Chapter 1

Income Support for the Unemployed: How Well Has the Safety-Net Held Up During the “Great Recession”?

Since reaching its post-war peak in late 2009, OECD-wide unemployment has declined only modestly and long-term unemployment has continued to rise. This chapter examines how well social safety-net systems in OECD countries have stood up to the “Great Recession” and asks what insights this experience has offered. The findings provide the basis for a better understanding of the operation of unemployment benefit schemes and “last resort” benefits, such as social assistance, during a deep recession. Potentially significant gaps in the safety net for the unemployed are identified and the advantages and disadvantages of taking crisis-related measures to raise benefit levels or expand coverage during a deep recession are weighed.
Key findings

The "Great Recession" of 2008-09 served as a tough “stress test” to the social safety-net in OECD countries. The recession drove unemployment rates sharply higher with an increasing number of the unemployed experiencing a year or more of joblessness. Indeed, in the OECD area as a whole:

- The unemployment rate increased from 5.7% in the first quarter of 2008 (its lowest level since the early 1980s) to a post-war peak of 8.7% in the fourth quarter of 2009.
- Despite nearly two years of GDP growth, the OECD-area unemployment rate in the first quarter of 2011 was still high at 8.3%, equivalent to 44.8 million persons unemployed. Unemployment is projected to return only slowly to its pre-crisis level.
- Although overall unemployment began to decline in 2010, long-term unemployment continued to rise into 2011.

The size of the unemployment surge varied sharply across OECD countries. Estonia, Ireland and Spain recorded the largest increases in the unemployment rate (ranging from 10 to 15 percentage points) in the OECD and the latter two countries have yet to see any labour market recovery. In contrast, a number of countries, including Germany, experienced only small and short-lived increases in unemployment. In the OECD area as a whole, the fall in employment during the crisis was sharpest for youth, the low-skilled and men.

The share of unemployed workers experiencing long spells of unemployment increased the most in countries where there was a large and protracted rise in the overall unemployment rate. Often, these were countries where the pool of the unemployed previously had been relatively fluid and few workers had been unemployed for as long as a year, such as Iceland and the United States. Many of the countries where unemployment increased most sharply spent a relatively low amount, prior to the recession, on unemployment benefits and programmes to help job seekers to move into new jobs. This raises concerns as to whether these countries were able to scale up those programmes adequately in a short period of time.

The income support system for the unemployed typically consists of two main tiers of income assistance. The first or higher tier consists largely of unemployment benefits (UB), which are intended to provide temporary income support for workers transitioning between two jobs. The second lower tier consists of social assistance (SA) and other “last-resort” benefits which are intended to ensure a basic income for the most vulnerable part of the population, potentially including unemployed persons who do not qualify for UB or have exhausted that entitlement. The effective co-ordination of these two tiers is key to cushioning the impact of unemployment on the well-being of workers and their families during a deep recession.

Both tiers of income assistance responded to the 2008-09 recession by delivering increased support to the unemployed, offsetting some of the decline in household income and helping to cushion the fall in aggregate demand. Indeed, on average, increased income
transfers to individuals and families, including unemployment and social assistance benefits, accounted for about 40% of the total increase in government expenditures during the crisis. Ireland, Spain and the United States saw some of the largest increases in government transfers to workers and families, in line with the very large increases in unemployment in these countries. Much of the increase in social benefit spending reflected automatic adjustments to rising unemployment and underemployment, but discretionary policy initiatives also played a role. Indeed, the majority of OECD countries took crisis-related measures to reinforce the safety net for the unemployed, for example by boosting UB generosity or expanding benefit coverage to previously ineligible groups, such as unemployed youth or persons laid off from temporary jobs. Despite these crisis measures, the safety-net spending response to the increase in unemployment as of 2009 was generally in line with the response during earlier recessions and spending rose less strongly in response to the decline in real GDP than in the past.

A comparison of 2007 and 2009 values of the OECD net replacement rates for job losers receiving unemployment benefits (i.e. disposable income when unemployed and receiving UB as a percentage of disposable income when employed full time at the national average wage) shows little or no increase in the majority of countries. This suggests that many of the crisis measures undertaken had little impact on benefit generosity. Modest increases in UB generosity were observed in about one-third of the countries, including Canada, Iceland, Ireland and Italy, while a large increase was registered in the United States due to the nearly fourfold increase in the maximum benefit entitlement period combined with a number of modest increases in benefit levels.

Receipt of first-tier unemployment benefits rose in all OECD countries, with the increase in the number of recipients averaging about 60% of the increase in the total number of unemployed people. The gap between the rise in joblessness and the increase in those receiving benefits tended to be narrower in countries enacting temporary extensions in benefit duration or which already operated an unemployment assistance programme that backstops the first-tier UB programme. This was particularly evident in Finland, Ireland, Portugal, Spain and the United States. Unemployed youth and other unemployed with little or no previous work experience, as well as the long-term unemployed, were less likely to receive unemployment benefits than other unemployed people.

The second tier of income assistance (largely SA) has not been as responsive to rising unemployment. Stringent means-testing is often applied to ensure that benefits serve the most vulnerable. As a result, typically self-supporting families who experience long-duration unemployment during a deep recession may encounter difficulties in accessing last-tier benefits or be obliged first to run down their savings or even sell their home, potentially jeopardising their long-term economic status.

This chapter’s analysis suggests that there may be scope to improve the operation of income support systems for the unemployed during deep recessions when the risk of long periods of joblessness is unusually high. Probably the most important lesson from the “Great Recession” is that it is easier to provide appropriate income support to the unemployed during a deep recession if a well designed social protection system for workers (i.e. one which combines adequate benefit coverage and generosity with effective activation policies and an overall fiscal structure ensuring that work pays) is already in place before the downturn begins.
Several lessons also emerge for how governments should adjust income support programmes when labour market conditions deteriorate sharply. First, there may be a good case to raise the maximum duration of unemployment benefits temporarily during a recession, when it is unusually difficult to find work and families who are typically self-supporting may need income support for a longer period of time. This can be achieved either through ad hoc policy measures or automatic rules tying benefit duration to labour market conditions. Benefit duration extensions may be particularly appropriate in countries where benefit duration is normally low and unemployed workers have limited access to second-tier benefits. The potentially important role of SA and other second-tier benefits as a backstop to UB during a deep recession, also suggests that it is timely to reassess whether asset tests or other rules make it too difficult for the long-term unemployed to access these benefits in periods when labour market are depressed. However, any temporary or permanent moves to expand access to income-support benefits for the unemployed during a recession need to be assessed carefully in light of their potential to dull labour supply incentives and increase public spending.

Introduction

The 2008-09 global recession is still casting a dark shadow on the labour markets of many OECD economies. Even though the economic recovery has been underway since the second quarter of 2009, unemployment rates remain high in many countries and are projected to decline only gradually (OECD, 2011a), while long-term unemployment was still rising into early 2011. The persistence of high unemployment well into the recovery period is not uncommon following severe recessions, but it may have long-lasting effects. And it raises special concerns at a time when many governments are moving towards fiscal consolidation and many of the temporary measures enacted to assist the unemployed during the recession are expiring (OECD, 2010a).

High unemployment in the wake of the “Great Recession” represents a difficult challenge for policy makers. One part of this challenge is the main focus of this chapter, namely, the need to assure adequate income support for the enlarged pool of unemployed workers, particularly those experiencing long periods of joblessness. While the need for income support clearly rises when the labour market is depressed, the ultimate goal is to reduce unemployment as quickly as possible. Accordingly, it is essential that income support to the unemployed be provided in a way that does not contribute to a persistent increase in benefit dependency, but instead helps benefit recipients find suitable work as quickly as possible (De Serres, et al., 2011; OECD, 2009a). While not analysed in this chapter, the recent surge in unemployment also requires policy makers to implement macroeconomic and structural policies to foster stronger employment growth, as well as active labour market programmes (ALMPs) which ensure that unemployed individuals are assisted to find the new jobs that are created during the recovery period and, when needed, can access the training they require to move into those jobs.

Section 1 of this chapter provides an overview of the evolution of unemployment during the 2008-09 recession and the early recovery period, updating the analyses that were presented in the 2009 and 2010 editions of the Employment Outlook. It devotes particular attention to the growth of long-term unemployment. Large cross-country differences in how strongly falling output during the recession translated into higher joblessness have attracted extensive attention from researchers (OECD, 2010a). This chapter shows that this diversity across countries extends to the early recovery period as
well as to the rise in long-term unemployment in the OECD area. In many of the countries where the labour market has been hardest hit, spending on labour market programmes prior to the jobs crisis was relatively low. These countries may thus have had particular difficulties coping with the steep upsurge in unemployment.

The final three sections of this chapter examine the operation of income support systems for job losers and other unemployed persons, assessing how well they have stood up to the “Great Recession” and whether this experience has provided any new insights for the design and operation of these programmes. Section 2 describes the main features of the national systems of income support for the unemployed that were in place in OECD countries before the 2008-09 recession. The numerous permanent or temporary changes that countries made in response to the crisis in order to enhance benefit generosity or broaden coverage are also surveyed. Section 3 analyses how these income support systems responded to rising unemployment and longer jobless spells during the 2008-09 recession, both in terms of spending levels and the number of benefit recipients. Finally, Section 4 considers what lessons for the design and operation of income support systems for job losers and other unemployed people can be drawn from countries’ experiences during the Great Recession.

1. What was the impact of the “Great Recession” on OECD labour markets?

Overall labour market conditions

The 2008-09 recession drove unemployment rates sharply higher in the OECD area and nearly two years of economic recovery has only reversed about one-fifth of that rise (Figure 1.1, Panel A). For the OECD area as a whole, the unemployment rate increased from 5.7% in the first quarter of 2008 (its recent low value) to a post-war high of 8.7% in the fourth quarter of 2009. This 3.1 percentage point increase corresponds to approximately 17 million additional jobless persons. Real GDP in the OECD area has been growing since the first quarter of 2009, but this growth was not sufficiently vigorous in most countries, until recently, to re-employ many of those workers. As a result, the OECD-area unemployment rate for the first quarter of 2011 was 8.3%, which corresponded to 44.8 million persons unemployed. Approximately one-half of the 0.5 percentage-point decline in unemployment since the end of 2009 occurred between the final quarter of 2010 and the first quarter of 2011, suggesting that the pace of labour market recovery may be quickening.

