



# Research Note

## ***Life-course disruptions and their impact on income and living conditions*** by Mattia Makovec and Asghar Zaidi

### **Abstract:**

An important objective for social policy has always been to provide safeguards against reductions in income and living standards that result from unemployment, disability, separation, widowhood and other such life course events. Empirical evidence shows that unemployment is closely linked to low income and high risk of poverty. Unfortunately, studies on the effect of unemployment on subsequent earnings are limited, except for those for the UK that clearly indicates an adverse effect. In terms of policy, the widespread shift from passive to active labour market measures has contributed to reducing unemployment in the EU through increasing incentives to return to work and training programmes for the young unemployed (e.g. the New Deal programmes in the UK) and retraining for the long-term unemployed, which have been developed in almost all Member States. The Nordic countries provide the major example of how State involvement and an extensive social security system can facilitate re-entry into the labour market and maintain living standards of those experiencing unemployment.

Existing studies indicate that labour market events are critical to an individual's risk of entering into poverty and the chances of escaping it. There is a clear gender differential in the effect of the labour market events, with women's loss of employment often buffered by the employment of their partner. Among family related events, widowhood seems to double the chances of women's income falling to poverty levels as compared with men, while separation appears to have an adverse effect on the income of women alone. By contrast, the effects of having children and cohabitation on the risk of poverty do not show much variation between men and women. These findings suggest a need for greater gender mainstreaming of social policies and the provision of a safety net which takes account of the often different situations of men and women.

In the case of separation, the evidence suggests, not surprisingly that women with better education and those who work full-time before separation tend to have higher income afterwards, while income declines with the number of children. The effect of different types of social welfare system seems to be relatively weak, though post-separation income in the more 'liberal' countries (such as the UK and Ireland) seems to be higher than in more 'corporatist' countries (such as Austria, Germany and France). This, however, could reflect the greater participation of women in the labour force in the former or a different composition of women becoming separated – ie those with higher education levels in full-time work.

*This Research Note has been produced for the European Commission by Mattia Makovec and Asghar Zaidi (ECSP) from the Social inclusion network of the European Observatory on the Social Situation and Demography. The views expressed are those of the authors and do not necessarily represent those of the European Commission.*

# Life-course disruptions and their impact on income and living conditions<sup>1</sup>

## ***Introduction and background***

Social security systems were developed in European countries to provide support for people whose life is disrupted because of unforeseen events, such as falling ill or losing their jobs. The concern here is to examine the effect of such life course disruptions – unemployment, disability, separation and widowhood – on the income and living conditions of those living in EU25. The risk of experiencing such a disruption is first outlined and the effects on income is then analysed, followed by consideration of the role of public policy in alleviating these effects. The focus is primarily on unemployment, which for most people represents the most important risk of disruption to their lives and of income falling to poverty levels. Other life course disruptions, however, are also considered. Details of the different institutional arrangements, which are in place across the EU for providing a protection against unemployment, are outlined in an Appendix, focussing in particular on the differences in generosity, eligibility and coverage of different national systems.

## **1. Unemployment**

The three main questions addressed here in respect of unemployment are:

1. What is the risk of becoming unemployed in different EU Member States?
2. What kinds of arrangements exist across EU countries for replacing income lost by those becoming unemployed?
3. What is the risk of poverty faced by those becoming unemployed in different parts of the Union, in the sense of their income falling below what is considered to be the poverty level in relative terms?

### **1.1 The unemployment risk in the EU25 Member States**

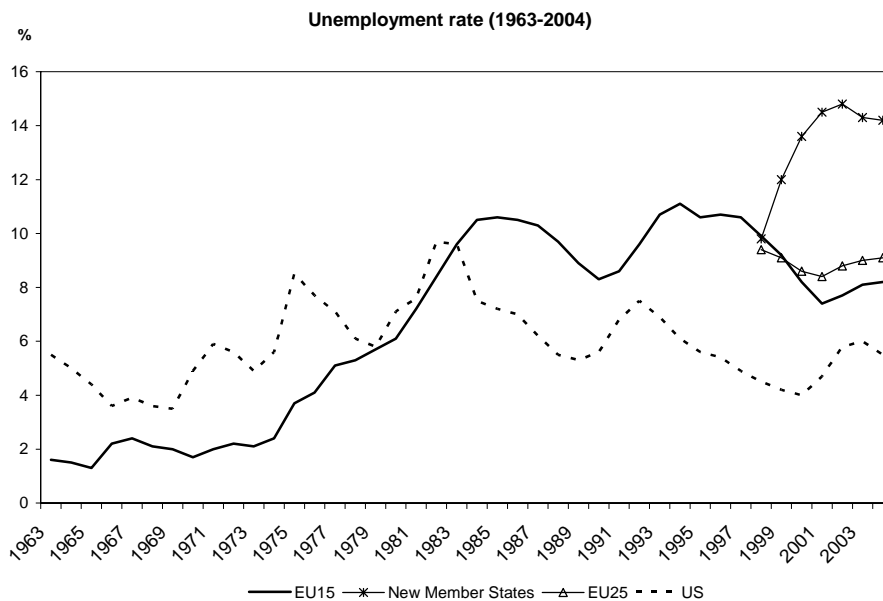
Unemployment in Europe rose steadily during the 1980s and the first half of the 1990s. This rise spurred a range of research not only on the underlying causes and the means of reducing unemployment but also on how best to protect those who face involuntary unemployment. The main causes identified in the literature of unemployment in Europe are a combination of labour demand and labour supply factors, the former being linked to differences in labour market institutions (union membership, employment protection legislations, regulation of part-time and temporary employment contracts) as well as to macroeconomic factors (such as oil price shocks and changes in international competitiveness leading to industrial restructuring and job displacement. Supply side factors are linked to decisions of individuals to stay in employment or return to work by actively searching for jobs. These are influenced by widely diverse factors such as the statutory maternity leave, the availability of child care, and training programmes to improve employability.

