with 2 children*	50%	-4	-3	-2	-6	-5	-17	-2	7	1	-2	0	1	-5	-5	0	0	4	0	-3	0	0	0	0	-2	0	0	-5	
	67%	-2	-3	-2	-3	-3	-23	-1	10	1	0	2	1	-5	-5	0	0	1	0	-2	0	0	0	0	-2	0	0	-4	-3
	100%	-2	-4	-2	2	-2	-16	-1	7	1	6	2	2	-4	-4	2	0	0	1	0	0	0	0	0	-2	0	0	-3	1
	150%	0	-3	-2	0	-1	-11	-1	7	1	6	1	1	-3	-3	1	0	-1	0	2	0	0	0	0	-4	0	0	-2	2

Change 2006 - 2007

Family Type	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	US	JP
Single	50%	0	-1	-1	1	1	3	4	0	0	-7	0	0	-2	-5	0	0	3	0	3	1	-1	0	-4	-1	-2	0	0
	67%	0	-1	-1	2	1	-21	2	0	0	-5	0	0	-2	-5	0	0	8	0	3	1	-1	0	-3	0	-2	0	0
	100%	0	0	-1	1	1	-15	1	0	1	-4	0	0	-1	-4	0	0	10	-1	3	1	0	-2	-3	0	-3	0	1
	150%	0	0	-1	-1	1	-9	0	1	1	-2	0	0	-1	-3	0	0	7	-1	2	0	0	-1	-3	0	-3	0	1
1 earner couple	50%	0	0	-2	1	0	7	0	-2	0	0	1	-1	0	0	0	0	-3	3	3	1	-2	1	-4	-1	0	0	0
	67%	0	-1	-1	2	0	-25	2	-1	0	2	1	-1	1	-4	0	0	-1	2	3	1	-1	0	-3	-1	2	0	0
	100%	0	0	-1	1	0	-17	3	-2	1	-1	1	0	0	-4	0	0	2	1	3	1	-1</						

Table A2 - Net replacement rates for unemployed persons (1st month of unemployment)

Net Replacement Rates for unemployed persons

2007

Earnings level as % of AW:	Single				1 earner couple				2 earner couple			
	50%	67%	100%	150%	50%	67%	100%	150%	50%	67%	100%	150%
BE	81	74	55	41	70	66	50	38	85	80	69	57
DK	90	85	62	47	84	86	63	48	95	92	75	63
DE	67	59	59	56	82	65	59	56	91	88	85	79
GR	63	49	36	25	68	52	38	27	75	67	56	45
ES	74	78	62	43	71	75	64	44	86	86	76	60
FR	75	70	66	69	82	67	67	67	89	84	80	77
IE	97	77	56	42	138	106	75	55	82	74	63	50
IT	58	64	64	47	55	61	66	48	83	83	78	64
LU	88	85	87	77	103	95	84	76	92	91	89	83
NL	94	73	73	58	97	89	74	60	84	84	82	71
AT	62	55	55	42	80	65	56	43	83	81	77	64
PT	76	78	84	84	73	75	78	78	91	91	92	90
FI	83	67	52	45	89	84	63	49	83	79	72	64
SE	84	76	53	40	100	80	56	42	90	88	72	60
UK	73	58	40	28	73	58	40	28	67	59	49	38
CY	61	59	58	61	75	70	66	67	83	79	75	74
CZ	70	67	61	53	92	67	60	53	81	77	72	68
EE	56	55	54	53	55	57	56	54	81	77	73	68
HU	71	73	63	45	75	76	65	47	87	87	79	65
LT	79	74	69	47	79	74	69	47	91	87	81	64
LV	80	82	84	85	76	79	81	83	94	93	92	91
MT	72	59	45	33	82	65	52	36	66	59	49	41
PL	93	70	48	33	76	73	51	34	83	73	59	46
SK	58	61	64	66	60	58	58	62	85	84	82	79
SI	88	72	62	44	80	82	73	52	88	86	77	62
US	63	62	54	38	69	61	54	37	84	81	73	57
JP	73	67	54	45	79	65	53	44	90	84	73	63

Change 2001 - 2007

Earnings level as % of AW:	Single				1 earner couple				2 earner couple			
	50%	67%	100%	150%	50%	67%	100%	150%	50%	67%	100%	150%
BE	-1	-9	-8	-5	-9	-17	-21	-20	15	7	10	12
DK	-1	-2	-2	-2	-3	-7	-14	-16	12	2	-1	0
DE	-33	-22	-2	-5	-6	-24	-26	-23	8	4	7	9
GR	-21	-14	-9	-7	-14	-22	-23	-23	8	-6	7	10
ES	1	2	-9	-6	-2	-13	-20	-22	14	9	1	-3
FR	-20	-13	-4	-1	-4	-25	-16	-12	8	-7	2	8
IE	10	8	6	5	68	35	16	8	-56	-15	-9	-2
IT	11	15	12	1	-10	-16	-5	-15	28	26	17	4
LU	-12	0	1	-10	2	5	-4	-12	-12	-12	0	-7
NL	3	-7	2	-3	17	4	-9	-14	-12	-5	6	6
AT	-23	-13	0	-13	0	-15	-20	-29	3	-16	1	-2
PT	-37	-8	6	1	-3	-19	-10	-10	18	6	16	12
FI	0	-7	-9	-3	1	3	-12	-17	-7	-20	-13	-1
SE	-14	-6	-25	-16	10	-11	-31	-28	-10	-12	-10	0
UK	-4	-6	-5	-3	-1	-6	-12	-14	-6	-17	-22	-15
CY												
CZ	3	9	9	3	41	-10	-11	-14	5	-14	-2	1
EE												
HU	7	8	16	10	-5	-5	-3	-10	-5	14	23	20
LT												
LV												
MT												
PL	3	2	2	1	11	-3	-11	-14	28	-17	-7	-5
SK	-39	-16	0	20	-22	-24	-20	-2	11	-23	-24	5
SI												
US	-3	0	-5	-3	-16	-20	-21	-22	2	19	14	15
JP	-5	-7	-10	-17	-5	-23	-27	-31	13	-3	2	2

Change 2006 - 2007

Earnings level as % of AW:	Single				1 earner couple				2 earner couple			
	50%	67%	100%	150%	50%	67%	100%	150%	50%	67%	100%	150%
BE	0	0	0	0	0	0	0	0	0	0	0	0
DK	0	-1	-1	0	1	-1	0	-1	0	-1	0	0
DE	-2	-1	-2	-2	-2	-1	-1	-2	-1	-1	-1	-2
GR	1	1	1	0	1	2	1	0	1	1	1	0
ES	-1	2	1	1	0	0	2	1	-3	-2	-2	-1
FR	-1	-5	-1	1	3	-3	0	0	-1	-2	0	-1
IE	4	2	2	1	7	5	3	2	1	1	1	1
IT	0	0	1	0	-2	-2	-2	-2	-1	0	0	0
LU	0	0	0	0	0	0	0	1	0	0	0	0
NL	-1	-7	4	4	1	2	4	4	2	2	2	2
AT	0	0	0	0	1	1	0	0	0	0	0	0
PT	0	0	0	1	-1	0	0	0	0	0	0	0
FI	2	-2	-1	0	1	1	-1	-1	0	0	-1	0
SE	-5	-5	-8	-6	0	-5	-6	-4	-2	-3	-5	-4
UK	0	0	0	0	0	0	0	0	0	0	0	0
CY	0	0	0	0	0	0	0	0	0	0	0	0
CZ	11	13	11	3	12	0	4	2	0	0	0	0
EE	-1	-1	-1	0	2	1	-1	-1	0	0	0	0
HU	0	3	1	0	3	2	1	0	2	1	1	0
LT	1	1	1	-4	1	1	1	-4	1	0	0	-3
LV	-1	-1	-1	0	-2	-2	-1	-1	0	0	0	0
MT	0	0	-1	0	0	0	0	-1	0	0	-1	0
PL	-5	-4	-3	-2	-4	-4	-3	-2	-2	-2	-1	-1
SK	0	0	0	0	0	0	0	0	0	0	0	0
SI	-1	-2	-4	-4	-2	2	-3	-4	0	0	-3	-3
US	0	0	-2	-2	-1	0	-2	-2	0	0	-1	-1
JP	0	0	0	0	0	0	0	0	0	0	0	0

Source: Joint European Commission-OECD project, using OECD Tax-Benefits models.

Table A3 - Inactivity trap

Marginal effective tax rate when moving from social assistance to work at a wage level equivalent to:

(2007)

