

**UNEMPLOYMENT COMPENSATION SYSTEMS
AND REFORMS IN SELECTED OECD COUNTRIES**

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
BELGIUM	3
CANADA	4
FINLAND	5
FRANCE.....	7
GERMANY	10
NEW ZEALAND.....	11
SWEDEN	13
UNITED KINGDOM	15
UNITED STATES	16
CONCLUSION.....	18
BIBLIOGRAPHY.....	19



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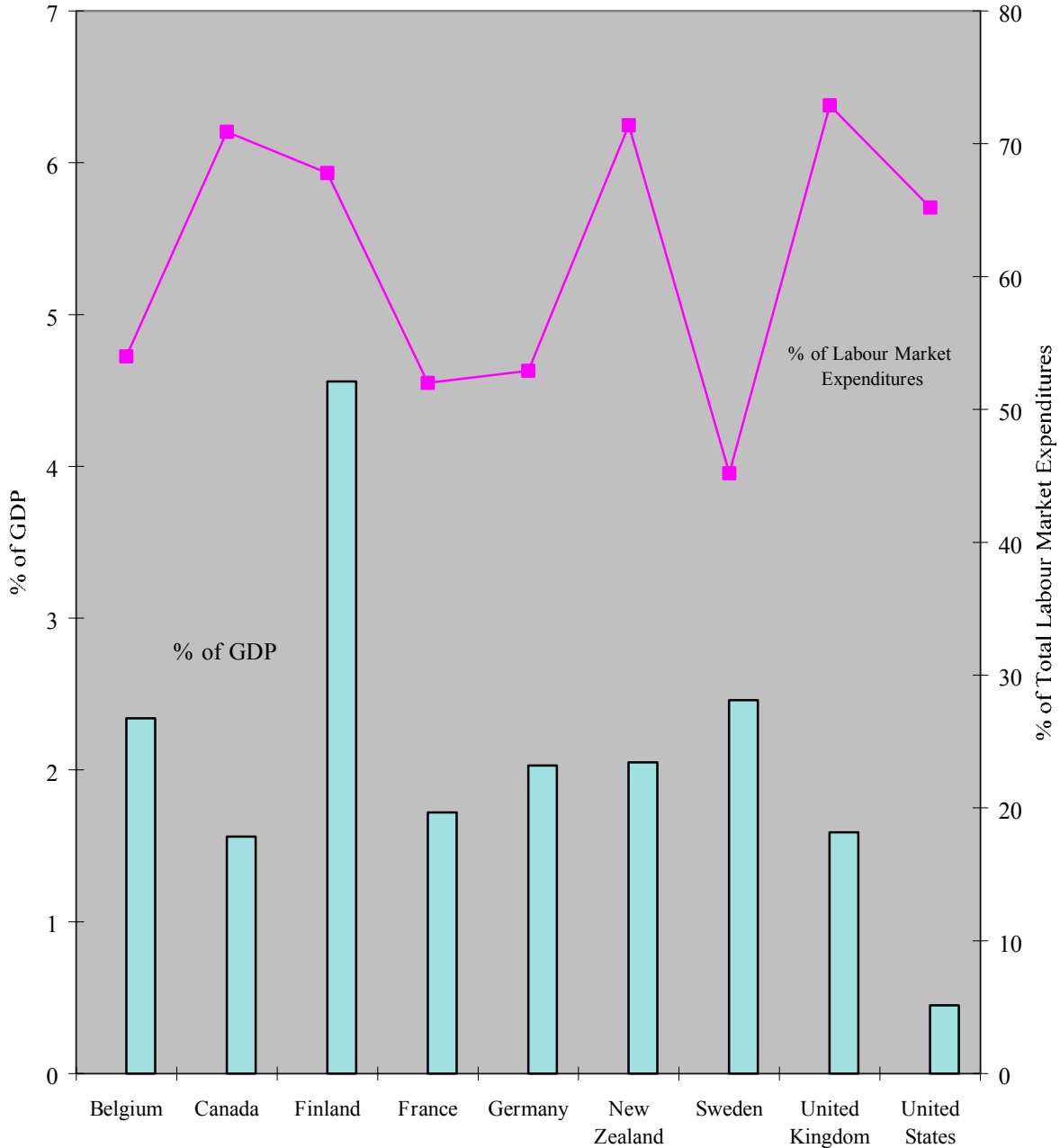
INTRODUCTION

Over the years a wide variety of unemployment compensation systems have developed in OECD countries to cushion the financial blow of unemployment. For example, New Zealand's unemployment compensation system is a non-contributory scheme that provides a means-tested unemployment benefit of unlimited duration. Finland, on the other hand, provides wage replacement protection via a three-pronged scheme that incorporates elements of both insurance and social assistance. Canada's unemployment insurance system lies somewhere in middle of these extremes.