In the second half of the 1990s, unemployment in EU15 countries at least declined, though the rate has risen slightly in recent years (see Figure 1 below). In addition to economic growth, a progressive shift of national policies from passive to active labour market measures to promote employment (in-work benefits, employment subsidies, subsidized job training programs) in a number of countries contributed to this decline.

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**Figure 1**

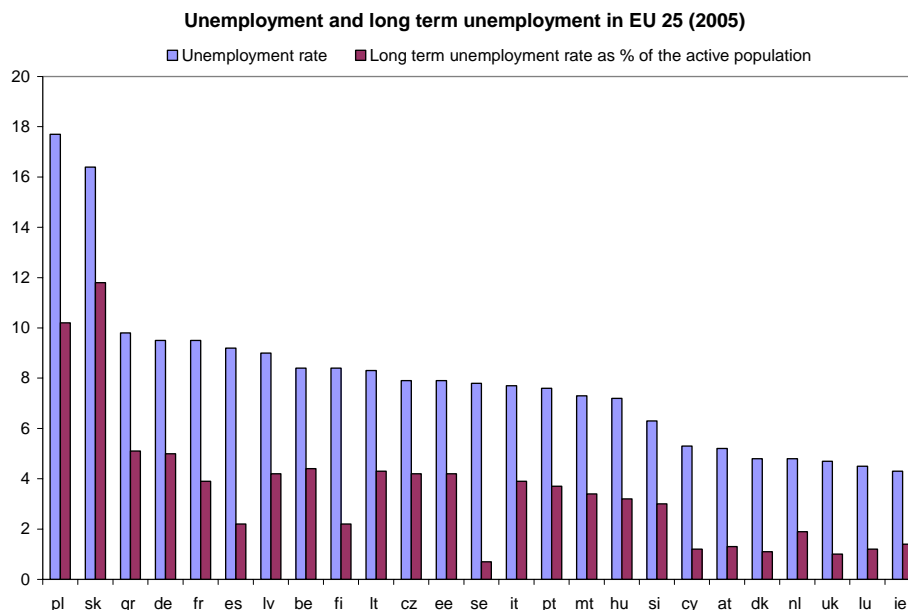


Source: EUROSTAT, Labour Market Statistics, and OECD, Labour Market Indicators

The enlargement of the European Union to include the 10 new Member States from May 2004 has posed new challenges to policy, given the large rise in unemployment in these countries at the beginning of the 1990s. Although there were some success stories since the mid-1990s, (e.g. the so called “Czech miracle”), unemployment in the new Member States taken together increased by nearly 5% in the late 1990s and remains over 10%.

The question then arises as to who the unemployed are. The most salient features of the “old” European unemployment phenomenon still persist: the section of the population at most risk of unemployment are young people under 25, especially the low skilled and low educated. Moreover, unemployment still has a strong regional dimension in many countries, particularly in Southern Europe and in many new Member States. In many countries (Italy, Spain, Portugal) half of those unemployed have been out of work for longer than a year. (Figure 2 shows unemployment rates across the EU in 2005 together with long-term unemployment rates; calculated in relation to active population. Figure 3 shows the proportion of the unemployed who are long term unemployed.)

