

Unemployment and Income Security

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by Guy Standing*

1. Introduction

Social policy is notoriously struck by images. During the 20th century one image above all dominated thinking about labour market policy – the *dole queue*, a long line of men, hands in pockets, mostly with caps, queuing forlornly in the early morning rain for a meagre hand-out to enable them to survive in unemployment as they competed with each other for jobs that were not there. There were a few women, but they were not regarded as “the bread winner”; they were left in the shadows of economic and social policy. It was all those unemployed men who took the headlines and who worried governments, with their dirtiness and incipient violence.

From the 1930s onwards – and significantly not before then – the world rushed to measure the number of unemployed. Doing so has not been easy. But if they were to be helped, the state had to know how many of them there were. As the traumas of the Great Depression faded, policymakers in industrialized countries turned their attention to making schemes of income support for the unemployed more rational and equitable, according to their way of seeing reality. Two basic questions dominated their thinking. Who should qualify? Who should pay?

The first question seems to have an easy answer – the unemployed. Yet defining these is far from easy. What about the person who apparently *chooses* to become or remain unemployed? Or the person who has not been employed before or for a long time? Or the person who withdraws from the labour force because she sees no prospect of a decent job?

The second question also seems easy to answer – the employer should pay, on the grounds that he can afford to do so and is ultimately responsible for making the employed redundant. Merely stating that answer highlights its inadequacy.

The basic questions for a while seemed interesting but not too problematical. Assuming Full Employment, one could have a system in which modest “insurance contributions” could be levied on firms to pay for the small number of workers subject randomly to “frictional” involuntary unemployment that amounted to no more than Beveridge’s famous “temporary interruptions of earnings power”. But then reality ruined this comforting image.

Two sets of factors ruined the image. Probably first chronologically, social protection policy became part of development policy. None of the orthodox assumptions looked remotely true in developing countries, in contexts of rural non-wage labour, casual informal activities in urban slums and relations of production that were quite unlike the model of big bureaucratic, stable firms and public organizations that until the last quarter of the 20th century seemed to be the coming norm. Clearly the main problems in developing countries were absolute poverty and chronic inequalities, in which impoverished “underemployment” was more pervasive than open unemployment. The official ‘discovery’ in the early 1970s of the “informal sector” – a euphemism that was to have a very long life – turned attention away from

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the Ricardian-Lewis model of surplus labour being absorbed gradually into the “formal sector” in which statutory protective regulations and social security could operate.

The other set of developments concerned what has become subsumed in aspects of globalisation. Mass unemployment – and a lot of long-term unemployment lasting for a year or more – returned to industrialized countries, while more flexible and informal labour markets meant that full-time, regular and stable wage labour ceased to be the overwhelming norm. More importantly, policymakers could no longer comfort themselves with the image that stable full-time labour was the norm, or in the case of developing countries was *becoming* the norm. At the same time, a revolution in economics destroyed the comforting notion that the closed economy system underlying Keynesianism and the extension of welfare state capitalism meant that macro-economic policy could and would maintain Full Employment. Henceforth, unemployment was attributed largely to the behaviour and expectations of workers and employers. In a crude sense, the new orthodox economics regards unemployment as largely ‘voluntary’, due to behavioural and institutional rigidities. This has profoundly altered policy attitudes *and* the statistical measurement of unemployment.

In this context, we have to ask what makes unemployment so special. As commonly defined, unemployment is a *condition* (being without work), a *desire* (for work), a *need* (income from work), and an *activity* (seeking work). If someone satisfies one of these criteria without the others, he is unlikely to be classified as unemployed in the standard sense of the term. Yet defining or measuring any of them is notoriously difficult. A woman in a village without any income-earning activity will spend her days doing something we would normally call work. I may do some gardening or read economics, so have work. But I may also be seeking a job, without wanting to have one, merely needing the income. It is easy to think of a range of combinations of the four criteria where one or more of them are not satisfied. Should only those who satisfy all four be called unemployed and become the focus of public policy?

This leads to another awkward question that has come to prominence since the 1980s. Why focus on providing income security for the unemployed in particular? The standard answer stems from the model of *social security*, which emerged in industrial societies to suit industrial societies. This is seen as a system for providing income security to deal with the contingency risks of life – “sickness, maternity, employment injury, unemployment, invalidity, old age and death; the provision of medical care, and the provision of subsidies for families with children”.¹ In other words, unemployment is a *contingency risk*, for which *insurance* cover should be provided to give social security for those who labour. But is not the person in chronic (or even temporary) “under-employment” just as “deserving” of income security? Why should we give income support to someone with zero hours of work last week and not to someone who did two hours?

Of course, these questions have been answered pragmatically to some extent over the years, and the answers have been incorporated in the design and refinement of poverty-ameliorating schemes and income supplements for the working poor. Yet they have not been answered fully or adequately. Perhaps the biggest question of all at the beginning of the 21st century is:

¹ ILO, *Into the Twenty-First Century: The Development of Social Security* (Geneva, ILO, 1984), p.3.

Could and should the insurance approach to income security be sustained in the light of economic, labour market and social policy developments?

With good reason, most people regard unemployment as a negative experience, with adverse consequences for income, status, morale and “social integration”. However, there is a view that unemployment should not be seen in this light, or at least not just in that way. It *can* or *could* be a period of ‘investment’, a source of regeneration or re-energising, a useful passage in life for reflection and redirection. For some people – and it does not have to be anything like the majority for the point to be valid – it can be a positive experience.

Is it socially just to give someone in that position an income while not giving it to a person working 30 hours a week down a sewage plant or high on a construction site? The trouble with posing such philosophical questions is that they lead to very familiar normative dilemmas. For many analysts, they lead to words like “deserving” and “involuntary”. Public transfers, it is said, should be given only to those who conform to all four of the criteria used to define unemployment and only if they behave in socially responsible ways, became unemployed involuntarily and show in various ways that they are among the deserving poor rather than the “undeserving”. The cry is that “there are no rights without responsibilities”.

Others – critics from diverse philosophical traditions – feel uncomfortable with this reasoning. Who can know what is best for someone else? Who can justify paternalism as the guiding principle of social policy? Local bureaucrats and tightly defined rules to weed out the nominally undeserving and voluntarily unemployed are likely to result in many type A and type B errors – excluding many of those who should be included, and including many who should be excluded, at least by the rules. Arbitrary, discretionary, inequitable and inefficient outcomes can be assured.

In that context, the issue can lead in one of two directions. It can lead in the direction of workfare (offering income-earning jobs to those prepared to accept them, refusing income to those who do not). Or it can lead to a delinking of income security from labour force behaviour altogether. One might try to combine these two approaches, stopping half way in each case – not too much stick, just enough carrot. But both lead away from the main approach that shaped the growth of welfare state capitalism in the middle decades of the 20th century.

2. Unemployment and Income Security

Before considering policies that have been used to provide income security for the unemployed, it may be useful to consider the following disaggregation of what elsewhere is called the individual’s *social income*. Anybody must receive some income in some form in order to survive. This may take one or more of five forms. Expressed as a simple identity, social income can be expressed as follows:

$$SI = W + CB + EB + SB + PB$$

where SI is the individual’s total social income, W is the money wage or income received work, CB is the value of benefits or support provided by the family, kin or the local community, EB is the amount of benefits provided by the enterprise in which the person might be working, SB is the value of state benefits provided, in terms of insurance benefits or other transfers, including subsidies paid to workers or through

firms to them, and PB is private income benefits, gained through investment, including private social protection.

We can disaggregate the elements as follows:

$$SI = (W_b + W_f) + (FT + LT) + (NWB + IB) + (C + IS + D) + PB$$

where W_b is the base or fixed wage, W_f is the flexible part of the wage (bonuses, etc.), FT are family transfers, LT are local community transfers, including any income from charity, non-governmental organisations, etc., NWB are non-wage benefits provided by firms to their workers, IB are contingency, insurance-type benefits provided by firms to their workers, C are universal state benefits (citizenship rights), IS are insurance-based income transfers from the state in case of contingency needs, and D are discretionary, means-tested transfers from the state.²

For someone who becomes unemployed, social income could consist of the following:

$$SI = EB (SP) + SB (UI + UA + D) + PB (S + PI) + CB$$

where SP is severance pay, UI is unemployment insurance benefits, UA is unemployment assistance (means-tested), S is savings, and PI is private insurance.

In a stylised way, one can see that the poor (including most people in developing countries) usually have to depend on at most three of those sources – discretionary benefits, means-tested assistance and community transfers.³ By contrast, a middle-income worker may be able to rely on enterprise benefits in the form of severance pay (a lump sum paid on being made redundant) plus unemployment insurance benefits and private transfers. Higher up the scale, a person becoming unemployed is likely to rely on purely private means under his or her control. Thus, one can see that those near the bottom of society rely much more on precarious *forms* of income support, as well as have lower amounts.

3. Policy Frameworks for Unemployment

There are three main models of social protection for responding to unemployment. The first, and long the dominant way of thinking, has been called the *social solidarity paradigm*. Underlying this model, unemployment is viewed as a contingency risk that we all share, to different degrees. Because of market failure in which those with a low probability of unemployment will not voluntarily take out insurance cover that reflects the average, higher probability, and because the disadvantaged could not pay for the higher insurance rates that they would have to pay if they did so individually, the state must require compulsory insurance in which the risks are pooled, enabling the state to be able to afford to compensate those who have the misfortune to become unemployed.

Beyond that, probabilities come into play all through the system, so that some of those who become unemployed drift into a chronic condition of long-term, anomic idleness, so that unemployment is also a major means by which individuals and

² A source of income not highlighted in this decomposition is income from the sale of goods and services. These are included in W , and effectively in the flexible part of W .

³ Where there are social funds or micro-insurance schemes, they could have elements of private insurance, community transfers and means-tested benefits.

groups suffer “social exclusion”, being cut off from normal society and adopting deviant behaviour as “outsiders”. Adherents of this paradigm believe these need to be socially integrated, and that the state has a duty to help them to achieve “moral integration”. A variant of this paradigm is that private rather than public agencies should assume responsibility for this integration.

A second approach might be called the *contractual exchange paradigm*. According to this, as long as due process and legal property rights are assured and equal, inequality of economic and social outcomes are acceptable, merely reflecting social differentiation and the division of labour. The appropriate way to achieve social integration and overcome social exclusion is to ensure fair contractual exchange based on individual property rights and to prevent discriminatory barriers to social and economic mobility.

A third approach might be called the *citizenship rights paradigm*. This sees group monopolies as restricting access by “outsiders” and protecting good opportunities for “insiders”. Socio-economic stratification and labour market segmentation are seen as the primary sources of social exclusion. In this model, citizenship rights are seen as the means of overcoming stratification and detachment. Unemployment is part of a continuum, and need not be regarded as a special status.

With these alternatives in mind, there are six main means of improving the economic security of the unemployed and achieving their “social integration”:

- (1) ***Unemployment insurance benefits*** – where contributions are paid, or credits provided, to earn entitlements to compensatory income, normally by the state (1a), but possibly by a private agency (1b).
- (2) ***Unemployment assistance*** – means-tested and/or asset-tested assistance.
- (3) ***Labour market policy*** – state-provided combination of training and/or jobs coupled with income transfers, for both participants and others. This includes “public works” and emergency employment schemes.
- (4) ***Workfare*** – the more usual variant of (3), in which the unemployed are obliged to take a training course or a job provided or subsidized by the state, in return for an income transfer.
- (5) ***Employment or wage transfers*** – a sum or money or tax credit paid either to the worker on being hired or, more typically, to the firm hiring the unemployed. These include so-called “in-work” benefits intended to “make work pay”.
- (6) ***Citizenship income grants*** – an unconditional basic income paid as a citizenship right to all, including the unemployed.