Family Type	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI		
Single	33%	73	95	76	16	63	66	100	9	85	100	91	52	84	100	78	107	85	58	55	46	67	106	48	60	76		
	50%	67	103	72	16	47	57	97	14	80	97	71	41	86	87	78	73	72	46	48	41	55	74	64	27	73		
	67%	66	88	66	19	44	44	79	22	68	84	64	37	73	73	68	56	66	41	46	38	49	62	56	28	63		
	100%	62	76	63	26	39	40	63	27	60	71	58	36	64	60	56	42	58	35	51	35	43	55	48	28	55		
	150%	61	72	59	29	37	40	56	33	56	63	54	37	58	57	49	37	50	31	52	34	39	51	43	35	52		
1 earner couple	33%	82	95	76	16	80	62	100	9	73	100	100	55	84	100	78	92	118	68	81	77	70	117	71	78	100		
	50%	68	95	80	16	55	62	100	9	86	99	84	56	90	100	78	105	92	51	68	61	57	80	59	46	81		
	67%	65	83	70	19	47	45	103	18	84	95	74	54	87	85	68	80	81	44	61	53	51	63	66	38	75		
	100%	60	71	63	26	41	40	77	25	65	78	65	44	73	68	56	58	67	38	61	46	44	56	55	31	66		
	150%	59	67	56	29	38	37	62	31	55	68	59	40	65	63	49	48	56	33	58	40	40	47	48	37	58		
2 earners couple*	33%	35	53	47	16	18	2	0	18	19	29	20	14	14	18	15	6	30	24	2	16	26	17	30	17	46		
	50%	42	53	48	16	17	13	2	24	22	31	24	18	20	23	21	6	27	24	13	21	28	25	31	21	42		
	67%	47	50	49	19	22	7	9	29	25	35	29	20	24	25	24	6	27	24	20	23	29	25	31	23	40		
	100%	49	48	50	26	24	15	16	32	29	38	35	24	30	28	27	9	28	24	34	25	30	26	32	26	40		
	150%	52	52	49	29	27	21	19	36	35	41	39	28	36	36	30	15	30	24	40	27	31	32	32	27	41		
(with 2 children)	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI		
Single parent, 2 children	33%	93	95	85	16	90	55	63	-4	80	100	100	55	67	67	61	56	89	64	64	87	100	61	59	72	100		
	50%	80	95	88	16	62	65	-16	-3	88	77	79	58	63	62	68	56	79	51	56	68	97	80	51	35	81		
	67%	74	84	85	16	52	55	9	-4	69	77	71	55	64	59	74	81	75	44	52	58	80	64	73	33	77		
	100%	68	76	75	24	44	45	36	14	58	68	62	48	61	55	67	49	66	37	57	49	64	56	64	32	72		
	150%	65	75	66	27	40	40	36	28	55	62	57	45	57	54	57	48	56	33	55	43	53	52	52	38	64		
1 earner couple with 2 children	33%	86	95	85	16	90	54	100	-4	67	100	100	59	84	100	73	92	127	90	81	91	100	110	51	74	100		
	50%	69	95	88	16	62	65	100	-3	82	94	95	58	90	100	76	137	100	66	65	89	92	87	68	46	100		
	67%	66	93	84	16	52	60	93	-8	89	92	82	57	92	90	79	104	85	55	59	74	77	69	63	38	83		
	100%	61	82	73	24	43	48	82	11	66	78	70	56	82	73	73	74	69	45	62	60	62	60	58	31	80		
	150%	60	77	62	27	39	41	65	27	56	69	62	49	71	66	60	58	57	38	59	50	52	55	50	37	68		
2 earners couple with 2 children*	33%	35	65	48	16	20	2	47	29	17	34	23	14	31	22	43	6	40	24	-3	16	3	27	48	17	72		
	50%	42	64	48	16	15	11	33	35	18	36	25	18	31	26	40	6	36	24	10	21	12	35	47	21	60		
	67%	47	62	49	19	20	5	33	41	22	40	31	20	32	27	38	6	38	24	17	23	17	34	41	23	57		
	100%	49	56	50	26	23	14	32	43	27	43	35	25	36	29	37	9	35	24	32	25	22	34	38	26	51		
	150%	52	58	48	28	26	19	30	44	33	46	39	28	40	37	37	15	34	24	39	27	25	37	36	27	49		
Change 2001 - 2007																												
Family Type	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI		
Single	33%	-2	-1	-3	0	2	-7	0	-1	-8	4	-9	0	-16	0	0	0	-2	0	0	0	0	0	-7	-64	0		
	50%	-3	-2	1	0	0	-8	10	-2	1	5	-6	0	-1	-7	0	0	-1	0	-6	0	0	0	-5	-71	0		
	67%	0	-2	0	2	2	-20	6	2	0	4	-3	0	-4	-7	-1	0	4	0	-5	0	0	0	-4	-52	0		
	100%	-1	-2	0	5	1	-15	4	1	6	-1	1	-3	-5	0	0	7	0	0	0	0	0	0	-3	-33	0		
	150%	1	-2	-1	2	1	-9	2	2	-1	5	-1	2	-3	-3	0	0	6	0	1	0	0	0	0	-3	-17	0	
1 earner couple	33%	-7	-1	-10	0	2	-8	0	2	-12	4	0	0	-16	0	-7	0	18	0	-15	0	0	0	0	-14	-47	0	
	50%	-6	-1	1	0	2	-14	0	2	-8	5	-1	0	-7	0	-4	0	-7	0	-8	0	0	0	0	-29	-78	0	
	67%	-1	-2	2	2	2	-26	16	5	2	7	-1	-1	-3	-8	-10	0	-1	0	-8	0	0	0	0	-8	-74	0	
	100%	-2	-1	1	5	2	-18	10	1	9	1	1	-1	-5	-6	-6	0	-1	0	-3	0	0	0	0	-6	-52	0	
	150%	-1	-2	0	2	1	-12	8	2	1	7	0	1	-4	-4	-4	0	1	0	-1	0	0	0	0	-4	-29	0	
2 earners couple*	33%	-7	1	0	0	-1	-23	-12	-10	0	-1	-1	0	-10	-8	3	0	-5	0	-20	0	0	0	0	-1	0	0	
	50%	-6	-2	-1	0	-1	-18	-13	-8	0	-1	0	1	-7	-6	2	0	-4	0	-14	0	0	0	0	-1	2	0	
	67%	-4	-2	-1	2	0	-24	-9	-3	0	-1	1	1	-6	-6	2	0	-3	0	-11	0	0	0	0	-1	3	0	
	100%	-3	-4	-1	5	0	-17	-6	-2	0	3	2	2	-5	-5	2	0	-1	0	-4	0	0	0	0	-1	4	0	
	150%	-1	-3	-1	2	0	-13	-5	-1	1	3	1	1	-4	-3	1	0	1	0	-2	0	0	0	0	0	-1	2	0
(with 2 children)	% of APW	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI		
Single parent, 2 children	33%	0	-1	-2	0	1	-8	12	-3	-11	6	0	0	0	-3	-10	-9	0	-11	0	15	0	0	0	-33	-53	0	
	50%	-1	-1	2	0	-1	-6	-15	-3	1	-5	-11	2	-2	-4	9	0	-3	0	19	0	0	0	0	-22	-90	0	
	67%	4	-4	7	0	-1	-20	-11	-2	1	-1	-8	1	-2	-4	7	0	5	0	13	0	0	0	0	7	-69	0	
	100%	2	-5	5	4	0	-15	-1	-2	4	4	-5	3	-4	-5	3	0	-1	0	13	0	0	0	0	1	-48	0	
	150%	2	-3	3	1	1	-9	-1	1	2	5	-4	3	-3	-3	1	0	-4	0	9	0	0	0	0	-4	-28	0	
1 earner couple with 2 children	33%	-6	-1	-2	0	-10	-8	0	1	-15	4	0	3	-16	0	-17	0	27	0	31	0	0	0	0	-10	-51	0	
	50%	-6	-1	7	0	-8	-6	5	1	-10	2	-5	2	-10	0	5	0	0	0	4	0	0	0	0	0	-6	-79	0
	67%	-1	-3	8	0	-6	-20	6	0	5	-7	0	-6	-8	4	0	-5	0	0	2	0	0	0	0	0	-4	-87	0
	100%	-1	-2	5	4	-4	-15	10	0	2	9	-4	0	-6	-7	1	0	-5	0	6								