**Figure 2**



Source: EUROSTAT, Labour Market Statistics

In the majority of countries, overall and long-term unemployment rates are in general positively correlated, with the exception of Sweden, Finland, and Spain. The incidence of long-term unemployment is particularly high in the new Member States (in particular in Slovakia), Southern European countries (with the exception of Spain), and among some of the EU15 block of countries (in Germany, Greece, Belgium, Italy and Portugal). In all new Member States except Cyprus, nearly half of the unemployed are long-term unemployed, which suggests underlying structural problems, and the limited capacity of labour markets to absorb long-term job seekers. A different picture emerges for the Nordic countries (Denmark, Finland, Sweden) and Anglo-Saxon countries (UK and Ireland), where there is a low rate of long-term unemployment, reflecting a higher degree of flexibility in both entry into and exit from the labour market. The Danish model of “flexicurity” – balancing flexibility to hire and fire with extensive social security and training for employees – in particular, provide a potential example for other EU countries. In Spain the low incidence of long term unemployment can be related to the rise in net job creation after the labour market reforms of the early 1990s, many of the jobs being fixed-term or part-time.

Figure 3



Source: EUROSTAT, Labour Market Statistics

## 1.2 Impact of unemployment on incomes

The consequences for income of people becoming unemployed have been investigated by a number of studies (a summary of these is presented in Table 1).

Gregory and Jukes (2001) study the effects of unemployment on subsequent earnings in the UK during the period 1984-1994, based on longitudinal data. Both the experience of unemployment and its duration tend to depress subsequent earnings. The main finding is that unemployment reduces earnings by 10%, in the short-term, though by only 4% after two years. However, the longer the spell of unemployment, the greater the effect on subsequent earnings over the long-term. A spell of one month, therefore, on average, permanently reduces earnings by 1%, a spell of 6 months by 5% and a spell of a year by 11%. The penalty is most severe for older age groups, for which it is also more persistent. In particular the largest wage losses occur for the high level occupations and professions, while the low paid and the young tend to lose least.

These findings, however, differ from similar studies undertaken for other European countries level, are quite different: Audenrode and Leonard for Belgium (1995) and Ackun (1991) for Sweden find that unemployment has a limited effect on wages, while Piechelman and Riedel (1993) for Austria conclude that an increase of 10% in the duration of unemployment tends to result in a reduction of only 1% in earnings.

**Table 1**

| Country | Study                             | Effect of unemployment experience on earnings   |
|---------|-----------------------------------|---|
| Austria | Piechelman and Riedel (1993)      | Modest reduction (1% ) of an increase in 10% of unemployment duration                               |
| Belgium | Audenrode and Leonard (1995)      | Little/no effect  |
| France  | LeFranc                           | 10% loss  |
|         | Cohen, LeFranc, Saint Paul (1997) | 10-15% loss   |
| Sweden  | Ackun (1991)                      | Little/no effect  |
| Spain   | Rosolia-Saint-Paul (1998)         | 30% loss for high skill workers 20% for low skill workers (loss increasing with age in both groups) |
| UK      | Gregory and Jukes (2001)          | 10-20% loss in male earnings  |

**1.3 Unemployment and the risk of poverty**

Figure 4 shows that the risk of poverty tends to be far greater for the unemployed than for the population as a whole in all EU25 countries (measured as the proportion of people living in households with equivalised net income below 60% of the national median). The risk of poverty among the unemployed is particularly high in Italy and in the UK among EU15 countries and in Malta and Estonia among the new Member States, where one out of two unemployed has income below the poverty level. The countries with the lowest poverty rates among the unemployed are Denmark, Cyprus, and Sweden (27%, 22% and 20% respectively), reflecting in the Nordic countries at least the relatively generous social security system (though the proportion of the unemployed with poverty income levels is still well above that of the population as a whole (12% in Denmark, 11% in Sweden).