Of course, there are variants of all six of these policies, and there are some ingenious schemes that have been proposed that combine elements of two or more of them.⁴ Nevertheless, if one thinks of the three paradigms and the six possible types of approach, then one can characterize the mixes of policy that one could anticipate from the political philosophies that look likely to compete for dominance in the first decade of the 21st century:

⁴ We will consider later the wider notion of employment insurance benefits, designed to give protection against fluctuations in income whether the person is employed or not.

Political line	Primary Paradigm	Policy Preferences
1. Social democracy	Social solidarity	1a + 2 + 5
2. Libertarianism	Contractual exchange	1b + 2
3. “Compassionate conservatism”	Contractual exchange (+ social solidarity)	1b + 2 + 4 + 5
4. “Third Wayism”	Social solidarity (+ contractual exchange)	1a + 2 + 4 + 5
5. Economic democracy	Citizenship rights	6 + 3 + 1(a, b)

To the casual observer, there may not appear to be much difference between these six approaches. To highlight the fundamental differences stemming from the philosophical/political stance, the primary policy in each case is shown in bold. One may hypothesise that at least in the near future international discussion will be dominated by debate between advocates of “compassionate conservatism” and adherents of Third Wayism – or whatever each ends up being called.⁵ Each relies on unemployment insurance and assistance benefits, backed by variants of workfare and employment and wage subsidies.

With this at the back of our minds, let us consider the standard approach to the provision of income security for the unemployed – insurance benefits.

4. Unemployment Insurance Benefits

For most of the 20th century, there were two main means by which the unemployed were provided with some income security – unemployment insurance benefits (UI) and unemployment assistance (UA). With a few exceptions, in most countries the latter were seen as a residual, a means-tested system, with benefits determined by financial need. Most industrialized countries presented an image of reliance on insurance benefits, supposedly provided as an entitlement acquired as a result of the payment of contributions by employers and/or the workers themselves.

A third means by which the unemployed acquired some income security was through transfers from family, kinship or the community. Throughout history this has always been the main source of support, and has continued to be the main – and usually only – source in developing countries. In terms of the concept of *social income*, they are a mix of community benefits (CB) and private transfers (PB). According to the welfare state model of development, they were expected to decline in significance with ‘development’.

The fact is that at least since the mid-1970s the expected trend towards insurance benefits has gone sharply into reverse. So much so, that it is a misnomer to call almost any existing unemployment benefit system an “insurance” system. Have we seen the end of unemployment insurance?

⁵ Defining the political lines need not concern us here. The point is that particular political groups are likely to favour different combinations of policies for reasons that do not relate just to efficiency or effectiveness in providing income security.

Potentially, unemployment insurance benefits have at least eight functions, and a major drawback of them is precisely that because they are expected to fulfil several roles, some of which are in contradiction with others, they have been susceptible to political manipulation and endless tinkering. Rare is the Minister of Labour or Social Affairs who leaves the system as he or she found it.

Like most forms of ‘social protection’, their design has been motivated by conflicting notions of social protection. The most conventional line is that they are intended to be *compensatory*, that is, covering for the contingency risk of job loss. Another line is that such benefits fulfil a *social solidarity* function, redistributing income to those who are unfortunate enough to be losers in a dynamic economy. Another is that they help to achieve macro-economic stabilisation. This role as a Keynesian stabiliser has gone out of fashion, but it is still sometimes mentioned. The essential point is that by providing income to those who have lost their earnings, such benefits prevent a decline in aggregate demand. A non-Keynesian might see that as a disadvantage in that it prevents unemployment being a macro-economic stabiliser through curbing inflationary pressure.

Another line is that unemployment benefits have a *labour mobility* function, making workers less resistant to losing or leaving their jobs, and encouraging and facilitating the rational movement between jobs and local labour markets, making employers less reluctant to declare workers redundant if their job is not justified economically, and giving workers some income security in which to search for suitable work. A related argument is that they have an *income floor* function, giving income to ensure that there is a strict limit to “downward risk”.

Another is that they help individuals smooth their life-cycle consumption and savings patterns – a perceived effect rather than a deliberate objective. A seventh objective, which has become increasingly significant, is to provide incentives to labour, and in particular to do so in the legitimate, economic mainstream from which taxation and social contributions can be collected.

Finally, they also have a *labour regulation* function, being concerned about strengthening the *incentive* to labour in jobs and penalizing the slothful. Unemployment benefits have always had this double character – a means of providing social protection and a mechanism of labour regulation. It is this that has allowed politicians to tinker with them with endless sophistry. Numerous generations of politicians have had a veiled tendency to divide those out of work into the ‘deserving’ and the ‘undeserving’. In every age, the fear of ‘the scrounger’ has been brought into public debates on what the state should do. This underpinned the 1834 Poor Law in Great Britain, which specified that the deserving destitute could be identified by their willingness to perform unattractive labour, in what came to be known as the “workhouse”. These were to be provided with survival assistance. This punitive approach has never been far away from reformers’ minds. Thus, when unemployment insurance was introduced in Britain in 1911, two conditions were applied, ostensibly to safeguard against abuse and to legitimise the benefits – the unemployed had to be “available for work” and were not to have left their jobs “without good cause”. These conditions have dogged unemployment benefits ever since.

Political and social considerations have influenced the directions taken. Entitlement conditions have been particularly erratic. For instance, in Britain, the requirement that a certain number of insurance contributions had to have been paid for entitlement was relaxed after 1918, because it was politically impossible to leave the millions of ex-soldiers and others who had worked in the war merely dependent on

inadequate poor relief. Then, with high unemployment in 1921, the condition was inserted that a person had to be “genuinely seeking whole-time employment”, and in 1924 the condition was added that the person had to be “making all reasonable efforts to secure employment”. After six years of social suffering associated with the arbitrary application of these rules, the work-seeking test was removed. For some time, entitlement conditions were relaxed, and this continued in the post-1945 period.

In that era of statutory regulation, unemployment benefit systems spread around the world, although in most developing countries they were regarded – quite rightly – as impractical. In state socialism countries, they were regarded as unnecessary, since unemployment was ruled out, leaving the unemployed to be described as “parasitic”. In welfare state countries, Full Employment was presumed to be the permanent state of things. Benefits were needed only to cover “temporary interruptions of earnings power”. They could be paid from social insurance contributions, leaving only a small minority of unfortunates to be assisted by social assistance of some kind.

Then the rollback started. From the 1980s onwards one can detect a strong trend towards meaner and leaner systems. This was well under way when the state socialism countries began their rush to introduce benefit schemes, beginning with Hungary in 1986, most others after 1990. The trouble was that they were doing so when the type of system they were introducing was under strain almost everywhere.

The reasons were partly a reflection of the economic circumstances, partly a result of labour market changes and partly ideological. Whereas Keynesians, who dominated thinking from the late 1930s until the mid-1970s, attributed unemployment to a deficiency of aggregate demand, and thus the responsibility of the state, the supply-side economics revolution of the 1970s and 1980s attributed unemployment to a combination of the *behaviour* of job-seekers and firms, the impact of *regulations* and *institutions* (rigidities), and the character of *social protection* schemes (distortions). The subsequent persistence of high levels of unemployment and the spread of substantial long-term unemployment gave credence to those who claimed that much of that was *voluntary*. Even though there was no evidence that this was the case, there was a clamour to reduce “the generosity of unemployment benefits” and to tighten the conditions for entitlement. There was a logical contradiction in believing two positions simultaneously – that unemployment was a contingency risk, to be covered by an insurance scheme, and that unemployment was at root voluntary.

The clamour to reduce benefits was accentuated by the perception that there was a fiscal crisis. This reflected the economic orthodoxy, which stated that public deficits should be cut and that public expenditure should not only be cut but be shifted to so-called ‘human capital’ policies. Part of this meant legitimization of the euphemism of “active labour market policies” rather than “passive” policies, which were taken to include unemployment benefits.

The quiet onslaught on UI systems has been relentless. To appreciate what has been happening, consider the main options. An unemployment benefit scheme could be purely insurance-based – you pay according to how much you think you can afford and how much you want to receive. The obvious problems with such a system are:

- (i) Who should pay? Should it be the employer, whose actions could be deemed to determine the probability of the person becoming unemployed, the government, whose macro-economic policies could be said to influence the probability as well, or the individual worker, who bears the risk of becoming unemployed?

- (ii) How can a scheme designed to provide income security prevent the moral hazard that since becoming unemployed results in receipt of an income there will be an incentive to become or remain unemployed?

(i) *The contributions issue*

For a long time, the most common answer to the first of these questions was that the employer should pay all or most of the contributions, while the worker could receive only a proportion of the income he would lose from losing employment and be constrained by conditions of entitlement that block the moral hazard, i.e., prevent the person from becoming or remaining voluntarily unemployed. In practice, this mix has proved extremely hard to translate into an efficient and equitable system.

Consider the funding options, and in particular the question of who should pay the *contributions*. It could be the employers, the workers or the government, or some combination of all three. If the employer pays the whole amount, then as long as unemployment is low and the claims are correspondingly small, the cost is likely to be only a small proportion of total labour costs. But if actual or anticipated unemployment is high, and if a large or growing proportion of employment is not covered (as is likely to be the case with more flexible or informal labour markets), then the contributions rate is likely to be high. This is especially likely if a high proportion of those becoming unemployed are either young workers just entering the labour market without a contributions record, or workers returning from a period outside the labour force.

Since the 1970s, unemployment has been high in most parts of the world, and a high proportion of the unemployed have not been covered by regular contributions. Because of more intense competitive pressures for international trade and investment, and the increased demand for transfers due to high unemployment and a higher incidence of poverty, all of which have tended to force up contribution rates, economists, employers and numerous commentators have bemoaned high “non-wage labour costs” represented, in part, by social insurance contributions. The claim is that those limit employment, and that high non-wage labour costs drive more of the employment into the illegal or grey zone. This is one reason for a shift that has taken place around the world, in which workers themselves have paid a growing share of total contributions while a growing share of funding has come from general taxation.

The fiction of an insurance system has become more clearly transparent. Of course, the political desire to cut taxes has meant that there have been strong attempts to make employers and workers bear the main contributions. But here there is what might be called an *immoral hazard*. If the combined contribution rate is high, the worker and employer each have an incentive to avoid or evade payment and split the difference, especially if they think there is a low probability of needing or expecting to receive an unemployment benefit, or if they could allocate the money to a private insurance scheme or simply to savings. And as workers value certain income in the short-term more than the possible income at some future unknown time, they are likely to opt for the private arrangement. Doing so could leave them extremely exposed to income insecurity, dependent on social assistance or some discretionary

benefit. Low-income earners are the most likely to fall into this trap, since they are the least likely to be able to take a long-term approach to economic planning.⁶

(ii) *The incentive issue*

Unemployment benefits are expected to fulfil the potentially conflicting objectives of providing income security and providing incentive to look for and take income-earning activity. The extent of income security reflects entitlement and access to benefits, their duration and the *income replacement rate* – all of which are hard to estimate in advance and are rarely known or understood by anybody prior to unemployment. What principle of income security should they seek to follow?