In recent years, many OECD countries have introduced changes to their unemployment compensation systems. Irrespective of the variety of schemes, the direction of reform has been similar; governments in these countries have uniformly introduced measures to reduce their unemployment compensation costs and, in some instances, alleviate the adverse impact of these programs on behaviour in the labour market. The latter is a relatively new objective for most European countries where it has been widely believed that the extensive income protection associated with their schemes has not contributed to high and persistent unemployment.⁽¹⁾ Both of these objectives underlie Canada's proposed reforms to unemployment insurance. Furthermore, the proposed changes are also intended to make unemployment insurance spending more "active." Under this proposal the government would reallocate a substantial proportion of cost savings to employment benefits (e.g. wage subsidies, earnings supplements, training, etc.). The impetus for this is due, in part, to the fact that Canada spends relatively less on "active" labour market measures than many other OECD countries. As illustrated in Chart 1, roughly 70.9% of federal labour market expenditures in Canada were allocated to passive uses (i.e. income support) in 1994-95. This compares unfavourably to an average of 61.7% among the other G-7 countries and the majority of countries discussed in this paper.

(1) Dominique M. Gross, "Unemployment and UI Schemes in Europe," in *Unemployment Insurance: How to Make It Work*, C.D. Howe Institute, 1994, p. 160.

CHART 1
Relative Expenditures on Unemployment Compensation Systems in Selected OECD
Countries



Source: OECD. Employment Outlook. Paris. July 1995

The remainder of this paper examines the basic features of unemployment compensation systems, and recent reforms to them, in several OECD countries, including Belgium, Canada, Finland, France, Germany, New Zealand, Sweden, the United Kingdom and the United States.

BELGIUM

Unlike those in many European countries, Belgium's unemployment compensation system consists of a single benefit system. This system replaces the earnings of qualified individuals who lose full-time or part-time (at least 18 hours per week) employment.⁽²⁾ To be eligible for benefits (first claim), individuals must work a certain number of days within a given period of time. Prior to 1994, the minimum age-related qualification requirement ranged from 78 days of work in the past 10 months to 624 days of work in the last 36 months prior to registering as unemployed. In 1994, the Belgian government tightened this entrance requirement for younger workers by establishing a uniform minimum work requirement of 312 days within the last 18 months for all workers under the age of 36. This represents a significant increase for Belgium's youngest workers who, prior to this change, faced a minimum qualification requirement of 78 days of work if they were under 18 and 156 days of work if they were between 18 and 25.⁽³⁾

The duration of unemployment benefits in Belgium is somewhat unique in that it depends on a claimant's demographic characteristics and regional location. Although often touted as being indefinite, benefits can be terminated once claimants under the age of 50 have received benefits for a period equal to twice the average duration of unemployment for the individual's age, sex and region. This suspension does not apply if an individual's household income is below a certain threshold or if an individual is 50 years of age or more. Once benefits end, individuals must obtain full-time employment for a continuous period of twelve months in order to requalify. Prior to 1994, the requalification period was six consecutive months.

The degree of income support provided under Belgium's unemployment compensation system depends on claim duration, family status and the number of income earners in a family. The wage replacement rate for sole income earners with dependants is 60% of gross maximum earnings. Single income earners (with no dependants) are entitled to a benefit rate of 60% during the first year of unemployment and 42% thereafter. Individuals who are not the sole earners in a family and who do not have dependants receive 55% of gross maximum earnings

(2) Subject to a means test, all individuals are entitled to receive a minimum subsistence payment, although this payment is not directly part of Belgium's unemployment compensation system.

(3) Commission of the European Union, Employment Observatory, *Policies*, Berlin, No. 46, Summer 1994, p. 12; and Commission of the European Union, Employment Observatory, *Basic Information Report: Belgium*, Berlin, December 1992, p. 57.

during the first year of their claim, 35% for the next three months (prior to 1994 this was six months) plus three months for each year of employment and a flat-rate payment thereafter.

In April 1995, the Belgian government introduced new measures for preventing long-term unemployment, a problem facing many OECD policy-makers especially in some European countries where the incidence of long-term unemployment is more than four times that in Canada. Under the Belgian initiative, all fully insured individuals below the age of 45 and in their tenth month of unemployment are required to participate in programs designed to enhance their skills. An action plan is developed for each claimant. Those who accept and execute their plans have their benefits extended. Sanctions, including the suspension of benefits, are imposed on those who wilfully fail to fulfil their action plan obligations.⁽⁴⁾

CANADA

Reducing the size of the unemployment insurance program has been a policy objective in Canada for some time now. The potential for a major overhaul of the program surfaced in 1994 when the federal government launched its review of social programs. While certain aspects of the legislative proposal currently being considered represent a new approach, the bulk of the proposed reforms would maintain the program's primary structure. The current weeks-based approach for determining benefit eligibility and duration would be converted to one based on hours (assuming a standard work week of 35 hours). New entrants and re-entrants to the labour force would see their entrance requirement rise to 910 hours of insurable employment (26 weeks), from 700 hours (20 weeks). Minimum insurability rules would be eliminated and the first hour of work would be covered.

Weekly benefits would be determined by averaging insurable earnings over a fixed, consecutive period of time (including weeks without earnings) known as the "rate calculation period." Claimants could see their benefit rate decline by as much as 5 percentage points depending on their claim history ("intensity rule").⁽⁵⁾ In terms of income redistribution, the bill would provide an income supplement to claimants who have children and a low family income. Moreover, the existing benefit repayment provision would be significantly strengthened

(4) Commission of the European Union, Employment Observatory, *Policies*, Berlin, No. 51, Autumn 1995, p. 21-2.