The size of the surge in unemployment during the recession varied sharply across OECD countries, even among those that experienced similar reductions in real GDP (OECD, 2010a). There has also been considerable variation in how much unemployment has receded since reaching its recessionary peak, although most countries had seen little or no retreat until recently. Estonia, Ireland and Spain had the largest increases in unemployment (ranging from 10 to 15 percentage points) and the latter two have yet to see any labour market recovery, raising concerns that the currently very high unemployment rates could persist a long time. Although not as hard hit, the unemployment rates in Greece, Iceland, the Slovak Republic and the United States rose by more than 5 percentage points during the “Great Recession”, but have begun to ease in recent quarters except in the case of Greece. By contrast, a number of countries experienced only small increases in unemployment. Germany, in particular, saw a rise of only one-half a percentage point before unemployment resumed a declining trend that was evident before the recession, while five other countries saw increases of less than 1.5 percentage points. A few countries experienced moderate to large increases in unemployment, but have subsequently seen
joblessness recede quite strongly so that it is now near its pre-crisis levels (e.g. Israel and Turkey) or even below it (Chile). Although Chile and Germany are the only two OECD countries where unemployment at the start of 2011 was below its pre-crisis level, the increase in unemployment was under 1 percentage point in seven other countries (Australia, Belgium, Israel, Japan, Korea, Luxembourg and Switzerland).

The length of time during which unemployment rose varied from less than four quarters in Chile, Israel and Germany to 14 and 15 quarters in Ireland and Spain respectively, and 12 in Hungary (Figure 1.1, Panel B). Since the onset of the recession was
unusually synchronised – due to the broad impact of the seizing up of global financial markets in late 2008 and the steep fall in international trade that quickly followed – these differences mean that the number of quarters that have passed since unemployment peaked is also quite variable. No decline has yet been observed in seven countries, while the period of declining unemployment has reached eight quarters in Luxembourg, seven quarters in Chile and six quarters in Australia, Austria, Canada, Germany, Israel, Japan, Mexico and Turkey. At the beginning of 2011, unemployment had been receding from its peak value for at least a year in more than one-half of the OECD countries. However, unemployment had fallen only slowly in many cases, with only eight countries having seen a decrease of at least 1 percentage point (Chile, Estonia, Germany, Iceland, Israel, Sweden, Turkey and the United States).

Now that the unemployment rate has begun receding from its peak, both for the OECD area as a whole and in most countries, it is possible to form a fairly clear idea of how the labour market impact of the “Great Recession” compares with that for previous post-war recessions. The proportional increase in the unemployment rate in the wake of the recent downturn was not too dissimilar to that for other large recessions since 1970 in most countries (Figure 1.2). The 114% increase in the unemployment rate in the United States was unprecedented for this period, as was also the case for the increases in joblessness seen in Iceland, Ireland and Spain. However, all other OECD countries had seen equivalent or larger proportionate increases in unemployment in one or more earlier post-war recessions [see Annex Table 1.A1.2 in OECD (2011c) for country level data]. Similarly, the 51% increase observed for the OECD area was well below the almost 70% increase seen in the early 1980s recession.

One reason the increase in unemployment turned out to be within the range experienced during previous post-war recessions in most countries is that the very strong measures that governments took to stabilise financial markets, together with large fiscal stimulus packages and very expansionary monetary policy, reversed the very steep fall in output relatively quickly. While the resulting recovery has generally not been vigorous enough to generate strong employment growth until recently, the period of falling employment and, hence, rising unemployment was relatively short for such a deep recession. For example, the OECD unemployment rate rose for only nine quarters, as compared with 15 quarters in the recessions that began in 1973 and 1990, and 16 quarters in the recession that began in 1979 (Figure 1.2). Another reason that the increase in unemployment has been smaller than was widely expected in quite a few countries is that employers went to unusual lengths to minimise layoffs when product demand fell (so-called “labour hoarding”). The effective use that a number of governments made of short-time working (STW) schemes to encourage hours reductions as an alternative to labour shedding helps to explain this pattern (Hijzen and Venn, 2011; OECD, 2010a). Finally, it also appears that the progressive improvement of activation policies for recipients of unemployment and other income-replacement benefits that was achieved by a number of countries during the past two decades helped to dampen the increase in unemployment during the crisis (OECD, 2009a and 2009c). The Netherlands, Germany and the United Kingdom are examples of such countries.

Panel A of Figure 1.3 shows that the rise in unemployment during the 2008-09 recession exceeded the fall in real GDP in six countries, including most notably Spain and the United States, consistent with employers having shed labour very aggressively in these countries. By contrast, the fall in real GDP was significantly larger than the rise in
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

While labour hoarding helped to limit the impact of the crisis in raising unemployment in many countries, the cushioning impact on workers’ earnings is likely to have been somewhat weaker. To the extent that employment falls by less than output during a recession, output per worker must also fall, whether due to a reduction in average hours per worker or lower hourly productivity. Lower labour productivity translates into
Figure 1.3. The responsiveness of unemployment and hours to declining output varied considerably across OECD countries

Panel A. Real GDP and unemployment rates

Panel B. Real GDP and total hours worked

Note: 45° lines shown for reference. In Panel A, this line corresponds to an Okun’s coefficient value of one.

a) Cyclical impacts are calculated using separate dating for each series in each country: i) percentage-point increase from pre-crisis trough to peak for unemployment rates; and ii) percentage declines from pre-crisis peak to trough for real GDP and total hours worked.

b) Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

* **, ***: statistically significant at the 10%, 5% and 1% level, respectively.

Source: OECD calculations based on quarterly data from OECD Main Economic Indicators and OECD Labour Force Statistics Databases.

StatLink: http://dx.doi.org/10.1787/888932479059

some combination of lower earnings and lower returns for other factors of production (including lower profits). Indeed, Panel B of Figure 1.3 shows that the decline in total hours with declining output was more uniform across countries. This reflects the fact that average hours per worker tended to fall more strongly with output in the countries where employment fell relatively little and lower hours are typically associated with lower pay. These patterns provide a useful reminder that the hardships experienced by workers during a recession are not limited to the higher risk of becoming jobless. Nonetheless, the analysis of income support in Sections 2 to 4 of this chapter will focus on the unemployed, both because their income replacement needs tend to be the most acute and because the largest part of the cyclical volatility of earnings is due to variation in employment, rather than to variation in average hours or pay rates (see Chapter 3 in this publication).
The fall in employment during the crisis has affected some workforce groups more strongly than others. Whereas overall employment in the OECD area was 1.8% lower in the fourth quarter of 2010 than three years earlier, employment for youth (15-24) fell 10.1% (see Figure 1.4). This sharp deterioration in labour market opportunities for youth is of particular concern because unemployment and other labour market difficulties encountered early in their working lives can jeopardise long-term career prospects (OECD, 2010c; Scarpetta et al., 2010). OECD governments have implemented a number of crisis measures intended to help youth to weather the economic storm, both by providing additional opportunities for education and training, and by helping young workers to gain valuable work experience. However, it is not possible yet to assess how successful these measures have been in limiting “scarring” effects. Another concern related to unemployed youth is that they frequently do not qualify for unemployment benefits, but cannot always rely upon the economic support of their parents. Employment losses have also been much larger for low-skilled workers (9.3%) than for medium-skilled workers (2.9%), while employment has actually grown by 5.7% for high-skilled workers. Employment losses have also been larger for men than for women. A notable feature of the current cycle is that employment of older workers (aged 55-64) has risen by over 6.8% on average between 2007Q4 and 2010Q4.

Figure 1.4. Falling employment has particularly affected youth, low-skilled and men
Percentage change in employment, 2007Q4-2010Q4

Note: Data are not seasonally adjusted. OECD is the weighted average of the OECD countries excluding Chile and Israel. Australia, Japan and New Zealand are also excluded for statistics by educational attainment.
Source: OECD estimates based on national labour force surveys.

StatLink: http://dx.doi.org/10.1787/888932479078

Figure 1.5 shows that these differences in how employment have evolved during the crisis for different workforce groups are largely reflected in how much unemployment has risen for the different groups, since worsening labour market conditions generally have not resulted in large numbers of workers withdrawing from the labour force. For example, the overall employment rate for the working-age population declined by 2.2 percentage points and 86% of this jobs gap took the form of higher unemployment since the fall in the labour force participation rate was just 0.3 percentage points. However, there are some interesting differences in how participation rates of different groups have evolved, with youth having been especially prone to withdraw from the labour market, while participation rates have risen for women and older workers. Rising participation for
women may reflect an added-worker effect stimulated by high job losses among men, while the even larger increase in participation for older workers represents a marked break from earlier recessions when many countries saw a sharp rise in early retirement.\textsuperscript{13} While the mild overall impact of the crisis on participation rates is encouraging, the large fall in participation rates for youth also raises concerns about how many in this group are acquiring additional human capital that will enhance their future employability and how many are at risk of progressively losing contact with the labour market.

Also a reflection of labour force participation rates having held up quite well overall, the number of discouraged workers and other persons marginally attached to the labour force has grown only about one half as rapidly as the number of unemployed persons (cf. the gap between UR5 and UR3 in Figure 1.6). An even broader measure of labour market slack also incorporates workers who are underemployed as they are unable to work as many hours as they would like (UR6) and it has risen almost as strongly as the conventional unemployment rate since 2007, due to a strong increase in the number of workers underemployed by low hours.\textsuperscript{14} While these broader measures of labour market slack demonstrate how the labour market difficulties occasioned by the recession extend beyond those normally counted as unemployed, it is also useful to focus on the narrower group of persons who are long-term unemployed (defined here are persons who have been continuously jobless for at least one year). Not surprisingly in view of the dynamics of unemployment, Figure 1.6 shows that long-term unemployment (UR1) was substantially slower to begin increasing during the recession than overall unemployment and the broader measures of slack, but that the rise continued through 2010Q4, even after the other measures had peaked in 2010Q1. Since a high incidence of long-term unemployment raises particular policy concerns, the next sub-section examines its recent evolution in some detail.
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

How much has long-term unemployment built up?