The basis could be either a *flat-rate* or an *earnings-related, or contributions-related*, scheme. The latter has the appeal of financial equity. But it jeopardizes the social solidarity principle, since it reproduces inequalities in employment. A flat-rate system in its extreme form would provide a given level of benefit regardless of past income or amount or number of contributions. But what should determine that level? This has generated endless debate. The administrative-economic difficulty has been to find a level, or set of levels, that provide adequate income security for the unemployed coupled with reasonable incentive to find or accept available jobs.

In practice, just as most systems have become mixed in terms of contributions, so most have become mixes of flat-rate and earnings-related benefits. And the calculation of replacement rates has become complex, variable and often extremely hard to fathom. Many countries now have a range of amounts that can be received, dependent on past work experience, demographic characteristics, duration of unemployment, and so on. Thus, just to give one example, in the Netherlands the rule has been that the unemployed can receive up to 70% of previous earnings but for those who have had very low income or none at all, the minimum amount they can receive has been 70% of the statutory minimum wage.

One change has been to reduce the level of benefit over the course of the period of unemployment, as a means of influencing behaviour and as a deterrent to ‘voluntary’ unemployment. Thus, in France in 2000 the employers and trade unions have been discussing the idea of paying a higher benefit at the beginning of a spell of unemployment, reducing the amount as the period lengthens. The rationale is that the prospect of a cut would discourage the unemployed from prolonging their unemployment. The drawback is that a tapered scheme penalizes the less competent and the socially vulnerable groups who are the most adversely affected by unemployment, and is thus regressive. It is a form of selectivity, and it would be hard to administer equitably.

A preoccupation among policymakers and analysts has been the famous *unemployment trap*, whereby somebody taking a job finds that they lose almost as much income in lost benefits, or possibly as much or more, as they gain from the job in terms of earnings. This tendency has been compounded by the existence of wage supplements for duration in employment paid in many firms and organizations. Commonly a new job pays significantly less than the job the person left, so that if the replacement rate is linked to past earnings, the individual may face what is in effect a marginal income tax rate of close to 100%.

⁶ This is precisely what happens, according to surveys of people’s attitudes and behaviour. For a nice study, see K. Rowlingson, *A balancing act: surviving the risk society* (Derby, University of Derby, 1999).

Besides being unfair and contrary to the intentions of workers or policymakers, this encourages *immoral hazards*. The unemployed person has a strong incentive to take a job without declaring it, which an employer might be content to allow because he does not pay contributions and does not run into regulatory constraints.

While the incentive issues have been widely discussed, in practice, many governments have taken the easy option of cutting replacement rates, or have tried to do so by reducing the maximum amount or duration of benefits. In doing so, they have gradually converted unemployment benefit systems into regulatory and paternalistic policy. To appreciate this, it is worth reflecting on the three sets of pressures that have eroded the original premises of unemployment benefits – fiscal, moral and legitimation. All three have lessons for any country contemplating the introduction of insurance-style unemployment benefits.

(iii) The three crises of unemployment benefits

In the 1980s and 1990s, in industrialized countries social policy was shaped by a widely-perceived *fiscal crisis*. Politicians and economists suddenly found – or claimed to believe – that they could not afford to do things they had been doing. The sense of crisis was mainly the outcome of mass unemployment, the new poverty, and more flexible and informal labour, which were associated with a decline in contributions and a rise in the demand for benefits. The squeeze induced pressure to cut the level and duration of benefits, raise contribution rates and tighten conditions for entitlement. The new economic orthodoxy added pressure to this by arguing that tighter fiscal policy would control inflation and boost economic growth.

A *moral crisis* has been slower to emerge. It has been building up, and may dominate public debate over the next decade. It stems from labour market developments and from the responses that have been taken by social scientists and a host of new-style politicians on the left and right of the political spectrum. Unemployment benefits were built up for labour markets consisting overwhelmingly of full-time, reasonably well-paid workers, with only a tiny proportion of them needing such benefits while ‘frictionally unemployed’. Because it was presumed that the unemployment would be short, that average earnings were rising, and that those losing jobs would be able to obtain others that would pay about the same, the benefits provided income replacement rates that were reasonably adequate and did not have strong disincentive effects to take jobs. Long before the end of the century, none of those presumptions were justifiable.

With higher unemployment in the 1980s, in most countries the average duration of unemployment increased, the number (if not the proportion) of long-term unemployed grew, more of the unemployed had no employment history or at least not a recent one, more had not built up insurance contribution records because they had been unemployed or in some flexible, or shady, form of labour, and many more had low pre-unemployment wages. As a result, more of the unemployed who managed to qualify for benefits appeared to have high replacement rates. The resultant moral dilemma could be expressed as follows:

Should the replacement rate be lowered to provide a greater incentive to take available jobs, at the cost of reducing the income security of the unemployed? Or should the replacement rate be maintained (or lowered only moderately) while conditions for entitlement to benefits are tightened, maintaining income security of those who qualify but risking disentiing some in need? Or should the action be elsewhere

altogether – raising entry-level wages or giving marginal wage subsidies or tax credits (or tax holidays) so as to raise the net incomes of those who enter jobs or start some own-account work?

Debates around these moral dilemmas have been hindered by the use of euphemisms and loaded language. It is surely inappropriate for highly paid economists, commentators or officials of international financial agencies to call for a reduction in the “generosity of benefits”. If it is an insurance-based policy, it should be compensatory. If you insure a car you expect to receive the value of the car if it destroyed in an accident. If insurance companies said they were going to reduce the ‘generosity’ of repayments, you would be scandalized. And it is dubious to claim that the problem is one of “voluntary unemployment” on the presumption that they are not taking “available jobs”. It is also inappropriate, or worse, to base policy on anecdotal images of individuals not rising from bed in the morning to jump onto their bicycle in search of a career and fortune.

The debates on so-called generous benefits and voluntary unemployment have taken many turns. Some commentators have even claimed that cutting unemployment benefits would help the unemployed because it would induce pressure on employed workers to lower wages, thereby raising labour demand. This is speculative. Cutting replacement rates on an ad hoc (and non-compensatory) basis does explode the insurance principle. In the face of such actions, a person who pays contributions, or has them paid for him, does not have a known benefit to cover a known risk or one that at least can be estimated. Moreover, cutting the value of benefits risks more of the unemployed drifting into poverty.

The moral dilemmas have also been increased by reforms designed to make it harder to be “voluntarily” unemployed. In doing so, a very old euphemism has returned – the distinction between the “deserving poor” and the “undeserving”. We will come back to that later. We merely assert here that it ultimately rests on subjective and often arbitrary judgments.

One moral dilemma deserves more attention than it has received. If the unemployed believe that they are being treated reasonably and fairly, they are more likely to be ‘honest’ in their response to the system of benefits. If there is reason for *trust*, people are more likely to conform to the rules. One source of trust erosion is the arbitrary or discretionary nature of many rules, including the rule that an unemployed person can receive benefit income only if he or she is not earning anything from work. Doing a few “odd jobs” could lose all benefits. This poverty or unemployment trap is likely to seem unfair. So, the unemployed will feel morally justified in concealing earnings. Some governments have allowed for some “earnings disregard”. But that merely erodes the basis of the UI scheme. Where is the line to be drawn?

Albeit related to the moral dilemmas, a third set of dilemmas that have arisen since the 1980s constitute what can be called a *legitimation crisis*. As with many forms of public transfers, the political legitimacy of UI benefits has depended in part on the perception by enough people that they might need the benefit at some time and that they would be able to depend on it if they did. Legitimation also depends on the existence of a sense of social solidarity among a large proportion of the voting population, and it depends on whether the winners in society, those with a low probability of becoming unemployed, fear the threat of agitation or retributive violence by the losers if they do not receive some compensatory income for their misfortune.

In the past quarter of a century, evidence has accumulated to show that the probability of becoming or remaining unemployed has become increasingly far from random. People with certain characteristics – lack of qualifications, age, gender, etc. – have much higher probabilities than others. One can stretch the *median voter* thesis too far, but if people feel they themselves have a low probability of being unemployed, they are likely to vote for politicians promising to cut benefits. And if they think that even if they were to become unemployed they would have a low probability of experiencing long-term unemployment, they are likely to favour cutting the duration of benefit entitlement.

So, with more stratified social structures – the strengthening of winners-take-all, losers-lose-all society – a growing majority of the electorate will have little direct interest in the income security of the unemployed. Smugness rules. The jobless are not Us; they should take responsibility for their lives. It is unfortunate, but they should make themselves more “employable”, or the authorities should help them to do so. This is popular rhetoric at the beginning of the 21st century.

Legitimation or its absence also derives from *hegemonic images*. If the unemployed are successfully depicted as the victims of de-industrialisation, or industrial restructuring, or a recession, or the “Asian crisis” or some other external event, then it will be easy to sustain the legitimation of a scheme for giving income security. But if unemployment is systematically depicted as laziness, voluntary behaviour due to the “generosity of benefits”, then popular support by the median voters and others could trickle away. Something like this has been happening in many parts of the world, although there is no convincing evidence that unemployment is predominantly voluntary.

No doubt one could give a twist or two to these interpretations. But the fiscal, moral and legitimation pressures have induced numerous changes in the type and structures of *conditions* for entitlement to unemployment benefits. These deserve scrutiny because our judgment on their fairness or otherwise should go a long way to determine what form of policy is desirable or feasible in the flexible and informal labour markets that are spreading across the world.

(iv) *The Conditionality of Unemployment Benefit Schemes*

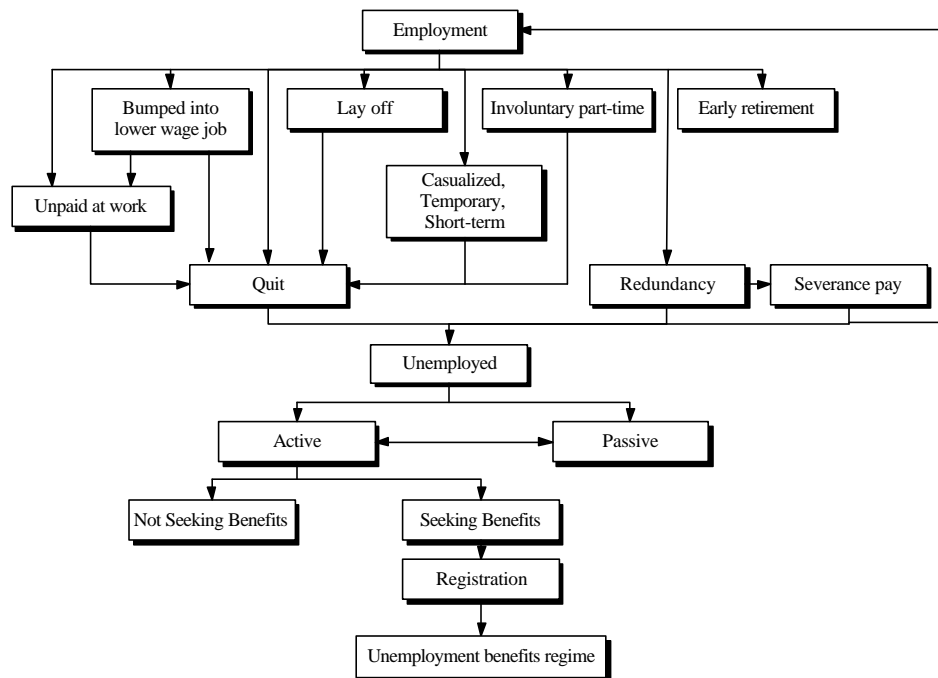
To appreciate the operation of most unemployment benefit systems that are based on Unemployment Insurance, it is instructive to consider the various steps that lead in its direction. Figure 1 shows the process by which anybody in employment could become unemployed. The process is not as simple as is commonly presumed.