(5) Although no specific proposals have been adopted so far, the Minister of Human Resources Development has announced that the government intends to modify its legislative proposal, especially with respect to the "rate calculation period" and the "intensity rule."

by lowering the income threshold at which benefits were repaid as well as raising clawback rates depending on an individual's claim history. Although claimants would continue to be allowed to earn up to 25% of weekly benefits without experiencing a reduction in their benefits, the bill would introduce, in addition, a lump-sum threshold of \$50 per week for those receiving weekly benefits below \$200. The latter would effectively raise the earnings exemption rate for claimants whose weekly benefits are below the \$200 threshold.

The proposed law would lower and freeze maximum insurable earnings to the year 2000 as well as provide a premium refund to eligible small businesses in 1997 and 1998. In addition, the new insurance system would permit the program to generate and maintain surplus revenues.

In conjunction with the major provisions outlined above, the reconfiguration of the existing insurance system would, in addition to continuing the National Employment Service, provide guidelines for the delivery of employment benefits (currently referred to as unemployment insurance developmental uses). Financial assistance under employment benefits could include grants, contributions, loans and vouchers. Eligibility for these benefits would be greatly expanded to include those who had received regular benefits in the past three years and those who had received maternity or parental benefits in the past five years. Like the reform of unemployment insurance in 1990, the government intends to redirect some program savings to employment benefits. By the time the bill is fully implemented, the government expects an annual saving of \$1.9 billion. Of this, \$800 million (42%) is expected to be reallocated to employment benefits. Thus the proposed reform is expected to yield a net reduction in spending of roughly \$1.1 billion.

FINLAND

Throughout the period 1990-94, Finland's economy was in recession and labour market conditions deteriorated to an unprecedented degree. Today, the rate of joblessness in Finland hovers around 20%, almost six times that of 1990.⁽⁶⁾ Expenditures on labour market initiatives throughout this period saw a substantial increase, most of which can be attributed to higher "passive" expenditures on Finland's comprehensive unemployment insurance system. The explosive growth in unemployment compensation payments throughout this period (e.g.

(6) *Policies* (No. 51, Autumn 1995), p. 29.

from FIM 5,127 million in 1991 to FIM 15,500 million in 1994), coupled with Finland's growing debt problems, has caused policy-makers to retrench the level and extent of income support available to unemployed workers.

Despite these reforms, Finland's unemployment compensation system continues to be relatively generous. All unemployed individuals engaged in job search are entitled to one of three types of support: unemployment insurance, unemployment allowance or labour market support. Under unemployment insurance, unemployed individuals who are members of one of the 71 union-managed unemployment funds and who have been employed in insurable employment for at least six months in the last two years are entitled to benefits for a maximum period of 500 days.⁽⁷⁾ Benefits consist of a basic daily allowance (FIM 116) plus 42% of the difference between a worker's previous daily wage (up to a monthly wage of FIM 10,400 and 20% of any amount exceeding this) and the basic allowance. The effective replacement rate is around 90% for those with monthly earnings around FIM 5,000 and roughly 45% for those with monthly earnings around FIM 20,000. Eligible individuals are required to serve a waiting period of five days before receiving benefits. Claimants must be available and searching for work and must also accept an offer to participate in a job creation or training program.⁽⁸⁾

Unemployed workers who have not contributed to an unemployment fund and who have been employed for at least six months in the last two years are eligible to receive a flat-rate allowance for a maximum period of 500 days. Prior to the 1994 reform, unemployment allowance eligibility was universal and its duration was indefinite. In 1994, the same eligibility requirement for unemployment benefits was extended to the unemployment allowance. Moreover, the maximum duration of the allowance was set at 500 days, marking a major change in the degree of income support provided under this arm of Finland's unemployment compensation system. Unlike the partial earnings-related payment provided under unemployment insurance, the unemployment allowance is a flat rate payment equal to basic daily allowance (FIM 116). Although these payments were means-tested prior to 1994, this is no longer the case. Recipients are subject to the same waiting period, job search and availability requirements as are applied to claimants under unemployment insurance.

(7) This limitation does not apply to those over the age of 55, who receive benefits until they reach the age of 60.

(8) OECD, *OECD Economic Surveys, Finland, 1994-95*, Paris, 1995, p. 54-5.

In 1994, the government introduced a new social assistance program called labour market support. Although the value of this payment is identical to the basic allowance mentioned above, it differs from the basic allowance in that it is means-tested and is available for an unlimited period of time. Individuals living at home with their parents receive 60% of the basic allowance. Labour market support payments are made to new labour force entrants, those who are not entitled to an unemployment allowance or benefit and those who are participating in a labour market adjustment program. Except for those who exhaust their unemployment allowance/benefit, individuals must normally wait three months before they are entitled to labour market support payments. Continued eligibility requires individuals to be available and looking for work.