Table A4 - Inactivity trap

2007

Single parent with 2 children

Component	33						50						67						100						150										
	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC					
BE	92.8	79%	0%	7%	0%	6%	0%	79.8	52%	0%	5%	0%	15%	8%	74.4	39%	0%	5%	-3%	19%	14%	68.1	26%	0%	4%	-2%	26%	14%	65.0	17%	0%	2%	-1%	32%	14%
DK	94.8	75%	0%	0%	0%	3%	17%	94.7	78%	0%	0%	0%	3%	14%	83.8	62%	0%	0%	0%	9%	12%	76.5	42%	5%	0%	0%	19%	11%	75.0	28%	7%	0%	0%	30%	10%
DE	84.9	45%	27%	-10%	0%	2%	21%	88.3	36%	22%	0%	0%	10%	21%	85.4	31%	19%	0%	0%	14%	21%	74.7	21%	13%	9%	0%	11%	21%	65.5	14%	9%	6%	0%	20%	18%
GR	16.0	0%	0%	0%	0%	0%	16%	16.0	0%	0%	0%	0%	0%	16%	16.0	0%	0%	0%	0%	0%	16%	23.7	0%	0%	0%	0%	8%	16%	27.1	0%	0%	0%	0%	15%	12%
ES	89.9	84%	0%	0%	0%	0%	6%	61.5	55%	0%	0%	0%	0%	6%	51.6	41%	0%	4%	0%	0%	6%	44.1	28%	0%	3%	0%	7%	6%	40.0	18%	0%	2%	0%	13%	6%
FR	54.6	31%	11%	0%	-9%	8%	14%	65.0	31%	18%	0%	-6%	8%	14%	54.7	12%	22%	0%	0%	8%	14%	45.0	8%	15%	0%	0%	9%	14%	39.7	5%	10%	0%	0%	12%	13%
IE	63.4	0%	54%	9%	0%	0%	0%	-16.0	0%	36%	23%	-75%	0%	0%	9.1	0%	27%	29%	-49%	1%	3%	35.7	0%	18%	38%	-29%	3%	5%	36.5	0%	12%	25%	-19%	13%	5%
IT	-3.6	0%	0%	-13%	0%	0%	9%	-3.4	0%	0%	-13%	0%	0%	9%	-4.3	0%	0%	-18%	0%	4%	9%	14.0	0%	0%	-8%	0%	12%	9%	28.0	0%	0%	-2%	0%	20%	9%
LU	79.9	62%	6%	0%	0%	0%	12%	87.8	70%	7%	0%	0%	0%	11%	69.2	52%	6%	0%	0%	0%	12%	57.6	35%	3%	0%	0%	8%	13%	54.6	23%	2%	0%	0%	16%	13%
NL	100.0	92%	0%	0%	-5%	0%	12%	76.8	68%	3%	0%	-4%	2%	8%	77.1	50%	13%	0%	-3%	4%	14%	67.5	34%	8%	0%	-2%	13%	14%	62.3	23%	6%	0%	-1%	24%	11%
AT	100.0	60%	23%	0%	0%	-1%	18%	70.4	41%	16%	0%	0%	4%	18%	70.7	31%	12%	0%	0%	10%	18%	62.3	21%	8%	0%	0%	15%	18%	57.1	14%	5%	0%	0%	21%	17%
PT	55.5	44%	0%	0%	0%	0%	11%	57.6	44%	0%	2%	0%	0%	11%	54.6	40%	0%	2%	0%	2%	11%	48.0	27%	0%	1%	0%	9%	11%	45.0	18%	0%	1%	0%	15%	11%
FI	66.8	45%	7%	0%	-6%	14%	7%	63.3	30%	14%	0%	-4%	16%	7%	64.4	22%	19%	0%	-2%	19%	7%	61.1	15%	16%	0%	-1%	25%	7%	56.8	10%	11%	0%	-1%	30%	7%
SE	67.4	27%	22%	0%	-5%	16%	7%	61.6	18%	21%	0%	-4%	20%	7%	58.8	13%	20%	0%	-4%	22%	7%	55.3	9%	19%	0%	-3%	24%	7%	54.2	6%	12%	0%	-2%	33%	5%
UK	61.2	28%	18%	0%	0%	9%	6%	68.1	19%	24%	5%	0%	13%	8%	73.5	14%	23%	13%	0%	16%	8%	67.4	9%	20%	11%	0%	18%	9%	56.5	6%	13%	7%	0%	23%	7%
CY	56.3	50%	0%	0%	0%	0%	6%	56.3	50%	0%	0%	0%	0%	6%	81.3	49%	26%	0%	0%	0%	6%	58.8	33%	17%	0%	0%	2%	6%	48.2	22%	11%	0%	0%	8%	6%
CZ	88.9	38%	45%	6%	0%	-13%	13%	79.0	25%	35%	11%	0%	-5%	13%	74.8	19%	30%	14%	0%	0%	12%	66.2	13%	20%	16%	0%	6%	13%	55.6	8%	13%	10%	0%	11%	13%
EE	64.3	30%	22%	0%	0%	10%	3%	50.6	20%	14%	0%	0%	14%	3%	43.9	15%	11%	0%	0%	16%	3%	37.3	10%	7%	0%	0%	18%	3%	32.9	7%	5%	0%	0%	16%	3%
HU	64.2	47%	0%	0%	0%	0%	17%	55.7	31%	0%	2%	0%	6%	17%	51.7	23%	0%	1%	0%	10%	17%	56.7	16%	1%	1%	0%	22%	17%	55.5	10%	1%	1%	0%	27%	17%
LT	87.2	76%	0%	0%	0%	8%	3%	67.7	50%	0%	0%	0%	14%	3%	58.2	38%	0%	0%	0%	17%	3%	48.9	25%	0%	0%	0%	21%	3%	42.6	17%	0%	0%	0%	23%	3%
LV	100.0	91%	0%	0%	0%	0%	9%	96.8	52%	29%	0%	0%	7%	9%	80.3	38%	22%	0%	0%	11%	9%	64.3	26%	14%	0%	0%	15%	9%	53.4	17%	10%	0%	0%	18%	9%
MT	60.7	0%	1%	51%	0%	0%	8%	79.9	6%	1%	65%	0%	0%	8%	63.8	4%	1%	51%	0%	0%	8%	56.4	3%	3%	37%	0%	5%	8%	52.1	2%	4%	27%	0%	10%	8%
PL	59.1	24%	12%	0%	0%	0%	23%	51.0	16%	12%	0%	0%	0%	23%	73.2	12%	12%	26%	0%	0%	23%	64.0	8%	15%	17%	0%	0%	23%	51.9	5%	10%	12%	0%	1%	23%
SK	72.2	41%	34%	0%	-16%	0%	13%	34.7	27%	23%	0%	-29%	1%	13%	33.5	20%	17%	0%	-22%	5%	13%	32.3	13%	11%	0%	-15%	9%	13%	37.6	9%	8%	0%	-4%	11%	13%
SI	100.0	78%	0%	0%	0%	0%	22%	81.2	54%	0%	5%	0%	0%	22%	77.0	40%	10%	4%	0%	1%	22%	72.3	27%	10%	9%	0%	5%	22%	64.1	18%	7%	9%	0%	9%	22%
NO	107.0	44%	52%	0%	0%	3%	8%	104.1	40%	46%	0%	0%	10%	8%	86.8	30%	35%	0%	0%	14%	8%	70.4	20%	23%	0%	0%	19%	8%	61.9	13%	15%	0%	0%	25%	8%
SZ																																			
US	26.7	13%	0%	41%	-35%	1%	8%	34.7	20%	0%	27%	-18%	-3%	8%	38.3	18%	0%	20%	-8%	1%	8%	40.2	12%	0%	13%	0%	7%	8%	36.6	8%	0%	9%	0%	12%	8%
JP	81.2	55%	0%	14%	0%	0%	12%	85.2	63%	0%	9%	0%	1%	12%	80.8	54%	5%	7%	0%	3%	12%	61.4	36%	3%	4%	0%	5%	12%	51.4	24%	2%	5%	0%	9%	12%

Inactivity trap indicator for jobless persons Change 2001-2007

Moving from social assistance to work, at a wage equivalent to:

Single parent with 2 children

Component	33						50						67						100						150										
	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC	METR =	SA+	HB+	FB+	IWB+	IT + SSC					
BE	0.3	-2%	0%	0%	0%	6%	-4%	-0.5	-1%	0%	0%	0%	6%	-5%	4.2	-1%	0%	2%	0%	2%	1%	2.2	-1%	0%	1%	0%	1%	0%	2.4	0%	0%	1%	0%	2%	0%
DK	-0.9	2%	0%	0%	0%	-1%	-1%	-0.9	1%	0%	0%	0%	-1%	-1%	-4.4	-1%	-2%	0%	0%	0%	-1%	-4.7	-1%	-2%	0%	0%	-1%	-1%	-3.2	0%	-1%	0%	0%	-1%	-1%
DE	-1.7	5%	1%	-10%	0%	2%	0%	2.1	0%	0%	0%	2%	0%	0%	7.4	5%	1%	0%	0%	2%	0%	4.5	3%	1%	0%	0%	1%	0%	2.7	2%	0%	0%	0%	0%	0%
GR	0.1	0%	0%	0%	0%	0%	0%	0.1	0%	0%	0%	0%	0%	0%	0.1	0%	0%	0%	0%	0%	0%	4.2	0%	0%	0%	0%	4%	0%	1.3	0%	0%	0%	4%	-3%	
ES	1.0	1%	0%	0%	0%	0%	0%	-1.0	1%	0%	-2%	0%	0%	0%	-1.3	1%	0%	-1%	0%	-1%	0%	-0.1	0%	0%	-1%	0%	0%	0%	0.7	0%	0%	0%	1%	0%	
FR	-8.0	0%	-3%	0%	-5%	0%	0%	-6.0	0%	-2%	0%	-5%	0%	0%	-19.7	-20%	0%	0%	0%	0%	0%	-14.6	-13%	-1%	0%	0%	0%	0%	-9.4	-6%	-1%	0%	-1%	1%	
IE	12.5	0%	3%	9%	0%	0%	0%	-14.9	0%	2%	8%	-23%	-2%	0%	-10.9	0%	2%	8%	-15%	-4%	0%	-1.3	0%	1%	6%	-6%	-3%	0%	-0.7	0%	1%	4%	-4%	-2%	0%
IT	-2.7	0%	0%	-2%	0%	-1%	0%	-2.7	0%	0%	-2%	0%	-1%	0%	-1.7	0%	0%	-1%	0%	0%	0%	-2.5	0%	0%	-2%	0%	-1%	0%	1.0	0%	0%	0%	1%	0%	
LU	-10.8	-6%	-2%	0%	0%	1%	0%	1.3	3%	-1%	0%	0%	0%	0%	1.1	2%	-1%	0%	0%	0%	0%	3.8	1%	-1%	0%	0%	3%	0%	1.6	1%	0%	0%	1%	0%	
NL	5.9	-5%	6%	0%	-3%	0%	8%	-4.6	-1%	-1%	0%	-3%	0%	0%	-1.1	0%	3%	0%	-3%	0%	-1%	4.4	0%	2%	0%	-2%	4%	1%	5.3	0%	1%	0%	-1%	3%	2%
AT	0.0	3%	-3%	0%	0%	0%	0%	-11.3	-7%	-6%	0%	2%	0%	0%	-8.5	-5%	-5%	0%	0%	2%	0%	-4.6	-4%	-3%	0%	0%	2%	0%	-3.6	-2%	-2%	0%	0%	2%	-1%
PT	0.0	0%	0%	0%	0%	0%	0%	2.1	0%	0%	2%	0%	0%	0%	1.4	0%	0%	0%	0%	2%	0%	3.0	0%	0%	0%	0%	3%	0%	3.4	0%	0%	0%	0%	3%	0%