**Figure 4**

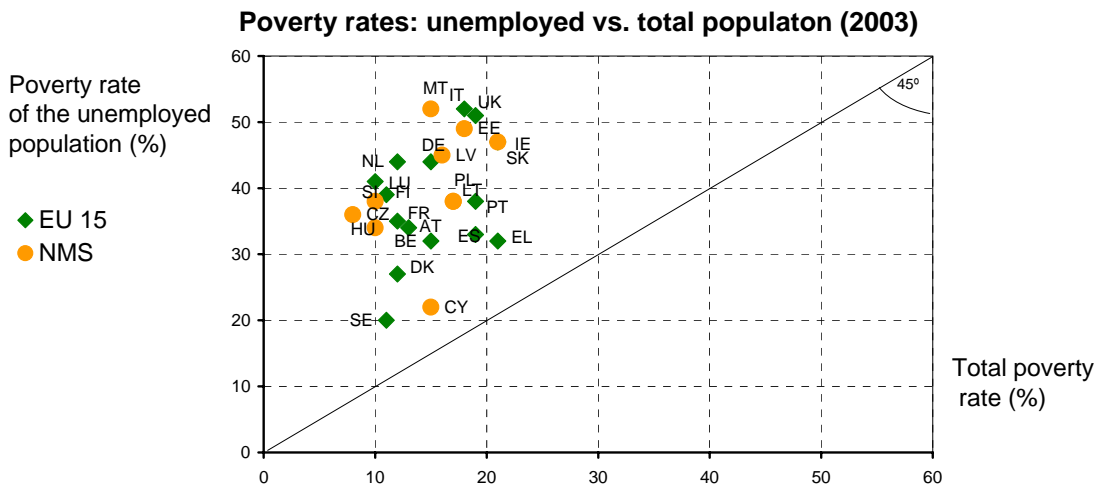
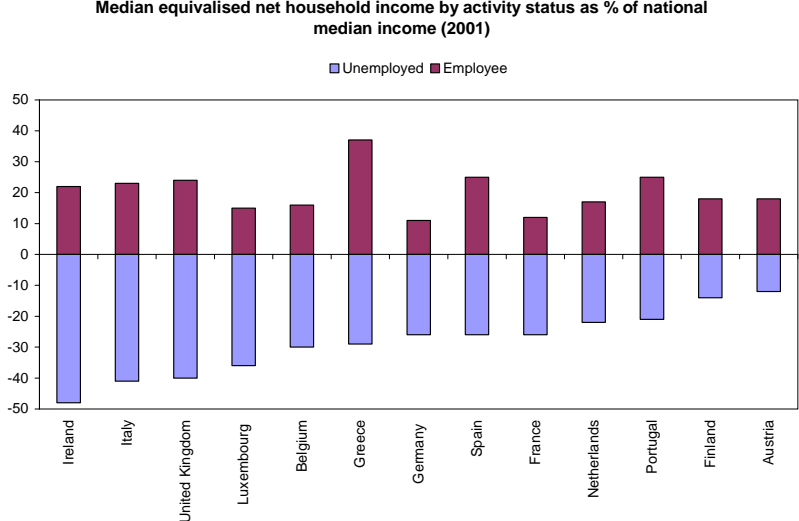


Figure 5 shows the median household income of the unemployed relative to the national median as compared with the relative median income of employees. It indicates that the relative loss of income of the unemployed is comparatively large in Ireland, Italy and the UK (nearly 50%), countries in which the unemployment benefit system is less generous than elsewhere.

**Figure 5**



Source: EUROSTAT, Newcronos Database (2005)

**1.4 Evidence on active and passive labour market policies**

During the 1990s, many European countries shifted from passive to active measures in support of the unemployed (cf. OECD 2005). The generosity of unemployment benefits has been tightened in many countries in terms of both reducing the level and duration of benefits. At the same time, a range of active policies against unemployment have been introduced, mainly in the form of training schemes for the unemployed and subsidies for job creation (e.g. the New Deal programmes in the UK) in both private and public sectors.

Most of the empirical studies undertaken on the effect of active labour market measures, especially training programmes on subsequent earnings of participants in the short and long run conclude that these are relatively weak (see Table 5).

**Table 5**

| Country | Study                             | Programme features                          |                         | Effect of programme on earnings   |
|---------|-----------------------------------|---|-------------------------|---|
|         |                                   | Type  | Eligible groups         |   |
| Estonia | Leetma and Vork (2002)            | Training                                    | Unemployed              | No effect on earnings   |
| Germany | Lechner (2000)                    | Training and re-training                    | Workers in East Germany | Negative effect short run, No effect on earning in the long runs                  |
| Sweden  | Larsson (2000)                    | Training, youth practice                    | Young unemployed        | No effect or slightly negative short run, no effect or slightly positive long run |
| Sweden  | Regner (2001)                     | Training                                    | Unemployed              | No or negative effects  |
| UK      | Bell, Blundell, Van Reenen (1998) | New Deal, temporary wage subsidy & training | Young unemployed        | Modest effects  |

## 1.5 Summary conclusions

EU Member States have distinctive similarities and differences in respect of unemployment. Working-age population in the new Member States face the highest risk of unemployment (unemployment in Poland and Slovakia exceeds 16%). Three of the largest countries in EU15 (France, Germany, and Spain) also have an unemployment risk of close to one in ten. In turn, these countries have diverse institutional frameworks within which they provide protection against losses in income for those becoming unemployed. The coverage of these systems is not always complete, being confined to those with a sufficient contribution history. In many countries, the systems tend to benefit low wage earners most (either because of higher replacement rates, ceilings on the transfers made or because of flat rate benefits). The effect of unemployment on income is greater for average and high wage earners.

Studies show that unemployment is linked closely with low income and a high risk of poverty.

## 2. *The effect of life-course disruption on incomes*

A number of recent studies have examined the effects on incomes and poverty of major life course disruptions. Such disruptions can be broadly grouped into labour market events (job loss, retirement, etc.) and family events (separation, widowhood, childbirth, changes in living arrangements etc.). The focus here is mainly on comparative studies carried out at European level, in particular by using the longitudinal data from the European Community Household Panel (ECHP).