General tax revenues are used to cover the cost of unemployment allowances and labour market support payments. A tripartite financing arrangement exists for unemployment insurance. Under this arrangement, employers and the state are equally responsible for 94.5% of program costs, while employees finance the rest. Employee financial participation in the program is a relatively new arrangement and was introduced in 1993 to help defray rising program costs. The actual employee payment is calculated according to gross wage income.⁽⁹⁾

FRANCE

Unemployment compensation in France, like that found elsewhere in Europe, combines elements of insurance and welfare. The former provides unemployment benefits to workers, subject to previous employment, wages and contributions; while the latter provides income support, subject to a means test, to those who have exhausted, or who are unable to qualify for, unemployment benefits. This system is somewhat unique in that participants (including both firms and workers) finance and administer the insurance component of the program under government supervision.⁽¹⁰⁾ The welfare component of the program, known as the solidarity system, is financed and administered by the state.

Rising unemployment insurance costs, coupled with evidence that high levels of income replacement prolong the duration of job search, prompted the French government to reduce the level of income support available to unemployed workers. Unemployment payments

(9) *Ibid.*, p. 61.

(10) Gross (1994), p.169.

were reduced in 1992 following the introduction of a variable replacement rate. Under this new feature, discussed below, the benefit rate declines as the duration of a claim (i.e. the unemployment spell) increases.⁽¹¹⁾ In 1993, the duration of benefits was also reduced. In the same year, contribution rates were raised following an agreement reached by the government, employers and employees. These increases, in conjunction with lower program expenditures, are expected to eliminate the unemployment insurance deficit (estimated to be FF 30 billion in 1993) by the year 2003.⁽¹²⁾

To qualify for unemployment benefits, workers in France must have had a minimum of six months of employment in the last twelve months.⁽¹³⁾ The benefit payment period, one of the most generous in the world, depends on a worker's age and the number of months of insured employment, as illustrated in the table below. For instance, a worker under the age of 50 with eight months of insurable employment in the last twelve is entitled to 15 months of benefits. Full benefits are paid for the first five months and weekly benefits decline by 17% every four months thereafter. A worker over the age of 50 with eight months of insurable employment in the last twelve months is entitled to 21 months of benefits. Full benefits are paid for the first eight months and decline by 15% every four months thereafter. Initial benefits are equal to 57.4% of the gross reference wage, although the actual replacement rate may be higher since benefit payments are not allowed to fall below a minimum level during the initial stages of a claim.⁽¹⁴⁾ Workers must wait for a certain period of time before receiving benefits, whose duration depends on the number of holidays not yet taken.

Unemployed individuals receive an allowance equivalent in value to unemployment benefits while they are training. Unlike unemployment benefits, allowances are not reduced during the training period and workers are entitled to an end-of-training allowance (*allocation de formation de fin de stage*) once training is complete. This last provision effectively extends the benefit period, since the level of income support provided under this

(11) Although this concept is captured in the proposal to reform Canada's UI system, its application is intended to curb repeat use of unemployment insurance (unemployment frequency) rather than reduce the duration of unemployment spells.

(12) OECD, *OECD Economic Surveys, France, 1993-94*, Paris, 1994, p. 132.

(13) It should be noted that a reduced benefit is payable to workers who have worked four months in the last eight months.

(14) OECD, *OECD Economic Surveys, France, 1994-95*, Paris, 1995, p. 67.

allowance remains unchanged from that paid during training. The unemployment insurance system covers 73% of the cost of the training allowance and the state finances the rest (including the cost of the end-of-training allowance).⁽¹⁵⁾

Duration of Unemployment Benefits

Months of Insurable Employment	Duration of Benefits		
	Normal Amount	Reduced Amount (per four month period)	Rate of Decrease
6 months during the last 12 months	4 months	3 months	-15%
8 months during the last 12 months	5 months	10 months	-17%
- under 50 years of age	8 months	13 months	-15%
14 months during the past 24 months	9 months	21 months	-17%
- under 25 years of age	12 months	18 months	-17%
- 25-49 years of age	17 months	28 months	-15%
- 50 years of age and over			
27 months in the last 36 months	20 months	25 months	-15%
- 50-54 years of age	27 months	33 months	- 8%
- 55 years of age and over			

Source: Commission of the European Union, Employment Observatory, *Basic Information Report: France*, Berlin, December 1992, p. 41.

Once workers are no longer entitled to unemployment benefits, they may qualify for a solidarity allowance. To be eligible for this payment, individuals must demonstrate need and prove that they have been dependent on employment for at least five of the last ten years since being laid off. Eligibility for this payment is renewed every six months provided recipients continue to satisfy the means test and demonstrate that they are looking for work.⁽¹⁶⁾

It is estimated that the reforms outlined above saved some FF 7 billion in 1994. While the number of individuals claiming unemployment benefits dropped by 8% in 1994, the proportion of those claiming the solidarity allowance increased by 13.8% in the same year.⁽¹⁷⁾

(15) Commission of the European Union, Employment Observatory, *Basic Information Report: France*, Berlin, December 1992, p. 42.

(16) *Ibid.*, p. 42.

(17) *OECD France* (1995), p. 67.

