

# **Job loss and unemployment insurance systems**

**Research report**

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## CONTENTS

1.0 Introduction – background and scope of the report .....	3
1.1 Background and outline .....	3
1.2. Scope and objectives.....	3
2.0 Unemployment and unemployment insurance systems.....	4
2.1 What causes unemployment? .....	4
2.2 Purposes and benefits of an unemployment insurance system.....	5
2.3 Providers of unemployment systems .....	6
3.0 Characteristics of unemployment insurance systems .....	9
3.1 Public vs private unemployment insurance.....	9
3.2 Mandatory vs voluntary insurance .....	11
3.3. Financing .....	11
3.4. Organization and administration .....	12
3.5. Target group.....	12
3.6. Eligibility conditions .....	12
3.7. Generosity.....	13
3.8. Main insurance vs supplementary insurance .....	13
4.0 International experiences .....	14
4.1 The Social Democratic or Universal regimes (Denmark) .....	14
4.2 Continental, Corporatist regimes (Germany) .....	17
4.3 Liberal regimes (Great Britain).....	18
4.4 Southern European Regimes (Spain) .....	21
5.0 Comparison and discussion.....	23
6.0 Conclusions and perspectives .....	28
References.....	30

# 1.0 Introduction – background and scope of the report

## 1.1 Background and outline

This research report is a part of the cooperation project between the Tunisian General Labor Confederation (UGTT) and the LO/FTF Council, supported by the European Union and aiming at strengthening the UGTT's capacities to actively participate in the social dialogue in Tunisia. As part of the cooperation project, the UGTT wish to gain more knowledge and experiences about the concept of job loss and not least different ways of alleviate the economic and social consequences of unemployment. This is related to the third theme tackled in the social contract 'Industrial relations and decent work', which stipulates the creation of an unemployment insurance fund for workers who, for different reasons, lose their jobs.

In Tunisia the concept of an unemployment insurance fund is new. Hence, the UGTT wishes to benefit from some expertise on the concept of unemployment insurance funds, in collaboration with the LO/FTF Council, in order to contribute to the process of drafting a bill setting up the financial and legal framework for an unemployment insurance fund. In order to gain more knowledge on how to establish a possible unemployment insurance system LO/FTF Council has asked Centre for Labour Market Research (CARMA) to conduct an international, comparative study of different, existing unemployment insurance systems. The results are presented in this research report.

CARMA is a research group based at Aalborg University, Denmark and has more than 30 years of experience in international, comparative studies of labour market issues. The study presented in this research report is conducted jointly by Postdoctoral researcher, Ph.D. Laust Høgedahl and Assistant Professor, Ph.D. Stine Rasmussen from CARMA. Both researchers have studied and published internationally on various aspects of unemployment insurance funds.

## 1.2. Scope and objectives

The scope of the study is to investigate the following issues related to unemployment insurance systems:

- Identify the international experiences in the field
- Define the legal framework for setting up such a fund/system
- Indicating financing arrangements
- Set up the optional structures and mechanisms

In order to cover the issues mentioned above, the investigation will draw on a *comparative research design* covering various models of unemployment insurance systems situated in different countries. The aim is to present different types of unemployment insurance systems including pros and cons of each system.

The *method* and *data* used is based on a qualitative desk-research of existing literature in the field. This includes publications from relevant authorities e.g. EU and the Danish Government's unemployment benefits commission [Dagpengekommissionen].

The report consists of six main sections: In the following section *2.0 Unemployment and unemployment insurance systems* we briefly describe different types of unemployment and the social and economic consequences that are connected to job loss. In this section we also outline the purposes and benefits of an unemployment insurance systems and why different countries have developed rather different systems over the course of time. In section *3.0 Characteristics of unemployment insurance systems* we outline the key features of any unemployment insurance system, e.g. if the system is private or public based, if the system is based on an optional membership or if the system is compulsory, taxed based system vs systems based on membership fees etc. These key features are important to bear in mind when sketching up a new unemployment system in Tunisia and we will also use these features when describing and analyzing different unemployment insurance systems. In section *4.0 National experiences with unemployment insurance systems* we present our analytic findings from different types of unemployment insurance systems. Here we focus on four different unemployment regimes. In section *5.0 Comparison and Discussion* we compare the different unemployment insurance regimes and discuss the pros and cons of each system in an international and comparative perspective serving as an inspiration for the UGTT. In the last in final section *6.0 Conclusion and perspectives* we present different pathways to creating a new unemployment insurance system in Tunisia.

## **2.0 Unemployment and unemployment insurance systems**

### **2.1 What causes unemployment?**

Unemployment is a product of any labour market with a supply and demand of labour and unemployment occur when the supply of labour exceed the demand. However, there are many different theoretical reasons for the rise and fall in unemployment for any given labour market. Hence, we also find *different types of unemployment*. Basically, we can list three main forms of unemployment:

- Frictional

Frictional unemployment, also called *search unemployment*, occurs when workers lose their current job and are in the process of finding another one.

- Structural

Structural unemployment occurs when certain industries decline because of long term changes in market conditions. This type of unemployment arises through a change in demand which switches production from one kind of work to another; it differs from frictional unemployment in that it occurs through permanent or long-term changes in the structure of the economy.

- Cyclical

This type of unemployment arises from the business cycle. Such unemployment occurs due to deficiency of demand or purchasing power and is also called demand-deficient unemployment. Since this type of unemployment is due to downturn in economic activity, it can, therefore, be expected to occur and disappear at fairly regular intervals. The global financial and economic crisis in 2008 had a strong effect on the cyclical unemployment rate in many countries.

Apart for the three main types of unemployment listed above many others can be identified such as *seasonal unemployment* due to weather or lack of raw material or *regional unemployment* which is linked to a specific area. The same goes for *youth unemployment* where young workers for different reasons have a higher unemployment rate compared to older workers. In Tunisia there are rather significant differences in unemployment levels between the rural and urban areas and between young and older workers (The World Bank, 2017).

## **2.2 Purposes and benefits of an unemployment insurance system**

There are many different consequences of unemployment for the individual worker, close family, community and the overall economy. Hence, a number for different purposes of an unemployment insurance system can be identified:

- **Creates security**

First of all an unemployment insurance system is designed in order to give the individual worker economic security in case of unemployment and thus make sure that the worker can uphold a decent living standard in times without earnings from a job. Furthermore, research indicates that unemployment is linked to stress, ill-health and other physical, psychological and social issues (Mathers & Schofield, 1998). Hence, there is a wide range of (positive) purposes and benefits of an unemployment system at the individual and family level. The sense of security is widely based on the compensation level, the length of the benefits etc.

However, a high level of security can also have positive effect at a macro level. The Danish labour market model is widely known for *Flexicurity* where a rather generous unemployment benefit is one of the three corner stones in the model besides high flexibility for employers in terms of hiring and firing and active labour market policies (Madsen, 2003). The high sense of security provided by the unemployment insurance system means that workers in Denmark do not fear

unemployment even though the probability for unemployment is rather high compared to other countries. The Danish Flexicurity model and the unemployment insurance system, which is a fundamental part of the model, have proven to give a strong international competitiveness for Danish employers apart from providing security for the individual worker.