For example, it is not valid to treat the act of becoming unemployed as ‘voluntary’ or ‘involuntary’. The terms ‘quit’, ‘dismissal’ and ‘made redundant’ are vaguer than they might seem. I may be employed as a legal specialist and be bumped into a job as an office cleaner. If I subsequently leave the firm in disgust or shame, would you call my departure voluntary? Or take the situation that has been widespread in eastern Europe over the past decade. If a firm stops paying wages (“wage arrears”) or tells you to stay away from the factory until required (“unpaid administrative leave”), and then after several months you quit in despair, would you regard this as a voluntary action that deserved to be penalized in any way? What about the woman who ‘quits’ because of the sexual attentions of an office colleague. To call this voluntary is a misnomer in common language, but it could easily be construed as such by an employment office. Unfortunately, the distinctions have proved remarkably important in the operation of unemployment benefit systems.

Figure 1 also shows the two behavioural responses to becoming unemployed. A person could start looking for income-earning activity immediately or could withdraw into passivity. Should the latter response be regarded as evidence of voluntary idleness? Only if one can answer with close to certainty that this would be the case could one justify disentitlement to benefits.

Finally, note that even if the person becomes active in the job-seeking sense, he or she may not *apply* for benefits, for reasons of pride, stigma, fear, ignorance or lack of interest or need. This throws up a moral dilemma that is too rarely considered: Should benefits be offered to a person even if he or she has not applied for them? One could suggest that those who do not apply cannot need benefits very much. But this is unproven. Minorities or those who have suffered most in their dealings with officials are among those who may not apply, from fear or from ignorance. Women may be less likely to apply, but there is no reason to presume that they do not need the income as much as men do.

Figure 1: From Labour Surplus to Labour Market Marginalisation



Now consider Figure 2. This is an attempt to display the process by which, once unemployed, a person could attempt to obtain unemployment benefits. Every element displayed in the Figure comes into every benefit system, even though in many cases the designers of the system may not have made a conscious decision on every element. The process is well known, although rarely considered systematically.

The basic point is that any individual becoming unemployed faces a series of obstacles to the acquisition of benefits. In the early schemes, the conditions were relatively few. This is certainly no longer the case. The upper half of Figure 2 refers to the initial application for benefits. The person has to sum up the energy and courage to go to an office to register, no easy task in many countries, especially in a large one with limited and costly public transport. Once there, he or she in effect has to pass a series of tests by satisfying prescribed conditions for entitlement. They are not in any particular order, so Figure should be regarded as merely illustrative of the process.

However, there are certain conditions that are much more rigid and standard than others. Consider the tests in turn.

(v) *Age test*

First of all, they have to satisfy the *age test*. The usual rationale is that a person has to be within a certain age range to qualify for benefits. This is always going to be subjective and even arbitrary to some extent. To massage down the unemployment claims and even the recorded unemployment, some governments have lowered the upper age for entitlement and/or raised the initial age, and many responded to the high unemployment in the 1980s and 1990s by putting older workers into early retirement or disability status.

(vi) *Employment record test*

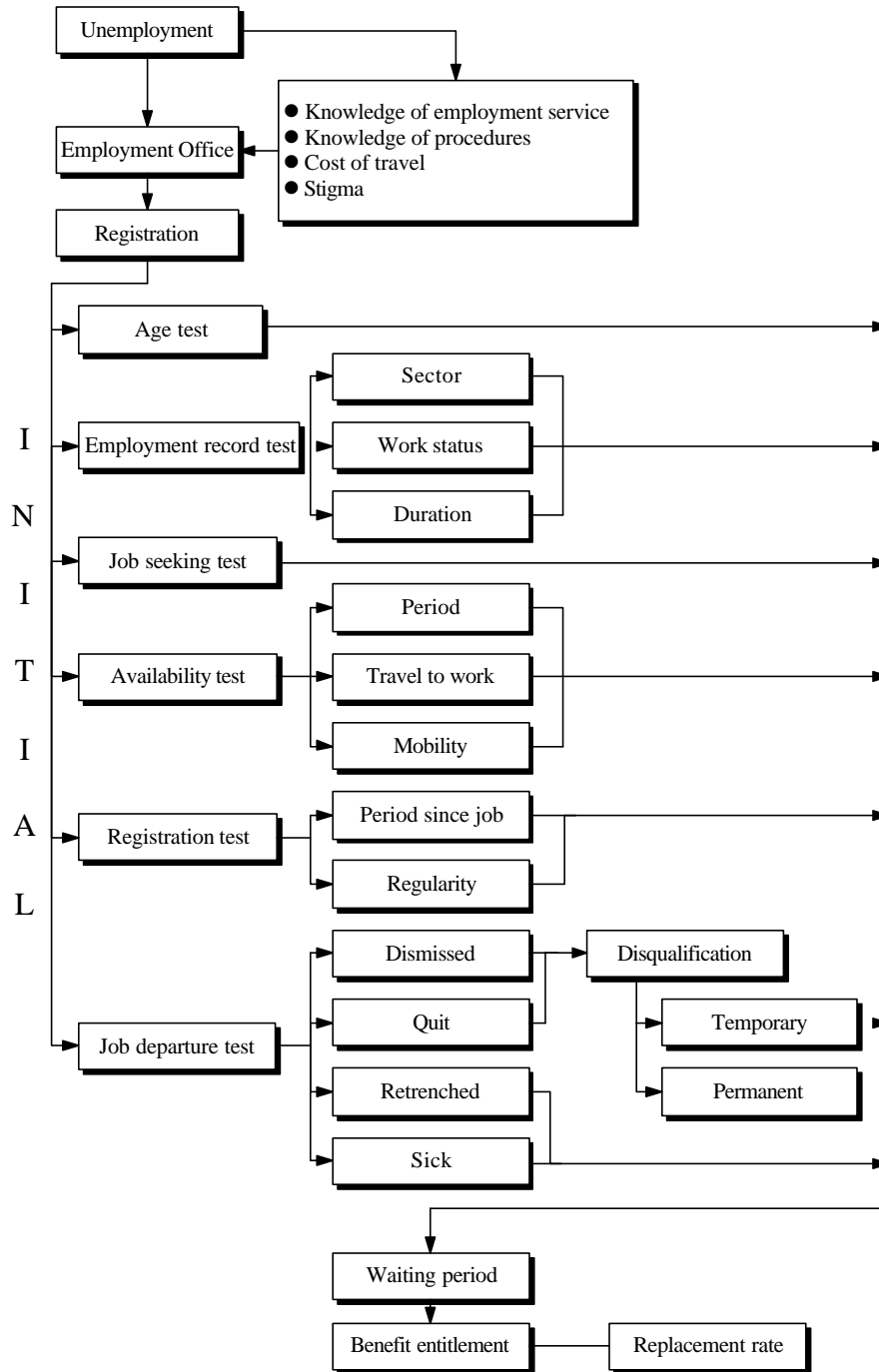
Presuming the unemployed pass the age test, they usually have to pass some *employment record test*. This means that they must prove they have paid insurance contributions for so many months or years over a recent period, or have had them paid for them. Increasing the required length of employment record and shortening the period in which the required number of contributions must have been paid have been ways of eroding entitlement. In some countries, employment in certain statuses does not count, and in some youths are excluded from entitlement simply because they do not have any employment record. There is no standard rule, and no rule would be any more socially just than another.

Some countries have excluded certain types of economic activity from building up entitlement to benefits. Those who have been *self-employed* are sometimes deemed to have not built up an employment record. This has been the case in Ireland, Portugal and Spain among EU member countries. In most eastern European countries, the self-employed have been excluded from entitlement. And it has also been the practice in some developing countries that have introduced UI schemes, such as Algeria, Argentina, South Africa and Tunisia.

The rationale may be that it is hard to determine when someone is doing the work classified as self-employment, and it is difficult or impractical to collect contributions. However, there is no equitable argument for excluding the self-employed from entitlement to unemployment benefits. And in developing countries such a rule would effectively mean that the UI scheme could only apply to a privileged minority of workers. It would not be a source of social solidarity because most of the non-beneficiaries would be more impoverished than the beneficiaries.

Whatever the pragmatic fiscal reasons for any employment or contributions record test, application is likely to be arbitrary. Many anomalies are likely. Suppose the rule is that the person must have been employed for six of the last twelve months in order to qualify. This would mean that someone who worked part-time for six months would qualify, whereas someone who worked full-time for five months would not. Such a rule would be inequitable. Yet this is what happens. Given the growing flexibility and informalisation of economic activity, this sort of rule may have been responsible for an increasing number of unemployed being disentitled to benefits.

Figure 2: Entering the Unemployment Benefits Regime



The employment continuity requirements in western Europe have varied considerably.⁷ But the differences are small compared with the diversity of rules that have been introduced in central and eastern Europe, often steered by foreign advisers seemingly more keen to control fiscal commitments than with providing adequate state transfers for the unemployed. In Bulgaria, the person must have been employed

⁷ J.Rubery and D.Grimshaw, "Workforce heterogeneity and unemployment benefits: The need for policy reassessment in the European Union", *Journal of European Social Policy*, Vol.7, No.4, November 1997, pp.291-315.

for at least six of the past twelve months; in the Czech and Slovak Republics, it has been at least twelve in the past three years. So someone in Bulgaria employed for seven months in the past year would receive benefits while someone in the Czech Republic who worked for just as long would not. In some countries, the amount of benefit has depended on the duration of past employment. In Latvia, entitlement to full benefit has only been achieved if the person has paid the social tax (associated with employment) for at least five years. And in Azerbaijan, full entitlement has required proof of employment for at least ten years.

No employment record rule is demonstrably fairer than any other, and any rule introduces inter-personal inequity. What is apparent is that there has been a tendency to increase the required duration of past employment and to shorten the period in which the selected number of months of employment must have been worked. These two trends tend to result in greater *explicit disentanglement*.

In some countries, the past employment or contributions record test has been applied on the basis of a formula linking duration of contributions to level or duration of benefits. This has been adopted in developing countries. For instance, in Argentina the benefit can be received for four months if the employer had made contributions for the person during the year before the start of unemployment, and can be received for twelve months if the contributions had been made for the past three years. In other countries, there have been variants of this rule.

Less noticed by commentators is that during the 1990s the employment record test tended to become more differentiated, with special rules for the self-employed, part-time workers, youths and so on. This trend may reflect a growing perception of diversity of labour force patterns, but it also makes the rules increasingly arbitrary.

The insurance contribution principle may be reasonable if everybody who has a job is in regular employment and there is something like Full Employment. But there is nothing particularly just about a rule that says, for instance, that if you have been employed for eleven months and lose your job, you should not receive benefits, whereas if you are in a job for twelve months you should receive them. If I insure my car and I am hit in an accident that is not my fault, it would be a useless insurance if I only had coverage after twelve months of driving and paying.

(vii) *Job departure test*

The next barrier is the *job departure test*. In many countries, those who 'quit' employment or who are dismissed for disciplinary reasons (whether proven or not) can be disqualified from entitlement to benefits, either for an initial period or for the entire time in which they are unemployed. The usual justification for this condition is that it discourages frivolous job leaving. In practice, it impedes labour mobility. One might even describe it as a version of workfare, in that the threat of disentanglement may force workers to stay in jobs that have inadequate wages or working conditions.