GERMANY

As is the case elsewhere in Europe, unemployed individuals in Germany are entitled to two types of earnings replacement protection: unemployment benefits and unemployment assistance. Equal contributions from employers and employees cover the cost of unemployment benefits, while the state finances unemployment assistance.

Unemployment benefits are available to unemployed individuals who have contributed to the program and who have worked at least 360 days in the previous three years. As in France, the duration of an individual's unemployment benefit depends on a claimant's previous employment and age, both of which are positively related to the potential claim duration. For example, the maximum duration of a claim for an individual under the age of 42 with 360 days of employment in the past three years is 156 days (excluding Sundays). The longest claim duration is 832 days (excluding Sundays); it is available to individuals who are over the age of 54 and who have worked at least 1,920 days.⁽¹⁸⁾ Prior to 1995, older workers were permitted to receive benefits for up to 32 months even though they were essentially retired. Now, workers who retire early are entitled to no more than 24 months of benefits and the amount of benefits actually paid depends on the value of a claimant's separation package.⁽¹⁹⁾

In an effort to reduce the tax burden to pre-reunification levels, German authorities have introduced several measures to reduce spending. As found in many other OECD countries, reduced expenditures on social programs are an integral part of this policy objective. In terms of unemployment compensation, the German government reduced the replacement rate under unemployment benefits by three percentage points in 1994. At present, single individuals receive 60% of their net earnings (i.e. earnings after statutory deductions). This assessment is usually based on the last 100 days of work within a six-month period immediately preceding unemployment. Claimants with dependants are entitled to 67% of net earnings. Unemployment benefits are taxed back at 50% if a claimant's net weekly earnings exceed DM 30 per week. If net earnings plus unemployment benefits (after the tax back) exceed 80% of a claimant's average net earnings in the claimant's previous employment, benefits are taxed back at 100%.

(18) Commission of the European Union, Employment Observatory, *Basic Information Report: Germany*, Berlin, April 1995, p. 22.

(19) OECD, *OECD Economic Surveys, Germany, 1994-95*, Paris, 1995, p. 76.

Unemployment assistance is the second component of Germany's unemployment compensation system. This program provides wage replacement protection to unemployed individuals who no longer qualify for unemployment benefits and who, according to a means test, are deemed to be in need of this payment. Unemployed individuals who have worked at least 150 days in insurable employment in the past year are also eligible to receive unemployment assistance, subject to a means test. As a rule, unemployment assistance is available for an unlimited period of time, although recipients must requalify annually. In 1994, the benefit rate for unemployment assistance was also reduced by three percentage points. Currently, all recipients, save those with dependants, are entitled to a weekly payment equal to 53% of net wages paid in their last employment. The wage replacement rate for recipients with children is 57% of previous net earnings. In 1996, the government intends to make several changes to unemployment assistance including the introduction of an activity test,⁽²⁰⁾ a more rigorous enforcement of the means test and new measures for determining the level of support.⁽²¹⁾

NEW ZEALAND

Unlike those in most OECD countries, New Zealand's income security system is founded on a non-contributory principle. Consequently, all transfers to individuals, including unemployment benefits, are financed via general taxation. Unemployment benefits are paid to individuals who are unemployed and capable of work, provided they are available for work and have taken suitable steps to find it. Benefit payments are income-tested and subject to a waiting period. The actual weekly rate of unemployment benefit depends on a beneficiary's marital status and the number of children in the beneficiary's care. As of November 1994, basic net weekly benefits paid to childless single individuals 18-24, 25 years of age and over, and to childless married individuals was NZ\$ 112, 135 and 224 respectively.⁽²²⁾ Single individuals with one or more than one child receive NZ\$ 193 and 210 respectively, while married individuals

(20) In concert with the requirement that recipients of unemployment assistance be referred to work, the government intends to introduce measures such as wage supplements, additional counselling and work placements to facilitate this new regulation.

(21) *Policies* (No. 51, Autumn 1995), p. 20-1.

(22) Single individuals 16-17 years of age are no longer eligible for unemployment benefits. Instead, they are entitled to receive a training allowance.

with one or more children receive 239 per week.⁽²³⁾ Benefits are available for an unlimited period of time, subject to financial need, job search and availability for work requirements.

In 1990, the New Zealand government announced a package of reforms collectively called the Economic and Social Initiative. One of the major thrusts of this package was to encourage individuals to become more self reliant. In terms of labour market policy, reform measures included a number of changes to New Zealand's unemployment benefits scheme. To encourage recipients to return to work sooner, the government lowered the benefit payment, increased from 6 weeks to 26 weeks the waiting period for those who are voluntarily unemployed and tightened job search requirements. Beneficiaries are now required to attend regular interviews with program officials. If beneficiaries do not take reasonable steps to secure employment or refuse offers of work, benefit payments cease.⁽²⁴⁾ In addition, unemployment benefits for youth 16-17 years of age were withdrawn and replaced by a special youth benefit for those unable to obtain parental support.