A study by Dubois et al (2003), based on the first three waves of the ECHP, examines two related events: entering and leaving employment and union formation and dissolution, and assesses differences between men and women in the link of such events to the risk of poverty. Among the employment related events, the authors consider loss of employment, access to employment, transition into retirement, transition from inactivity to unemployment and transition from unemployment to inactivity, defined at the individual level. As far as family related events, the following events are considered: childbirth, cohabitation, union, death, de-cohabitation, and separation. The main findings of the study are:

- Losses of job and a spouse's loss of job are a major cause of poverty levels of income.
- For women, their spouse or partner's loss of job has a bigger effect on income than for men. This is also the case for their spouse or partner retiring.
- Among family related events, widowhood has twice as large an effect on the probability of becoming poor for women than for men, while separation increases the probability of women's income falling below the poverty line but not men; on the other hand, the effects of childbirth and cohabitation on the risk of poverty do not vary much between men and women.
- Marriage or cohabitation increases the chances of women's income increasing above the poverty line in cases where it is below, but has no significant effect on men's income.
- Another study, by Uunk (2003), which is also based on the ECHP concludes that:
- Educational attainment, labour market experience, and the presence of children are the most important factors affecting income after separation.
- Women with higher education and those working relatively long hours tend to have higher income after separation, while the presence of children tends to reduce income.
- In countries with liberal welfare systems (the UK and Ireland, following the Esping Andersen classification), post-separation income tends to be higher than elsewhere, while the reverse is the case in conservative-corporatist countries (Austria, Germany, and France), which could reflect the higher participation of women in the labour force in the former countries as well as a greater tendency for more independent and better educated women to experience separation.

A study by Fourage and Layte (2003), again using ECHP data also finds positive effects of separation on the probability of having income below the poverty line.

Moreover, a study by Layte and Whelan (2003), examining transitions into and out of relative poverty using the first five waves of the ECHP shows that labour market factors have a strong influence on household incomes, explaining on average around two-thirds of all the transitions into and out of

relative poverty. Changes in family related factors, on the other hand, become relevant only when occurring at the same time as changes in labour market status.

Changes in social transfers are shown to account for over 20% of transitions in and out of poverty in Denmark and only slightly less in the Netherlands, France and Belgium, as opposed to below 10% in the Southern European countries except Italy. In these countries, as well as in the UK and Ireland, changes in earnings account for around 35-40% or more of transitions. These findings imply that in Southern European countries, the size of social transfers is not sufficient to prevent income falling below the poverty level and that changes in labour market status are more effective than increases in benefits in combating fighting poverty.

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## APPENDIX 1

### ***Institutional arrangements to protect against unemployment in Europe***

#### **The level of unemployment benefit**

One means of assessing how social transfers can affect income over the life course is examine replacement rates which I measure the net income provided by benefits received in unemployment relative to the net wage received before the beginning of the unemployment spell.

**Table A1a** reports the most recent trends in net replacement rates at different earnings levels during the initial phase of unemployment. The rates have been computed from the OECD Tax-benefit model, and cover therefore only 19 out of 25 EU Member States. Although results are presented here are for single persons only, these are indicative of the generosity of the system for protecting against unemployment in the different countries.

**Table A1b** reports some summary statistics derived from Table A1a: the ranking of the generosity of the net replacement rates in 2004 and 2001 (first and second column for each earning level); the difference in replacement rates between 2004 and 2001 (third column) and its ranking (fourth column) and a qualitative assessment of the change in the generosity over the period considered<sup>2</sup> (fifth column).

In the majority of the countries, the generosity of unemployment benefits for low-wage earners (those with earnings of 67% of those of the average production worker) did not change much. A notable exception is Slovakia, where the net replacement rate declined by more than 11%. In Hungary, France and Portugal, the reduction was between 5% and 10%, though in the last two, the replacement rate was particularly high at the beginning of the period. The reduction in replacement rates in Slovakia and Hungary reflects a general tendency observed in many former socialist bloc countries of reducing the progressivity of the tax benefit system, an outcome of policies aimed at eliminating disincentives to work for low wage earners. In Slovakia, in particular, the decline was associated with a general tightening of eligibility conditions (see Table A2). The largest increases in replacement rates for low-wage workers were between 5% and 10% in Greece and Poland, in both being part of a general increase in the generosity of the unemployment benefits system for all workers. For average-wage earners, the variability in the differences between net replacement rates in 2004 and 2001 is less than for low-wage earners; the largest reduction occurring in Hungary, with small declines in Spain and all three Nordic countries. For high wage earners, the variation in the difference in generosity is less pronounced than for low-wage earners, and no clear tendency across all Member States is evident: In Denmark, Hungary, Spain and Sweden, there is a reduction in generosity as for medium earners, while in Greece, Ireland and Poland, high earners experienced a similar rise as lower earners.