The impact of a recessionary shock on unemployment durations is quite complicated since the unemployment inflow rate (i.e. the entry of newly unemployed persons as a percentage of total employment) rises even as the unemployment outflow rate (i.e. the proportion of the unemployed becoming re-employed or exiting the labour force) falls. While both changes tend to expand the pool of unemployed persons, they have offsetting effects on the distribution of ongoing unemployment spells by duration in the early stages of a recession: the jump in the inflow rate translates quickly into a rising number of low-duration unemployed, whereas the decline in the exit rate only slowly increases the number of long-term unemployed despite an immediate deterioration in the job-search prospects of the unemployed. Ultimately, it is the exit rate that determines unemployment durations in steady-state, but the early stages of a recession are anything except a steady-state.
A picture of how the distribution of unemployment spell durations has evolved since 2007 in selected countries is provided in Figure 1.7 [and for more countries in Annex Figure 1.A1.3 in OECD (2011c)], where the overall unemployment rate is shown as a line and shading is used to show the composition of total unemployment by time spent unemployed. This figure shows that a large and sustained increase in the overall unemployment rate tends to be associated with a major increase in the number of workers experiencing long spells, albeit with some lag. However, there is also considerable variability concerning whether and how much the long-term share of total unemployment rises. Another pattern that emerges clearly is that the recent increase in the incidence of long-term unemployment has been particularly strong in several countries where the pool of the unemployed previously had been relatively fluid and few workers had been unemployed for as long as a year. The United States is one such country and Box 1.1 provides a longer historical perspective on the increase in long-term unemployment in that country.

Figure 1.7 also confirms that long-term unemployment builds up more slowly during the early stages of a recession than unemployment at shorter durations. As a result, the share of all unemployed who have been jobless for a year or more fell during the initial stages of the 2008-09 recession, when unemployment first began to rise, but eventually increased strongly in the sub-set of countries where the rise in unemployment has been large and sustained [see Annex Figure 1.A1.2 in OECD (2011c)]. Considering the OECD area as a whole, there was a four-quarter lag between the time when the OECD unemployment rate began to rise and the time when the relative incidence of long-term unemployment (i.e. the share of all unemployed that have been jobless for a year or longer) began to rise. However, this lag varied considerably from country to country and is probably affected by both national labour market institutions and practices, and the nature of the recessionary shock. Indeed, the size and duration of the upward shock to the unemployment rate appears to have been the key determinant of how sharply the risk that job losers will experience a long spell of unemployment has increased, since many of the countries seeing the sharpest rises in the relative incidence of long-term unemployment had been characterised by high labour market flows prior to the crisis.16

Having shown that the 2008-09 recession resulted in a large increase in the incidence of long-term unemployment in some countries and smaller increases in many others, it is interesting to see which workforce groups are bearing the brunt of these increases. Figure 1.8 provides information on how the incidence of long-term unemployment changed between the 4th quarters of 2007 and 2010 for the working-age population and groups defined by gender, age and educational level. The share of the overall working-age population who have been unemployed for a year or longer increased from 1.2 to 2.7%. The increase in long-term unemployment was significantly larger for men than for women (1.8 versus 1.1 percentage points) and larger for youth and for persons of prime working age (1 and 1.2 percentage points, respectively) than for older workers (0.4 percentage points). It is notable that the youth recorded a particularly large increase in long-term unemployment despite the relatively large drop in the participation rate for this age group, while rising participation rates for older workers did not translate into a higher rate of long-term unemployment. Another notable result is that long-term unemployment rose more sharply for medium-skilled workers (2 percentage points) than for both less and more educated workers.

While Figure 1.8 provides an overview of which workforce groups experienced the greatest increase in exposure to long-term unemployment, it does not provide clear guidance as to the demographic profile of the expanded pool of long-term unemployed,
Figure 1.7. **Evolution of unemployment rates by duration in selected countries**, 2007Q1 to 2010Q4

Percentage of total labour force

StatLink: http://dx.doi.org/10.1787/888932479135
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE “GREAT RECESSION”?

because it takes no account of the very different sizes of the different groups analysed. Annex Figure 1.A1.4 in OECD (2011c) shows that men accounted for the majority of the increase in the number of long-term unemployed persons in most OECD countries, as did prime-age and medium-skilled persons. However, some notable national exceptions emerge. For example, low-skilled workers accounted for more than half of the increase in long-term unemployment in Iceland and Spain (and 46% in Italy).
Box 1.1.  A historical perspective on the dramatic increase in US long-term unemployment in the wake of the “Great Recession”

The recent dramatic increase in long-term unemployment in the United States raises the question whether there are historical precedents for such a rise. The chart below shows that the post-crisis increase is unprecedented in recent decades. Even though the “double-dip” recession between 1979 and 1982 drove up the overall unemployment rate to approximately the same level as the “Great Recession” (peaks of 10.7% in 1982Q4 and 10% in 2009Q4), the share of the unemployed who were jobless for at least a year did not rise nearly so high (peaks of 14.2% and 31.4%, respectively). One factor contributing to the currently very high level of long-term unemployment is that it reflects a combination of a longer-run trend increase with the impact of the most recent recession. The trend effect is most easily detected by examining the troughs in the incidence of long-term unemployment that were observed in the economic expansions preceding the 1979-82, 1990-92, 2000-01 and 2007-09 recessions. These were respectively 3.9%, 5.3%, 6% and 9.7%, clearly indicative of an upward drift in the risk of long unemployment spells. However, the currently very high incidence of long-term unemployment also reflects an unprecedentedly large rise during the latest downturn: the 21.7 percentage points increase in the share of the unemployed who have been jobless for a year or longer is more than double the next largest recessionary rise in the period shown in the chart (i.e. the over 10 percentage-points increase between 1979 and 1983).

Several factors appear to have played significant roles in causing these developments. As regards the trend increase, both the ageing of the workforce and the increase in labour force attachment among women appear to have made a contribution. The latter factor is illustrated by noting that the share of unemployed women who have been jobless more than a year used to be lower than the corresponding share for men, but this gender gap in the risk of long spells had largely closed by the time that the latest downturn began: the long-term incidence rate for women was 69% that for men when the 1979-82 recession began but 99% that for men when the 2007-09 recession began (Junankar, 2011). This

Source: OECD calculations based on the Current Population Survey (CPS) basic files.

StatLink http://dx.doi.org/10.1787/888932479477
Do the resources available to help job losers measure up to the size of the challenge?

The discussion above has shown that unemployment, including long-term unemployment, has increased significantly in the wake of the 2008-09 recession, albeit very unevenly across OECD countries. Since the number of unemployed requiring assistance has expanded much more sharply in some countries than in others, it is interesting to consider how well prepared the hardest-hit countries were on the cusp of the downturn. Figure 1.9 juxtaposes the recent increases in total and long-term unemployment with the levels of public spending on active and passive labour market programmes in 2007. Among the key findings:

- Of the 11 countries where the increase in the unemployment rate has been above the OECD average increase, seven spent less on labour market programmes in 2007 as a percentage of GDP than the OECD average. Several of the hardest hit countries were particularly low spenders, including Estonia, Greece, the Slovak Republic and the United States (all of which saw unemployment rise by more than 5 percentage points and also saw large increases in long-term unemployment). However, the three other countries where the rise in unemployment exceeded 5 percentage points spent somewhat more than an average amount on labour market programmes in 2007 (Ireland, Portugal and

---

Box 1.1. A historical perspective on the dramatic increase in US long-term unemployment in the wake of the “Great Recession” (cont.)

convergence may reflect a declining tendency of female job losers with poor job-search prospects to withdraw from the labour force. It is still the case, however, that long-term unemployment has increased more strongly for men than for women during the recent recession, probably due in part to their disproportionate employment in the most cyclical industries (OECD, 2009a).

A number of researchers have recently analysed various factors that could account for the very sharp increase in US long-term unemployment during the recent recession, particularly the impact of the large extension in the maximum duration of UI benefit receipt. While an extension in UI duration during recessions is common practice in the United States, the extension observed during the 2008-09 recession was much more generous and might thus have had a larger impact on job search behavior, especially since it was combined with several measures to increase benefit generosity. Aaronson et al. (2010) were perhaps the first to estimate this impact. Based on existing studies of the responsiveness of job search to benefit duration, these authors concluded that the extension of the maximum UI entitlement period accounts for 10-15% of the total increase in average unemployment duration since July 2008 which translates into a 0.7 percentage point rise in unemployment (as compared with an overall increase of 5.5 percentage points). Daly et al. (2011) obtain similar estimates (0.4 to 0.8 percentage points). Fujita (2010) obtains a significantly larger estimated effect (1.7 percentage points), but Kroft and Notowidigdo (2011) and Schmieder et al. (2011) both estimate a smaller effect (0.4-0.45 percentage points). While there is great uncertainty concerning the size of the impact of the UI benefit extensions, these studies suggest that it has played a role in lengthening unemployment spells, but is not the whole story.

* In the United States, the duration of UI benefits, usually limited to six months, has been extended to up to 99 weeks in some states. Benefit levels were also temporarily increased, as was the COBRA subsidy for health insurance premiums available to some groups of job losers, although most of these measures have already expired. (Section 2 discusses these policy changes in greater detail.)

---

OECD EMPLOYMENT OUTLOOK 2011 © OECD 2011
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE “GREAT RECESSION”?

Spain), while unemployment rose by 4.6 percentage points in Denmark, where spending was well above the OECD average.

- The tendency for the hardest hit countries to have invested relatively little in labour market programmes prior to the crisis is clear from average spending levels: labour market programme expenditures averaged 1.1% of GDP for the eleven countries experiencing an above-average increase in unemployment, as compared with 1.4% of GDP for the seventeen countries where the increase in unemployment was below the OECD average. Labour market spending in 2007 was even lower for the six countries where the unemployment rate increased by more than 5 percentage points, just 0.9% on average. The hardest-hit countries also tended to allocate a somewhat lower share of the labour market spending to active measures than countries where the labour market fared better during the recession. The active share of spending averaged 36% in the six hardest-hit countries, 39% in all twelve countries with an above-average rise in unemployment and 43% in countries where the increase in unemployment was below the OECD average.