In concert with the reforms outlined above, New Zealand has devoted more attention to helping unemployed workers, particularly those who have experienced long spells of unemployment, to acquire skills and job experience. The level of resources devoted to direct job creation programs has increased markedly during this period. In 1990-91, New Zealand allocated approximately 1.6% of GDP to subsidized employment programs. In 1993-94, this proportion was 2.8% of GDP.⁽²⁵⁾ These direct job creation initiatives are called Job Plus, Enterprise Allowance, Taskforce Green and Community Taskforce. Job Plus provides a six-month wage subsidy to employers who hire individuals who have been unemployed for at least six months. As the name implies, the Enterprise Allowance scheme offers financial assistance (up to a maximum of NZ \$5,000) to eligible unemployed individuals who have an opportunity to become self-employed. Taskforce Green is a wage subsidy program that provides job experience to unemployed individuals in projects which are beneficial to the community and to the environment. Community Taskforce is a community-based job creation program established in 1991 that provides work experience (usually three days a week) to long-term unemployed individuals. Participation is normally voluntary, although mandatory participation is required in some instances. Participants receive a weekly unemployment benefit supplement of NZ \$15.

SWEDEN

(23) Statistics New Zealand, *New Zealand Official Yearbook 95*, 98th Edition, 1995, p. 168.

(24) OECD, *OECD Economic Surveys: New Zealand, 1992-93*, Paris, 1993, p. 57 and 125.

The fiscal position of the Swedish government has dramatically deteriorated in recent years moving from a surplus position of roughly 5.5% of GDP in 1989 to a deficit of 14.5% of GDP in 1993.⁽²⁶⁾ Despite a more than four-fold increase in the unemployment rate, the level of spending during this period became untenable, leading the Swedish government to re-examine its spending priorities. The impetus for reforming Sweden's unemployment compensation system was also strengthened by the belief that virtually every program in Sweden's social safety net could be administered and structured more efficiently. Little attention had been paid to the impact of these programs, especially those of the income support variety, on individuals' behaviour in the labour market. Today, benefit dependence and the work disincentive effects associated with these programs are being scrutinised by Swedish policy-makers, primarily with a view to encouraging self-sufficiency.

The introduction of measures to address the issues of affordability and efficiency have thus far been gradual. Initial changes to unemployment insurance during the period 1991-93 involved the introduction of a five-day waiting period, a reduction in the wage replacement rate from 90% to 80% of earnings and a decline in the daily maximum benefit. In 1993, unemployment insurance, along with other programs, was targeted for further expenditure reductions with the passage of the government's plan to reduce expenditures and increase revenues. During the period 1993 to 1998, the government intends to reduce transfers to households by SKr 26 billion, of which almost 40% will come from the unemployment insurance system.⁽²⁷⁾ In April 1995, the government announced its intention to cut the benefit rate to 75% of previous earnings, still a relatively high wage replacement rate compared to that in many other OECD countries.

Sweden's unemployment compensation system is made up of two types of assistance: unemployment insurance and labour market assistance.⁽²⁸⁾ Unlike most elements of

(25) OECD, *Employment Outlook*, Paris, July 1995, p. 226.

(26) OECD, *OECD Economic Surveys, Sweden, 1993-94*, Paris, 1994, p.19.

(27) *Ibid.*, p.70.

(28) In addition to these wage replacement schemes, individuals who are unable to support themselves are entitled to social assistance. These payments are means tested and are not intended to replace income lost as a result of unemployment. While the rate of benefit varies somewhat across municipalities, the monthly norm is currently SEK 3,451 for single individuals and SEK 5,712 for couples. Families with children receive higher payments.

Sweden's social insurance system, the former is neither compulsory nor universal. Although partly financed by the state, unemployment insurance is administered by 40 unemployment benefit societies representing approximately 83% of the labour force.⁽²⁹⁾ Most members of unemployment benefit societies are unionized. To qualify for benefits, workers must have been benefit society members for at least 12 consecutive months prior to becoming unemployed and have worked for at least five months during this period. Benefits are paid from the sixth day of unemployment at a level of 75% of earnings, for a maximum daily payment of SKr 564 (SKr 2,820 per week). The duration of benefits is usually 60 weeks, but this is extended to 90 weeks for unemployed workers 55 years of age or more. Moreover, this benefit period is often extended through publicly supported measures that allow recipients an opportunity to requalify for benefits. Under this arrangement, a new benefit period can be established if an individual works at least 75 days in a period of at least four months. "Work" in this context includes publicly supported make-work measures.⁽³⁰⁾

Unemployed individuals who are not registered with a benefit society and who have at least five months' work experience (including training) are eligible to receive a daily labour market assistance payment of SKr 245, less than one-half of the maximum daily payment under unemployment insurance. In 1996, the value of this payment is expected to decline to SKr 230.⁽³¹⁾ Individuals 55 years of age or less are entitled to receive daily cash payments for a maximum period of 30 weeks. For those between 55-60 years of age, this assistance is available for 60 weeks, while those over 60 years of age are entitled to this support for up to 90 weeks.

Sweden's unemployment compensation scheme is financed through social insurance contributions paid by employers and self-employed individuals. This tax is equal to 4.32% of payroll with no upper limit. Workers must pay a small fee to their unemployment benefit society to cover the cost of administration. State subsidies also play a role in financing Sweden's unemployment compensation system.