Table A5 - Low wage trap

Average of marginal effective tax rate at different wage levels (= METR as wage increases by 33% of the APW wage level)																											
2007																											
Household Earnings		BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SK	SI	
as % of APW																											
Single																											
From :33%	TO: 67%	59	56	57	23	26	42	56	34	51	57	38	22	62	47	57	6	48	24	37	30	32	20	38	23	51	
From :67%	TO: 100%	55	52	54	40	29	32	28	39	44	45	45	34	44	34	33	13	41	24	62	30	32	32	33	30	39	
From :100%	TO: 133%	59	64	53	34	33	40	42	42	48	43	48	35	48	52	32	26	34	24	53	30	32	43	33	32	43	
From :133%	TO: 167%	59	63	48	37	32	42	46	49	48	52	41	45	49	55	41	30	37	24	53	30	32	43	33	29	51	
1 earner couple																											
From :33%	TO: 67%	49	71	63	23	15	47	102	25	92	86	49	52	86	69	57	24	45	22	39	30	32	12	39	23	51	
From :67%	TO: 100%	50	48	49	40	29	30	25	39	27	45	45	23	44	34	33	13	39	24	62	30	32	30	33	17	48	
From :100%	TO: 133%	55	60	41	34	31	31	26	42	34	43	48	31	48	52	32	26	34	24	53	30	32	26	33	32	43	
From :133%	TO: 167%	59	57	37	37	32	30	43	49	41	52	41	34	49	55	41	30	37	24	53	30	32	38	33	29	45	
2 earners couple*																											
From :67%+33%	TO: 67%+67%	58	48	50	23	26	38	17	39	31	40	38	25	33	32	33	6	25	24	37	30	32	22	33	30	35	
From :67%+67%	TO: 67%+100%	55	43	53	40	29	32	28	39	38	45	45	35	44	34	33	13	29	24	62	30	32	29	33	30	39	
From :67+100%	TO: 67+133%	59	61	48	34	33	30	26	40	45	43	48	34	48	52	32	26	34	24	53	30	32	43	33	30	43	
From :67+133%	TO: 67+167%	58	63	44	37	32	39	36	49	48	52	41	35	49	55	41	30	37	24	53	30	32	43	33	29	51	
Lone parent, 2 children																											
From :33%	TO: 67%	58	73	85	16	10	61	64	16	58	49	42	52	63	51	86	57	61	24	39	30	60	59	38	23	51	
From :67%	TO: 100%	55	62	53	39	29	25	67	51	35	48	45	34	54	48	54	13	45	24	65	30	32	41	33	30	49	
From :100%	TO: 133%	59	76	47	34	32	29	34	54	48	49	48	36	48	52	32	26	34	24	53	30	32	37	25	32	40	
From :133%	TO: 167%	59	63	46	37	32	30	46	57	48	58	41	47	49	55	44	30	40	24	53	30	32	45	33	29	48	
1 earner couple with 2 children																											
From :33%	TO: 67%	47	89	86	16	10	64	86	11	110	78	65	56	100	80	86	55	43	22	37	57	53	24	72	27	62	
From :67%	TO: 100%	50	59	49	39	25	24	52	50	21	50	45	54	60	38	58	13	36	24	66	30	32	41	38	17	65	
From :100%	TO: 133%	55	71	42	34	31	26	26	55	34	49	48	32	48	52	32	26	30	24	53	30	32	37	33	32	39	
From :133%	TO: 167%	59	57	37	37	32	29	43	58	41	58	41	36	49	55	44	30	29	24	53	30	32	45	33	29	44	
2 earners couple with 2 children*																											
From :67%+33%	TO: 67%+67%	58	58	50	22	20	34	17	51	27	46	38	26	33	32	33	6	31	24	37	30	31	30	31	30	37	
From :67%+67%	TO: 67%+100%	55	43	52	40	29	30	28	48	38	51	45	36	44	34	36	13	29	24	62	30	32	35	32	30	47	
From :67+100%	TO: 67+133%	58	61	45	33	33	30	26	45	45	51	48	34	48	52	35	26	30	24	53	30	32	43	33	30	41	
From :67+133%	TO: 67+167%	58	63	39	39	32	31	38	49	48	58	38	35	49	56	41	30	38	24	53	30	32	43	33	29	46	
Change 2001 - 2007																											
Single																											
From :33%	TO: 67%	2	-3	4	4	1	-2	12	4	8	-5	3	1	7	-13	-1	0	9	0	-5	0	0	0	0	-13	0	
From :67%	TO: 100%	-2	-3	-2	12	0	-5	0	0	1	2	3	3	-2	-3	1	0	14	0	8	0	0	0	-1	5	0	
From :100%	TO: 133%	2	-2	-5	-6	1	4	-2	2	-3	0	0	0	-1	1	0	0	4	0	3	0	0	0	-1	2	0	
From :133%	TO: 167%	4	0	-5	4	0	1	-1	5	-3	3	-3	6	-4	1	1	0	7	0	2	0	0	0	-1	-6	0	
1 earner couple																											
From :33%	TO: 67%	5	-4	13	4	2	-7	30	5	16	7	-1	-1	4	-15	-13	0	-19	0	-2	0	0	0	2	-73	0	
From :67%	TO: 100%	-3	1	-1	12	1	0	-2	-7	-2	2	3	0	-8	-3	1	0	1	0	8	0	0	0	-1	-6	0	
From :100%	TO: 133%	-1	-3	-3	-6	2	0	0	2	-1	0	0	5	-1	1	0	0	6	0	3	0	0	0	-1	2	0	
From :133%	TO: 167%	4	-6	0	4	0	0	11	4	1	3	-3	-1	-4	1	1	0	7	0	2	0	0	0	-1	-5	0	
2 earners couple*																											
From :67%+33%	TO: 67%+67%	0	-5	-1	4	1	2	-6	3	-1	0	3	1	-3	-3	1	0	0	0	-2	0	0	0	-1	7	0	
From :67%+67%	TO: 67%+100%	3	-1	-7	-2	12	0	-2	0	0	1	2	3	6	-2	-3	1	0	3	0	8	0	0	0	-1	5	0
From :67+100%	TO: 67+133%	3	-1	-4	-6	1	-5	0	0	2	0	0	0	-1	1	0	0	4	0	2	0	0	0	-1	0	0	
From :67+133%	TO: 67+167%	3	0	0	4	0	2	-2	7	0	3	-3	0	-4	1	1	0	7	0	3	0	0	0	-1	-6	0	
Lone parent, 2 children																											
From :33%	TO: 67%	5	-6	13	0	-8	-7	7	1	12	-13	-16	3	0	1	9	0	19	0	11	0	0	0	-4	-55	0	
From :67%	TO: 100%	-2	-5	-2	13	2	-4	15	4	9	5	3	6	-7	-6	0	-17	0	10	0	0	0	0	-6	4	0	
From :100%	TO: 133%	3	0	-3	-6	3	2	1	9	-3	5	0	1	-1	1	0	0	-5	0	3	0	0	0	-9	4	0	
From :133%	TO: 167%	4	0	0	4	1	0	-1	10	-3	8	-3	6	-4	1	-1	0	7	0	2	0	0	0	-4	-26	0	
1 earner couple with 2 children																											
From :33%	TO: 67%	5	-4	6	0	-18	-5	4	-1	15	-3	-17	-1	4	-16	8	0	-39	0	9	0	0	0	-4	-93	0	
From :67%	TO: 100%	-3	-2	-1	13	1	-4	18	6	5	5	3	-1	-7	-4	-3	0	-7	0	11	0	0	0	-9	-27	0	
From :100%	TO: 133%	-1	0	-3	-6	2	2	0	8	-1	5	0	6	-1	1	0	0	-24	0	3	0	0	0	-1	3	0	
From :133%	TO: 167%	4	-6	1	4	2	1	11	9	1	8	-3	-1	-4	1	-1	0	-7	0	2	0	0	0	-1	-3	0	
2 earners couple with 2 children*																											
From :67%+33%	TO: 67%+67%	0	-2	-1	4	0	4	-6	11	3	5	3	2	-3	-3	1	0	-22	0	-2	0	0	0	-3	4	0	
From :67%+67%	TO: 67%+100%	-1	-7	-2	14	0	0	0	4	1	7	3	6	-2	-3	4	0	-1	0	8	0	0	0	-2	5	0	
From :67+100%	TO: 67+133%	3	-1	-3	-7	1	0	0	5	2	7	0	-1	-2	1	0	0	1	0	3	0	0	0	-3	-20	0	
From :67+133%	TO: 67+167%	3	0	0	9	1	-6	-3	5	-1	6	-4	0	-4	2	-6	0	8	0	3	0	0	0	-1	-6	0	
Change 2006 - 2007																											
Single																											
From :33%	TO: 67%	0	-1	-2	2	0	-1	3	0	1	-3	1	0	6	-8	0	0	17	-1	5	0	0	-1	-3	1	-1	
From :67%	TO: 100%	0	1	-1	-1	0	-4	0	1	2	-1	0	0	0	-3	0	-1	12	-1	2	0	0	-4	-2	0	-5	
From :100%	TO: 133%	0	0	-1	-6	0	4	-2	1	0	0	0	0	0	0	0	0	1	-1	0	0	0	0	-2	0	-5	
From :133%	TO: 167%	0	0	-1	-3	-1	0	-1	0	0	0	0	0	0	0	0	0	2	-1	3	0	0	0	-4	0	0	
1 earner couple																											
From :33%	TO: 67%	1	-1	-2	2	0	7	6	2	1	0	2	0	2	-8	0	6	1	4	5	0	0	1	-3	0	0	
From :67%	TO: 100%	0	1	-2	-1	0	0	3	-5	1	-3	0	0	0	-3	0	-1	7	-1	2	0	0	0	-2	1	-5	
From :100%	TO: 133%	0	-1	-1	-6	0	-1	0	1	1	0	0	0	0	0	0	0	1	-1	0	0	0	-6	-2	0	-5	
From :133%	TO: 167%	0	0	-1	-3	0	-1	-1	2	2	0	0	0	0	0	0	0	2	-1	3	0	0	-2	-2	0	-4	
2 earners couple*																											
From :67%+33%	TO: 67%+67%	0	-1	-1	2	0	-3	-5	0	1	-1	1	0	0	-3	0	0	1	-1	5	0	0	-1	-2	4	0	
From :67%+67%	TO: 67%+100%	0	0	-1	-1	0	-1	0	1	2	-1	0	0	0	-3	0	-1	0	-1	2	0	0	-4	-2	0	-5	
From :67+100%	TO: 67+133%	0	1	-1	-6	0	-6	0	1	2	0	0	0	0	0	0	0	1	-1	0	0	0	-2	0	0	-5	
From :67+133%	TO: 67+167%	0	0	-1	-3	-1	2	-3	0	1	0	0	0	0	0	0	0	2	-1	3	0	0	-2	0	0	0	
Lone parent, 2 children																											
From :33%	TO: 67%	2	-1	-3	-1	-9	-5	-1	-2																		