These patterns raise the concern that the hard-hit countries that entered the recession with relatively low spending on active and passive labour market programmes may have found it particularly difficult to scale up or supplement those programmes adequately in response to sharp increases in unemployment. The remainder of this chapter goes some distance towards answering this question, albeit largely for passive income support measures rather than active measures to help job losers back into jobs, because very little data on the operation of ALMPs during the crisis are yet available.17

Early in 2010, very few of the countries responding to an OECD questionnaire anticipated that the resources devoted to labour market policies would decline that year, while about equal numbers expected spending to remain at approximately the same level as in 2009 or to increase (OECD, 2010a). These anticipations probably reflected widespread

Figure 1.8. The risk of long-term unemployment rose most for men, youth and medium-skilled workers

Persons unemployed a year or longer as a share of the working-age population, OECD average

a) OECD is the weighted average of 27 OECD countries (excluding Australia, Chile, Israel, Japan, Mexico, New Zealand and Switzerland).
Source: OECD estimates based on national labour force surveys.

http://dx.doi.org/10.1787/888932479154
expectations that labour market conditions would remain difficult or even deteriorate further during 2010. Another reason that expenditures were expected to remain stable or increase is likely to have been the continuing operation of the numerous crisis measures that had been taken in late 2008 and early 2009 when unemployment surged (OECD, 2009b). Information collected in a new OECD questionnaire allows for a comparison between anticipated and realised spending during 2010 (Figure 1.10, Panels A and B).\(^{18}\) Actual spending turned out to be lower than anticipated in a considerable number of countries. Lower than expected spending was especially common for short-time work (STW) schemes, but also
1. **INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?**

---

**Figure 1.10. Anticipated and realised changes in the resources devoted to labour market policy, 2009 to 2011**

*Percentage of responses*

**Panel A. Anticipated change in 2010 relative to 2009**

**Panel B. Realised change in 2010 relative to 2009**

**Panel C. Anticipated change in 2011 relative to 2010**

---


StatLink: http://dx.doi.org/10.1787/888932479192
quite common for spending on active and passive measures. These unanticipated declines in expenditures probably reflect in significant part the fact that unemployment rose less than had been expected in some countries, as well as the rapid decline in STW enrolments in countries such as Germany, where the economic recovery was relatively quick and strong. Lower than anticipated take-up of new or existing initiatives (or a slower unfolding of new initiatives than first foreseen) may also have been a factor.

Looking ahead, many countries anticipate stable or falling expenditures on labour market measures in 2011 as compared with 2010 (Figure 1.10, Panel C). Anticipated improvements in labour market conditions probably play a large role in explaining why one-half or more of the countries expect spending on unemployment and STW benefits, as well as job subsidies, to fall and significant minorities expect all other spending categories to fall. Two other factors that are likely to be contributing to expenditure declines are the expiration of temporary crisis measures (OECD, 2010a) and government-wide fiscal consolidation. It should be noted, however, that it is also the case that considerable numbers of countries still anticipate spending increases in most labour market policy areas. Indeed, approximately one-third of the responding countries are expecting to spend more on job subsidies, job-search assistance, job-finding and business start-up incentives, training for existing workers and social assistance in 2011. The striking cross-country differences in spending developments this year undoubtedly reflect the very different labour market developments discussed above, as well as differences in the fiscal space to support spending on labour market programmes.

This qualitative analysis of how the resources devoted to labour market programmes have evolved the past several years illustrates the counter-cyclical nature of these expenditures, but it does not allow any conclusions to be drawn about whether passive and active labour market measures were scaled up adequately during the 2008-09 recession, nor whether the spending that occurred was cost-effective. Sections 2 to 4 of this chapter analyse the operation of unemployment and social assistance benefits during the crisis in much greater detail and draw some preliminary conclusions about what worked well and what could be improved in future downturns. An similar analysis for active labour market programmes will need to wait until more complete data on realised spending and enrolments become available.

2. What social safety nets were in place when the recession began and how have they changed?

Almost all OECD countries have social safety-net systems that are intended to cushion the impact of lost earnings on the living standards of workers and their families, but which also raise concerns about eroding labour supply incentives. This section focuses on the main components of the safety-net that the working-age population can be entitled to as a source of income support when they experience unemployment, including how their structure and generosity were changed in response to the recent downturn. While unemployment benefits and unemployment/social assistance are analysed in detail, a number of other public programmes that provide important help to workers to navigate a recession are outside the scope of this chapter. For example, in-work benefits, which can facilitate the transition back into the labour market or provide additional support to those already working, including those working fewer hours as a result of the crisis, are not analysed here as they mainly provide assistance to those in employment. Active labour market programmes (ALMPs) that assist job losers to find new jobs are also an essential
part of the overall government response to reduce the costs workers bear in recessions, but are not analysed in this chapter (see OECD, 2009a, 2009b and 2010a for detailed discussions of ALMPs during a recession).

Despite significant differences in the magnitude and the structure of social safety-nets among OECD countries, they typically consist of two main tiers of income assistance for workers losing their jobs and other unemployed persons: unemployment/employment insurance programmes hereafter referred to as unemployment benefit programmes (UB), and social assistance programmes (SA). In addition, unemployment assistance programmes (UA) may provide an alternative to UB or complement it, often functioning as an intervening level of income support between the main higher and lower tier schemes. One of the issues below is how effectively the different tiers of income support for the unemployed function when a deep recession sharply increases the need for this type of assistance. It should be noted, however, that a few OECD countries, notably Australia and New Zealand, have a single-tier system of income support for the unemployed and, hence, these issues take a somewhat different form in those countries.

UB programmes constitute the first, higher tier of income assistance and serve two primary objectives. First, UB replaces temporarily a portion of lost earnings for eligible workers who become unemployed (i.e. consumption-smoothing) and, hence, the benefit level tends to be tied to the prior earnings level (up to a benefit ceiling). Second and from a macro perspective, UB programmes help to support aggregate demand during an economic downturn by acting as an automatic fiscal stabiliser (Chase, 2007). By their nature, UB programmes are very responsive to changes in labour market conditions and typically represent the first line of defence to alleviate the impact of a slack labour market on the living standards of job losers and their families. However, UB coverage is generally limited to job losers (excluding the self-employed) who have made sufficient contributions to the insurance fund or have been employed for a minimum period of time prior to their dismissal, such that new labour market entrants, low-paid or intermittent workers and the self-employed may be less effectively covered (Immervoll, 2009).

Most OECD countries also have short-time work (STW) programmes or partial unemployment schemes, some of which are delivered as part of the unemployment benefit system. These programmes are meant to preserve employment and provide income support for workers with reduced hours as a result of temporarily low product demand, including during a general economic downturn. STW represented an important component of some countries’ responses to the current crisis (e.g. Belgium, Germany, Italy and Japan). While these programmes lie outside of this chapter’s analysis of income support for jobless persons, Box 1.2 provides a short discussion of STW and its role during the 2008-09 recession.

For those not, or no longer, eligible for UB programmes, the second and lower tier of income assistance typically consists of social assistance programmes that provide income support to households which do not have sufficient resources to support themselves (Adema, 2006). This type of programme is often referred to as a “last resort” programme since they tend to supplement any other type of income (from public or private sources) that an individual or household might have accumulated, received or be eligible for. Eligibility is generally determined according to specific needs taking into account living arrangements as well as available household income and assets. Social assistance benefits are typically determined with a view to providing a minimum level of resources and hence
Box 1.2. Preserving employment through short-time work (STW) schemes

A reduction in the total number of hours worked can take the form of a reduction in the average working time per worker (e.g. cuts in overtime) and/or a reduction in the number of workers (e.g. layoffs). A reduction in the average working time per worker may be fairer and more efficient relative to a reduction in the number of workers because: i) the burden of adjustment is shared more equally across the workforce; and ii) transitory factors are prevented from destroying valuable job matches (OECD, 2009a). If employers can be encouraged to “hoard” labour during an economic crisis, that could also relieve some pressure on the public safety net for job losers.

For all of the above reasons, most OECD countries have a short-time work (STW) scheme, under which firms or workers receive a subsidy for temporary reductions in hours per worker, under certain conditions (e.g. a verifiable decline in product demand). These schemes serve two purposes. First, they aim to preserve jobs at firms experiencing temporarily low demand by encouraging work-sharing. Second, they provide income support to workers whose hours are reduced due to a shortened work week or temporary lay-offs. In the wake of the recent crisis, new STW schemes were introduced in Poland, the Netherlands, Hungary, the Czech Republic, the Slovak Republic, Mexico and New Zealand. In addition, many countries extended the coverage or generosity of existing schemes or relaxed eligibility or administrative requirements in order to encourage take-up.

As shown in the figure below, the average stock of participants in STW, as a share of all employees, increased significantly between 2007 and 2009. This increase was especially large in Belgium, Italy, Germany, Luxembourg and Japan. Hijzen and Venn (2011) analyse the operation of STW schemes during this period and provide evidence that they had an important impact in preserving jobs during the economic downturn, with the largest impacts in Germany and Japan. The positive impact, however, is typically limited to workers with permanent contracts, with the risk of further increasing labour market segmentation between workers.

Average monthly STW take-up rate in selected years

<table>
<thead>
<tr>
<th>Percentage of total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
</tr>
</tbody>
</table>

Note: Countries shown in ascending order of the share of participants in short-time work schemes in 2009.
Source: Data based administrative data from the OECD-EC questionnaire and the OECD Main Economic Indicators Database.

StatLink: http://dx.doi.org/10.1787/888932479496
are not adjusted to reflect the previous earnings level of job losers. Moreover, SA benefits typically are not subject to explicit time limits, but income- and asset-tests can be very tight (Immervoll, 2009).