Among the "Continental" European welfare states (Germany, France, Austria, Belgium, Luxembourg), there was no substantial change in the generosity of the system (with the exception of a reduction in France for low earners and in Luxembourg for medium-high earners). Among the Scandinavian welfare states (Denmark, Sweden and Finland), there was no change in the generosity of the system for low wage earners, but a small decline in the net replacement rates for both medium and high wage earners. In the Anglo-Saxon types of welfare regime, there was no substantial change in the UK but a small increase in generosity in Ireland, where replacement rates were very low at the beginning of the period. Southern European countries show mixed tendencies: an increase in generosity in Greece, a decrease in Spain for medium-high earners and mixed effects in Portugal. Among the new Member States, there was a general reduction in generosity for low earners except for Poland.

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<sup>2</sup> A "decrease" ("increase") in the generosity of the system is defined as occurring when the difference in net replacement rates between 2004 and 2001 for a given country is smaller (greater) than the mean difference (computed across all countries considered) minus (plus) half standard deviation.

Table A1a

**Net Replacement Rates for single persons and different earnings levels: initial phase of unemployment (2001-2004)**

|                 | 67% of APW |      |      |      | 100% of APW |      |      |      | 150% of APW |      |      |      |
|-----------------|------------|------|------|------|-------------|------|------|------|-------------|------|------|------|
|                 | 2001       | 2002 | 2003 | 2004 | 2001        | 2002 | 2003 | 2004 | 2001        | 2002 | 2003 | 2004 |
| Austria         | 55         | 55   | 55   | 55   | 55          | 55   | 55   | 55   | 55          | 55   | 55   | 55   |
| Belgium         | 83         | 87   | 85   | 83   | 63          | 66   | 65   | 63   | 46          | 49   | 48   | 46   |
| Czech Republic  | 50         | 50   | 50   | 50   | 50          | 50   | 50   | 50   | 50          | 50   | 50   | 50   |
| Denmark         | 87         | 86   | 85   | 84   | 64          | 63   | 63   | 61   | 49          | 48   | 48   | 47   |
| Finland         | 74         | 78   | 76   | 73   | 61          | 64   | 62   | 60   | 48          | 50   | 49   | 48   |
| France          | 83         | 80   | 78   | 77   | 71          | 71   | 69   | 73   | 70          | 70   | 67   | 67   |
| Germany         | 63         | 63   | 63   | 62   | 61          | 61   | 61   | 61   | 62          | 62   | 62   | 62   |
| Greece          | 63         | 65   | 73   | 71   | 45          | 46   | 51   | 48   | 32          | 33   | 36   | 34   |
| Hungary         | 65         | 61   | 57   | 58   | 47          | 44   | 42   | 43   | 35          | 34   | 33   | 34   |
| Ireland         | 40         | 40   | 41   | 42   | 29          | 29   | 30   | 30   | 21          | 22   | 22   | 23   |
| Italy           | 50         | 50   | 49   | 50   | 52          | 52   | 54   | 54   | 46          | 46   | 47   | 46   |
| Luxembourg      | 85         | 84   | 84   | 84   | 85          | 85   | 85   | 85   | 87          | 87   | 87   | 87   |
| Netherlands     | 80         | 79   | 80   | 81   | 71          | 71   | 71   | 71   | 61          | 61   | 60   | 59   |
| Poland          | 68         | 65   | 76   | 75   | 47          | 44   | 52   | 52   | 32          | 30   | 35   | 35   |
| Portugal        | 86         | 85   | 85   | 81   | 78          | 78   | 78   | 78   | 83          | 83   | 84   | 84   |
| Slovak Republic | 72         | 69   | 67   | 61   | 64          | 62   | 62   | 64   | 47          | 44   | 44   | 49   |
| Spain           | 76         | 76   | 75   | 76   | 72          | 70   | 69   | 69   | 49          | 48   | 47   | 48   |
| Sweden          | 82         | 82   | 82   | 82   | 78          | 81   | 79   | 77   | 56          | 58   | 56   | 55   |
| United Kingdom  | 64         | 63   | 64   | 63   | 45          | 45   | 45   | 45   | 31          | 31   | 31   | 31   |

Source: OECD, Benefits and Wages (2004)