(29) OECD, *OECD Economic Surveys, Sweden, 1994-95*, Paris, 1995, p. 59.

(30) Sweden, Ministry of Finance, *Social Security in Sweden: How to Reform the System*, Stockholm, 1995, p. 11

(31) Swedish Institute, *Fact Sheets on Sweden: Swedish Labour Market Policy*, December 1995.

UNITED KINGDOM

Since the middle of the last decade, labour market policy in the United Kingdom has become increasingly focused on “active” measures, largely designed to combat long-term unemployment and to strengthen incentives to work. Measures to achieve the latter objective have sought to widen the gap between the net income of those who work and those who do not.

Compared to most European countries, the unemployment compensation system in the United Kingdom is more akin to social assistance than insurance. To qualify for benefits, individuals must have contributed an amount equal to at least fifty times the minimum weekly earnings limit within the last two tax years. Benefits are paid at a flat rate and are therefore unrelated to previous earnings. As of April 1995, a single person’s weekly unemployment benefit was £46.⁽³²⁾ A supplement is paid to beneficiaries who have dependants. Individuals must wait three days before receiving benefits. The maximum duration of benefits is one year. Unemployment benefits are financed through a progressive tax (national insurance contributions) levied on employers and employees.⁽³³⁾ Registered unemployed individuals who do not qualify for unemployment benefits are entitled to receive a means-tested payment called income support, the value of which depends on the individual’s age and marital status.

In October 1996, the unemployment benefit will be replaced by a program called the Jobseekers Allowance. This new payment will consolidate the existing unemployment benefit and income support. All individuals receiving this support will be required to enter into a jobseeker’s agreement outlining a strategy to become re-employed, thus incorporating an activity test as a condition of entitlement.⁽³⁴⁾ Individuals who can satisfy the minimum contributory requirements (much like those governing access to unemployment benefits) will be entitled to an allowance for a maximum period of six months. Those who are not eligible for this allowance

(32) Commission of the European Union, Employment Observatory, *Basic Information Report: United Kingdom*, Berlin, August 1995, p. 82.

(33) In 1996, employers hiring individuals who have been unemployed for more than two years will not be required to pay these contributions. In addition, as of April 1995, contributions made on behalf of workers earning less than £205 per week were reduced, thus creating an incentive to use more part-time employment. For example, the contribution for an employee earning £240 per week is £24.48 per week. If this job is split into two jobs each paying £120 per week, the total contribution would fall to £12 per week. If the employer converts this full-time job into three part-time jobs each paying £80 per week, then the total weekly contribution would fall to £7.20 (see OECD, *OECD Economic Surveys: United Kingdom*, Paris, 1995, p.106).

(34) Although recipients of unemployment compensation payments are currently required to look for work, there are no penalties for refusing to participate in other labour market activities such as training.

will be entitled to a means-tested payment, the value of which will depend on an individual's family circumstances. Probably the most innovative aspect of this allowance is a bonus scheme which will reward those who work while receiving allowances. One element of this scheme will allow single individuals, married individuals and single parents to earn £5, £10 and £15 of weekly earnings respectively, without having their allowance reduced. An amount equal to one-half of all weekly earnings earned in excess of these thresholds will accumulate toward a maximum tax free payment of £1,000, to be paid once an individual is employed and no longer receiving an allowance (i.e. once the individual is working more than 24 hours per week).⁽³⁵⁾ The government expects to save £270 million under the Jobseekers Allowance in its first full year of operation.

UNITED STATES

While federal law in the United States seeks to ensure uniformity in unemployment insurance, individual states actually control the design of key program parameters and program administration. In addition to state-operated programs, unemployment compensation in the United States includes federal-state extended benefits. Under this measure, 13 additional weeks of benefits may be provided if the unemployment rate in a given state exceeds a particular level.⁽³⁶⁾

Although eligibility requirements vary from state to state, all individuals are required to have a minimum level of earnings or weeks of employment during a particular reference period in order to qualify for benefits. Some 10 states require a minimum number of weeks of employment, ranging from 18 to 40 weeks (20 weeks is most common). The state of Washington has a minimum hourly qualification requirement of 680 hours.⁽³⁷⁾ Like Canada, the duration of regular benefits is related to a claimant's employment record while access to extended benefits depends on the unemployment rate in the state where the claimant resides. The maximum duration of regular benefits is 26 weeks in all states save Massachusetts and

(35) United Kingdom, Department of Social Security, Press Release 95/080, 28 June 1995.

(36) The states (as well as Washington D.C., the Commonwealth of Puerto Rico and the Virgin Islands) have been free to develop unemployment insurance programs best suited to their needs. Consequently, no two state unemployment insurance laws or programs are exactly alike. A third type of assistance (called emergency benefits), much like extended benefits but financed exclusively by the federal government, was also available prior to 1994.