A number of countries have what is typically referred to as unemployment assistance (UA) programmes. In Australia and New Zealand, income support to unemployed working-age individuals is provided through a single means-tested UA programme, regardless of one’s previous working experience, as long as they meet the means-test. In other countries, UA operates as: the lower tier of income assistance (e.g. United Kingdom, Ireland and Germany); an often temporary middle tier of assistance for those typically not eligible to UB programmes and those exhausting their unemployment benefits (e.g. Estonia, Finland, Hungary, Portugal, Spain and Sweden); or a temporary, sometimes targeted, extension of the first tier of income assistance for those exhausting their unemployment benefits (Austria, France and Greece). Relative to UB programmes, unemployment assistance typically has lower benefit levels and, in some cases, can be supplemented by social assistance benefits. UA benefits are generally means-tested and set at a pre-determined level, so that the benefit amount is less dependent on previous earnings than are UB benefit levels. However, the means-testing is typically less strict than for social assistance benefits (Immervoll, 2009). In the empirical analysis below, unemployment benefit (UB) programmes refer to both unemployment/employment insurance programmes and unemployment assistance programmes which operate as the highest tier of income support for job losers. Social assistance programmes refer to pure social assistance plus those unemployment assistance programmes that operate as the lower tier of the income support system.

Unemployment benefit programmes

Long spells of unemployment can have significant negative repercussions on individuals’ and households’ ability to meet their financial obligations and maintain their standard of living. Therefore, the level of benefits unemployed individuals may be entitled to and the potential length of benefit receipt are two key elements to consider when
examining the role played by UB programmes in mitigating the impact of the recession on individuals and their households.

Table 1.1 shows net (i.e. after-tax) replacement rates at different stages during an unemployment spell for prime-age individuals eligible for UB programmes. Results are averages over different earnings levels and family situations and account for taxes and for family-related benefits as of 2009. These replacement rates provide a summary indication of benefit generosity in the first full year of the recession and thus capture the impact of most measures taken to reinforce UBs early in the recession, but not of subsequent developments. Compensation for lost earnings is typically highest during the first year of an unemployment spell. On average across OECD countries, individuals receive more than half of what they earned prior to losing their jobs. In some countries, the level of support can decline markedly as the spell of unemployment extends into a second year (e.g. less than 10% of previous earnings in Luxembourg, Italy, Japan and Korea). This is mainly due to the exhaustion of temporary UB and the assumed ineligibility for social assistance and housing benefits, which will be analysed separately below. Similar drops can be observed in other countries when unemployment enters a third (e.g. Netherlands, Switzerland) or fourth year (e.g. Sweden, Iceland).

Figure 1.1 examines how the generosity of UB was affected by the changes in the level of UB benefits and their maximum duration that OECD countries made in response to the crisis. The average net replacement rate averaged over the first two years of an unemployment spell is displayed for 2007 and 2009. While the generosity of UB remained fairly steady between 2007 and 2009 in most countries, it increased significantly in some of them, especially in the United States. The benefit extension in the United States was particularly rapid and much more prolonged than in previous recessions, with benefit duration extended from 26 weeks in 2007 to up to 99 weeks in 2009, depending on the state. There was also a significant increase in UB benefit duration in Canada, where the automatic extension tied to rising unemployment rates was reinforced with a temporary five-week extension for all eligible workers and longer extensions for particular groups (e.g. up to an additional 20 weeks for long-tenured workers). The main rationale for benefit extensions lies in preventing a rapid and drastic reduction in the level of income support received by job losers at a time when it is particularly difficult to find jobs, along with its value as a fiscal stimulus at a time when unemployment is high. UB extension can also reduce the share of the working-age population resorting to alternative public income-support schemes characterised by a higher risk of long-term benefit dependency and skill erosion, including SA, disability benefits and pension schemes (De Serres et al., 2011; OECD, 2010d).

Other countries have increased the level of benefits as a proportion of the average wage, either via an explicit policy change (e.g. Greece, Italy, Belgium and Turkey) or due to automatic indexation of benefits (e.g. Iceland and Ireland). The net replacement rates in Figure 1.1 suggest that these increases have been quite modest. Other policy changes in response to the crises loosened eligibility criteria with a view to increasing coverage. For instance, changes in eligibility in Finland, France, Israel and Japan should have made it easier for temporary or irregular workers to access the highest tier of income assistance [see Annex Table 1.A1.6 in OECD (2011c) for full details]. However, the net replacement rates displayed in Figure 1.1 provide no information about the effectiveness of these measures in extending UB coverage.
### Table 1.1. **Level of unemployment benefits by duration of the unemployment spell**

Net replacement rates at different points during an unemployment spell, percentage, 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Five-year average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>71.2</td>
<td>64.6</td>
<td>64.6</td>
<td>64.6</td>
<td>64.6</td>
<td>65.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>72.6</td>
<td>73.4</td>
<td>73.4</td>
<td>73.4</td>
<td>9.7</td>
<td>60.5</td>
</tr>
<tr>
<td>Austria</td>
<td>61.8</td>
<td>58.7</td>
<td>58.7</td>
<td>58.7</td>
<td>58.7</td>
<td>59.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>58.6</td>
<td>58.6</td>
<td>58.8</td>
<td>58.8</td>
<td>58.8</td>
<td>58.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>79.3</td>
<td>78.9</td>
<td>55.7</td>
<td>38.9</td>
<td>4.7</td>
<td>51.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>50.8</td>
<td>50.8</td>
<td>50.8</td>
<td>50.8</td>
<td>50.8</td>
<td>50.8</td>
</tr>
<tr>
<td>Australia</td>
<td>49.1</td>
<td>49.1</td>
<td>49.1</td>
<td>49.1</td>
<td>49.1</td>
<td>49.1</td>
</tr>
<tr>
<td>Germany</td>
<td>64.9</td>
<td>49.4</td>
<td>43.3</td>
<td>37.1</td>
<td>37.1</td>
<td>46.4</td>
</tr>
<tr>
<td>France</td>
<td>67.3</td>
<td>67.3</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
<td>44.9</td>
</tr>
<tr>
<td>Finland</td>
<td>60.1</td>
<td>57.8</td>
<td>32.5</td>
<td>32.5</td>
<td>32.5</td>
<td>43.0</td>
</tr>
<tr>
<td>Iceland</td>
<td>66.9</td>
<td>64.4</td>
<td>64.4</td>
<td>8.9</td>
<td>8.9</td>
<td>42.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>60.9</td>
<td>59.7</td>
<td>56.5</td>
<td>19.4</td>
<td>7.7</td>
<td>40.9</td>
</tr>
<tr>
<td>Norway</td>
<td>72.9</td>
<td>73.9</td>
<td>18.1</td>
<td>17.5</td>
<td>17.5</td>
<td>40.0</td>
</tr>
<tr>
<td>Spain</td>
<td>67.7</td>
<td>63.7</td>
<td>23.5</td>
<td>23.5</td>
<td>12.6</td>
<td>38.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33.0</td>
<td>32.6</td>
<td>32.6</td>
<td>32.6</td>
<td>32.6</td>
<td>32.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>72.6</td>
<td>61.0</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
<td>29.9</td>
</tr>
<tr>
<td>Canada</td>
<td>61.9</td>
<td>15.5</td>
<td>15.5</td>
<td>15.5</td>
<td>15.5</td>
<td>24.8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>85.1</td>
<td>9.3</td>
<td>9.3</td>
<td>9.3</td>
<td>9.3</td>
<td>24.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>80.7</td>
<td>40.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>24.2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>56.7</td>
<td>12.2</td>
<td>12.2</td>
<td>12.2</td>
<td>12.2</td>
<td>21.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>45.9</td>
<td>12.9</td>
<td>12.9</td>
<td>12.9</td>
<td>12.9</td>
<td>19.5</td>
</tr>
<tr>
<td>Greece</td>
<td>53.2</td>
<td>10.1</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
<td>15.3</td>
</tr>
<tr>
<td>Estonia</td>
<td>49.3</td>
<td>13.0</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>15.2</td>
</tr>
<tr>
<td>Poland</td>
<td>44.1</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>37.9</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>29.7</td>
<td>8.8</td>
<td>8.8</td>
<td>8.8</td>
<td>8.8</td>
<td>13.0</td>
</tr>
<tr>
<td>United States</td>
<td>44.9</td>
<td>16.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Japan</td>
<td>45.5</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Italy</td>
<td>46.7</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>10.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>45.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Korea</td>
<td>30.4</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td><strong>58.6</strong></td>
<td><strong>40.4</strong></td>
<td><strong>15.5</strong></td>
<td><strong>12.9</strong></td>
<td><strong>9.3</strong></td>
<td><strong>29.9</strong></td>
</tr>
</tbody>
</table>

**a)** Countries are shown in descending order of the overall generosity measure (the five-year average). Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Any entitlements to severance payments are also not accounted for. Net replacement rates are evaluated for a prime-age worker (aged 40) with a "long" and uninterrupted employment record. They are averages over 12 months, four different stylised family types (single and one-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings. See OECD (2007a) for full details.

**b)** Net replacement rates for Iceland do not include the retroactive extension in UB benefits from three to four years passed in December 2010.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

### Social assistance programmes

While social assistance is not necessarily targeted on the unemployed, it may provide needed support for workers who remain jobless after having exhausted their entitlements to UB programmes or other jobless persons who were not entitled to UB from the outset of their unemployment spell. Across the OECD, there is significant variation in the level of support provided under the lower tier of income assistance. These differences probably...
reflect, in part, different views on the respective roles of the state, the community and the family in supporting working-age individuals in need. In some countries, social assistance benefits are meant to prevent extreme hardship, while it is intended to minimise social exclusions elsewhere (Adema, 2006).

During a recession, concerns may arise about how quickly jobless workers exhausting eligibility to unemployment benefits can become entitled to social assistance, particularly when there is no other employed adult in the household. Concerns may also arise related to differences in the level of assistance provided by UB and SA, and the extent to which households need to “fall into poverty” before becoming eligible for social assistance.