- **Better match between supply and demand**

An unemployment insurance system can also help a better match between supply and demand between companies and unemployed workers. When workers receive unemployment benefits they are not forced to take work that they are over-qualified for. If workers do not have unemployment benefits they are more inclined to find any kind of job quickly after becoming unemployed in order to sustain an income. They then immediately start looking for a new job more suited for their qualifications. This can lead to a large job-turnover which is costly for companies.

- **Securing consumer spending**

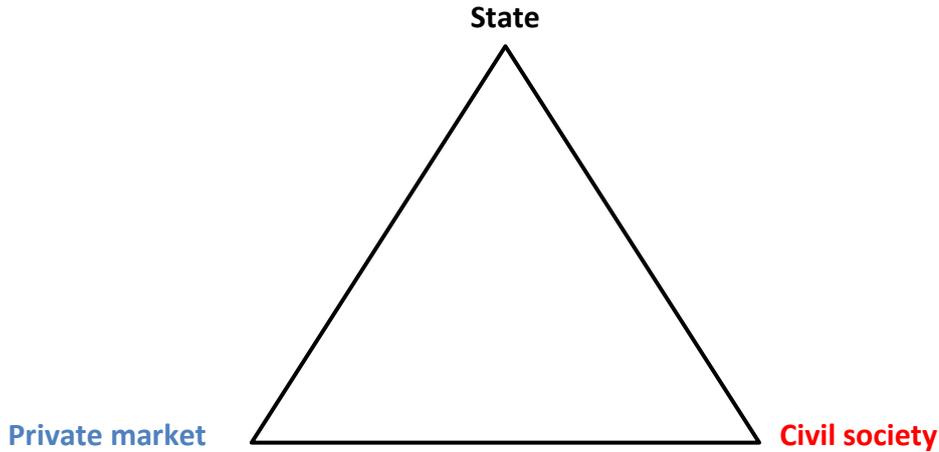
The economic effect or output of unemployment has also been widely studied especially in combination with unemployment insurance systems (Hansen & İmrohorođlu, 1992). An unemployment insurance system is of course an expenditure and many economists have calculated the costs of an unemployment insurance system in a macroeconomic perspective. However, as Orszag (2001) shows, unemployment benefits can work as an economic stimulus for the overall economy. By partially compensating for lost income, unemployment benefits lessens the reduction in spending that unemployment can cause (see also Gruber, 1994). So even though a unemployment insurance system immediately can be seen as an expenditure, the fact that unemployed workers do not lose their entire income do have a positive effect on the consumer spending and therefore the overall national economy.

### **2.3 Providers of unemployment systems**

Different countries have different traditions in terms of who are the main providers of unemployment insurance benefits. For most countries the developments of unemployment insurance systems occur in the wake of the first wave of industrialisation. The move from an agriculture based self-sufficient society to the rise of capitalism and production created a working class and the concept of unemployment as a consequence. Different countries took different paths in order to find solutions to the problems related to unemployment.

Basically, the unemployment insurance system can be provided by either the state, the private market or by the civil society as illustrated in Figure 1.

Figure 1 - Different provider of UI systems



The different systems in different countries have a long history and are closely related to the development of other welfare arrangements in each country. Esping-Andersen (1990) was one of the first to identify different welfare state regimes by focusing on the notions of *decommodification*, *stratification* and *public private mix*. Decommodification refers to ‘the degree to which distribution is not linked to market mechanism’, while stratification implies the degree to which ‘one’s status as a citizen will compete with, or even replace, one’s class position’. Also Esping-Andersen (1990) identified public-private mix (or the state-market nexus) in a narrower sense, which is based on a distinction between public and private provision of social security benefits. Later he included the civil society in his analysis as included in Figure 1. In many countries the unemployment insurance system is a mixture of both public and private arrangements.

Ozkan (2014) uses the welfare state regime typology to identify different unemployment insurance system regimes as illustrated in table 1.

Table 1 – Features of unemployment insurance schemes in unemployment welfare regimes

Regime	Coverage	Level of coverage
Liberal	Incomplete	Weak
Southern Europe	Incomplete or Variable	Weak or unequal
Continental	Variable	Unequal
Social Democratic	Comprehensive	High

Source: Ozkan (2014) + own additions

In the liberal welfare state regimes such as the UK, US, New Zealand and Australia the coverage of the unemployment insurance schemes are incomplete. Here the unemployment systems do not provide coverage for most of the unemployed, and they offer very limited financial assistance compared to other regimes. The underlying logic in the liberal welfare state regimes is to encourage the unemployed to take responsibility for themselves in order to avoid becoming

dependent on social assistance. Here the unemployment benefits are often based on means testing.

Southern Europe regimes (Spain, Italy, Greece and Portugal) only cover a small proportion of the unemployment population due to the strict eligibility criterion based on employment and contributions records. The benefit duration is normally short and based on years of employment, hence, both the coverage and the level of coverage are variable and unequal at the same time. The Southern Europe system tends to create an insider/outsider system where those workers with a long seniority often have better security in comparison to those who do not have a permanent contract and long seniority. In the Southern European countries the civil society plays a much more prominent role in terms of delivering social services.

In the continental countries such as Germany, France, Austria, the Netherlands, the coverage is, for the most part, better compared to the Southern European countries. However, the insider/outsider effect is also present here which means a variable coverage and unequal level of coverage for the individual worker.

Finally, the Social Democratic countries, or Nordic countries, tend to have more comprehensive coverage and also a higher level of coverage.

In all it is important to stress that an unemployment system can have different purposes and that the providers of the systems can differ between the state, the private market and the civil society. We also find that different countries have different systems, which are closely related to the historic development for different welfare state regimes. We will return to the different regimes later in the rapport.

### **3.0 Characteristics of unemployment insurance systems**

Unemployment insurance systems can be established in various ways and in this section we briefly describe a number of characteristics or more profound principles for unemployment insurance systems that has to be taken into account when a choice between different insurance systems is made. These will also serve as a larger framework for understanding the national experiences with unemployment insurance systems in the next section.

We briefly outline the following characteristics:

- Public vs private unemployment insurance
- Compulsory vs voluntary unemployment insurance
- Financing of the unemployment insurance scheme
- Organization and administration of the unemployment insurance scheme
- Target group
- Eligibility criteria
- Generosity
- Main insurance vs supplementary insurance

#### **3.1 Public vs private unemployment insurance**

As already touched upon in section 2.3, unemployment insurance can either be a public or a private matter, because the insurance can either be provided by the state or by non-public players (private providers or civil society organizations) or by a mixture of both. Denmark is such an example, where trade union affiliated unemployment insurance funds (non-public organizations) administer the unemployment insurance but the state subsidizes the scheme and controls the unemployment funds. This is the so-called Ghent-system that we elaborate on in section 4.

The choice between public vs private unemployment insurance is basically a question about how job loss and unemployment are perceived by policy makers. For instance, in Denmark the unemployment insurance emerged back in the 19<sup>th</sup> century as a private scheme set up by the trade unions in order to give economic support to union members that became unemployed, but early on the state became involved in the scheme. The political rationale behind this was that job loss and unemployment was perceived to be a societal matter rather than a purely individual matter. Therefore, it was believed that the state ought to intervene and should be involved in the unemployment insurance in order to cushion the negative effects of unemployment (Rasmussen 2016).