The job departure condition too has been tightened, dramatically so in the UK in the 1980s. A person deemed by local employment service officials to have left a job without good cause was initially disqualified from receiving benefits for six weeks. This was first lengthened to thirteen weeks, and then to 26 weeks. Such changes can have impressive effects on the official unemployment rate. The practice in the USA is even more drastic. Most US states have disqualified all those who quit their job 'without just cause' for the entire period of their unemployment. In other countries the rule has varied widely; in Germany, someone has been disqualified for twelve weeks, in others the period has remained short.

Whatever the specific rule, the job departure test is inequitable. It introduces arbitrary decisions and leaves too much to the personal discretion of local employment service officials. The distinction between quitting and other forms of departure from employment is often very hazy. Personal interpretation usually comes into play, as in the case of the ending of a fixed-term or temporary contract. Subjective dilemmas are awkward. Many workers do not like to admit that they were pushed out because they were not wanted. It is easier to say “I left” rather than “I was pushed out”. Yet a little white lie in one direction could result in disentitlement, whereas a little one in the other could gain them a benefit.

The job-departure test has been a particularly severe source of income insecurity in eastern Europe. In countries such as Russia and Ukraine, millions of workers have been placed on administrative leave, without pay or with merely a token payment.⁸ If they quit their non-paying jobs in despair they not only lost entitlement to severance pay but also lost entitlement to unemployment benefits. So, millions of eastern Europeans have been in the absurd situation of being trapped in a nether region between employment and unemployment – counted as employed but in reality unemployed, without any source of income security.

That may seem extreme and reflect a ‘transition’ phase. However, in flexible labour markets everywhere, the job departure test could only be applied on a discretionary basis. And once disqualified, a person would surely be less inclined to return to face the process of seeking entitlement. The irony is that policymakers typically argue that labour mobility is essential for dynamic efficiency, but at the same time permit rules that penalize voluntary action to put that into effect.

There is also likely to be a *waiting period* before an applicant can receive an unemployment benefit. This could be a week or more. Where it involves a return visit to the employment office, with the queuing and re-interview, the stigma, discomfort and cost are all likely to deter a few timid people from the process. In any case, the wait means that for a proportion of the time in unemployment there is no benefit.

(viii) *Job-seeking test*

The second round of disentitlements starts with the *job-seeking test*. This is usually regarded as reasonable, and it is common that the person must search ‘actively’ for a job in the past week or two weeks. Where applied, this may cause problems of interpretation. There is not much point in searching for jobs when there are none available. There is also scope for bureaucratic discretion. The rule may allow abuse, allowing officials to intrude into the private lives of claimants. There have been instances when governments have tightened the rules or the application of them, demanding proof or questioning the motives and veracity of claimants who are already sure to be feeling insecure.

In the UK, the job-seeking test was a source of suffering and bitterness in the 1920s, which led to a prolonged distaste for the condition. However, it was reinstated under the *Social Security Act* of 1989, which once more placed the onus of proof of active job seeking on the unemployed, strengthening the discretionary power of local officials. It is widely believed to have chipped away at the number of claimants and recipients of unemployment benefits, and the condition was applied with increasing

⁸ In Ukraine in 1999-2000, about one in five industrial workers was on unpaid leave or expected to turn up to their jobs without receiving wages. G.Standing and L.Zsoldos, “Worker insecurities in Ukraine” (Geneva, ILO, May 2000). We have also found such practices to be very extensive in Russia and several other eastern European countries.

rigour and vigour, with checks and interviews becoming the norm. The regulatory nature of the so-called unemployment insurance benefits became more transparent. Other countries also tightened this condition during the latter part of the 20th century, with Australia leading the way with “activity agreements” and Job Search Allowances, which replaced unemployment benefits in 1991.

The job-seeking test makes it a strange use of words to describe unemployment benefits as “passive” policy. They are regulatory, and have become increasingly so. The test may seem reasonable because it could identify those who are not unemployed, perhaps justifying the extra expenditure on identifying fraudulent or ‘undeserving’ claimants. It may help legitimize unemployment benefits among the voting public. It is unclear whether the saving covers the cost of the policing. The checks are supposed to overcome the moral hazard entailed in an insurance benefit that implicitly subsidises someone who becomes unemployed. But there is a moral hazard of sorts for officials operating the scheme. Is not the test, and the fear of having officials snooping into their lives, likely to lead some unemployed, in a vulnerable stage of their lives, to withdraw a claim, even if fully entitled to it?

(ix) *Available-for-work test*

The next step is the *available-for-work test*. In most cases, there is a rule that the unemployed person must be available to take a job at short notice, which may be as short as 24 hours or may be a week or longer. The shorter the specified period, the more likely that it will be a source of disenfranchisement. The person may also have to give a commitment to be prepared to travel to take a job or even to move to another area to do so. There has been some tightening of such conditions in some countries.

However defined, the availability condition always risks being arbitrary in application. In the UK, the rule was tightened steadily in the 1980s, particularly in 1988, when the unemployed claimant was required to fill in a form with 18 questions. Any wrong answers resulted in a suspension of entitlement to benefits. If the Department of Employment subsequently supported the suspension, the person was declared unavailable for work and thus ineligible for benefits. The intentions were clear, as shown by a Departmental Circular sent to benefit managers around the country:

“A claimant must be able to accept at once (or at 24 hours notice in certain specified circumstances) any opportunity of suitable employment. This also means not just being ready to take a job, but taking active steps to draw attention to their availability for work. A claimant must not place restrictions on the nature and conditions (such as pay, hours of work, locality, etc.) they are prepared to accept which would prevent them from having reasonable prospects of getting work.”

How academics, commentators, bureaucrats or politicians can continue to make a distinction between so-called ‘active’ and ‘passive’ policy in the light of rules such as this is a testament to the power of euphemisms. This is a prescription for behavioural control through insecurity. It gives discretionary powers to local officials. The rules were tightened even though evidence collected after the availability-for-work rules were tightened in the mid-1980s through “Restart” interviews, which showed that two thirds of those suspended from entitlement were subsequently found to have been wrongly barred. But one does not need to cast doubt on motives. The rule is too subjective for comfort.

(x) *Job refusal test*

Related to it is the *job refusal test*. The common rule is that a benefit recipient must accept a job if offered by an employer or through the employment exchange. In some countries, a person is allowed to decline one job offer but not more, in others they are obliged to accept the first offer. In some, the person can decline a job below the skill level of his or her past job, in others they must accept almost any job. This is the problem. Who decides, and on what basis should such a decision be made? The rule invites bureaucratic and paternalistic intrusiveness, and presumes that some local official knows better than the job-seeker what is best for him or her. It is hardly the norm that local officials are highly trained and experienced enough to be able to define what is “suitable” for an individual that they meet for the first time over a counter.

The intrusiveness and arbitrariness of this rule are likely to be particularly acute if employment exchanges are under pressure to demonstrate efficiency by demonstrating high and rising “placement rates”. This has become a common tendency.

The job refusal test has been tightened in many countries in recent years. In many, refusing even one job results in disqualification, and in some even refusing a job requiring fewer qualifications than possessed by the person or paying a wage lower than the person’s last wage can do so. In the UK, in which the job-refusal test has long been used, the 1989 *Social Security Act* stipulated that most unemployed, after a short period, were no longer entitled to refuse a job on the grounds that the wage was low. In Australia, entitlement rules were amended to require the unemployed to accept even a temporary job if offered. Such moves would seem to encourage labour casualisation and could even undermine the person’s subsequent entitlements to benefits if employment continuity or duration rules apply.

(xi) *Training refusal test*

A variant of the rule is what might be called a *training refusal test*. Again, this is part of the paternalistic approach. With governments favouring “active” over “passive” policy, the rule may be that a person refusing a training place offered by an employment exchange may face disqualification. One consequence of this may be that some of the unemployed drop out of the pool of benefit claimants -- and from being counted as unemployed -- simply because they do not wish to go into a labour market training scheme, or believe that they will be pushed into one. We have no idea of how many unemployed react in this way, which makes it hard to attribute the ‘disqualification’ to the training refusal rule per se.

(xii) *Unemployment duration test*

Next is the *unemployment duration test*. In most countries, UI benefits are paid only for a limited period, such as twelve or six months. The rationale is that income security is provided while a person seeks employment, which is expected to be a short period. A time limit is supposed to concentrate the mind on taking a job. The orthodox reasoning is that if unemployment benefits are provided for a long period, it could induce voluntary idleness. But if they are only paid for a short time, that could induce the unemployed to make poor long-term decisions, perhaps rushing into the first available job, which may be inappropriate for them and thus lead to repeat unemployment, perhaps even resulting in their disqualification to benefits on the grounds that they ‘quit’ the job ‘voluntarily’. Or they could take temporary jobs that offer no chance of building up entitlements or skills before a new spell of

unemployment strikes. It cannot be *presumed* that a short duration benefit regime lowers unemployment.

In some countries, maximum duration of entitlement has been made a function of the level of unemployment, either cyclically, as in the USA, or according to some predetermined level in the area in which the unemployed person is residing, as has been the system in Poland. If living in an area of 'crisis-level' unemployment, the person has been entitled to twelve months of benefits; if not, entitlement has been for six months. Such a rule is supposed to reflect the fact that when overall unemployment is high, there is a tendency to take longer to find employment. However, it discourages mobility from high-unemployment to lower-unemployment areas, and it is inequitable. Why should someone in an area with 9.9% unemployment receive half the benefit of someone in an area with a 10.1% level? However pragmatic the rule, it offends any principle of distributive justice. Both are unemployed, and if the person in the higher-unemployment area has more skills, he would probably have a higher probability of finding employment than the other.

Paradoxically, with the higher levels of unemployment in the 1980s and 1990s, many governments reduced the duration of entitlement to unemployment benefits. The Netherlands, Switzerland and the UK were among western European countries to do so. In the UK, it was reduced from twelve to six months with the replacement of unemployment benefits by the Jobseekers' Allowance. In Switzerland, in 1996 those aged under 50 had the maximum duration cut from 400 to 150 days, after which they had to participate in a workfare scheme if they wished to receive a benefit.

The tendency to reduce duration has been very strong in central and eastern Europe. At the beginning of the 1990s, most countries allowed for up to twelve months, often with a declining level of benefits during the course of unemployment. Since then, the maximum has been shortened, often to six months, as in Belarus, Bulgaria, the Czech Republic, Estonia, Kyrgyzia and Lithuania, or to nine months, as in Latvia, or to a system with declining levels over successive months, as in Moldova and Romania. Ironically, the reductions occurred as unemployment rose, and were accompanied by increasingly selective and complex rules. In Bulgaria, duration of entitlement was made dependent on age and on duration of past employment. In Slovakia, if the unemployed were aged 15-29, maximum duration was set at six months; if aged 30-44, it was eight; if aged 45-49, it was nine; if aged 50 or more, it was twelve months. One may comprehend the rough logic, but it represents a rough sort of justice.

In terms of Figure 2, next down the list of rules limiting entitlement is the use of a *means test* or an *asset test*. This is normally applied to unemployment assistance rather than to UI, but in a few countries there is no such distinction. Thus in Australia since 1987 this has applied.

In sum, a complex set of conditions have been developed to determine entitlement to unemployment benefits. There has been a powerful international trend to make it harder for unemployed people to obtain them. And in the process the uncertainty of entitlement has increased, implying that even in industrialized countries unemployment has been associated with greater income insecurity.