Table A6 - Low wage trap

Two-earner couple with 2 children. Principal earner with 67% of AW. Secondary earner earnings from 0 to 200% of AW																																			
Component	33							50							67							100							150						
	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC
BE	42.3	0%	0%	0%	0%	40%	2%	60.6	0%	0%	0%	0%	29%	32%	54.8	0%	0%	0%	0%	41%	14%	54.8	0%	0%	0%	0%	41%	14%	58.2	0%	0%	0%	0%	45%	13%
DK	59.4	0%	17%	0%	0%	35%	8%	59.4	0%	17%	0%	0%	35%	8%	49.2	0%	0%	0%	0%	32%	17%	43.7	0%	0%	0%	0%	36%	8%	63.0	0%	0%	0%	0%	55%	8%
DE	49.6	0%	0%	0%	0%	29%	21%	49.4	0%	0%	0%	0%	29%	21%	50.9	0%	0%	0%	0%	30%	21%	46.0	0%	0%	0%	0%	34%	12%	36.4	0%	0%	0%	0%	36%	0%
GR	16.0	0%	0%	0%	0%	0%	16%	16.0	0%	0%	0%	0%	0%	16%	40.4	0%	0%	0%	0%	24%	16%	40.4	0%	0%	0%	0%	24%	16%	39.0	0%	0%	0%	0%	39%	0%
ES	6.3	0%	0%	0%	0%	0%	6%	6.4	0%	0%	0%	0%	0%	6%	28.8	0%	0%	0%	0%	22%	6%	32.6	0%	0%	0%	0%	26%	6%	32.6	0%	0%	0%	0%	26%	6%
FR	26.6	0%	0%	0%	-1%	14%	14%	43.2	0%	0%	0%	16%	14%	14%	27.5	0%	0%	0%	0%	14%	14%	30.4	0%	0%	0%	0%	18%	12%	30.4	0%	0%	0%	0%	18%	12%
IE	0.0	0%	0%	0%	0%	0%	0%	20.0	0%	0%	0%	0%	20%	0%	24.0	0%	0%	0%	0%	20%	4%	26.0	0%	0%	0%	0%	20%	6%	46.9	0%	0%	0%	0%	41%	6%
IT	20.3	0%	0%	11%	0%	9%	0%	50.1	0%	0%	11%	0%	30%	9%	50.5	0%	0%	11%	0%	30%	9%	46.9	0%	0%	8%	0%	30%	9%	49.3	0%	0%	0%	0%	40%	9%
LU	14.5	0%	0%	0%	0%	0%	14%	28.7	0%	0%	0%	0%	14%	14%	34.3	0%	0%	0%	0%	20%	14%	41.6	0%	0%	0%	0%	27%	14%	48.8	0%	0%	0%	0%	34%	14%
NL	28.8	0%	0%	0%	0%	2%	27%	52.1	0%	0%	0%	0%	11%	41%	52.1	0%	0%	0%	0%	11%	41%	49.8	0%	0%	0%	0%	41%	9%	57.7	0%	0%	0%	0%	52%	5%
AT	18.1	0%	0%	0%	0%	0%	18%	47.7	0%	0%	0%	0%	30%	18%	44.9	0%	0%	0%	0%	27%	18%	48.5	0%	0%	0%	0%	30%	18%	37.5	0%	0%	0%	0%	38%	0%
PT	21.5	0%	0%	0%	0%	10%	11%	24.0	0%	0%	0%	0%	13%	11%	34.5	0%	0%	0%	0%	23%	11%	34.5	0%	0%	0%	0%	23%	11%	34.5	0%	0%	0%	0%	24%	11%
FI	24.4	0%	0%	0%	4%	14%	7%	33.5	0%	0%	0%	1%	26%	7%	43.5	0%	0%	0%	1%	36%	7%	44.3	0%	0%	0%	1%	37%	7%	48.6	0%	0%	0%	1%	41%	7%
SE	31.8	0%	0%	0%	0%	26%	6%	31.8	0%	0%	0%	-4%	20%	6%	30.9	0%	0%	0%	-3%	28%	6%	52.0	0%	0%	0%	0%	46%	6%	57.1	0%	0%	0%	0%	57%	0%
UK	33.0	0%	0%	0%	0%	22%	11%	33.0	0%	0%	0%	0%	22%	11%	33.0	0%	0%	0%	0%	22%	11%	39.7	0%	0%	7%	0%	22%	11%	41.0	0%	0%	0%	0%	40%	1%
CY	6.3	0%	0%	0%	0%	0%	6%	6.3	0%	0%	0%	0%	0%	6%	6.3	0%	0%	0%	0%	0%	6%	25.0	0%	0%	0%	0%	19%	6%	29.7	0%	0%	0%	0%	23%	6%
CZ	36.9	0%	0%	0%	14%	0%	13%	29.1	0%	0%	0%	0%	17%	12%	29.1	0%	0%	0%	0%	17%	12%	29.1	0%	0%	0%	0%	17%	12%	34.4	0%	0%	0%	0%	22%	13%
EE	24.0	0%	0%	0%	0%	21%	3%	24.0	0%	0%	0%	0%	21%	3%	24.0	0%	0%	0%	0%	21%	3%	24.0	0%	0%	0%	0%	21%	3%	24.0	0%	0%	0%	0%	21%	3%
HU	17.0	0%	0%	0%	0%	0%	17%	40.0	0%	0%	0%	0%	23%	17%	40.0	0%	0%	0%	0%	23%	17%	53.0	0%	0%	0%	0%	36%	17%	53.0	0%	0%	0%	0%	36%	17%
LT	30.0	0%	0%	0%	0%	27%	3%	30.0	0%	0%	0%	0%	27%	3%	30.0	0%	0%	0%	0%	27%	3%	30.0	0%	0%	0%	0%	27%	3%	30.0	0%	0%	0%	0%	27%	3%
LV	13.9	0%	0%	0%	0%	5%	9%	31.7	0%	0%	0%	0%	23%	9%	31.8	0%	0%	0%	0%	23%	9%	31.7	0%	0%	0%	0%	23%	9%	31.7	0%	0%	0%	0%	23%	9%
MT	91.6	0%	75%	8%	0%	0%	8%	31.6	0%	0%	8%	0%	15%	8%	31.6	0%	0%	8%	0%	15%	8%	33.4	0%	0%	0%	0%	25%	8%	43.4	0%	0%	0%	0%	35%	8%
PL	35.3	0%	12%	0%	0%	0%	23%	23.3	0%	0%	0%	0%	0%	23%	23.3	0%	0%	0%	0%	0%	23%	32.8	0%	0%	0%	0%	9%	23%	32.8	0%	0%	0%	0%	9%	23%
SK	29.9	0%	0%	0%	0%	16%	13%	29.9	0%	0%	0%	0%	16%	13%	29.9	0%	0%	0%	0%	16%	13%	29.9	0%	0%	0%	0%	16%	13%	28.7	0%	0%	0%	0%	17%	12%
SI	51.4	0%	17%	0%	0%	12%	22%	34.6	0%	0%	0%	0%	12%	22%	34.6	0%	0%	0%	0%	12%	22%	34.6	0%	0%	0%	0%	12%	22%	43.1	0%	0%	0%	0%	21%	22%
NO	25.7	0%	0%	0%	0%	18%	8%	35.8	0%	0%	0%	0%	28%	8%	35.8	0%	0%	0%	0%	28%	8%	44.8	0%	0%	0%	0%	37%	8%	44.8	0%	0%	0%	0%	37%	8%
SZ	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
US	28.9	0%	0%	0%	0%	21%	8%	28.9	0%	0%	0%	0%	21%	8%	28.9	0%	0%	0%	0%	21%	8%	28.9	0%	0%	0%	0%	21%	8%	38.9	0%	0%	0%	0%	31%	8%
JP	19.2	0%	0%	0%	0%	7%	12%	20.7	0%	0%	0%	0%	9%	12%	20.7	0%	0%	0%	0%	9%	12%	22.2	0%	0%	0%	0%	10%	12%	30.3	0%	0%	0%	0%	26%	5%

Low-wage trap indicator Change 2001-2007

Marginal effective tax rate and its main components, at different wage levels, as wage increase by 1% of the AW wage level

Two-earner couple with 2 children. Principal earner with 67% of AW. Secondary earner earnings from 0 to 200% of AW

Component	33							50							67							100							150						
	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC	METR =	SA +	HB +	FB +	IWB+	IT +	SSC
BE	-7.5	0%	0%	0%	0%	5%	-12%	0.3	0%	0%	0%	0%	-18%	18%	-0.8	0%	0%	0%	0%	-1%	0%	-0.8	0%	0%	0%	0%	-1%	0%	2.7	0%	0%	0%	0%	4%	-1%
DK	-1.9	0%	0%	0%	0%	-1%	-1%	-1.9	0%	0%	0%	0%	-1%	-1%	-4.9	0%	0%	0%	0%	-4%	-1%	-6.7	0%	0%	0%	0%	-6%	-1%	-0.4	0%	0%	0%	0%	1%	-1%
DE	0.6	0%	0%	0%	0%	1%	0%	-1.2	0%	0%	0%	0%	-1%	0%	-1.7	0%	0%	0%	0%	-2%	0%	-10.0	0%	0%	0%	0%	-2%	-8%	-2.1	0%	0%	0%	0%	-2%	0%
GR	0.1	0%	0%	0%	0%	0%	0%	0.1	0%	0%	0%	0%	0%	0%	24.5	0%	0%	0%	0%	24%	0%	11.8	0%	0%	0%	0%	12%	0%	9.0	0%	0%	0%	0%	9%	0%
ES	0.0	0%	0%	0%	0%	0%	0%	-20.1	0%	0%	0%	0%	-20%	0%	-4.3	0%	0%	0%	0%	-4%	0%	3.7	0%	0%	0%	0%	4%	0%	-0.3	0%	0%	0%	0%	0%	0%
FR	1.8	0%	0%	0%	3%	-1%	0%	13.9	0%	0%	0%	0%	15%	-1%	1.6	0%	0%	0%	0%	1%	0%	0.0	0%	0%	0%	0%	-3%	3%	-2.2	0%	0%	0%	0%	-9%	3%
IE	-20.0	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%	0%	0.0	0%	0%	0%	0%	0%	0%	
IT	10.3	0%	0%	11%	0%	-1%	0%	23.7	0%	0%	11%	0%	13%	0%	18.7	0%	0%	11%	0%	7%	0%	7.8	0%	0%	8%	0%	0%	0%	10.3	0%	0%	0%	0%	10%	0%
LU	0.5	0%	0%	0%	0%	0%	1%	9.4	0%	0%	0%	0%	9%	0%	0.8	0%	0%	0%	0%	0%	0%	2.0	0%	0%	0%	0%	2%	0%	1.1	0%	0%	0%	0%	1%	0%
NL	4.2	0%	0%	0%	0%	0%	4%	7.2	0%	0%	0%	0%	3%	5%	-4.1	0%	0%	0%	0%	2%	-6%	4.7	0%	0%	0%	0%	1%	4%	5.7	0%	0%	0%	0%	0%	5%
AT	0.0	0%	0%	0%	0%	0%	0%	10.6	0%	0%	0%	0%	11%	0%	4.6	0%	0%	0%	0%	5%	0%	6.8	0%	0%	0%	0%	7%	0%	-1.6	0%	0%	0%	0%	-2%	0%
PT	6.9	0%	0%	0%	0%	7%	0%	1.0	0%	0%	0%	0%	1%	0%	9.5	0%	0%	0%	0%	9%	0%	-0.5	0%	0%	0%	0%	-1%	0%	-0.5	0%	0%	0%	0%	0%	0%
FI	-2.6	0%	0%	0%	4%	-6%	0%	-3.8	0%	0%	0%	0%	-4%	0%	2.3	0%	0%	0%	0%	2%	0%	-2.5	0%	0%	0%	0%	-3%	0%	-3.9	0%	0%	0%	0%	-4%	0%
SE	7.4	0%	0%	0%	0%	9%	-1%	-4.8	0%	0%	0%	-4%	0%	-1%	-6.8	0%	0%	0%	-3%	-3%	-1%	-6.8	0%	0%	0%	0%	1%	-1%	1.2	0%	0%	0%	0%	1%	0%
UK	1.0	0%	0%	0%	0%	0%	1%	1.0	0%	0%	0%	0%	0%	1%	1.0	0%	0%	0%	0%	0%	1%	7.7	0%	0%	7%	0%	0%	1%	-5.7	0%	0%	0%	0%	-7%	1%
CY																																			
CZ	-15.4	0%	-12%	-1%	0%	-3%	0%	-23.2	0%	-12%	-15%	0%	4%	0%	-23.9	0%	-12%	-15%	0%	3%	0%	3.5	0%	0%	0%	0%	3%	0%	4.4	0%	0%	0%	0%	4%	0%
EE																																			
HU	-13.5	0%	0%	0%	0%	-18%	4%	-0.5	0%	0%	0%	0%	-5%	4%	-0.5	0%	0%	0%	0%	-5%	4%	2.5	0%	0%	0%	0%	-2%	5%	2.5	0%	0%	0%	0%	-2%	5%
LT																																			