Historically, unemployment insurance schemes emerged in a number of countries as private arrangements, but today most countries with unemployment insurance have some sort of state involvement, either in the sense that the unemployment insurance

is a mandatory public arrangement or in the sense that the state subsidizes the scheme in some way or another. Private insurance schemes are based upon a so called *actuarial principle*. This means that the premium (the amount of money paid by the insured for the insurance) is dependent upon a weighted calculation on a persons' risk of unemployment and size of income loss. However, for a number of reasons it is difficult to determine an actuarial premium for unemployment, wherefore purely private arrangements are perceived to be less sustainable and this explains why state involvement in the insurance has become the norm (Unemployment Insurance Commission 2015a: 5-7). The problems with calculation of an actuarial premium in a private scheme are:

- First of all, insurance companies need full information about the insured person's risk of unemployment, but don't always have it and this fact limits their possibilities for calculating the premium. This is due to the concept of *moral hazard* where persons, who have taken an insurance against unemployment can affect own risk of unemployment as well as the length of the unemployment spell. The insurance companies are not able to control this behavior and do not have information about this behavior. For instance, it is difficult for the insurance company to know whether a longer unemployment spell has to do with the individual's job search behavior or with external factors such as a recession where no jobs are available (Unemployment Insurance Commission 2015a:5-6.)
- Secondly, when calculating the premium, insurance companies need to be able to distinguish between persons with different risks of unemployment. If this is not possible, all insured workers will pay the same premium. When the premium does not reflect the individual risk of unemployment, then workers with a low risk of unemployment will avoid the insurance because they perceive the premium to be too high. And when workers with low risk of unemployment opt out the insurance, then workers with higher unemployment risks remain. However, this will lead to a higher premium because the premium is based upon unemployment risks and eventually this can lead to the fall of the insurance, simply because the insured workers are not able to pay the premium. This problem is called *adverse selection* (Bjørn and Høy 2014:8; Unemployment Insurance Commission 2015a:6).

Furthermore, purely private insurance arrangements become economically vulnerable in economic downturns, because their expenses increase when more insured persons become unemployed. Often the premium follows the state of the market with a lower premium in economic upturns and a higher premium in economic downturns but a high premium at times with high unemployment may be difficult for the insured persons to pay.

### **3.2 Compulsory vs voluntary insurance**

Another fundamental principle is about the insurance being compulsory or voluntary. When insurance is voluntary, the individual worker actively decides whether or not to join the insurance scheme and benefit receipt is dependent on that choice, whereas in a compulsory unemployment insurance scheme, the working population is obligated to join the scheme. Today, most countries with unemployment insurance arrangements have compulsory schemes, probably as a solution to some of the problems with informational asymmetry, adverse selection and moral hazard mentioned in section 3.1. (Bjørn and Høy 2014: 8; Holmlund 2015:4). For instance, in a compulsory system the problem with adverse selection cannot occur, because the insurance cannot be deselected. Therefore, the share of persons enrolled in the unemployment insurance is higher than in a voluntarily system.

Today, compulsory systems are found in countries like Norway, Germany, Austria, Canada, the UK, France, Spain, Portugal, Italy, Greece and Belgium while only Denmark, Sweden, Finland and Iceland (the Ghent countries) have voluntary systems. In these systems the individual has to actively join an unemployment insurance fund in order to be able to receive unemployment insurance benefits. Despite the risk of a low coverage in a voluntarily system, the Ghent systems do have quite high support from the employed population. In Denmark and Finland around 75 % of the employed populations are members of an unemployment insurance fund and in Sweden the share is around 65 % (Høgedahl and Kongshøj 2017:7).

### **3.3. Financing**

Several actors or combinations of actors can finance an unemployment insurance scheme – the state (through tax payments), the employed population (either through member contributions or through labour market contributions) and/or the employers (through employers' contributions). Furthermore, state financing can take place in different ways: The state can give a subsidy to the insurance, which can be fixed or variable. The state can also choose only to cover deficits (Esser et al 2013:17-18). As we return to in section 4, when we describe national experiences with different unemployment insurance schemes, there are great variations between the countries both in terms of the actors who are involved in the financing as well as how much they contribute. For example, Denmark is an example of a country with a combination of state and membership contribution and where the state finances the majority of the insurance. On the contrary, the other countries run different combinations of employer and employee financing. We will return to these differences in the following section 4.0.

### **3.4. Organization and administration**

The responsibility of running the administration of the unemployment insurance scheme at the operational level is also an important matter. In the compulsory systems where the state is involved, normally government agencies are responsible for administration and disbursement of the scheme, but in systems where non-public players are involved, they too can be responsible for the administration. For instance, in Denmark unemployment insurance funds (member organizations) are responsible for administration and disbursement of the scheme.

### **3.5. Target group**

Another important issue is who can get access to an unemployment insurance scheme? Should all groups on the labour market or only certain groups have access to the scheme? In a number of countries all persons in paid employment (both employees and self-employed) have the possibility to access the scheme, but in others only employees are allowed into the scheme. An issue is also whether persons in training positions, atypical employment forms and graduates are allowed into the scheme or not.

### **3.6. Eligibility conditions**

Besides broader or smaller target groups, the unemployment insurance schemes also have certain requirements in order to become eligible for the benefits in the first place and secondly different criteria to fulfill during unemployment in order to stay eligible:

*Entrance criteria.* Normally, eligibility for unemployment benefits is defined by past employment or past earnings during a certain period of time and – if the insurance is voluntary – membership for a certain period of time. Normally, it is also required that job loss is not self-induced. Self-induced job loss can be if a job is terminated for no good reason. In case of self-induced job loss, a quarantine period normally sets in, which is a sanction imposed upon the unemployed, where the unemployed cannot receive the benefit for a certain period of time. Furthermore, in some countries there is a short *waiting period* from the job loss sets in until benefits are possible (normally a few days up to a week). A waiting period can be a mechanism to keep expenses to the insurance down.

*Criteria to stay in the unemployment insurance.* Normally, there also are a number of requirements for the unemployed persons in order to stay in the scheme and continue to receive the benefit. It is standard to demand that the unemployed must be available for work, actively seeking job and are registered at a local jobcenter or labour agency. Furthermore, countries can have different requirements for the unemployed person to full-fill, which are part of the active

labour market policy in each country. For instance, in Denmark unemployed persons are required to go to several interviews either at the local job center or at the unemployment insurance fund during their unemployment period. They are also obligated to participate in different types of activation programs such as wage subsidy or internship programs in companies and so on.

### **3.7. Generosity**

Another factor is the generosity of the unemployment insurance, which is often measured by two items - the benefit level and the duration of the benefits.

*Benefit level.* Since unemployment insurance is understood as a temporary economic aid that can be given in case of unemployment, the principle is that the benefit level should reflect a certain fraction of previous earnings. Normally there is a cap stipulation on how high the benefit level can be and in some cases also a floor for the minimum benefit level.