Probability of entitlement has declined. For instance, in the UK between 1979 and 1988 no less than 27 measures were introduced to cut benefits, compared to four

that benefited the unemployed.⁹ In the USA, where conditions have always been tight, the situation has long been that only a minority of the unemployed actually receive unemployment benefits. In the 1980s and 1990s, the average fluctuated between 30% and 40%. In most so-called ‘right to work’ states, the figure has been lower, with less than 20% in states like South Dakota and Virginia.¹⁰ This might make the labour market more ‘flexible’ but clearly the system per se is not providing income security for the unemployed.

Studies in the USA have shown that declining coverage by unemployment benefits has reflected several factors. One is the shift away from manufacturing, where employment involving regular contributions has been more the norm than in other sectors. This is important, for it may be that unemployment insurance benefits only work reasonably well in economies in which manufacturing labour predominates. Other factors included changes in state programmes, in which base-period earnings requirements and income-based denials for benefit were increased, while eligibility conditions were tightened.

The subsequent introduction of taxation of unemployment benefits reduced their value, and thus acted as a disincentive to claim them. During the 1990s further changes made entitlement even harder to obtain. In most US states, the current situation is that the unemployed must have been employed for at least six of the past twelve months to qualify for minimum benefits, with other states stipulating that the person must have received at least a specified amount of wage earnings in the past year. In 1989-90, fifteen states raised the level of earnings required to qualify for a minimum weekly benefit, and 39 increased the amount required for maximum benefit.

Another trend in the USA during the last part of the 20th century was stricter application of disqualification rules. One study found that of the “monetarily eligible” initial claimants for UI benefits 24.3% were disqualified – 5.9% for supposedly not being able to work or for not being readily available for work, 6.8% for leaving a job “without good cause”, 4.1% for being fired for misconduct, 0.3% for refusing “suitable work”, and 7.2% for other reasons.¹¹ The trouble is that in many states, once disqualified – perhaps for quitting a job – the unemployed cannot receive benefits for the entire period of their unemployment.

Entitlement to UI benefits has become harder in many other countries as well. According to government reports, in the 1990s alone eligibility conditions were tightened in Austria, Canada, Denmark, Finland, France, the Netherlands, New Zealand, Norway, Spain, Sweden and the UK. Tighter job availability requirements were applied in Belgium, Canada, Denmark, Germany, Italy, the Netherlands, New Zealand, Spain, Sweden and the UK.

The decline has meant that in many countries only a minority of the unemployed receive unemployment benefits. This is not a new phenomenon. By the late 1980s only 30% of the unemployed in Spain were receiving benefits, in France 39%, in western Germany 55% and in Sweden – supposedly the model of universalism – only 68%. If you take the European Union overall, by the mid-1990s

⁹ A.B. Atkinson and J. Micklewright, Turning the screw: Benefits for the unemployed 1979-88 (London, Economic and Social Research Council Research Report, 1988).

¹⁰ I. Shapiro and M. Nichols, Unemployed and Uninsured (Washington, DC, Centre on Budget and Policy Priorities, 1991).

¹¹ W. Corson and W. Nicholson, “Unemployment insurance, income maintenance and re-employment trade-offs in a competitive world economy”, The Secretary’s Seminars on Unemployment Insurance (Washington, DC, US Department of Labor, Occasional Paper 89-1, 1989).

only two out of every five unemployed were receiving unemployment benefits (Table 1). This actually considerably overstates receipt of insurance benefits because the figures include those receiving only unemployment assistance (means-tested). But if we accept the figures as upper limits, we should have a clearer picture of the “generosity of unemployment benefits”.

Table 1 indicates that in EU countries, where entitlement and recipient rates are higher than elsewhere, the share of active unemployed receiving unemployment insurance or assistance benefits ranges from over 80% in Belgium to less than 8% in Greece and Italy. In most countries, women were less likely to be receiving benefits. But these figures overstate the probability of receipt of benefits. According to EUROSTAT data, if we count all the unemployed, including those wanting but not currently seeking employment, in 1996 less than 20% were receiving benefits.

Table 1: Unemployed Receiving Benefits, European Community, 1992-99
(percent of active unemployed receiving)

Country	1992	1993	1994	1995	1996	1997	1998	1999
Austria	n.a.	n.a.	n.a.	63.1	68.9	65.9	69.7	74.2
Belgium	83.8	83.3	84.5	81.1	82.6	80.3	77.9	66.3
W. Germany	60.2	64.6	66.0	63.2	68.0	73.0	73.5	74.2
Denmark	79.9	82.6	64.2	65.4	55.1	59.0	61.9	62.6
Spain	29.7	31.3	28.1	23.5	20.4	19.1	17.4	16.6
Finland	n.a.	n.a.	n.a.	67.6	60.4	55.7	53.3	51.6
France	45.0	45.0	46.5	43.6	43.6	44.2	43.6	42.4
Greece	7.1	6.7	7.1	8.1	5.8	6.4	8.0	n.a.
Italy	4.6	6.0	7.0	5.8	5.1	5.7	5.1	n.a.
Luxembourg	30.8	21.0	36.0	37.9	36.5	27.2	25.9	29.3
Netherlands	36.9	41.3	45.0	40.8	42.2	38.4	32.4	31.2
Portugal	18.7	25.9	25.3	27.9	25.5	25.3	21.8	28.4
Sweden	n.a.	n.a.	n.a.	70.3	68.7	66.0	63.6	55.4
UK	62.3	62.5	59.9	56.4	55.6	48.9	38.9	40.6
Total	41.8	43.1	42.0	40.0	39.7	39.2	37.8	37.1

Note: Calculated from data supplied by EUROSTAT.

In eastern Europe, the situation is more peculiar because in some countries, including the two largest, most unemployed are not registered at employment offices and accordingly do not receive unemployment benefits. *If registered*, probability of entitlement is now high in Russia. But entitlement does not necessarily mean receipt, since many *oblast* employment services have not had the funds to pay. Even if 80% of the registered received benefits, since three quarters of the unemployed were not registered, that would imply only about 20% were receiving benefits.

In other countries, there was a sharp decline in the proportion receiving benefits -- in Bulgaria to 23% in 1996, in Latvia to 47%, in Poland 52%, all well down from the levels in 1992. In several countries, such as Armenia, the figure fell to less than 15%. The experience with the introduction of unemployment insurance schemes countries in central and eastern Europe may be closest to what could be expected to occur if they were introduced in ‘middle-income’ developing countries. The experience in reaching the unemployed is not encouraging.

(xiii) *The “Generosity of Benefits”*

Now consider the difficult issue of income replacement rates – the income value of unemployment benefits relative to average earnings. The task is not easy, since the national formulae used are complex, variable and rarely comparable across countries. The OECD have made a valuable effort to measure and monitor replacement rates, but the resultant database is correspondingly complex.¹²

There are several difficulties. First, one must distinguish between *gross* (before tax) and *net replacement*; there is often a substantial difference. Second, the figures as presented give the impression that all claimants receive their entitlement, which is often not the case.¹³ Third, *average* replacement rates over a prolonged period of unemployment often differ from *initial* replacement rates. Some commentators exaggerate the “generosity” by citing the rate for the first month, *after* the waiting period, which is when the rate is at its height.

According to OECD data, average gross replacement rates in the mid-1990s varied from less than 20% in Japan, the UK and the USA to 71% in Denmark. The latter was an outlier, since the next highest was the Netherlands, with 46%. The unweighted overall average was 31%, which was a little higher than in the early 1960s. In some countries, the rate had risen, in some it fell or stayed about the same (Belgium, Germany, Japan, New Zealand, UK and USA). Across industrialized countries as a group, there had been a convergence in gross replacement rates.

The apparent rise may in part reflect a tendency for the tighter eligibility conditions to exclude those with relatively low replacement rates. If they were expressed as an average for *all* the unemployed, they would be lower. Another factor in the apparent rise is the fall in average earnings of those most likely to experience unemployment. The appearance of constant or rising ‘generosity’ of benefits may be due to lower incomes received before unemployment.

Net replacement rates are higher than gross rates in most countries, and probably these are more relevant for assessing income security and behavioural responses, because they refer to what the unemployed would ‘take home’ relative to what those with average earnings would take home. According to OECD estimates, net replacement rates in the mid-1990s varied from a low of 16% in the USA and 19% in Italy to a high of 81% in Denmark, followed by the Netherlands with 69% (Table 2).¹⁴ The unweighted average for 18 industrialised countries was about 50%.

In some countries the value of unemployment benefits has fallen because they have been linked to the minimum wage, which has been allowed to decline. This has been the case in the Netherlands, where unemployment benefit has been set at 70% of the minimum wage, payable for up to six months for those without earnings-related benefit entitlement. In the UK, in the 1980s earnings-related supplements to unemployment benefits were abolished, and the new Job Seekers’ Allowance gave a low replacement rate.

¹² See the series of reports, OECD, *Benefit Systems and Work Incentives* (Paris, OECD, various dates).

¹³ A.B. Atkinson and J. Micklewright, “Unemployment compensation and labour market transitions: A critical review”, *Journal of Economic Literature*, Vol. XXIX, No. 4, December 1991, pp. 1679-1727.

¹⁴ J. Martin, “Measures of replacement rates for the purpose of international comparisons: A note”, *OECD Economic Studies*, No. 26/1, 1996, p. 106.

Table 2: Estimated Average Gross and Net Unemployment Benefit Replacement Rates, Industrialised Countries, 1997

Countries	Replacement rate	
	Gross	Net
Australia	0.26	0.57
Austria	0.31	0.63
Belgium	0.40	0.61
Canada	0.30	0.46
Denmark	0.66	0.70
Finland	0.36	0.75
France	0.37	0.43
Germany	0.27	0.57
Greece	0.22	0.02
Ireland	0.30	0.51
Italy	0.18	0.45
Japan	0.11	0.50
Netherlands	0.47	0.72
Norway	0.39	0.54
Portugal	0.33	0.53
Spain	0.32	0.35
Sweden	0.28	0.77
Switzerland	0.29	0.73
United Kingdom	0.19	0.62
United States	0.13	0.27

Source: Calculations based on Benefits and Work Incentives Database, OECD.

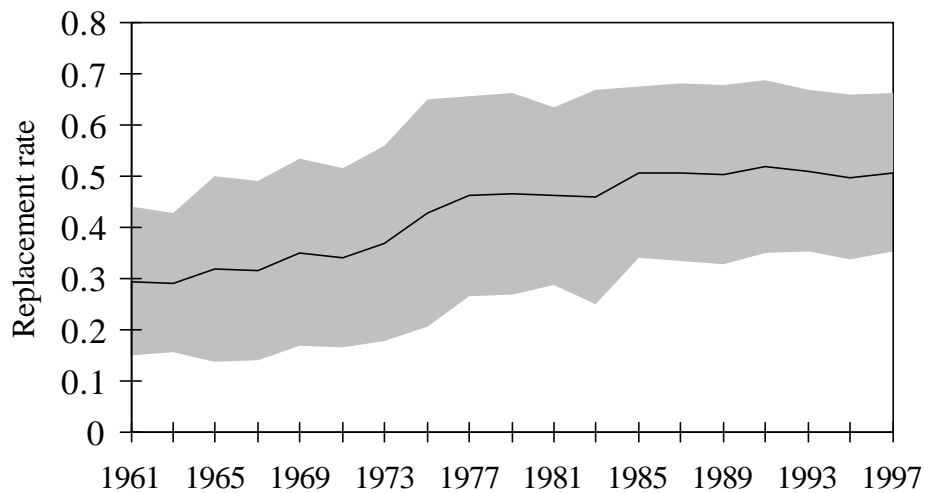
It is in the context of the evidence on replacement rates and entitlement probabilities that we should consider a popular view that western Europe, in particular, has been suffering from “structural unemployment” due to “the generosity of unemployment benefits” and “welfare dependency”. This view has been stated categorically by the International Monetary Fund in several of its annual World Economic Outlook reports, and by others.¹⁵ It is hard to accept.