Table A1b

**Net Replacement Rates for single persons and different earnings levels: initial phase of unemployment (2001-2004)**

|                 | 67% of APW |           |                |                 |                      | 100% of APW |           |                |                 |                      | 150% of APW |           |                |                 |                      |
|-----------------|------------|-----------|----------------|-----------------|----------------------|-------------|-----------|----------------|-----------------|----------------------|-------------|-----------|----------------|-----------------|----------------------|
|                 | Rank 2001  | Rank 2004 | Diff 2004-2001 | Rank difference | Change in generosity | Rank 2001   | Rank 2004 | Diff 2004-2001 | Rank difference | Change in generosity | Rank 2001   | Rank 2004 | Diff 2004-2001 | Rank difference | Change in generosity |
| Austria         | 16         | 16        | 0              | 5               | -                    | 12          | 12        | 0              | 6               | -                    | 7           | 6         | 0              | 6               | -                    |
| Belgium         | 4          | 3         | 0              | 5               | -                    | 9           | 8         | 0              | 6               | -                    | 13          | 13        | 0              | 6               | -                    |
| Czech Republic  | 17         | 17        | 0              | 5               | -                    | 14          | 15        | 0              | 6               | -                    | 8           | 8         | 0              | 6               | -                    |
| Denmark         | 1          | 1         | -3             | 15              | -                    | 7           | 9         | -3             | 17              | decreased            | 9           | 12        | -2             | 17              | decreased            |
| Finland         | 9          | 10        | -1             | 11              | -                    | 10          | 11        | -1             | 15              | decreased            | 11          | 10        | 0              | 6               | -                    |
| France          | 4          | 7         | -6             | 17              | decreased            | 5           | 4         | 2              | 3               | increased            | 3           | 3         | -3             | 19              | decreased            |
| Germany         | 14         | 13        | -1             | 11              | -                    | 10          | 9         | 0              | 6               | -                    | 4           | 4         | 0              | 6               | -                    |
| Greece          | 14         | 11        | 8              | 1               | increased            | 17          | 16        | 3              | 2               | increased            | 16          | 16        | 2              | 2               | increased            |
| Hungary         | 12         | 15        | -7             | 18              | decreasead           | 15          | 18        | -4             | 19              | decreased            | 15          | 16        | -1             | 14              | decreased            |
| Ireland         | 19         | 19        | 2              | 3               | increased            | 19          | 19        | 1              | 5               | -                    | 19          | 19        | 2              | 2               | increased            |
| Italy           | 17         | 17        | 0              | 5               | -                    | 13          | 13        | 2              | 3               | increased            | 13          | 13        | 0              | 6               | -                    |
| Luxembourg      | 3          | 1         | -1             | 11              | -                    | 1           | 1         | 0              | 6               | decreased            | 1           | 1         | 0              | 6               | -                    |
| Netherlands     | 7          | 5         | 1              | 4               | -                    | 5           | 5         | 0              | 6               | -                    | 5           | 5         | -2             | 17              | decreased            |
| Poland          | 11         | 9         | 7              | 2               | increased            | 15          | 14        | 5              | 1               | increased            | 16          | 15        | 3              | 1               | increased            |
| Portugal        | 2          | 5         | -5             | 16              | decreasead           | 2           | 2         | 0              | 6               | -                    | 2           | 2         | 1              | 5               | increased            |
| Slovak Republic | 10         | 14        | -11            | 19              | decreasead           | 7           | 7         | 0              | 6               | -                    | 12          | 9         | 2              | 2               | increased            |
| Spain           | 8          | 8         | 0              | 5               | -                    | 4           | 6         | -3             | 17              | decreased            | 9           | 10        | -1             | 14              | decreased            |
| Sweden          | 6          | 4         | 0              | 5               | -                    | 2           | 3         | -1             | 15              | decreased            | 6           | 6         | -1             | 14              | decreased            |
| United Kingdom  | 13         | 12        | -1             | 11              | -                    | 17          | 17        | 0              | 6               | -                    | 18          | 18        | 0              | 6               | -                    |

Source: our calculations on the basis of OECD, Benefits and Wages (2004)

**Table A2: Changes in the generosity of unemployment benefits (UB)**

| <b>Decreased UB generosity</b>  | <b>Increased UB generosity</b>   |
|---|--|
| Germany (Hartz reform, 2005): reduced duration of benefit for both unemployed and long-term unemployed;   | Finland (2002-2003): replacement rates increased from 42% to 45% and duration extended from 24 to 28 months;                               |
| Poland (2002): abolition of pre-retirement unemployment benefit for the population aged 56+;  | Ireland: increase in UB replacement rates between 2000 and 2005;   |
| Slovakia (2000): tightening of eligibility conditions for UB and reduction of replacement rates for both unemployed and long-term unemployed;               | Czech Republic: increase in both replacement rate and duration of benefit receipt (October 2004);  |
| Denmark (1999): reduction of UB from 5 to 4 years and tightening of eligibility requirement;  | Greece (2001): increasing unemployment benefits level for people in the second year of unemployment;                                       |
| Sweden (2001): reduction in the level of UB after the first 100 days of benefits receipt; maximum period of benefit receipt is limited to 600 working days; | France (2001): loosened eligibility requirements and abolition of benefits reduction over time;  |
|   | Italy (2000): replacement rates increased from 30% to 40% and benefits duration increased from 6 to 9 months for the over 50s.;            |
|   | Austria (2001): increased replacement rates for low income earners: from 55% to 60% for singles, and to 80% with dependent family members; |

Source: Carone and Salömaki (2001)

## **ELIGIBILITY AND COVERAGE OF UNEMPLOYMENT BENEFITS SYSTEMS**

**Table A3** below highlights the distinctive nature of unemployment benefit systems in terms of eligibility and coverage. Unemployment insurance is voluntary in Denmark, Finland and Sweden, although it covers most employees. In other countries, insurance is compulsory but because of employment and contribution requirements coverage is far from complete. The required contribution record is mostly 6 to 12 months but it is shorter in France (only 4 months) and longer in Belgium (468 days), Portugal (540 days), Slovakia (24 months) and the UK (2 years).