For comparative purposes, Figure 1.12 shows the level of assistance under the lowest-tier of income assistance in relation to median equivalised household income (i.e. adjusted for household size), as well as alternative poverty lines determined as 40, 50 and 60% of median household income. The generosity of SA is assessed separately for single persons with and without children. From the figure, it is clear that benefits are often quite low compared with commonly-used definitions of relative poverty, especially when housing-related benefits are not included. Typically, the level of social assistance is lower for single individuals than for single parents. For instance, without accounting for housing subsidy, the level of support for single individuals does not exceed 30% of median income in about half of the OECD countries for which information is available compared with about ten countries in the case of single parents. This may reflect a general view that single

**Figure 1.11. Impact of recent changes in the level and maximum duration of unemployment benefits on overall generosity**

*Average net replacement rates for a two-year unemployment spell*

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CZE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TUR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SVK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>POL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SVN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KOR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CZE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TUR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SVK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>POL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SVN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRT</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Countries are shown in ascending order of the 2009 generosity measure (i.e. the two-year average net replacement rate).

a) Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Any entitlements to severance payments are also not accounted for. Net replacement rates are evaluated for a prime-age worker (aged 40) with a “long” and uninterrupted employment record. They are averages over 24 months, four different stylised family types (single and one-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings. See OECD (2007a) for full details.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).
individuals, especially when they are young, should rely on alternative sources of support such as their community or family at a time of need. It may also reflect countries’ efforts to mitigate the impact of adult poverty on children. For those living in rented accommodation, available housing-related subsidies can play an important role in improving living standards. Greece, Italy and Turkey\(^\text{26}\) have no or little social assistance for jobless working-age individuals and families at the national level.

Figure 1.12. Net income of social assistance recipients relative to median and alternative relative poverty lines,\(^a\) 2007 and 2009

Percentage of median household income

Note: Countries are shown in ascending order of the 2009 net income excluding housing-related benefits.

\(a\) Results show benefit entitlements for single individuals with no other income sources. They account for all relevant cash benefits (social assistance, lone-parent benefits, other family benefits, housing-related cash support as indicated) and income-related taxes and social contributions, where applicable. US results also include the value of “near-cash” benefits (Supplemental Nutrition Assistance Programme). Children are assumed to be aged four and six years. Comparisons with median income levels are made on an equivalised basis (equivalence scale is the square root of the household size). Median household income is based on data for a year around 2005 expressed in 2007 and 2009 prices.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives). StatLink \(=\) http://dx.doi.org/10.1787/888932479230
Several countries have changed rules affecting the availability and the level of social assistance in response to the recent recession. Figure 1.12 shows the change between 2007 and 2009 in the level of benefits received by a typical single person and single-parent families eligible to social assistance. For a number of countries, such as Canada, Germany, Ireland, Italy, Korea, Luxembourg, Netherlands, Portugal, Slovakia, the United Kingdom and the United States, the level of benefits went up slightly for single parents. In others, such as Japan, Poland and most notably Hungary, the level of benefits decreased between 2007 and 2009. In general, the level of benefits provided to singles also remained steady between 2007 and 2009, increasing slightly in Ireland, Korea, Luxembourg and the Czech Republic.

3. Were social safety nets responsive to rising unemployment during the recession?

In all OECD countries, albeit by a different magnitude, both tiers of income assistance have delivered increased support to the unemployed in response to the 2008-09 recession. This section attempts to provide a preliminary examination of this response. First, it examines trends in aggregate social spending compared with historical trends. Second, it takes a closer look at trends in the number of UB and SA recipients to identify groups at risk of not being caught by the safety net. Finally, it presents short case studies of the United States and Australia which analyse the responses of their safety-net systems to the downturn at the household level, with a focus on their distributional impacts.

Changes in social spending from 2007 to 2009

Changes relative to historical patterns

As is shown in Figure 1.13, spending on social benefits increased as a share of GDP between 2007 and 2009 in all OECD countries, mainly reflecting a rise in the number of individuals eligible for income support. The unweighted average increase was a sizeable 1.9 percentage points, but this reflects both increased public spending and declining GDP. Ireland saw the sharpest increase in the benefit spending share which rose by nearly 5 percentage points, while the increase was close to 3 percentage points in Finland, Greece, Spain and the United States. With the exception of Finland, these are all countries where unemployment increased by more than 5 percentage points.

For comparison purposes, Figure 1.13 also shows predicted changes in social benefit spending from a downturn of the size experienced, based on the historical responsiveness of benefit spending to the business cycle between 1970 and 2007. In order to better identify the drivers of social spending during a recession, two alternative benchmarks are used to proxy the size of the downturn: i) the increase in the harmonised unemployment rate; and ii) the fall in the output gap. The response of social benefit spending to the increase in unemployment during the recent recessions was generally quite close to what would have been predicted based on the average historical response elasticity among OECD countries. However, social benefit spending was significantly less responsive to the fall in the output gap than would have been expected based on historical patterns, with the simple forecasting model over-predicting 2009 spending in 24 of the 28 countries analysed. This difference appears to reflect the combined impact of benefit entitlement being closely tied to changes in the unemployment rate, as is most evident for UB spending, while the recessionary rise in unemployment was surprisingly small given the size of the fall in GDP in a considerable number of OECD countries (i.e. Okun’s coefficient values having been historically small, see OECD, 2010a).
There is considerable cross-country heterogeneity in these patterns, as would be expected given the important differences in national social protection systems, differences in the extent to which discretionary measures were taken to expand the coverage or generosity of the social benefits available to the unemployed, and the contrast between a few countries where employers shed employees in large numbers as GDP fell (most notably, Spain and the United States) and the larger number of countries where employers strongly hoarded labour (e.g. Germany and Japan). The following patterns emerge:

- Spain and the United States stand out in Figure 1.13 as the only countries where 2009 social spending predicted on the basis of the rise in unemployment exceeds the prediction based on the fall in the output gap, albeit by much more in Spain (where the Okun’s coefficient value was just over 2) than in the United States (where the Okun’s coefficient was just over 1).\(^3\) Not surprisingly, Spain emerges as the one country where the rise in social spending was much smaller than would have been predicted by the rise in unemployment. The fact that employment losses in Spain fell heavily on temporary workers and low-skilled (and often foreign) workers in the construction sector probably helps to explain why social spending lagged the rise in unemployment so strongly.\(^3\) In addition to Spain and the United States, only Greece and Portugal spent more on social spending in 2009 than would have been predicted based on the fall in the output gap. These two countries also saw employment losses that were unusually large relative to the fall in real GDP during the crisis.

- Many more OECD countries allocated about the same or more resources to social spending in 2009 as was predicted based on the increase in the unemployment rate, but about the
same or less than the predicted level based on the fall in the output gap. This is the case in Australia, Austria, Belgium, Finland, France, Germany, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, Norway, Poland, Slovak Republic and the United Kingdom. These tend to be countries where labour hoarding was unusually strong during the recession, so that the rise in unemployment was small relative to the fall in output.

- Four countries significantly underspent relative to predictions based on actual changes in both the unemployment rate and the output gap, namely, the Czech Republic, Hungary, Iceland and Sweden. Underspending according to both criteria also occurred in Canada, Denmark, the Netherlands, New Zealand and Switzerland, but to a much lesser extent.
- Greece is the only country spending significantly more than the predicted level based on the development of both unemployment and the output gap. However, Portugal slightly overspent according to both criteria.

**Changes in general government expenditures relative to overall changes in GDP**

The previous sub-section focused on changes in spending on social security benefits as a share of GDP. One of the drawbacks of focusing on this measure is that the ratio may increase as a result of a decline in GDP alone and not because of an increase in social security payments per se. As a complement to the previous analysis, Figure 1.14 examines the 2007-09 change in the absolute level of general government expenditures in real terms. It disaggregates the change in general government expenditures into two components: general government social security benefits and general government expenditures other than social security benefits. This decomposition can shed some light on the stabilisation role of increased government expenditures in mitigating the impact of the economic crisis on aggregate demand.

**Figure 1.14. Change in general government expenditures between 2007 and 2009**

Real absolute change relative to 2007 GDP levels

Note: Countries are shown in descending order of the change in social security spending.

a) Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

Source: OECD estimates based on the OECD Economic Outlook Database.

In all countries except Hungary, general government expenditures, including social security benefits, increased in real terms mitigating the decline in real GDP between 2007 and 2009 (Oh and Reis, 2011). In most OECD countries, real expenditures on social security
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

paid to persons and households increased in the range of 1-3% of 2007 GDP over this two-year period, while real general government expenditure increased in the range of 2.5-5%. The increase in expenditures on social security represented, on average, about 40% of the total rise in government spending.

Changes in general government expenditures and especially social security payments during the crisis have been more in line with changes in labour market conditions than with changes in GDP. Figure 1.15 examines the association between the increase in general government expenditures and general government social security payments (relative to 2007 GDP levels) on the one hand, and changes in real GDP and total number of hours worked, on the other. Between 2007 and 2009, there was no significant correlation between the change in GDP and the changes in either total general government expenditures or social security benefits. By contrast, the correlation between the change in the total number of hours worked and the increase in general government social security payments was statistically significant at -0.46. On average across OECD countries, a 1% reduction in total hours worked translated into an increase in real government social security expenditures that was equivalent to about 0.1% of the level of GDP observed prior to the unemployment shock.

These associations vary by country. Countries such as Australia, Greece, Ireland, Poland and Spain have seen above-average increases in their level of real social security expenditures, given the size of their change in total hours worked, whereas countries such as the Czech Republic, Hungary, Germany and Sweden have seen below-average increases in their level of expenditures, given the size of their labour market shock. Still, it should be noted that not all changes in hours worked should necessarily trigger additional public support, such as in the case of workers no longer working overtime or where there has been an agreement between workers and firms to reduce hours outside of STW schemes.

At a macroeconomic level, this preliminary analysis suggests that additional support to households during the 2008-09 recession was generally in line with government responses during previous economic downturns to changes in labour market conditions. However, this analysis provides no indication as to who benefitted from this increase, by how much and for how long. The following section will seek to shed some light on these questions, focussing particularly on the support directed to the unemployed.