¹⁵ See, for instance, S. Scarpetta, “Assessing the role of labour market policies and institutional settings on unemployment: A cross-country study”, OECD Economic Studies, No.26, 1996/1, p.63. Scarpetta used an average of statutory replacement rates for different durations of unemployment, family situations and earnings. This ignores the probability of entitlement. Some countries may have a high probability of entitlement and a low replacement rate, others a low probability of entitlement and a low replacement rate; in some the unemployed may be concentrated in groups with high replacement rates, in others in groups with low replacement rates, and so on.

By way of conclusion, we may estimate the unemployed's *income security index*, or the probable income replacement rate. For this, we need three ratios -- the probability of claiming, conditional on being unemployed, the probability of being entitled to and receiving benefits, and the income replacement rate. None of these are easy to measure, and the data available are not adequate. Because we do not wish to exaggerate, the assumptions made in the following tend to overstate each ratio.

For illustrative purposes, we concentrate on EU countries. It is assumed that the percent of unemployed who were "active" measures the unemployed's probability of claiming benefits. Since this may have a selectivity bias, we adjust the figure by adding half the difference between the percent active and 100%.¹⁶ We also need the *beneficiary ratio*. We saw earlier that on average about 33% of the active unemployed receive benefits, although this varies enormously, being lower for women. The third ratio is the hardest to estimate. The data available are for all unemployment benefits, including assistance, which gives an upward bias. Another problem is to decide on the duration. It is inappropriate to take the replacement rate for the first month of unemployment, or an average rate over a five year period of unemployment. So, we take the gross replacement rate as a percentage of average earnings for a single person and for a married man with a "dependent wife" (sic) during the first twelve months of unemployment. The average and standard deviation for married men with "dependent wife" are shown in Figure 3.

Figure 3: Average Gross Replacement Rate at 100% of Average Earnings During First Year of Unemployment, With Dependent Wife, OECD Countries, 1961-97
(grey area showing standard deviation in replacement rates across OECD countries)



Source: Benefits and Work Incentives Database, OECD.

Using the three ratios we can estimate the average unemployed person's income security index. For Belgium, for example, in the mid-1990s a married man would have had a probable replacement rate of 0.8 multiplied by 0.84 multiplied by 0.38, giving a figure of 26% of average earnings. A man in Germany would have had slightly less. These levels are scarcely conducive to voluntary unemployment and are

¹⁶ The justification is that the probability of being passively unemployed should be inversely related to probability of entitlement to benefits. The index could omit this *probability of claiming* ratio.

impoverishing. The value of this index is approximately what the modal person must expect from becoming unemployed. To talk of excess generosity of unemployment benefits in this context is mildly distasteful. It is strongly recommended that the subjective term “generous” or “generosity” should not be used.

5. Alternatives to Unemployment Benefits

The bulk of this analysis has focused on a critique of the practicalities of unemployment insurance benefits. The thrust of the argument and evidence is that they suffer from serious flaws that make them unpromising for developing countries and for highly flexible labour markets of the type emerging in industrialised and developing countries. We will conclude with very brief reference to several alternative approaches.

(i) *Unemployment Assistance*

Is *unemployment assistance* an acceptable alternative to unemployment insurance benefits? The appeal to some economists, commentators and politicians lies in the view that this is the way to *target on the needy* and save money, showing good fiscal husbandry.

With the possible exception of Germany, in most industrialized countries labour market changes and tighter conditionality have contributed to a strong drift away from UI to means-tested unemployment assistance. This too has been subject to a steady process of additional and tighter conditionality. And as with insurance benefits, the value of unemployment assistance has tended to fall, as in the Netherlands, for example, where it has been set at 70% of the minimum wage, which itself has fallen in relative terms. In a few cases, means-tested assistance has become the base of the system for giving income to the unemployed.

The biggest drawback to unemployment assistance is that means-tested schemes have low take-up rates, i.e., only a small proportion of those entitled to assistance actually apply for or receive them. In industrialized countries, there is a vast body of evidence to support this claim. In developing countries, the take-up rates are likely to be even lower, since the lack of administrative capacity will be coupled with a lack of knowledge of the existence of such schemes, an inability to afford the transport to distant and ill-equipped offices and other practical obstacles.

Some economists argue that if people do not apply for a benefit, it must mean that either they do not need it very much or they know they do not deserve it or actually qualify. There is no justification for presuming that these are the reasons for non-take-up. More likely, fear, lack of knowledge, stigma and other psychological and financial barriers are the factors. Of course, in reality it will be a mixture of all of these.

Means-testing also intensify the problem of the *unemployment trap*. At the simplest, this arises because if you are not earning anything you receive an income in the form of a benefit. As soon as you start earning, the benefit is taken away. To counter this strong disincentive to take a job, some schemes allow for a modest amount of earned income before the benefit is lost. In other countries, tax credits or a wage subsidy exists to “make work pay”. The unemployment trap tends to remain, if somewhat ameliorated.

Another serious problem arises if the means-test (or income-test) is applied on a family-unit basis, as is common. In this case, an unemployed man with an income-earning wife may be disqualified from all or part of unemployment assistance, in

some cases making it financially advantageous for the wife to become unemployed as well or to leave the labour force. Call this a moral hazard or a market failure if you wish. The means test could raise unemployment, although if the wife ‘quit’ her job she might not be counted as unemployed because she might not be entitled to benefits because she entered unemployment without what the authorities would regard as “good cause”. It was for such reasons that, even controlling for other influences, wives of unemployed men have had a lower labour force participation rate than other married women.

Perversely, means tests may have contributed to the feminisation of the lower end of labour markets. Those with entitlement to unemployment benefits are likely to be in an unemployment or poverty trap, since they could lose more than they gain by taking a low-wage or part-time job. The poor, in particular, cannot easily afford to take a long-term view to such jobs – by seeing them as stepping stones into higher-paying employment. So it would be rational for them to take the benefits, while women and others without entitlement to benefits took the available jobs. This tendency may have become much stronger because the trend to more flexible and informal labour markets means that many jobs have lower wages than those that are disappearing or from which the unemployed have come.

Unemployment traps associated with means-tested assistance encourage some to remain unemployed ‘involuntarily’, some to work informally to evade taxes and escape being penalised by loss of benefits. They may also be a disincentive to saving, since savings are often taken into account in determining benefits.

Means-testing and any form of selective screening are always partially *discretionary*. They allow local officials discretionary control over people through “processing the client” as one famous study of local bureaucracy put it.¹⁷ Officials will fall back on standard attitudes to type of claimants. What is insufficiently appreciated is that selective policy is always discretionary. The more ‘active’ the policy, the more discretionary the implementation. Social services are the most discretionary, since they allow officials whom they will meet, whom they will help, what form of help to offer, what form of follow-up, what form of monitoring, what form of sanction, and so on.

Means-tested and behaviour-tested transfers allow discretionary interpretation of rules and procedures, including selective oversight. The right to appeal against the judgment of some clerk (well-intentioned or otherwise) may not exist, and where it does may be limited, costly or time-consuming. A few moments of assessment will surely convince most observers that complex testing in a low-income country or region simply will not work with any degree of fairness or efficiency.

(ii) *Workfare*

One response to the persistence of high unemployment and the perceived inadequacies of unemployment benefit schemes has been to move social protection towards more active or regulatory systems, typically linking entitlement to benefits to the obligation to take a low-paying job or labour market training place.

There are arguments for and against workfare, or welfare-to-work schemes, which require a separate analysis. What is very clear is that since the 1980s in both industrialized and industrializing countries the trend has been towards workfare and

¹⁷ M.Lipsky, *Street-level Bureaucracy: Dilemmas of the Individual in Public Services* (New York, Basic Books, 1980).

away from reliance on unemployment insurance benefits for the unemployed. The trend has gone furthest in the United States, led by states such as Wisconsin and converted into national legislation with the *Personal Responsibility and Work Opportunity Reconciliation Act* in August 1996. The UK's welfare-to-work orientation has taken this route, and one can detect elements of it in many European countries, as one can in several developing countries, where Chile took an early lead.

(iii) *Other Options*

Workfare is the most paternalistic means of attempting to provide income security to the unemployed, and derives its rationale from a revision of the social solidarity paradigm combined with the libertarianism underlying the exchange entitlements framework for social policy. The opposite of this is the citizenship rights approach, in which everybody is granted a guaranteed basic income as a right of citizenship, without any labour-related condition. The arguments for and against moving in this direction are considered at length elsewhere.¹⁸

Suffice it to predict that this will become increasingly attractive once the implications and limitations of workfare and employment subsidies are fully assessed.

(iv) *Work Insurance*

Earlier, when outlining the main options for responding to the challenge of income security for the unemployed, one direction for reform was omitted, deliberately. In part this was because it has yet to crystallise into a coherent view and in part because it potentially could go in the direction of the labourist line of unemployment insurance and other schemes listed under the first five options or in the direction of citizenship income and security based on work.

Perhaps the primary challenge over the first decade of the 21st century will be to escape from the view that labour markets will or should correspond to the norm of the industrial model in which the life stages are divided into three stages (childhood, labouring life, retirement) and economic activity is divided into three forms (employed, unemployed or economic inactive (sic)). Work activity is being seen as more diversified, partly because more people are combining different activities at any one time and over their life and partly because the work activities that people have performed over countless generations are finally being recognised as work, with use value if not exchange value.

The multiplicity of work has always been the predominant pattern in developing countries. It is also now becoming more common and recognised in highly industrialised countries. More people are less likely to say that they are either employed or self-employed – they are both, at different times of the day or week or year. There has been reference to “feigned self-employment”, with the suggestion that people are lying or concealing their true status for tax or other reasons. What may be more significant is that conventional terminology and statistics may be inappropriate for the more flexible, informal work system that is emerging.

The image of the “portfolio” worker may seem fanciful or exaggerated. But the space exists for more complicated work statuses, for working while training for something else, for doing community work while doing care work, and so on. And so is the scope for occupational deconstruction and reconstruction. The diversity of work statuses need not be chaotic. If people bundle competencies in ways that suit their

¹⁸ G.Standing, *Global Labour Flexibility: Seeking Distributive Justice* (Basingstoke and New York, Macmillan and St.Martin's Press, 1999).

needs, capabilities and aspirations – which they have always done, although the social and technical divisions of labour have concealed the reality – then the challenge for policymakers is to find the policies and institutions that can facilitate that trend and ensure adequate security for those working in this mould.

The emerging diversity poses special challenges for social protection policy. One way of putting it is that the system must move away decisively from the traditional model of social security based on the notion of contingency risks to one based on something like *endogenous risk*. A dynamic economy and a dynamic society, and dynamic individual human beings, are those in which its members are encouraged to take constructive risks. This means that many forms of risk are partly a matter of choice.