Table A7 - Total tax wedge on labour (including soc. sec. employers)

	Single person without children, 100% of AW across countries									Single person without children, 67% of AW across countries								
	2000	2001	2002	2003	2004	2005	2006	2007	Change 2000-2007*	2000	2001	2002	2003	2004	2005	2006	2007	Change 2000-2007*
Belgium	57.1	56.7	56.3	55.7	55.4	55.5	55.5	55.5	-1.6	51.3	50.7	50.5	49.6	49	49.3	49.4	49.6	-1.7
Denmark	44.3	43.6	42.6	42.6	41.3	41.1	41.3	41.3	-3.0	41.2	40.5	39.8	39.8	39.3	39.2	39.3	39.3	-1.9
Germany	54	53	53.5	54.2	53.2	53.1	53.3	52.2	-1.8	48.6	47.7	48.1	48.8	47.8	48.2	48.4	47.4	-1.2
Greece	38.5	38.2	39	37.9	40	40.5	41.9	42.3	3.8	35.6	35.3	35.7	34.4	35.2	34.9	35.9	36.7	1.1
Spain	38.6	38.8	39.1	38.5	38.7	38.9	39.1	38.9	0.3	34.7	35.3	35.7	34.7	35.2	35.5	35.9	35.6	0.9
France	49.6	49.8	49.8	49.8	49.9	50	50.2	49.2	-0.4	47.4	47.6	47.4	45	42.4	41.3	44.3	44.4	-3.0
Ireland	28.9	25.8	24.5	24.2	24	23.5	23	22.3	-6.6	18.1	17.4	16.7	16.2	19.4	16.8	16.1	15	-3.1
Italy	46.4	46	46	45	45.4	45.4	45.5	45.9	-0.5	43.1	42.7	42.7	41.1	41.4	41.7	41.9	42	-1.1
Luxembourg	38.6	37	34.2	34.7	35.1	35.9	36.6	37.5	-1.1	32.8	31.2	29	29.3	29.6	30.2	30.6	31.4	-1.4
Netherlands	39.7	37.2	37.4	37.1	38.8	38.7	44.4	44	4.3	42	38.9	39.1	40	40.8	41.4	40.5	40.2	-1.8
Austria	47.3	46.9	47.1	47.4	48.1	48	48.3	48.5	1.2	43.2	42.9	43.1	43.5	43.9	43.3	43.7	44.1	0.9
Portugal	37.3	36.4	36.6	36.8	37.8	37.3	37.4	37.4	0.1	33.2	32.2	32.3	32.4	33	32.4	32.6	32.6	-0.6
Finland	47.8	46.4	45.9	45	44.5	44.6	44.1	43.7	-4.1	43	41.4	40.9	40	39.4	39.5	39	38.2	-4.8
Sweden	50.1	49.1	47.8	48.2	48.4	48.1	47.8	45.4	-4.7	48.6	47.8	46.8	47	47.2	46.6	45.9	43.3	-5.3
United Kingdom	32.6	32.2	32.3	33.8	33.9	34	34	34.1	1.5	29.1	28.6	28.7	30.3	30.5	30.6	30.7	30.8	1.7
Cyprus	20.5	20.9	17.3	18.5	18.6	13.6	14.1	;	-6.4	16.8	17.0	17.2	18.5	18.6	11.9	11.9	;	-5.0
Czech Republic	42.7	42.6	42.9	43.2	43.5	43.8	42.6	42.9	0.2	41.4	41.3	41.5	41.7	41.9	42	40.1	40.5	-0.9
Estonia	40.2	39.7	42.2	42.5	41.4	41.6	40.2	;	0.0	38.2	37.4	40.2	40.7	38.9	39.8	38.4	;	0.3
Hungary	54.6	55.8	53.7	50.8	51.8	51.1	51.9	54.4	-0.2	51.4	50.9	48.2	44.5	44.8	43.1	43.3	45.9	-5.5
Latvia	43.0	42.7	42.9	42.2	42.5	42.2	42.9	;	-0.1	41.4	41.2	41.4	40.8	41.2	40.9	41.8	;	0.4
Lithuania	45.0	45.2	44.6	43.4	43.7	44.4	46.3	;	1.3	42.0	42.2	41.2	39.5	40.0	41.0	43.9	;	1.9
Malta	22.9	23.4	24.1	23.3	23.6	23.9	24.5	;	1.6	16.6	17.0	17.7	17.4	17.6	17.8	18.4	;	1.8
Poland	43.1	42.8	42.7	43	43.2	43.4	43.7	42.8	-0.3	42	41.5	41.4	41.7	41.9	42.2	42.5	41.6	-0.4
Slovak Republic	41.7	42.7	42.5	42.9	42.5	38.3	38.5	38.5	-3.2	40.5	41.3	40.8	40.9	39.6	35.2	35.5	35.6	-4.9
Slovenia	42.5	42.3	42.5	42.5	42.6	42.4	44.0	;	1.5	41.0	41.0	41.1	41.1	41.1	39.4	39.8	;	-1.2
Bulgaria	43.1	40.4	39.6	39.0	38.9	38.9	35.4	;	-7.7	39.4	35.9	35.2	35.0	34.9	35.3	31.1	;	-8.4
Romania	47.5	47.9	47.3	46.2	45.8	44.0	43.7	;	-3.8	44.7	45.2	44.6	43.4	42.9	42.4	42.2	;	-2.5

Source: OECD, Taxing wages report, Single person without children, 100% and 67% of AW.

Table A8 - Tax wedge on labour for the average-wage worker and its components

Single person without children, 100% of AW	Total Tax Wedge 2007	Of which			Difference 2006 - 2007				Difference 2001 - 2007			
		Personal Income Tax	Social Security Contributions Employee	Social Security Contribution Employer	Total Tax Wedge	Personal Income Tax	Social Security Contribution Employee	Social Security Contribution Employer	Total Tax Wedge	Personal Income Tax	Social Security Contribution Employee	Social Security Contribution Employer
Austria	48.5	11.9	13.9	22.7	0.3	0.2	0.0	0.1	1.6	1.6	0.0	0.0
Belgium	55.5	21.2	10.6	23.7	0.1	0.0	0.0	0.1	-1.1	-0.8	0.0	-0.3
Bulgaria*	31.1	1.5	10.0	19.5	-4.2	-0.9	0.5	-3.8	-4.9	-2.6	3.8	-6.0
Cyprus*	11.9	0.0	5.9	5.9	0.0	0.0	0.0	0.0	-5.2	-0.5	0.3	-5.0
Czech rep	42.8	7.6	9.3	25.9	0.3	0.3	0.0	0.0	0.2	0.2	0.0	0.0
Germany	52.2	18.2	17.3	16.7	-1.0	0.1	-0.7	-0.3	-0.8	-0.7	0.2	-0.4
Denmark	41.3	30.1	10.5	0.6	0.1	0.1	0.0	0.0	-2.3	-2.2	0.0	-0.1
Greece	42.2	7.8	12.5	21.9	0.4	0.4	0.0	0.0	4.0	3.9	0.1	0.0
Estonia*	38.4	12.4	2.2	25.1	-1.6	0.8	0.0	0.0	2.4	-0.2	2.2	0.3
Spain	38.8	10.7	4.8	23.3	-0.3	-0.1	0.0	-0.2	0.0	0.2	0.0	-0.2
Finland	43.6	18.7	5.4	19.5	-0.5	-0.4	0.0	-0.1	-2.7	-2.4	0.2	-0.5
France	49.1	10.0	9.6	29.5	-1.0	-1.0	0.1	-0.1	-0.7	-1.1	0.1	0.2
Hungary	54.4	16.1	12.7	25.6	2.5	0.5	2.0	0.0	-1.4	-3.1	3.4	-1.6
Ireland	22.2	7.8	4.6	9.9	-0.7	-0.7	0.0	0.0	-3.5	-2.9	0.3	-0.9
Italy	45.8	14.2	7.0	24.6	0.3	0.1	0.2	-0.1	-0.1	0.4	0.2	-0.8
Lithuania*	43.9	17.8	2.3	23.8	2.9	2.9	0.0	0.0	1.7	1.7	0.0	0.0
Luxembourg	37.5	13.0	12.6	11.9	1.0	0.6	0.4	0.0	0.6	0.1	0.4	0.2
Latvia*	41.8	15.2	7.3	19.4	1.0	1.0	0.0	0.0	0.6	1.8	0.1	-1.3
Malta*	18.4	4.3	7.0	7.0	0.6	0.5	0.0	0.0	1.4	1.4	0.0	0.1
Netherlands	44.0	12.6	19.3	12.0	-0.3	0.7	-1.2	0.2	6.8	3.2	1.4	2.3
Poland	42.8	5.3	20.4	17.1	-0.8	0.1	-1.0	0.1	0.1	0.3	-0.3	0.1
Portugal	37.4	9.3	8.9	19.2	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0
Romania*	42.2	6.0	13.1	23.1	-0.3	0.7	0.2	-1.2	-3.0	0.6	4.1	-7.7
Sweden	45.3	15.5	5.2	24.6	-2.4	-2.4	0.0	0.0	-3.7	-3.5	-0.1	-0.1
Slovenia*	39.8	6.7	19.0	14.1	0.4	0.2	0.0	0.2	-1.2	-1.5	-0.1	0.4
Slovak rep	38.5	6.5	9.7	22.3	0.0	0.1	0.0	-0.1	-4.2	0.7	0.4	-5.3
UK	34.1	16.1	8.4	9.6	0.1	0.1	0.0	0.0	2.0	0.5	0.9	0.6