*Duration of the benefit.* Duration of the benefit also varies a lot between countries. In most countries the benefit duration is fixed, but it is possible to have a more fluent system where the benefit duration is dependent on the business cycle. Here, the duration of the benefit is longer in periods of recessions and shorter in economic upturns. Canada, the US and Chile have such unemployment insurance systems. In recent years such a system has been recommended in Denmark by certain commissions and councils, but has not yet been realized.

The benefit level and the duration of the benefit may be dependent upon each other, where the benefit level is higher in the beginning of the unemployment period and declines concurrently with longer spells of unemployment. Benefit levels and benefit duration can also be dependent upon characteristics of the workers, for instance age and employment history. This can lead to some groups being favored in the system compared to others, but the argument can be that certain groups have a more insecure labour market attachment or are more challenged on the labour market which can legitimate a certain preferential treatment.

### **3.8. Main insurance vs supplementary insurance**

Another important factor is whether it should be possible to take out an additional insurance as a supplement to the main unemployment insurance or whether only one main insurance should exist. In a number of countries it is possible to take out a supplementary insurance next to the main insurance. This phenomenon can arise if the benefit level in the main insurance is perceived to be too low (for some groups at least). In this case it is possible to buy an additional insurance that will top the premium received from the main insurance.

## 4.0 International experiences

In this section we focus on analyzing four different regimes in terms of unemployment insurance: The Social Democratic, Continental, Liberal and Southern European regimes. Each section begins with a short presentation of the key features of each regime and we then describe four national systems; Denmark, Germany, England and Spain as cases. Here we focus on 1) *Legal framework* 2) *Organization and financing* 3) *Content of the insurance* and 4) *Other benefits* for each of the four countries.

### 4.1 The Social Democratic or Universal regimes (Denmark)

In Nordic countries; Denmark, Sweden, Finland and Iceland the unemployment insurance system is based on voluntary membership of unemployment insurance funds that are controlled by the labour movement and subsidized by the state as briefly described above. This system is also called 'the Ghent-system' since it was first developed in the Belgium city of Ghent in the early 1900ies. The Ghent system of unemployment in the Nordic, Social Democratic regimes has been linked to a high union density. In an international comparison the Nordic countries have the highest union densities in the world at around 70 – 80 pct. (Høgedahl & Kongshøj, 2017). Norway is the only Nordic country not operating a Ghent system but a compulsory unemployment system and here the union density is considerably lower at around 55 pct. (Høgedahl 2014). It is important to stress that workers are not obligated to join a trade union in order to become member of an unemployment insurance fund in the Nordic Ghent countries. However, many workers do chose to be double members of both an unemployment insurance fund and a trade union at the same time. The membership density of unemployment insurance funds is around 80 pct. in Denmark. There are three main reasons for workers *not* joining an unemployment insurance fund. Some workers, especially public sector civil servants, have a high degree of employment protection and therefore calculate that the chances of unemployment are low. Other workers with a very high income do not find the compensation level of the benefits attractive while workers with high degree of unemployment often combined with sickness or other physical, psychological or social issues are more inclined to receive social benefits and not unemployment benefits.

In this section we will focus on Denmark as a case of the Social Democratic regime, however, it is important underline that even though the Nordic countries are rather similar compared to other countries there are still differences in terms of coverage, durability etc.

#### *Legal framework*

The legal framework dictating the rules regarding unemployment insurance benefits and unemployment insurance funds are found in the Act of Standard Regulation for Recognized Unemployment Insurance Funds [Bekendtgørelse om standardvedtægt for anerkendte a-kasser] which field of responsibility is based at The Ministry of Employment.

### *Organization and financing*

There are 25 different unemployment insurance funds in Denmark. Some are linked to a specific trade union, others are linked to more than one trade union and a few funds operate completely independent with no connection to the labour movement. The unemployment insurance funds in Denmark are private associations of employees and/or self-employed persons organized for the sole purpose of ensuring economic support in the event of unemployment. In order to receive unemployment benefits Danish workers need to be member of a fund and all types of workers are allowed into the unemployment insurance scheme, that is both employees, self-employed and persons employed in different contracts (part-time, fixed-term and so on). The membership fee is around 50-55 Euros pr. month which covers a fixed fee to the state (34 Euros) and administration expenditures for the fund, which the funds are free to determine. The price for running the unemployment insurance system in Denmark is greater than the fees paid by members themselves. Hence, the Danish state subsidizes a large part of the system and the subsidy varies from fund to fund (around 50 to 75 pct. of total expenditures) depending on level of unemployment in each fund. This means that the state has more expenses in times with higher unemployment levels and fewer expenses in times with lower unemployment levels. In the latest economic boom in the beginning and middle of the 2000s, the unemployment insurance was self-financed in the sense that the contribution fees from the members exceeded the expenses to the insurance (Unemployment Insurance Commission 2015d:2,6).

Membership is voluntary which means that workers actively have to join a fund in order to get access to unemployment benefits. The unemployment Insurance Funds are supervised by the Danish Agency for Labour Market And Recruitment (STAR) which is a government agency operating under the Ministry of Employment.

### *Content of the insurance*

In a comparative perspective the Danish unemployment insurance system has been known as a quite generous system both in terms of benefit levels and benefit duration. However, since the middle of the 1990ies the Danish system has undergone significant changes with a gradual reduction in the generosity level. For instance, a reform in 2010 halved the benefit duration from 4 to 2 years and introduced stricter eligibility criteria and again in 2015 the system was subject to a larger reform (The Unemployment Benefit Reform) bringing rather comprehensive changes to the system in terms of (again) entailing stricter eligibility and shorter benefit duration. The reform also introduced new principles for benefit calculations where incentives for taking on shorter jobs while being unemployed were enhanced.

Under current rules, an unemployed worker can receive unemployment benefits if he or she has been a member of an unemployment insurance fund for at least 1 year and has reported at least DKK 223.428 (EUR 30,033) as a fulltime insured member or DKK 148.956 (EUR 20,022) as a part time insured member as income (2017) to the income registry in the past 3 years. Benefits can be

received for a maximum of 2 years within a period of 3 years. Registration at a jobcenter, being available for work and actively seeking work are also requirements in order to receive the benefit.

As a rule, the rate of unemployment benefit paid out is calculated on the basis of the 12 months with the highest income in the past 24 months. It is possible to receive up to 90 per cent of the average salary income although most workers will have a higher income. This means that many have a compensation rate around 50-60 pct. However, it is not possible to receive more than the highest unemployment benefit rate, which in 2017 was DKK 18.403 (EUR 2,473) a month as a fulltime insured member and 12.269 (EUR 1,649) a month as a part time insured member.

There are special rules regarding graduates who are able to become members of an unemployment insurance fund even if they do not have an employment record, on the condition that they join the fund immediately after graduation. Unemployed graduates receive a reduced unemployment benefit at a rate of 71.5 pct. of the normal level.

#### *Supplementary insurance*

In recent years and parallel with the reductions in the unemployment insurance system, which subsequently have made the Danish unemployment insurance benefits less attractive, private supplementary wage insurances have gained more popularity in Denmark. These wage insurances are supplied by private insurance companies and are provided as a supplement to the unemployment insurance systems. Normally these supplementary insurances top the unemployment insurance and give unemployed an extra amount of money on top of the amount given by the ordinary system. In 2016 around 200.000 supplementary wage insurances existed ([www.forsikringogpension](http://www.forsikringogpension)).