To put this in terms of the currently orthodox language of *moral hazard* is dubious, because it conveys a negative judgmental connotation. To give a simple example: I may think it is rational for my longer-term occupation to decline a job now that might appear to be ‘suitable’. The implicit judgment in a system in which anyone turning down a suitable job loses entitlement to unemployment benefit is that the person is choosing to be unemployed voluntarily. Therefore the behaviour is not a risk for which insurance cover is warranted. This is not good enough.

So, one type of problem is that it is extraordinarily difficult to decide between voluntary and involuntary unemployment, and it may be advisable to avoid using either adjective. Another is that the nature of risk in a flexible work system is more akin to the working pattern norms in developing countries than to those in industrial society that Beveridge and his generation of social policy designers envisaged. The main risk is unstable and unpredictable income coupled with unstable and unpredictable need for income. Included in this is the risk that one’s competencies and carefully nurtured “skills” will suddenly become obsolescent.

Some economists have seen *employment insurance* – or as some have called it, *wage insurance* – as the answer to this predicament.¹⁹ The appeal is that it could be the means for smoothing income and could deal with manufactured or endogenous risks. A failing of unemployment insurance is that it penalises a certain type of risk taking and ‘rewards’ only those who are not working. The concept of employment insurance opens up more flexible possibilities. Its drawback is that it focuses on only paid employment. While an advance on UI, it still leaves out those who are doing work but not labour.

The challenge will be to see whether this can be incorporated into such a scheme, *perhaps* by giving credits for periods when forms of work other than income-earning labour are being performed. Another challenge posed by consideration of this type of reform is the need to devise a system for income security that covers the whole spectrum of work activity. Some policy analysts have proposed this sort of policy for dealing with the great transitions in economic life of individuals – between school and employment, employment and unemployment, employment and retirement, and between various working time arrangements.²⁰

¹⁹ Robert Reich, the former US Secretary of Labour, has used the term wage insurance, and seems to mean something slightly different from what advocates of employment insurance have in mind. For Reich, wage insurance would make up part of the difference between the income received in a lost job and the income received from a new job, on the grounds that workers who lose jobs are usually only able to obtain another job paying lower wages.

²⁰ See, in particular, the work of Gunther Schmid. For example, G.Schmid, “Transitional labour markets: A new European employment strategy”, in B.Marin, D.Meulders, D.J.Snowder (eds.),

What is also required is a policy framework for providing basic income security for simultaneous combinations of activities and types of work. The continuum is considerable between those who are almost entirely involved in non-income earning work and those who are almost entirely involved in income-earning work. The optimum scheme for income security should facilitate diversity of productive and useful work, including flexible work schedules.

6. Concluding Points

One must conclude that it is unlikely that unemployment insurance benefits have a viable or even desirable future in the 21st century. More flexible labour markets and extensive economic informalisation make standardized schemes based on the behavioural presumptions used in UI increasingly discretionary, arbitrary, intrusive, inefficient and inequitable.

Even in industrialized countries, unemployment insurance benefits now reach only a minority of the unemployed. The drift to means-tested assistance and the lack of benefits altogether for a substantial proportion of the unemployed has reflected higher unemployment, tighter conditions for entitlement and a process of implicit disentanglement due to the trend away from regular, full-time employment. As a result, once more, to be unemployed is usually to face substantial and growing economic insecurity.

The fact that governments feel able to make changes to the benefit conditions and levels of income provided at will and with short notice has undermined any claim that they are compensatory *insurance* benefits. To enter a scheme under one set of conditions only to see them change from day to day is scarcely consistent with any notion of insurance.

Unemployment benefits have become more transparently part of the *regulatory* apparatus, seeking to control and influence people's behaviour, expectations and aspirations. To call any existing unemployment benefit schemes 'passive' policy would be a misnomer. Similarly, very few schemes deserve to be called 'generous', and it ill-becomes economists to use such words to describe schemes in which only a minority manage to obtain any benefits.

The steady process of restrictive reforms that has been taking place since the 1970s has affected socio-economic security more generally. They create greater insecurity among those anticipating or fearing unemployment, so lowering subjective *employment* security. And they are likely to have contributed to the weakening of workers' representation security, fear making workers less likely to support independent, adversarial trade unionism.

Unemployment insurance benefits may also have become a source of income inequality. For example, in many countries (not all) income replacement rates for men have remained higher than for women. In the 1990s, this was the case in countries such as France, Germany, the Netherlands, Portugal, Spain and Sweden. One reason for this is that women have been unable to build up insurance contributions and because the means-tested schemes on which they have had to rely have tended to

Innovative Employment Initiatives (Aldershot, Ashgate, 2000), pp.223-54; G.Schmid, "Mutually supportive social protection and employment policies", paper presented at the Conference on Social Protection as a Productive Factor, organised by the European Union under the Portuguese Presidency, Porto, April 13-15, 2000.

adhere to a traditional “bread winner” model.²¹ Above all, women have had a lower probability of receiving unemployment benefits.

In sum, unemployment insurance benefits suffer from several severe limitations. They *limit choice*, by tending to restrict legitimate activity to full-time unemployment or employment; they *limit solidarity* because only a minority are effectively in the system and because it only accepts a certain range of behaviour; they *limit income security* because many of the unemployed fail to qualify; and they *limit competence enhancement* because they constrain mobility. With respect to this last limitation, bear in mind that if the conditions include the need to demonstrate regular job-seeking and availability for jobs at short notice, a person is likely to be restricted in attending courses of learning.

Finally, as long as unemployment benefits continue, several practical principles should be strengthened.

First, there should be strong pressure to ensure that regular *statistics* on the incidence of entitlement and receipt of benefits are collected and published by government authorities. These should be disaggregated by gender, since there is anecdotal and statistical evidence that women are less likely to receive benefits, even when they are entitled to do so. And they are also less likely to secure entitlement to benefits. Similar concerns arise with ethnic minorities, migrants and other socially vulnerable groups.

Second, it may be advisable to keep the administration of unemployment benefits (or other forms of income transfer) separate from the administration of employment or labour market services. The stigma of one may make it harder for some to apply for the other. And the administration of “career guidance” should not be muddled with the provision of income for those in need. They require different skills.

Third, income security policies should be kept separate from labour market policies, that is, policies to promote employment and to make the labour market more efficient or equitable. Mixing up objectives is likely to undermine the effectiveness of all policies. This extends to images. One drawback from considering them together is that they are seen as coming from the same source and are thus seen as in competition for limited resources. The image that money spent on unemployment benefits is “crowding out” funds for policies to improve labour market efficiency, training, or job promotion leads politicians and commentators to claim that benefits must be cut so as to make more resources available for “active” measures. Any such coupling is deplorable and ultimately to the detriment of those in the margin of the labour market.

²¹ G.Schmid and B.Reissert, “Unemployment compensation and labour market transitions”, in G.Schmid, J.O’Reilly and K.Schomann (eds.), International Handbook of Labour Market Policy and Evaluation (Cheltenham, Edward Elgar, 1996), pp.246-7.

APPENDIX

Table A1: Percentage of Unemployed Receiving Unemployment Insurance or Assistance Benefits, 1990-99

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Austria	Total	n.a.	n.a.	n.a.	n.a.	n.a.	63.1	68.9	65.9	69.7	74.2
	Women	n.a.	n.a.	n.a.	n.a.	n.a.	53.4	59.1	55.6	62.5	63.9
Belgium	Total	81.5	77.4	83.8	83.3	84.5	81.1	82.6	80.3	77.9	66.3
	Women	82.5	80.5	82.9	84.2	86.1	82.1	82.2	81.1	77.8	64.4
Denmark	Total	82.3	82.6	79.9	82.6	64.2	65.4	55.1	59.0	61.9	62.6
	Women	82.1	82.2	80.5	81.4	64.3	64.7	54.2	59.5	61.7	62.7
France	Total	38.8	41.9	45.0	45.0	46.5	43.6	43.6	44.2	43.6	42.4
	Women	34.3	38.6	40.7	40.9	42.0	41.6	40.1	41.3	41.3	39.9
Finland	Total	n.a.	n.a.	n.a.	n.a.	n.a.	67.6	60.4	55.7	53.3	51.6
	Women	n.a.	n.a.	n.a.	n.a.	n.a.	60.5	57.9	52.5	49.7	49.4
Germany	Total	58.7	67.4	69.5	68.4	69.9	67.1	73.1	73.0	73.5	74.2
	Women	50.5	63.2	67.7	63.9	65.0	61.5	67.1	66.9	67.1	68.6
Greece	Total	5.3	8.7	7.1	6.7	7.1	8.1	5.8	6.4	8.0	n.a.
	Women	4.1	6.7	4.9	5.1	5.0	6.5	4.4	5.2	6.5	n.a.
Ireland	Total	58.1	60.5	63.2	61.5	61.8	61.5	64.3	63.7	n.a.	n.a.
	Women	30.2	34.1	37.5	38.9	36.7	37.6	41.0	41.1	n.a.	n.a.
Italy	Total	16.9	17.6	4.6	6.0	7.0	5.8	5.1	5.7	5.1	n.a.
	Women	17.1	17.4	4.1	5.5	6.1	4.8	4.7	5.0	4.6	n.a.
Luxembourg	Total	22.7	23.6	30.8	21.0	36.0	37.9	36.5	27.2	25.9	29.3
	Women	20.1	21.2	22.7	14.5	27.3	27.7	32.2	24.4	25.0	28.2
Netherlands	Total	37.6	37.3	36.9	41.3	45.0	40.8	42.2	38.4	32.4	31.2
	Women	25.0	24.7	23.7	27.1	30.7	27.7	32.1	28.9	23.1	23.6
Portugal	Total	10.1	16.0	18.7	25.9	25.3	27.9	25.5	25.3	21.8	28.4
	Women	8.6	14.5	17.9	25.1	23.8	25.7	21.7	21.0	21.0	25.8
Spain	Total	25.2	28.7	29.7	31.3	28.1	23.5	20.4	19.1	17.4	16.6
	Women	17.5	21.5	21.7	21.3	18.9	15.6	12.9	12.1	11.4	11.8
Sweden	Total	n.a.	n.a.	n.a.	n.a.	n.a.	70.3	68.7	66.0	63.6	55.4
	Women	n.a.	n.a.	n.a.	n.a.	n.a.	68.9	68.0	63.9	59.1	53.8
UK	Total	48.2	55.6	62.3	62.5	59.9	56.4	55.6	48.9	38.9	40.6
	Women	27.5	32.8	38.2	40.0	37.7	33.1	33.5	28.0	19.7	21.5

Source: Eurostat, Labour Force Survey

Table A2: OECD Estimates of Gross Replacement Rates of Unemployment Benefits, European Union, 1967-97

	1967	1977	1987	1997
Austria	0.13	0.26	0.29	0.31
Belgium	0.30	0.47	0.43	0.40
Denmark	0.21	0.44	0.49	0.66
Finland	0.04	0.29	0.36	0.36
France	0.25	0.24	0.38	0.37
Germany	0.30	0.29	0.28	0.27
Ireland	0.18	0.27	0.30	0.30
Italy	0.03	0.01	0.003	0.18
Netherlands	0.46	0.48	0.54	0.47
Spain	0.19	0.21	0.34	0.32
Sweden	0.05	0.24	0.30	0.28
United Kingdom	0.28	0.25	0.19	0.19

Note: Calculated as the ratio of payments of unemployment insurance benefits to number of unemployed, with respect to the average gross pay of all production workers.

Source: Benefits and Work Incentives Database, OECD.