(37) U.S. Department of Labour, Employment and Training Administration, "Significant Provisions of State Unemployment Insurance Laws," July 1995

Washington, where it is 30 weeks. As noted above, benefits may also be extended during periods of relatively high unemployment. The wage replacement rate varies across the United States. Typically, individuals receive between 50-60% of average wages. The level of maximum weekly benefits ranges from a low of \$US 133 in Puerto Rico to a high of \$US 504 (including a supplement for dependants) in Massachusetts. Thirteen states, (Alaska, Connecticut, Washington (D.C.), Illinois, Iowa, Maine, Maryland, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania and Rhode Island), provide additional benefits to claimants with dependants. Most states require claimants to wait one week before benefits are paid.

Probably the most unique feature of unemployment compensation in the United States is program financing. Employers are the sole contributors to unemployment insurance in all but four states (Alaska, New Jersey, Pennsylvania and West Virginia). Tax rates vary from employer to employer even in the same state and are based, in part, on the cost of benefits attributed to their layoff decisions. Although experience-rating is incomplete,⁽³⁸⁾ the United States is the only country in the world that uses this approach to calculate employer contributions.

In the past decade, the federal government has introduced a number of measures whereby incentives were created for individual states to reduce the costs of their respective unemployment compensation programs. During this period, the federal government changed the regulations governing state unemployment insurance trust funds, the most significant of which was the elimination of federal interest-free loans to these funds. Moreover, states with indebted funds were required to adopt certain measures to ensure solvency. In response to these and other measures, the vast majority of states adopted tighter eligibility requirements, lower maximum benefit periods and stricter disqualification provisions throughout this period.⁽³⁹⁾ It is thought that these reforms have contributed, in part, to the downward trend in the proportion of unemployed individuals receiving unemployment benefits. Throughout the period 1991 to 1993, for example, the ratio of unemployment insurance claimants to the total number of unemployed dropped from approximately 40% to just over 30%.⁽⁴⁰⁾

(38) No state permits a zero tax rate; all states have a cap on tax rates; and not all benefits are included in determining a firm's experience including, for example, benefits paid to workers employed for short periods of time.

(39) D. McMurrer and A. Chasanov, "Trends in Unemployment Insurance Benefits," *Monthly Labour Review*, U.S. Department of Labour, September 1995, p.35.

(40) *Ibid.*, p. 34

In operation since 1958, the emergency unemployment compensation program was allowed by Congress to expire in February 1994. The purpose of this program had been to lengthen unemployment benefit periods on an ad hoc basis, usually in response to a recession. As this program was financed exclusively by the federal government, many states tended to use its support as a substitute for the cost-shared federal-state extended benefits program.⁽⁴¹⁾

Another significant change to many state unemployment compensation programs was the introduction of activity-tested benefits. In 1994, 18 states (Alabama, California, Connecticut, Delaware, Florida, Hawaii, Iowa, Kentucky, Minnesota, Mississippi, New Hampshire, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Vermont and West Virginia) adopted measures that required individuals assessed as potential benefit exhaustees to participate in re-employment activities as a condition of benefit entitlement. In the same year, five states added self-employment assistance to their unemployment compensation programs. Under this measure, individuals in California, Connecticut, Maine, New York and Rhode Island will continue to be entitled to unemployment benefits while attempting to establish their own businesses.⁽⁴²⁾

CONCLUSION

In recent years, many OECD countries have implemented reforms to their unemployment compensation systems. The underlying reasons for these reforms generally fall into two categories. The first is fiscal in nature, as many OECD countries burdened with unsustainable growth in expenditures look for ways to reduce spending. Virtually, every country discussed in this paper has taken, or is in the process of taking, steps to make it more difficult to qualify for unemployment benefits/allowances, to reduce the level of payments and/or shorten to the duration of support. For example, in 1994 Belgium tightened its qualification requirements for workers under the age of 36. Single individuals 17 years of age or less are no longer entitled to unemployment benefits in New Zealand. Canada is currently contemplating a substantial increase in its qualification requirement for new entrants and re-entrants. Moreover, the move to an hours-based entrance requirement would see any worker whose average work week was less

(41) *Ibid.* p. 31.

(42) Diana Runner, "Changes in Unemployment Insurance Legislation in 1994," *Monthly Labour Review*, January 1995, p. 60.

than 35 hours facing a relatively higher entrance requirement. In 1992, France introduced a variable benefit rate: as the duration of a claim increases, the level of benefits falls. In 1994, the benefit rate dropped by three percentage points under Germany's unemployment benefits and unemployment assistance programs. Between 1991 and 1993, the benefit rate under Sweden's unemployment insurance program dropped substantially from 90% to 75%.

Alleviating the potential adverse effects of income support on labour market behaviour is the other driving force behind many of the reforms outlined in this paper. In addition to lower levels of income support and tougher qualification requirements, several countries have begun to make their unemployment compensation schemes more active so as to help unemployed workers re-establish a link with work. Some such countries have introduced an activity test as a condition of benefit entitlement. In April 1995, the Belgian government introduced mandatory participation in a re-employment strategy for all fully insured claimants under the age of 45 who are in the tenth month of their claim. New Zealand and some states in the United States have also introduced varying degrees of activity-tested benefits. Although penalties can be imposed on claimants referred to training or other active unemployment insurance uses, Canada's proposed reforms do not enhance existing activity-tests; rather, the government plans to augment the level of unemployment insurance funds devoted to active uses.

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