**Receipt of unemployment benefits by job losers during the crisis and early recovery**

**How much did benefit receipt grow?**

In line with recent trends in the aggregate level of government transfers to persons and households (see above), the share of working-age individuals in receipt of unemployment benefits has gone up during the economic downturn in all OECD countries, especially in countries hard-hit by the “Great Recession”. Administrative recipiency data on unemployment benefit programmes allow for gauging their relative importance as well as its recent growth during the economic downturn. Administrative records typically provide timely and accurate information on benefit receipt. Borrowing from the methodology used to calculate “benefit dependency rates” (Immervoll et al., 2004), the number of unemployment benefit recipients are presented as a share of the working-age population. This is a different ratio than the typical “unemployment coverage ratio” whereby the number of unemployment benefit recipients is related to the total number of unemployed individuals.
Benefit dependency ratios are more suitable for cross-country comparisons as this measure better recognises that some unemployment insurance programmes are more likely to provide benefits to individuals not classified as unemployed in labour force surveys. For example, some programmes may allow unemployment benefit recipients to combine benefits with work or provide benefits to inactive individuals. For the purposes of this section, where possible, unemployment assistance programmes as well as temporary extensions to UB are presented separately from standard first-tier UB, so as to highlight the separate contributions of each. Another reason for caution when combining data on UB and UA is that this can be a source of upward bias due to the possible double-counting of job losers in receipt of both unemployment insurance and unemployment assistance in the same year.38

OECD EMPLOYMENT OUTLOOK 2011 © OECD 2011
At the onset of the crisis, less than 2% of the working-age population received unemployment benefits, including unemployment assistance, in most OECD countries (Figure 1.16). For a smaller group of countries, 4-6% of the working-age population was in receipt of unemployment benefits. This group included countries providing UA to a considerable number of unemployed persons (e.g. Finland, Germany and Ireland, as well as Spain on a temporary basis) and those with more comprehensive unemployment insurance programmes covering “longer” unemployment spells (e.g. Belgium, France, Portugal).

Figure 1.16. Changes in the number of unemployment benefit recipients as a share of the working-age population (15-64) as the crisis has unfolded

Note: Countries are shown in ascending order of Phase 3 values.

a) The phases of the job crisis have been grouped into 12-month periods, so as to avoid possible distortions from seasonal variation in benefit recipiency. The (up to) four phases shown in the chart are defined separately for each country as follows: Phase 1 – the 12-month period centred around the trough in the OECD harmonised unemployment rate (“crisis onset”); Phase 2 – first 12 months after the onset of the crisis; Phase 3 – between 13 and 24 months after the onset of the crisis; Phase 4 – more than two years after the onset of the crisis. Countries shown in ascending order of the share of UB and/or UA recipients during Phase 3.

b) Information on data for Israel: http://dx.doi.org/10.1787/888932315602. For the United Kingdom, results reflect the total number of beneficiaries under the Jobseeker’s Allowance (contribution and income-based).

Source: OECD estimates based on Administrative data and national quarterly labour force surveys. http://dx.doi.org/10.1787/888932479306
said, the share of the working-age population in receipt of unemployment benefits also reflected labour market conditions prior to the crisis (e.g. low unemployment rates in Australia, Denmark, the Netherlands and New Zealand). Following the onset of the crisis, the share of the population in receipt of unemployment benefits has increased in all countries for which data are available, but the magnitude of the increase and its time profile differ from country to country. For countries such as Estonia, Ireland, New Zealand, Spain and the United States, where the crisis and its impact on the labour market has been particularly deep and long, the share of the working-age population in receipt of unemployment benefits has more than doubled. By contrast, the increase was marginal in Mexico, Japan, Poland and Sweden, although Sweden had a significant increase in unemployment. In 13 of the 34 OECD countries, the number of UB recipients has already begun to decline from its post-crisis peak, but the recipiency rates remain significantly higher than before the crisis in most countries and Germany is the only country where the rise has been totally reversed.

The link between deteriorating labour market conditions and increasing benefit recipiency is examined more closely in Figure 1.17, which compares the change in the number of unemployment benefit recipients with the change in the number of unemployed persons, both measured relative to pre-crisis levels. This provides a rough indication of marginal coverage, i.e. the extent to which expanding benefit recipiency kept pace with the growth of unemployment. Panel A of Figure 1.17 shows that the increase in the number of UB recipients typically did not match the increase in the number of the unemployed, potentially leaving an important share of the “newly” unemployed to rely on family or community support and/or the lower tier of income assistance. In a number of countries, the extent to which the expansion in beneficiaries matched the increase in unemployment was relatively higher during the second year of the crisis than during the first year. This is the case in Chile, France, Hungary, Japan, Luxembourg and the United States as part of its “regular” UB programme. This suggests that at the outset of the crisis, dismissed workers (e.g. self-employed or working on a temporary/intermittent basis) were less likely to have sufficient previous work experience in a recent period to qualify for UB than were workers dismissed at a later point in the crisis.

The time-limited nature of unemployment benefits in most countries has meant that the extent to which the expansion in beneficiaries matches the increase in the number of unemployed has tended to fall in the third and later years of the crisis, in countries where labour market recovery has, until recently, lagged. For instance, labour market conditions in Ireland, Spain and the United States have been slack for close to three years. For all three countries, “regular” unemployment insurance programmes lost pace with the number of unemployed as the crisis extended into its third year, thereby potentially leaving an increasing share of unemployed with no assistance. That being said, as shown in the Panel B of Figure 1.17, unemployment benefit extensions introduced in the United States and unemployment assistance benefits in Ireland and Spain have played a significant role in allowing their systems to keep up with growing number of unemployed over time. It should be noted, however, that a rise in the share of the working-age population transiting from unemployment to inactivity as the crisis unfolded also may have contributed to the apparent success of regular unemployment benefit programmes in covering the growth in unemployment in a number of countries. As for Figure 1.16, the inclusion of unemployment assistance in Panel B of Figure 1.17 can also be a source of upward bias due to possible double-counting.
In the case of Ireland (as well as Finland), the addition of unemployment assistance results in the rise in the number of total beneficiaries outpacing the increase in unemployment. This mainly reflects the fact that both of these programmes also serve as the lower tier of income assistance for all unemployed and newly inactive persons. In contrast, in some countries, the increase in unemployment beneficiaries since the outset of the crisis represents less than 40% of the rise in the number of unemployed, especially as slack labour market conditions extended into a second year. This suggests that for these countries the first tier of income assistance, while responsive to the change in labour...
market conditions, has played a relatively smaller role in mitigating the impact of the crisis on job losers. This may have arisen as a result of a lengthening of the average unemployment spell beyond the duration of benefit receipt of these programmes (typically 3-12 months), as well as a potential “mismatch” between the type of workers typically eligible for these insurance schemes and the workers who have been affected by job loss during the recent crisis.

For instance, the increase in unemployment beneficiaries compared with the number of unemployed is typically lower for the youth than adults (see Figure 1.18). This pattern is especially evident in Canada, Ireland, the Netherlands and Spain. In contrast, the increase is higher for youth than adults in New Zealand and about the same across age groups in the United Kingdom. This likely reflects the design and structure of the unemployment benefit systems in these countries, where UB is provided through a single means-tested unemployment assistance programme, regardless of prior work experience or status as a worker.

![Figure 1.18. Change in the number of unemployment benefit recipients as a percentage of the change in the number of unemployed persons, by age groups²](http://dx.doi.org/10.1787/888932479344)

Regular unemployment benefit programmes (excluding extended benefits and unemployment assistance)

<table>
<thead>
<tr>
<th>Country</th>
<th>First year</th>
<th>Second year</th>
<th>Third and later years</th>
</tr>
</thead>
<tbody>
<tr>
<td>NLD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BEL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESP*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBR*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHE</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Countries are shown in ascending order of the relative change in the number of UB recipients during the second year.
² Unemployment benefit and unemployment assistance recipients instead of unemployment benefit recipients only.
*a) Changes calculated with respect to values at the time of the onset of the crisis, as defined in the note a) to Figure 1.16 (cf. Phase 1).
Source: OECD estimates based on Administrative data and OECD Main Economic Indicators Database.

Some caution is required when interpreting the comparisons between the growth in unemployment benefit recipients and unemployment since the beginning of the crisis. For instance, not all unemployment benefit recipients are necessarily unemployed, because some beneficiaries may combine unemployment benefits with earnings from part-time or occasional work or others may simply become inactive because of the lack of labour market opportunities. Similarly, unemployed youth may prefer to return to full-time education and training or stay in school longer rather than look for work. Still, recent trends suggest that, on average among OECD countries, about 40% of the newly
unemployed during the crisis did not receive any support from the highest tier of income assistance. The following section aims to identify potential groups of unemployed individuals who are more at risk of not benefitting from that tier.

**Who’s at risk of being missed by the first tier of income assistance?**

Demographic characteristics and past labour market experience play an important role in determining one’s eligibility for unemployment benefits. For a number of countries, labour force surveys can be used to examine individuals in receipt of unemployment benefits. Labour force survey data provide information on some key socio-economic characteristics of benefit recipients which are typically not available in administrative data sources, but have limits of their own. Most importantly, information pertaining to benefit recipiency in labour force surveys is often subject to underreporting bias and misclassification (Immervoll, 2004). For this reason, the section below focuses on the distribution of benefit recipiency, instead of the absolute level of benefit recipiency, according to various characteristics. While underreporting and misclassification may bias both the absolute level and the distribution of benefit recipiency, the impact on the distribution of benefits is likely to be smaller.

Figure 1.19 shows the normalised ratio of the number of unemployment benefit recipients to the number of unemployed, with the average ratio for the total working-age population being set equal to 100. This is akin to calculating the likelihood of benefit receipt for sub-groups of unemployed persons with particular demographic and labour market characteristics relative to the average. For the purposes of this section, the distribution of benefit recipiency is shown according to gender, age and migrant status, as well as according to the work experience and work status before becoming unemployed, and the length of time unemployed.

Among OECD countries for which the information is available, the normalised ratios typically reflect the structure and design features of the highest tier of income assistance for job losers. For instance, individuals with no or relatively weaker attachment to the labour market are less likely to benefit from unemployment insurance programmes by design. As shown in Panel A of Figure 1.19, the likelihood of receiving unemployment benefits conditional on being unemployed tends to increase with age in most OECD countries. In all countries, the ratio for those aged between 15 and 24 is below average and in some cases the ratio can be less than one-half the average ratio (e.g. Greece, Italy, Portugal, Spain and the United States).