The amount of benefit received depends not only on the contribution record but also on previous earnings. The benefits in some cases are flat amounts (Ireland, Poland and the UK), so these systems by design are more generous to low wage earners than to average and high wage earners. In countries where unemployment benefits are linked to past earnings, the replacement rates are lower for higher wage earners, though the benefits payable and replacement rates are quite different across these countries. Most importantly, the earnings base can be gross earnings (as in Belgium or Hungary), net earnings (as in Austria or Germany) or some intermediate measure (in Denmark, gross less 8%, in Finland, gross but excluding additional holiday pay and social security contributions). Ceilings on benefits are also applied in all countries so that the amounts paid cannot exceed a maximum level irrespective of earnings.

Table A3

**Unemployment insurance benefits for a 40-year-old single worker without children, with a 22-year employment record (2002)**

|                        | Required employment spell (E) and contributions spell (C) | Voluntary (V) or Compulsory (C) insurance | Waiting period (days) | Maximum durations (months) | Initial replacement rate | Earning base | Minimum benefit (% apw) | Maximum benefit (% apw) |
|------------------------|---|---|-----------------------|----------------------------|--------------------------|--------------|-------------------------|-------------------------|
| <b>Austria</b>         | E+C (1 out of 2 years)                                    | C   | 0                     | 9                          | 55                       | net          |                         |                         |
| <b>Belgium</b>         | E+C (468 days out of 27 months)                           | C   | 0                     | unlimited                  | 60                       | gross        | 28                      | 39                      |
| <b>Czech Republic</b>  | 12 months in 3 years (E), 6 months in 3 years, C          | C   | 7                     | 6                          | 50                       | net          |                         | 60                      |
| <b>Denmark</b>         | 52 weeks in 3 years                                       | V   |                       | 48                         | 90                       | gross        |                         | 52                      |
| <b>Finland</b>         | 42 weeks in 3 years                                       | v   | 7                     | 23                         | basic benefit (21% apw)  | gross        |                         |                         |
| <b>France</b>          | 4 months out of 18  | C   | 8                     | 30                         | 57-75                    | gross        | 40                      | 295                     |
| <b>Germany</b>         | 12 months, E, 12 months C in 3 years                      | C   | 0                     | 12                         | 60                       | net          |                         | 103                     |
| <b>Greece</b>          | 125 days in 14 months or 200 days in 2 years (e+c)        | C   | 6                     | 12                         | 40-50                    | gross        | 28                      | 29                      |
| <b>Hungary</b>         | e+c 200 days in 4 years                                   | c   | 0                     | 9                          | 65                       | gross        | 20                      | 40                      |
| <b>Ireland</b>         | c: 39 weeks in 1 year                                     | c   | 3                     | 15                         | fixed (24% apw)          |              |                         |                         |
| <b>Italy</b>           | c: 52 weeks in 2 years                                    | c   | 7                     | 6                          | 40                       | gross        |                         | 52                      |
| <b>Luxembourg</b>      | e+c 26 weeks in 1 year                                    | c   | 0                     | 12                         | 80                       | gross        | 26                      | 55                      |
| <b>Netherlands</b>     | 26 weeks in 39, E, 52 days, C in 4 years                  | c   | 0                     | 18                         | 70                       | gross        | 37                      | 135                     |
| <b>Poland</b>          | e+c, 365 days in 18 months                                | c   | 7                     | 18                         | fixed (26% apw)          |              |                         |                         |
| <b>Portugal</b>        | e+c 540 days in 2 years                                   | c   | 0                     | 24                         | 65                       | gross        | 50                      | 149                     |
| <b>Slovak Republic</b> | e+c 24 months in 3 years                                  | c   | 0                     | 9                          | 50                       | gross        |                         | 52                      |
| <b>Spain</b>           | 360 days in 6 years                                       | c   | 0                     | 24                         | 70                       | gross        | 28                      | 64                      |
| <b>Sweden</b>          | 6 months in last year, e, 12 months c                     | v   | 5                     | 14                         | 80                       | gross        | 35                      | 76                      |
| <b>United Kingdom</b>  | 2 years, c  | c   | 3                     | 6                          | fixed, 14% awp           |              |                         |                         |

Source: OECD, Benefits and wages (2004)