Source: OECD, Taxing wages report.

**Table A9 - Net income replacement rates over the unemployment spell –
Single person without children, 67% of AW**

	NRR after 2 months	NRR after 2 months NOSA	NRR after 7 months	NRR after 7 months NOSA	NRR after 13 months	NRR after 13 months NOSA	NRR after 60 months	NRR after 60 months NOSA
Austria	55	55	55	55	51	51	51	51
Belgium	74	74	74	74	64	64	64	64
Cyprus	59	59	53	0	53	0	53	0
Czech Republic	67	67	52	30	52	30	52	30
Denmark	85	85	85	85	85	85	81	6
Estonia	55	55	45	45	28	16	28	0
Finland	67	67	67	67	67	67	65	50
France	70	70	70	70	70	70	46	46
Germany	59	59	59	59	55	16	47	16
Greece	49	49	49	49	33	33	0	0
Hungary	73	73	44	44	31	3	31	3
Iceland	78	78	65	65	65	65	60	7
Ireland	77	49	77	49	77	49	77	49
Italy	64	64	51	51	0	0	0	0
Japan	67	67	42	0	42	0	42	0
Latvia	82	82	32	32	32	32	32	32
Lithuania	74	74	20	0	20	0	20	0
Luxembourg	85	85	85	85	59	0	59	0
Malta	59	49	60	60	60	60	60	60
Netherlands	73	73	80	80	80	80	77	21
Norway	67	67	67	67	73	73	54	0
Poland	70	70	70	70	39	32	39	32
Portugal	78	78	78	78	78	78	24	0
Slovak Republic	61	61	28	0	28	0	28	0
Slovenia	72	72	70	70	48	48	48	48
Spain	78	78	68	68	68	68	33	0
Sweden	76	76	76	76	69	69	64	0
United Kingdom	58	58	58	58	58	58	58	58
United States	62	62	9	0	9	0	9	0
European Union	66	66	62	61	51	41	41	24
European Union	66	66	63	63	53	45	41	24
Euro Area	67	66	63	63	52	41	37	19

NOSA – without social assistance in the calculation of net replacement rates.

Source: Joint European Commission-OECD project, using OECD Tax-Benefits models.

**Table A10 - Net income replacement rates over the unemployment spell –
Single person without children, 100% of AW**

	NRR after 2 months	NRR after 2 months NOSA	NRR after 7 months	NRR after 7 months NOSA	NRR after 13 months	NRR after 13 months NOSA	NRR after 60 months	NRR after 60 months NOSA
Austria	55	55	55	55	51	51	51	51
Belgium	55	55	55	55	48	48	48	48
Cyprus	58	58	36	0	36	0	36	0
Czech Republic	61	61	38	22	38	22	38	22
Denmark	62	62	62	62	62	62	59	5
Estonia	54	54	44	44	19	11	19	0
Finland	52	52	52	52	52	52	48	37
France	66	66	66	66	66	66	31	31
Germany	59	59	59	59	42	12	34	12
Greece	36	36	36	36	24	24	0	0
Hungary	63	63	35	35	25	2	25	2
Iceland	67	67	48	48	48	48	44	5
Ireland	56	36	56	36	56	36	57	36
Italy	64	64	55	55	0	0	0	0
Japan	54	54	29	0	29	0	29	0
Latvia	84	84	31	31	22	22	22	22
Lithuania	69	69	14	0	14	0	14	0
Luxembourg	87	87	87	87	43	0	43	0
Malta	45	37	45	45	45	45	45	45
Netherlands	73	73	69	69	69	69	56	15
Norway	64	64	64	64	69	69	38	0
Poland	48	48	48	48	26	22	26	22
Portugal	84	84	84	84	84	84	17	0
Slovak Republic	64	64	20	0	20	0	20	0
Slovenia	62	62	62	62	33	33	33	33
Spain	62	62	62	62	62	62	24	0
Sweden	53	53	53	53	53	53	45	0
United Kingdom	40	40	40	40	40	40	40	40
United States	54	54	6	0	6	0	6	0
European Union	58	58	54	53	41	34	29	17
European Union	59	58	57	57	44	38	29	17
Euro Area	62	62	60	60	45	36	27	14

NOSA – without social assistance in the calculation of net replacement rates.

Source: Joint European Commission-OECD project, using OECD Tax-Benefits models.

**Table A11 - Income replacement rates over the unemployment spell –
One-earner married couple with two children, 67% of AW**

	NRR after 2 months	NRR after 2 months NOSA	NRR after 7 months	NRR after 7 months NOSA	NRR after 13 months	NRR after 13 months NOSA	NRR after 60 months	NRR after 60 months NOSA
Austria	65	57	65	57	65	53	65	53
Belgium	66	66	66	66	66	66	66	66
Cyprus	70	70	79	0	79	0	79	0
Czech Republic	67	67	72	23	72	23	72	23
Denmark	86	86	86	86	86	86	76	6
Estonia	57	57	46	46	37	15	37	0
Finland	84	78	84	78	84	78	84	60
France	67	67	67	67	67	67	58	50
Germany	65	60	65	60	60	18	60	18
Greece	52	52	52	52	35	35	0	0
Hungary	76	76	56	44	56	3	56	3
Iceland	76	75	77	58	77	58	79	6
Ireland	106	79	106	79	106	79	106	79
Italy	61	61	49	49	0	0	0	0
Japan	65	65	60	0	60	0	60	0
Latvia	79	79	37	37	37	37	37	37
Lithuania	74	74	39	0	39	0	39	0
Luxembourg	95	84	95	84	81	0	81	0
Malta	65	65	61	61	61	61	61	61
Netherlands	89	87	90	85	90	85	93	16
Norway	74	69	74	69	74	74	77	0
Poland	73	73	73	73	55	31	55	31
Portugal	75	75	75	75	75	75	47	0
Slovak Republic	58	58	44	0	44	0	44	0
Slovenia	82	82	74	74	69	69	69	69
Spain	75	75	64	64	64	64	41	0
Sweden	80	76	80	76	80	69	80	0
United Kingdom	58	58	58	58	58	58	58	58
United States	61	61	15	0	15	0	15	0
European Union	68	66	64	60	55	41	50	25
European Union	67	65	64	62	55	45	49	26
Euro Area	68	66	65	62	54	41	46	21

NOSA – without social assistance in the calculation of net replacement rates.

Source: Joint European Commission-OECD project, using OECD Tax-Benefits models.

Table A12 - UB duration, job availability criteria and performance indicators of low-skilled persons

	Unemployment benefit duration	Unemployment benefit duration	Job availability requirement index	Long term unemployment rate		Unemployment rate		Employment rate	
	(min and max)	(min and max)				(15-64) low skilled**		(15-64) low skilled**	
	2004	2007	2004	2007	change 2001-2007	2007	change 2001-2007	2007	change 2001-2007
AT	5-12	5-12	3.5	1.2	0.3	8.8	1.7	51.9	4.7
BE	unlimited	unlimited	2.7	3.8	0.6	13	2.1	40.5	-0.3
BG	n.a.	n.a.	n.a.	4	-8.1	18	-15.9	30.6	3.6
CY	5	5	n.a.	0.7	-0.1	5.1	-0.3	52.8	-0.1
CZ	6	6-12	4.0	2.8	-1.4	20.4	-1.3	24.2	-4.3
DE	6-32	6-18	2.8	4.7	0.9	17	5.4	44.9	0
DK	48	48	3.2	0.6	-0.3	5.7	-0.6	64.2	5.7
EE	6-12	6-12	3.6	2.3	-3.7	11.7	-8.2	33.1	1.8
ES	4-24	4-24	3.0	1.7	-2	10.5	-1.2	57.5	4.9
FI	23	23	3.1	1.6	-0.9	13	-4.8	46.4	-3
FR	7-42	7-36	3.0	3.3	0.3	12.3	-0.9	47.7	1.1
GR	5-12	5-12	2.6	4.1	-1.4	7.8	-1.3	52.3	3.2
HU	9	9	n.a.	3.4	0.8	17.5	6.3	27.3	-1.7
IE	12-15	12-15	n.a.	1.4	0.1	7.7	1.2	49.3	0.6
IT	6-9	7-10	2.8	2.9	-2.8	7.5	-3.7	46.5	2
LT	6	6-9	2.8	1.4	-7.9	7.7	-17.2	25.9	0.9
LU	12-24	12-24	n.a.	1.3	0.7	5.8	3.3	49.8	-1.2
LV	9	9	2.7	1.6	-5.6	10.8	-11.4	38.6	3.6
MT	5	5	2.6	2.6	-1.1	8.5	0.5	46.9	-2.4
NL	6-60	3-38	4.4	1.3	0.7	5.3	2.2	61	0
PL	6-18	6-18	n.a.	4.9	-4.3	16.5	-9.4	24.9	-2.5
PT	12-30	9-30	3.5	3.8	2.3	8.7	4.5	65.7	-2
RO	n.a.	n.a.	n.a.	3.2	-0.1	8.6	3.2	40.3	-11.4
SE	14-28	14-28	2.9	0.8	-0.2	13.2	5.2	53.4	-5.9
SI	3-24	3-24	3.8	2.2	-1.5	7.4	-2.4	43.1	1.1
SK	6	6	3.4	8.3	-3	45.1	2.6	14.7	-2.5
UK	6	6	2.4	1.3	0	9.5	1.7	60	-2.6

Source: Commission services.