#### *Other benefits*

If a person has chosen not to be insured in an unemployment insurance fund, or if the person is not qualified for unemployment insurance or have used up the benefit right in the unemployment insurance system, social assistance [kontanthjælp] is an option. Social assistance is given to persons who are temporarily not able to provide for themselves and depends upon age, children and partners' status and income. The eligibility criteria have also been tightened over time and for a significant share of those persons who have used the right to unemployment insurance, social assistance is not an option.

## 4.2 Continental, Corporatist regimes (Germany)<sup>1</sup>

In continental countries (Germany, France, Austria and the Netherlands as examples) the basic principle for social security and welfare benefits (unemployment benefits, pension, sick benefits and nursing care) is that it is compulsory and is realized through contributions from the labour market (employers and employees) in corporation with the state. Therefore joint responsibility between the state, employers and employees is emphasized in these countries. The benefits are typically dependent upon labour market attachment, wherefore these countries are more 'employment-centered' compared to the Scandinavian welfare regime. In these countries, unemployment insurance is compulsory and mainly financed by contributions from employers and employees. In the following we briefly outline the German unemployment insurance system as an example of a continental unemployment insurance regime.

### *Legal framework*

The German statutory unemployment insurance system is called Arbeitslosensversicherung or Unemployment I and is legally defined in Book III in the German Social Code from 1997 [Sozialgesetzbuch], which is a comprehensive collection of legislation concerning the promotion of employment, vocational training and employment services. Here, the set of rules for the unemployment insurance is stated, for instance in terms of who are obligated to contribute to the scheme, eligibility criteria, benefit levels and so on. The Federal Ministry of Labour and Social Affairs have the German unemployment insurance as field of responsibility.

### *Organization and financing*

An employee is automatically enrolled in the unemployment insurance scheme once a person is employed and the employer is responsible for the enrollment. Trainees are also included, but not freelancers/self-employed. However, since 2006 self-employed have had the opportunity to contribute voluntarily to the scheme under certain conditions. Disbursement and administration of the scheme is handled by federal labour offices [German Bundesagentur für Arbeit]. The monthly contribution rate is 3 pct. of the income and is divided equally between the employee and the employer (1.5 pct. each). If the expenses to the unemployment insurance scheme decrease, then the contribution will decrease as well. The state gives a subsidy to run the labour offices.

### *Content of the insurance*

The benefit level is 60 pct. of prior income (net income) for unemployed without children and 67 pct. for unemployed with children. However, there is a monthly maximum limit of 6500 Euros in West Germany and 5800 Euros in East Germany. In order to be eligible for unemployment

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<sup>1</sup> This section is based on information from Bjørn and Høy 2014 and these websites: <http://tyskland.um.dk/da/om-tyskland/social%20sikring/arbejdsloeshedsunderstoettelse/>, <https://www.arbeitsagentur.de/arbeitslos-arbeit-finden/anspruch-hoehe-dauer-arbeitslosengeld>, Eurofound.com and MIssoc.org.

insurance benefits in Germany 12 months of prior employment (and therefore also 12 months of contribution to the scheme) within 2 years is required. Also, registration as unemployed at the labour office is required. Unemployment is defined as no work or work less than 15 hours per week. If job loss is not self-induced, no waiting period exist and unemployment benefit can be received from the first day of unemployment. In case of self-induced job loss or not acceptance of job offers, a quarantine period of 12 weeks sets in. The benefit duration is dependent upon prior employment and contribution to the scheme. 12 months of employment within 2 years gives access to 6 months of benefits. The maximum duration of benefits is 1 year for persons below the age of 50, while special rules apply to persons over 50, where the benefit duration can be up to 2 years. Therefore the German system favor older groups at the labour market as well as persons with a longer and more stable employment history.

#### *Other benefits*

If a person is not eligible for unemployment insurance in Germany, a basic job seeker allowance is possible (called Unemployment Benefits II). This allowance is a type of social assistance given to persons who are not able to ensure an adequate subsistence from their income or assets. This allowance is not restricted to persons outside employment, but persons in employment can also receive it benefit as a supplement to the unemployment insurance if the coverage from the insurance is not sufficient to make a decent living. This could be the case if someone works short hours at a low wage. The benefits are paid from the local job center and normally granted for 12 months at a time. Job availability is required (can work at least three days a week).

### **4.3 Liberal regimes (Great Britain)<sup>2</sup>**

Liberal regimes (countries like the UK, Australia, New Zealand and Canada) are based upon the idea that welfare is created by private initiatives with modest state interference and the state only provides support for the groups most in need. Welfare is financed through taxes but taxes are in general low because the welfare is quite limited. Furthermore, insurance-based schemes are dominant because of the understanding that the individuals must take responsibility for themselves. Therefore, in the case of unemployment liberal countries offer quite limited financial assistance and the coverage of unemployment benefits is rather low in a comparative perspective. In this section we briefly describe the unemployment insurance system in the United Kingdom (UK) as an example of a liberal unemployment insurance regime.

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<sup>2</sup> This section is primarily based on information from Bjørn and Høy 2014, Unemployment Insurance Commission 2015a, Unemployment Insurance Commission 2015d and these websites: <https://www.gov.uk/jobseekers-allowance> and <https://www.missoc.org/>. We use the term UK; however, some details are based on the English system and might vary from the rest of the UK.

### *Legal framework*

In the UK unemployment insurance is mandatory and named *contribution-based Jobseekers Allowance* (JSA). It is legally defined in the Jobseekers Act from 1995. There also exists another type of Jobseekers Allowance called Income-based Jobseekers Allowance, which is a type of social assistance (see last section). The Jobseekers Act is a piece of legislation concerning both forms of Jobseekers Allowance and has stipulations on who can claim the allowance, eligibility criteria, benefit levels, job seeking behavior, sanctions and so on.

### *Organization and financing*

Contribution-based Jobseekers Allowance is compulsory for all employed persons. Self-employed are normally not allowed into the scheme. The insurance is financed through employer and employee contributions. The contributions are paid to the National Insurance which is a tax system for employees and employers for funding state benefits (not only Jobseekers Allowance but also other types of benefits). Employees pay so called Class 1 contributions which also determine which benefits they are eligible for (only persons with class 1 contributions can become eligible for contribution-based JSA). Employee contributions are deducted from gross wages by employers and employers then add their contribution and remit the entire amount to the authorities along with other taxes. Employee contributions are calculated as certain percentages of certain parts of the salary during the different tax years. For instance, in the tax year 2018-2019 12 pct. of the weekly income between £162 (182 EUR) and £892 (1000 EUR) was deducted and 2 pct. of the salary over £892. For income below £162 no contribution is made. Employers contribute with approximately same amount.<sup>3</sup> The state gives a small subsidy to the scheme. Administration of the scheme is made by government agencies called Jobcentre Plus, who operate under the Department of Work and Pensions.

### *Content of the insurance*

Contribution-based JSA is a flat-rate benefit, but the benefit level is dependent upon the claimants' age at the time of the claim. For persons aged 18-24 the weekly level is £57.90 (approximately 65 Euro) and for persons aged 25 and older the weekly level is £73.10 pounds (approximately 82 Euro). In a comparative perspective, this level is quite low. A study by Bjørn and Høy have calculated that after 2 months of unemployment, the compensation rate in UK is around 30 % of prior income (Bjørn and Høy 2014:26). The benefit level remains the same during the entire unemployment spell. The maximum duration for receiving contribution-based JSA is 182 days (26 weeks) which make the benefit duration in the UK quite short in a comparative perspective (Høy and Bjørn 2014:20). In order to be eligible for contribution-based JSA claimants must have paid the contributions to the National Insurance for at least 26 weeks in one of two previous tax years and minimum 50 times in the last two years together. This means that persons

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<sup>3</sup> <https://www.gov.uk/national-insurance-rates-letters>

with low income who do not earn enough to pay the contributions in the first place have difficulties getting access to the benefits.

Besides having paid the necessary contributions, the claimant must also be involuntarily unemployed, not engaged in work for more than 16 hours per week, capable and available for work, actively seeking work and not enrolled in full-time education. The claimant must also fill out a Jobseekers Agreement which is an agreement about how the job search is handled during the unemployment period and take part in New Jobseekers Interview. If these requirements are not met, a quarantine period of 26 weeks sets in. There is also a seven day waiting period in order to receive the benefit.

#### *Other benefits*

Claimants who don't qualify for contribution-based Jobseekers Allowance (for instance because they haven't paid enough contributions due to low income or a more volatile connection to the labour market, because they are self-employed or because they have recently left the educational system) can get access to income based Jobseekers Allowance instead, which is a means tested social assistance financed through the taxes. Around 75 pct. of all unemployed receive this type of benefit (Unemployment Insurance Commission 2015a:57), which also reveals the more limited character of those receiving contribution-based JSA. The benefit level is pretty much the same as the contribution-based Jobseeker Allowance and the conditions are also alike. However, savings over a certain amount is not allowed and the claimants' partner must not work more than 24 hours per week. Furthermore, the income for the entire household is taken into account when assessing whether the claimant is eligible for the benefit. The benefit duration is not limited in time.

It is also worth mentioning that there exist a large number of different benefits in the UK besides the two types of Jobseekers Allowance (for instance Employment and Support Allowance, Carer's Allowance and Income Support). Income-based Jobseekers Allowance and a number of the means-tested benefits are currently being phased out and replaced with a new type of benefit called Universal Credit. Furthermore, there exist supplementary benefits such as Child Benefit, Working Tax Credit, Child Tax Credit, Housing Benefits and so on and many citizens receive different kinds of benefits at the same time – and also while being in employment (Deloitte and CARMA, 2015: 61).

#### *Supplementary insurance*

In the UK, there also exists a market for supplementary unemployment insurance because of the limited coverage in the statutory unemployment insurance system which is appealing to person with medium and high income levels (Unemployment Insurance Commission 2015a: 57). The most common type of supplementary insurance is so called 'Mortgage Payment Protection Insurances' which is insurance to cover mortgage expenses for home owners. This type of insurance is provided by banks, mortgage credit institutions and insurance companies. In 2007 8 pct. of the

working population had such insurance. Data from 2008 onwards does not exist, but it is estimated that these insurances are declining (Unemployment Insurance Commission 2015a: 57-58).

#### **4.4 Southern European Regimes (Spain)<sup>4</sup>**

The Southern European Regimes (Portugal, Spain, Italy and Greece) are characterized by the fact that civil society plays an important role in providing social security. Especially the close family is expected to provide a wide range of welfare services for the individual such as child – and elder care (Esping-Andersen 1996). When it comes to unemployment benefits the Southern European Regimes are known for a rather fragmented coverage of the benefits were workers with a long seniority are better insured compared to younger workers with short or no seniority.

##### *Legal framework*

The legal framework regulating the unemployment benefit system is found in the General Social Security Act based at the Spanish Ministry of Employment.

##### *Organization and financing*

In Spain contributions to different types of social security benefits within a persons' life course are compulsory and all adult Spanish residents contribute to the social security system. Contributions are paid through work activities. Unemployed persons are covered by two successive benefits: A compulsory contributory unemployment insurance benefit for 4 to 24 months depending on contributions and then an assistance benefit for 6 to 30 months. There is also a last resort scheme called the Ingreso Mínimo de Inserción (social assistance). Family benefits are income-related. The Spanish Public Employment Service (SEPE), an autonomous organization under the control of the Ministry of Employment and Social Security, is entrusted with the management and control of unemployment benefits in Spain. The system is financed through 1,55 pct. contribution by the employees and 5,5 pct. by the employers on the employees' salaries up to 3262 Euros per month and smaller state contributions. Only employees are allowed into the scheme. Self-employed persons have to make private arrangement for unemployment insurance.

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<sup>4</sup> This section is based on <http://www.oecd.org/els/soc/29729431.PDF>, Missoc.org and [https://www.sepe.es/contenidos/que\\_es\\_el\\_sepe/publicaciones/pdf/pdf\\_prestaciones/folleto\\_pres\\_desemp\\_ing.pdf](https://www.sepe.es/contenidos/que_es_el_sepe/publicaciones/pdf/pdf_prestaciones/folleto_pres_desemp_ing.pdf)

### *Content of the insurance*

In order to be entitled to the contributory unemployment benefit in Spain, the following criteria must be met:

- registered with the Spanish Social Security Service;
- legally unemployed, registered as a job seeker in the public employment service, actively seeking employment and are willing to accept suitable employment;
- have paid contributions for at least 360 days in the 6 years before becoming unemployed or before the end of the obligation to pay contributions;
- older than 16 and have not yet reached retirement age

Unemployment benefits are based on the most recent salary from the previous 6 months with a minimum and maximum level. The average daily salary is multiplied by 30 in order to reach a monthly base and the monthly benefit is 70 pct. of that base. After 6 months of unemployment, the benefit level is 50 pct. of base earnings for the remaining period of the benefits. A supplement is possible in case of the claimant having dependent children. Benefit duration is dependent upon the contribution length. For instance, if a person has contributed from 360 days to 539 days the benefit duration is 120 days (4 months). If a person has contributed over 2160 days (6 years), benefit duration is 720 days (2 years).

### *Other benefits*

If persons haven't paid enough social security contributions or fall into a specific category, it's possible to receive other non-contributory unemployment benefits. Non-contributory unemployment allowance can be applied for if a person is not entitled to contributory unemployment benefits because the person have not paid the social security contributions required, or because the person has exhausted contributory benefits but are still unemployed. Active integration income is an option in case of long-term unemployment for 45 to 65 year olds. Emigrant workers returning from abroad who are older than 45, people with disabilities and victims of gender violence can also apply for it.

## 5.0 Comparison and discussion

In the past section 4 we described four different unemployment insurance systems in four different welfare state regimes and in this section we make a comparison and discuss pros and cons of each system. In table 2 a comparable overview of important features of the four unemployment insurance systems is presented, which the discussion will be centered around.