* Job availability requirement index is a summary indicator and measures the strictness in availability criteria (see Søren Hasselpflug (2005): "Availability criteria in 25 countries", Danish Finance Ministry Working Paper, 12, 2005).

** Low-skilled persons are those that have pre-primary, primary and lower secondary education.

Table A13 - Main features of the unemployment insurance benefits, 2007 (for a 40-year-old single worker without children, with a 22-year employment record)

Country	Employment (E) and Contribution (C) conditions	Voluntary (V) or Compulsory (C) insurance for employees	Waiting period (days)	Minimum and maximum duration (months)	Initial payment rate (% of earnings base)	Earnings base	Minimum annual benefit ^o	% of AW	Maximum annual benefit ^o	% of AW	Permitted employment and disregards	Additions for dependent family members
AT	E: 1 in the last 2 years C: 1 year (28 weeks if repeated spells in unemployment)	C (only up from monthly earning of 341,16€)	0	5-12	55	net	-	-	14548	35	no reduction up to earnings of 341,16€ per month, total loss above. Exception: benefit reduced if <27 days and net earning > 341,16€	supplement of € 354 for each dependent
BE	E+C 468 days in 27 months	C	-	unlimited	60 (50 after 1 year)	gross	9201	24	12935	33	maximum: limit of 3647.28€ (net annual taxable income) for artistic employment (beyond benefit reduced proportionately) daily benefit reduced by proportion of daily income of ancillary activity > 11.69€	minimum benefit increased up to € 10951 if dependents
CZ	E+C: 12 months of job in last 3 years	C	-	6-12	50 in first 3 months, 45 in following 3 months	net	-	-	145152	58	half of the minimum wage (CZK 8000) in a month allowed without losing the entitlement to unemployment benefits	-
DK	E: 52 weeks of full time work in last 3 years; C: payment of membership fee	V	-	48	90	gross less 8% for social security contribution	145600	42	177580	52	Wages reduce amount of benefits by same amount	-
FI	E: 43 weeks of work in last 28 months C: 10 months	V	7	23	basic benefit (18% of AW) + up to 45% of earnings exceeding basic benefit	gross (additional holiday pay excluded) less social security contributions	-	-	none	-	working hours < 75 % of full-time. benefit reduced by 50 % of gross income. benefit (including child supplement) and income < 90 % of reference earnings	supplements: € 1169, 1716, 2214 for one, two, three or more children respectively
FR	C: 6 months in last 22 months	C	-	7-36	57-75	gross	9493 (if daily salary > 2601/75. min benefit = 75% of daily salary If daily salary > 2601/75)	29 (if daily salary > 2601/75)	76402	236	salary < 70% of prior monthly salary. working hours < 110 hours per month. Duration benefits < 15 months. Benefits reduced depending on ratio of gross new earnings divided by the daily wage of reference	-
DE	E: 12 months; C: 12 months in last 3 years	C	0	6-18	60	net	-	-	37800	88	total loss if working hours > 15 hours/week. Earnings < € 400/month do not qualify for unemployment insurance contributions	initial payment rate increases by 7 percentage points if children
GR	E+C: 125 days of employment in last 14 months or 200 days in last 2 years	C	6	5-12	50	gross	2202	9	-	-	benefits withdrawn if earnings. Exceptions exist for part time or casual work	benefit increased by 10% for each dependant

Country	Employment (E) and Contribution (C) conditions	Voluntary (V) or Compulsory (C) insurance for employees	Waiting period (days)	Minimum and maximum duration (months)	Initial payment rate (% of earnings base)	Earnings base	Minimum annual benefit°	% of AW	Maximum annual benefit°	% of AW	Permitted employment and disregards	
HU	E+C: 365 days in the 4 previous years (if at least 200 days of employment in 4 years, job seeker aid granted for 90 days)	C	-	9	60 % of gross average salary for max 3 months. 60 % of mandatory minimum wage prevailing on the first day of eligibility for job-seeker benefit in second period	gross average salary of the previous 4 calendar quarters	471600	22	943200	44	for short term employment (< 90 days) benefit suspended. employment booklet is another exception	.
IE*	C: 39 weeks contributions paid in last year, or 26 reckonable contributions paid in last 2 years; 52 weeks contributions paid since start working	C	3	12-15	fixed amount (31% of AW)	-	-	-	-	-	benefit not paid for any day or partial day of employment. Earnings are not assessed	supplement of € 6412 per adult and of € 1144 per child. Dependent child supplement not related to earnings. Adult supplement of € 4155 in case of reduced rate
IT**	C: 52 weeks contribution paid in last 2 years	C	7	7-10	50 (40 after 6 months)	average gross earnings in previous 3 months	-	-	12174	51	no benefits if receiving earnings from employment except for CIG schemes	.
LU	E+C: 26 weeks in last 1 year	C	0	12-24	80	gross (average wage of the 3 months immediately preceding unemployment)	-	-	42397	93	accessory work compatible with benefits if earning < 10% reference salary. benefit reduced if income >10% of reference salary	rate increases by 5 percentage points if children
NL	E: 26 weeks in the last 36 weeks; C:52 days in 4 of last 5 years	C	-	3-38	70 or 75	gross	15804 (17068 incl. holiday pay)	40 (43 incl. holiday pay)	45406	115	If working hours <5 hours/week, gross benefit reduced by 70 % of gross earnings. If working hours >5, benefit reduced in proportion to number of hours worked	Supplementary benefits for low income households to bring income up to a minimum guaranteed level
PL	E+C: 365 days in 18 months and earnings >50% minimum wage	C	7	6-18	subject to indexation by consumer prices growth index. 27% of AW. ****	-	-	-	-	-	gross income disregard of up to PLN 5616 (half of minimum pay)	.
PT	E+C: 450 days in last 2 years	C	0	9-30	65	gross	4774	30	14322	91	if income < UI benefit and hours/week worked > 20% and <75% of normal hours, UI benefit= (UI benefit - income) * 1,35	.
SK	E+C: 3 years in 4 years	C	0	6	50	gross	-	-	since 01/2006 maximum depends on sum of premiums that one pays for unemployment insurance	-	-	-

Country	Employment (E) and Contribution (C) conditions	Voluntary (V) or Compulsory (C) insurance for employees	Waiting period (days)	Minimum and maximum duration (months)	Initial payment rate (% of earnings base)	Earnings base	Minimum annual benefit ^o	% of AW	Maximum annual benefit ^o	% of AW	Permitted employment and disregards	Country
ES	C: 360 days in last 6 years	C	0	4-24	70 (60 after 6 months)	gross	5591	26	12230	56	benefits reduced in proportion to hours worked	increased maxima and minima if children
SE	E: 6 months; C: 12 months	V	5	14-28	80 for 200 days and 70 for next 100 days	gross	83200	25	176800	52	benefit reduced in proportion of number of days worked	-
UK	C: 2 years	C	3	6	fixed amount (14% of AW)	-	-	-	-	-	income > GBP 260 (GBP 520 for couples), benefit reduced by the same amount	-
SI	E: 12 in last 18 months, full time equivalent	C	.	3-24	70 in first 3 months, afterwards 60	gross	-	-	-	-	if finding part time job, UB is kept until the end of entitlement period	-
EE	E+C: 12 within the last 36 months	C	-	6-12	50 for 1-100 calendar years; 40 for 101-360 calendar years	the average remuneration per calendar year during 9 months	-	-	-	-	-	-
LV	E+C: 9 within the last 12 months; if less than 9 months then on the basis of contributions	C	0; for persons ending E voluntary - 2 months	9	50 to 65 depending on insurance period; declining over time	insurance contribution wage	98,58	-	143,09	-	no disregards	-
LT	E+C: 18 within the last 36 months	C	-	6-9	40 n most cases; declining over time	gross earnings in the last 36 months	205	-	949	-	no disregards	-
CY	E+C: 6,5 months C: 5 months within last year	C	4	6-janv	60% of basic earning +50% of the average earning in excess to basic earning	gross earning of last year	-	-	6438,12	49	income < 2427 CYP	basic benefit increased by 1/3 if one dependent spouse, and by 1/6 for each dependent child
MT	C: 52 months, of which 20 in the benefit year	C	-	6	-	-	1014	15	1700,9	25	-	increased max and min if spouse is unemployed or if unemployed is a single parent

All benefit amounts are shown on an annualised basis.

^o National currency.

“-” indicates that no information is available or not applicable. Gross = Gross employment income; Net = Gross minus income taxes minus SSC; SSC = (Employee) Social security contributions.

*. Where weekly earnings while in employment were below certain amounts, reduced rates of payment are made (from 14% of AW to 24% of AW). If dependent adult is employed, supplement is reduced or suppressed depending on income level.

**. For employees with a temporary reduction of working hours there is also the CIG scheme which pays benefits of 80% of average gross earnings for non-worked hours.

***. At least 23% of AW during the preceding calendar year or 15% of AW averaged over three years (income from work >1.5 times the basic amount (NOK 66812) the preceding calendar year.

****. The basic benefit amount is adjusted with the length of the employment record: 80% for under five years, 100% for 5-20 years and 120% for over 20 years.

Source: Commission services, OECD.