Table 2 - Important features of unemployment insurance systems in Denmark, Germany, UK and Spain

	<b>Social Democratic</b>	<b>Continental</b>	<b>Liberal</b>	<b>Southern European</b>
	Denmark	Germany	UK	Spain
Type of system	Voluntary	Compulsory	Compulsory	Compulsory
Legal framework (regulation)	Act of Standard Regulation for Recognized Unemployment Insurance Funds	Book III in the German Social Code	Jobseekers Act	General Social Security Act
Responsible unit at the political level	Ministry of Employment	Federal Ministry of Labour and Social Affairs	Department for Work and Pensions	Ministry of Employment
Responsible for administration and disbursement at the operational level	25 independent unemployment Insurance Funds (some trade union affiliated)	German Bundesagentur für Arbeit (Federal Labour Offices)	Jobcentre Plus (government agencies)	State Public Employment Service (SEPE) (government agencies)
Financing	Modest contributions paid by members of unemployment insurance funds + large state subsidy	Equally contributions from employees and employers, state subsidy to run labour offices	Equally contributions from employees and employers, state subsidy	Contributions from employees and employers. Employers contribute more than employees (approximately 80 %) + state subsidy
Target group	Employees and self-employed.	Employees and trainees. Self-employed can contribute voluntarily under certain conditions	Employees.	Employees.
Coverage rate 2010 (the share of insured out of the workforce) <sup>5</sup>	78 %	75 %	90 %	65 %
Eligibility criteria (access criteria)	Member of an unemployment insurance fund for at least on year and has reported at least 30,003 Euro as full-time insured or	12 months of contribution to the insurance scheme within 2 years	Paid contributions for at least 26 weeks within one of the two previous tax years and minimum 50 times (weeks) in the last 2 years	Paid contribution 360 days out of the previous 6 years

<sup>5</sup> Esser et al 2013.

	20,022 Euro as full-time insured during a period of three years		together)	
Benefit level	Calculated on basis of the 12 months within the last 24 years with the highest income. Maximum 90 % of previous earnings, but ceiling of maximum 2473 Euros per month exist (full-time insured). Lower levels for graduates (max 71.5 % of previous earnings).	Dependent upon age and children. 60-67 % of prior income, but monthly maximum limit.	Dependent upon age. 18-24 year olds: 65 Euro per week. 25+ years: 82 Euro per week.	70 % of average wage for max 6 months. Then 50 % for the rest of the period.
Benefit duration	Maximum 2 years within a period of 3 years	1 year for persons under 50. Up to 2 years for persons over 50.	182 days (6 months)	Depends on the contribution period 4-24 months
Waiting period	No	No	7 days	No
Quarantine	3 weeks	12 weeks	26 weeks	NA

First of all, Denmark stands out with a *voluntarily* unemployment insurance system compared to *compulsory* systems in Germany, UK and Spain. As mentioned in section 3, the literature argues that problems with adverse selection will not occur in compulsory systems, because here the insurance cannot be deselected. Therefore, the share of persons enrolled in a compulsory insurance will be higher than in a voluntarily system and compulsory systems will include larger groups at the labour market. However, a voluntarily system can actually have a high support level from the employed population, which is the case for Denmark, where almost 80 % of the working population have chosen membership of an unemployment insurance fund (Høgedahl & Kongshøj, 2017). However, it is true that certain groups at the Danish labour market have deselected the scheme, wherefore some sort of selection is taking place in Denmark (see previous explanations in the description of the Danish unemployment insurance system). On the other hand, a compulsory system is not a guarantee for a high support to the unemployment scheme. In the Spanish case only around 65 % of the workforce are insured against unemployment. This is due to the insider/outsider problem that occurs due to strict eligibility criteria.

Despite differences in the type of system (compulsory of voluntary), the unemployment insurance systems in all four countries are embedded in *legislative frameworks*, where certain laws regulates the unemployment insurance. This legislation contains among other things the rules that apply for entering the insurance and staying within the insurance scheme. The legislations are passed in the national parliaments and in all four countries the overall responsible unit for the insurance is the national Employment Ministries.

In all four countries certain organizations or agencies are responsible for the *administration and disbursement of the insurance at the operational level* and their tasks are, amongst other things, to calculate and disburse the benefits, assess whether the claimants live up to the criteria for entering and staying in the scheme and sanction unemployed if they do not live up to the criteria. In the compulsory systems in Germany, UK and Spain government labour agencies administer the scheme, but in the voluntarily system in Denmark, independent unemployment insurance funds administer the scheme. However, they are supervised by a government agency that ensures that the independent funds administer the scheme as it is intended. An ongoing debate and critique towards the independent funds in Denmark is that, because they are affiliated with the trade unions, they are not capable of neutral judgements and assessments but their assessments will always be in favor of the unemployed members. This critique is often put forward by the employer side. The funds themselves disagree.

So Denmark stands out from the rest of the countries, because *trade unions* are involved in the unemployment insurance scheme. As described in the previous section about Denmark, the funds are independent organizations, but for historical reasons most of them have a close connection to trade unions (originally trade unions established unemployment insurance funds and this setup was carried on, when the state become involved in the insurance). As mentioned, opponents of trade union influence argue that the funds are not capable of making neutral judgements because of their trade union affiliation which is contested by the funds themselves. On the other hand, countries with systems like the Danish Ghent-system have higher union densities, wherefore Ghent-systems can be an advantage for labour movements as a recruitment mechanism (for more on the connection between trade unions and unemployment insurance funds please see Høgedahl, 2014 and Høgedahl & Kongshøj, 2017).

The countries also differ in terms of *financing*. In Denmark, the unemployment insurance is financed through contributions from the employed population through membership fee in the unemployment insurance funds and subsidies from the state. In Germany, UK and Spain the insurance is financed through employee - and employer contributions and with some degree of state subsidy as well. In Germany and the UK, employees and employers contribute equally. In Spain employers contribute more than employees. Denmark is the country where the state subsidizes the most. As mentioned in the previous description of Denmark, members of the funds pay a fixed fee to the state to finance the insurance which is at a quite modest level (34 Euros per month). This means that the state defrays the rest of the expenses and in times with higher unemployment levels, the state has more expenses to the insurance. An insurance scheme like the Danish therefore gives the state a high degree of economic responsibility for sustaining the insurance, which is not the case in the three other countries.

On the other hand, the Danish system is able to keep member contributions at a relatively low level, which means that it is attractive to all income groups at the labor market including low-wage groups. This is probably why the scheme has a high public support with the majority of the

working population being members of unemployment insurance funds. Furthermore, certain redistribution takes place, where members pay the same fee and receives the same benefit level regardless of their risk of unemployment. This make the Danish system more solidary and collectivistic. The advantage with a system like the Danish unemployment insurance system with a high degree of state financing is the creation of a more robust system that can function across different economic states. Furthermore, when the contribution fee is fixed, it remains attractive for a large part of the working population and thus diminishes adverse selection (Unemployment Insurance Commission 2015d: 5). However, there are also arguments against a high level of state financing and a fixed member fee. For instance, it can give rise to the more unstable employment types because the individual contribution to the insurance is the same regardless of type of job (Bjørn and Høy 2014:9).

In Spain, where employers are obligated to contribute more to the insurance than the employees, employers are reluctant to hire persons on permanent contracts because they then have more expenses to the insurance. Therefore they resort to employ on short, temporary contracts which already are quite widespread and more easy to use in Spain. However, this widespread use of temporary and flexible contracts with a low degree of employment protection has created problems with a *dual labour market*, where persons in permanent contracts have a high degree of security while the temporary workers have a hard time entering into the permanent and secure contracts and it seems as if the mandatory employer contribution to the unemployment insurance scheme play a part in this matter.

In terms of *target groups*, there also are some differences. In the compulsory systems in Germany, UK and Spain the main target group is employees, while the Danish voluntarily system also includes self-employed. In Germany, self-employed can be allowed into the scheme on a voluntarily basis under certain conditions. Self-employed are one of the groups often categorized as atypical and as a flexible type of labour and most often self-employed does not enjoy the same rights and the same protection as employees in subordinate relationships. Therefore it is worth considering whether such atypical groups should be allowed into the scheme in order to provide them with more security. However, since their conditions differ from employees it may be more complex to include these groups in an unemployment insurance system. For instance, in Denmark self-employed were allowed into the scheme at a rather late point in time and there have been challenges calculation benefits, previous earnings and assessing whether the self-employed live up to the eligibility criteria.

In all four countries, there are a number of *access criteria* in order to have access to the unemployment scheme and normally it requires some sort of prior labour market attachment. In the compulsory systems the requirement is that the person must have paid contributions to the insurance for a certain amount of time and contributions are only paid while being employed. Furthermore, in the UK the contributions are also dependent upon the persons wage level, where low contributions are not paid if the income is below a certain level. In Denmark the requirements

are membership of an unemployment insurance fund for at least one year and documentation of a certain amount of income from work during the previous three years. Graduates can be unemployment members for free and receive unemployment insurance after graduation. In all four countries, it seems as if the requirements for entering the scheme is quite similar (around 1 year of employment), but the *access criteria* means that certain low income groups and persons in non-standard and flexible positions may find it difficult to become eligible for the insurance, because they simply have not contributed enough.

The countries are also similar in terms of access to unemployment benefits. Access is only allowed if job loss is not self-induced and the person claiming the benefit must be available for work and actively seeking work. In Germany and the UK, persons working few hours per week are allowed into the scheme (less than 15 hours per week in Germany and less than 16 hours per week in the UK), while Denmark and Spain stipulates that persons must be totally outside employment.

In terms of the *generosity* of the unemployment insurance (benefit level and benefit duration), the countries differ quite a lot. Despite of the recent reforms of the unemployment insurance system (see earlier description) Denmark still seems to have the highest generosity levels in terms of the longest benefit period and the highest compensation rate. Spain and Germany have fairly high compensation levels but the level in the UK is quite low in a comparative perspective. The benefit duration is also the shortest in the UK, making the UK the least generous system of the four. Quarantine in case of self-induced job loss and the length of a waiting period before receiving benefits are also strictest in the UK.

In all four countries, there also are some groups that have better possibilities in the system compared to others. For instance, in Germany and the UK, benefit levels are dependent upon age, where younger claimants receive a lower benefit level. This is also the case in Denmark, where graduates can receive a maximum of 71.5 pct. of prior income. In Germany older workers are also entitled to longer benefit durations.

A profound principle for unemployment insurance systems is that there ought to be certain criteria in order to gain access to the scheme and certain requirements in order to stay in the scheme and remain eligible for the unemployment insurance. This has to do with the perception that unemployment insurance is a *temporarily* arrangement in the case of job loss. Therefore, requirements and incentives are inherent parts of the systems. However, how strict or loose these requirements and incentives should be is also a question about different contextual issues in the different countries, political preferences and the view upon the nature of the unemployed and how they should find way back into employment. These issues can explain some of the differences between the four countries included in this report. However, it is also worth considering whether the systems are designed in such ways that it hinders a decent living standard while being temporarily unemployed. For instance, in the UK the benefit levels are at a quite low level (between 10 and 30 pct. of previous earnings). On the one hand it gives large incentives to quickly

return to employment but on the other hand there may be times where employment is more difficult to obtain (for instance in economic downturns), where the benefit level and the benefit duration seems quite low in the case of the UK.

## 6.0 Conclusions and perspectives

In this final section we discuss our findings in the previous sections and point out certain issues and perspectives which we find important when UCCT are considering the design of a potentially new unemployment system in Tunisia.

First of all it is important to underline some of the basic problems of an unemployment insurance system. The issue of potential *moral hazard* needs to be taken into account. Here, the insured persons can affect own risk of unemployment as well as the length of the unemployment spell. Therefore, purely private insurance unemployment insurance systems are not desirable, which the international experiences in the field also indicate.

Private insurance schemes are also based upon a so called *actuarial principle*. This means that the premium (the amount of money paid by the insured for the insurance) is dependent upon a weighted calculation on a persons' risk of unemployment and size of income loss causing *adverse selection* as a consequence. This means that not all workers have the same incentive for being part of the unemployment system. However, the unemployment insurance systems in Denmark and the rest of Nordic Ghent-countries are based on a voluntary membership in private unemployment insurance funds. These funds are controlled by the labour movement and subsidized by the state. However, in order to develop a similar system in Tunisia, a strong and locally rooted labour movement is needed. This also includes a sufficient cooperation between the unemployment insurance funds and the government (e.g. Ministry of Employment) securing a fair and effective administration of the system. Another path would be setting up a compulsory and state run system which is also the most common model.

Another issue is *financing* the system. Here it is important to find some sort of arrangement between employers, employees and the state. One of the easiest ways of solving this issue is by implementing a fully taxed paid and state subsidized system. However, this will require a sufficient tax system which includes both business - and income tax and may require a tax increase. Another model could be a mixed model including contributions from both the employees, employers and the state as seen in many countries. However, as our analysis shows, this can lead to a dual labour market with insider/outsider problems since many employers are more inclined to employ workers on contracts that do not obligate them to pay contributions to an unemployment insurance fund if the employer contributions to the system are high. Another point to pay attention to is the level of the contribution made by the employees, where the contributions should be at a level that is payable for employees. Furthermore, when the state is involved in the

scheme, the level of state financing is also important. In the compulsory schemes described in this report, state financing play a minor role.

Last but not least it is important to have clear rules in terms of *eligibility criteria, benefits levels* and *duration* etc. These issues are basically political priorities. However, if an unemployment insurance system must be able to provide security and a decent living, the benefits must have a certain level and durations. It is also worth considering whether an unemployment insurance system should be designed for all workers on the labour market and whether it should give preferential treatment to some groups with special needs or disadvantages. In a number of countries persons in non-standard and flexible work forms (for instance self-employed) are not allowed into the schemes even though it can be argued that they are in the most need of economic support and protection. Furthermore, in many countries, like in the Southern European regimes, workers with a long seniority are better protected against unemployment while younger workers are in a much more unfavorable position. However, youth unemployment in Tunisia is a challenge (The World Bank, 2017) so the design of a potential unemployment insurance system should also take these challenges into account.

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