As shown in Panel B of Figure 1.19, the ratio is significantly higher for men than women in Austria, Germany, Greece, Italy, Luxembourg, Poland, the Slovak Republic and Spain. This may reflect labour market structure as well as the type of work generally undertaken by women. For example, women may be more likely to work in intermittent, temporary or part-time jobs. In contrast, in Belgium, France, Hungary and Portugal the ratio of benefit recipients to unemployed is roughly the same for men and women. Similarly, as shown in Panel C, variations in benefit recipiency by immigration status are relatively small (with the exception of the Slovak Republic). This may reflect the fact that migration status has been determined according to country of birth. This means that the group of persons identified as migrants is very diverse as regards how long they have been living in their country of residence, their country of origin and their socio-economic background. For example, a recent study of immigrant welfare receipt across Europe
Figure 1.19. **Differences across workforce groups in the ratio of UB recipients to the number of unemployed persons in 2009**

Ratio for all unemployed = 100

Panel A. **Age groups**

Panel B. **Gender**

Panel C. **Migration status**

Panel D. **Previous work experience**

Panel E. **Unemployment duration**

Panel F. **Previous work status**

n.a.: Not available.

concludes that benefit receipt is sometimes very different for migrants from another European Union country than those from a non-EU country (Barret and Maître, 2011).

Generally, UB programmes are designed to cover job losers who have made sufficient contributions to the insurance fund or have been employed for a minimum period of time prior to losing their job. As such, as shown in Panel D of Figure 1.19, the likelihood of an unemployed individual with no previous work experience receiving unemployment benefits is slim in most countries for which data are available. Belgium, Germany, Estonia and Hungary are exceptions, albeit benefit recipiency among those without work experience is still 40-60% lower than the average. This may reflect less stringent eligibility rules with respect to prior work experience under their UI programme, as well as the role played by complementary unemployment assistance programmes for those exhausting their unemployment insurance benefits or those not eligible for insurance benefits from the outset of their unemployment spell.

Benefit recipiency also differs according to the duration of the unemployment spell of individuals (Panel E of Figure 1.19). In countries where UI programmes cover relatively “longer” unemployment spells, such as Austria, Belgium, France, Portugal, Slovenia (for older workers), being unemployed for more than one year does not significantly reduce one’s likelihood of being in receipt of unemployment benefits. In contrast, in countries with UB programmes which provide assistance over relatively shorter unemployment spells, such as Estonia, Italy, Luxembourg and Poland, the likelihood of being in receipt of unemployment benefits is low once an unemployment spell lingers into a second year or longer.

Similarly, the work status of a job loser prior to their dismissal also affects their likelihood to qualify for unemployment benefits. As shown in Panel F of Figure 1.19, the likelihood of qualifying for benefits is generally higher for employees than for self-employed individuals, especially in France, Greece, Italy, Portugal and Spain. Indeed, self-employed individuals are not eligible for unemployment programmes in a number of countries, mainly due to conceptual and practical considerations including the difficulty of distinguishing periods of employment from periods of unemployment and identifying reasons for separation (O’Leary and Wandner, 1997). This is the case in, for instance, Canada (except for self-employed fishers), Greece, France, Israel, Italy, Japan, Korea, Norway, Portugal, Switzerland and the United States. In other countries, such as the Czech Republic, Finland, Hungary, Sweden, Slovenia and the Slovak Republic, self-employed workers can voluntarily opt in to public unemployment insurance coverage subject to certain conditions. Lastly, unemployment assistance programmes designed to provide assistance – on a temporary or indefinite basis – to those not eligible for unemployment benefits from the outset of their unemployment spells can also support previously self-employed individuals. Such programmes are in place in Australia, Estonia, Ireland, Finland, Germany, Hungary, New Zealand, Spain and Sweden.

Preliminary findings suggest that a non-negligible share of the unemployed has not benefitted from the first tier of income assistance and may have had to rely on the lower tier of income assistance (i.e. social assistance) if their families lacked sufficient alternative sources of income such as the earnings of other adults in the household. These individuals are disproportionately young, have no or little work experience or have been unemployed for a relatively long period of time. Ineligibility for unemployment benefits does not necessarily mean that they have to rely on the lower tier of income assistance. A number of coping strategies allow households to mitigate the impact of a temporary loss of
earnings. Still, for a number of individuals, social assistance represents their sole or primary source of income, at least for some period of time. The following section will take a closer look at vulnerable households that potentially would have been more likely to have to rely on the lower tier of income assistance and how well these differences in vulnerability align with recent trends in social assistance caseloads.

**Recent trends in social assistance benefit recipiency**

By design, support provided under the first tier of income assistance concentrates primarily on the individual earnings losses of job losers rather than on the situation of households and families. In contrast, assistance provided to the unemployed during a recession under the last tier of income assistance concentrates on the family situation of jobless individuals and takes into account that families typically share resources. Family support can take many forms such as unemployed youth returning to the parental home or a jobless individual living with a spouse who is still working (OECD, 2011b). Therefore, the degree of hardship arising from lost earnings can vary significantly across jobless individuals and SA schemes are intended to take these differences into account when determining benefit eligibility.

As a result and through the operation of stringent means-testing (e.g. income and assets tests), the lower tier of income assistance is typically less sensitive to a change in labour market conditions than the higher tier. For instance, targeting rules generally result in job losers having to first tap into their savings and, in some cases, to dispose of a portion of their non-financial assets before becoming eligible for social assistance. In addition, eligibility generally depends on the labour market and income situation of other household members. As such, social assistance caseloads are likely to be mainly affected by changes in the number of persons living in jobless households who are not in receipt of unemployment benefits.

As shown in Panel A of Figure 1.20, the share of inactive or unemployed individuals not in receipt of unemployment benefits and living in jobless households increased in most countries in 2009 relative to both 2007 and 2008 levels. The increase was particularly sharp in Estonia, Spain and the United States. This mainly reflects the severity and length of the crisis in these countries. Among the family types considered in Panel B, individuals in a couple relationship are the least likely to live in a no-earner household not in receipt of unemployment benefits. This reflects the role of dual-earner couples in stabilising household income when unemployment rises during a recession. Indeed, the sustained growth of women’s labour-force participation over recent decades and its rising resilience during economic downturns has reinforced many families’ abilities to cushion earnings losses (OECD, 2011b). One-adult households, whether unattached individuals or lone parents, are typically three to four times more likely to fall into a vulnerable income situation as a result of not working. This reflects the lesser ability of one-adult households to mitigate income losses arising from unemployment, for example by temporarily relying on a spouse’s or parent’s income during an unemployment spell, thereby making them more likely to have to rely on the lower tier of income assistance.

Similarly, the share of individuals living in no-earner households and not in receipt of unemployment benefits is higher for those with relatively low skills (Panel C). This suggests that these individuals may face additional barriers to participating in the labour market and potentially be more likely to occupy precarious jobs (e.g. intermittent, temporary or...
Figure 1.20. **Share of working-age individuals\(^a\) living in no-earner households and not in receipt of unemployment benefits**

<table>
<thead>
<tr>
<th>Panel A. Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>DEU</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B. Family types, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
</tr>
<tr>
<td>DEU</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel C. Educational attainment, (^b) 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-skilled</td>
</tr>
<tr>
<td>DEU</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Note: Countries are shown in ascending order of the share in 2009.

\(a\) For the purpose of this figure, working-age individuals are persons between 15 and 54 years of age, because a significant share of jobless individuals in the 55 to 64 age group are retired.

\(b\) Low-skilled refers to less than upper secondary education; medium-skilled refers to upper secondary education; and high-skilled refers to more than upper secondary.


StatLink: [http://dx.doi.org/10.1787/888932479382](http://dx.doi.org/10.1787/888932479382)
part-time) which are often more sensitive to changing economic conditions, thereby leaving them more at risk of not being entitled to benefits under the first tier of income assistance.

A simple analysis comparing the growth in social assistance caseloads during 2007-09 with the growth in the number of working-age persons living in jobless households not receiving UB/UA suggests that social assistance programmes play a significant role in supporting the most vulnerable job losers, but only reach a small share of the expanded pool of unemployed persons during a recession (Figure 1.21, Panel A). However, strong conclusions cannot be drawn because data are only available through 2009 before the strongest test of the efficacy of SA in backstopping UB had arrived in most countries. Even in 2009, the growth in social assistance caseloads was substantially lower than the growth in the number of potential workers in jobless households not receiving unemployment benefits in several of these countries, including the Czech Republic and the United States (as regards Temporary Assistance for Needy Families). This pattern may reflect particularly stringent eligibility criteria for households to become eligible for SA. In contrast, the growth of social assistance caseloads in Estonia, Hungary, Italy, Portugal and Spain, as well as the number of Food Stamps recipients in the United States, actually exceeded the growth in the number of working-age persons in jobless households not receiving unemployment benefits. This may reflect less stringent means-testing (e.g. higher or no maximum asset thresholds), as well as the greater severity of the impact of the downturn on individual job losers and their families.

Similar data for unemployment assistance recipiency are reported in Panel B of Figure 1.21, albeit only for six countries. In these countries, changes in UA benefit recipiency were more closely aligned with changes in the number of unemployed persons than with changes in the number of adults in jobless households. This pattern is consistent with UA means-testing rules typically being less stringent than those for SA, such that its receipt is not so tightly limited to the neediest households. As a result, UA programmes provide broader coverage to the expanded pool of unemployed workers during a recession than does SA. These differences probably also reflect the relatively large non-take-up rate of social assistance benefits, which may arise because of the perceived stigma associated with receiving social assistance as well as administrative practices that may be deemed too intrusive (Bargain et al., 2010).

The analysis in this section confirms that lower-tier income assistance programmes are typically targeted towards the most vulnerable job losers. During a non-recessionary period, this allocation of benefits may be viewed as desirable or optimal since benefits are effectively targeted to the most economically disadvantaged households and the risk of benefit dependency is contained. However, too-stringent targeting by the lower tier of income assistance may leave an increasing share of negatively-impacted households with no or little additional support following an unexpected reduction in earnings during a recessionary period when long-term unemployment rises sharply. This risk is likely to be greatest for childless households and in countries where the first-tier UB system has relatively low coverage or short duration of benefits. An insufficiently responsive SA system may raise equity concerns, but it also raises the risk that workers experiencing long-term unemployment during a deep recession will drift onto other income replacement benefits, such as disability benefits (see Box 1.3), that are characterised by very low exit rates, even when labour market conditions are good.
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE “GREAT RECESSION”?

The distributional impact of both tiers of income assistance: A first look for two countries

This section uses micro-level data for individual households in order to analyse more precisely the effectiveness of income safety nets in mitigating the impact of lost earnings on household incomes. Unfortunately, the most recent income data available at the household level for the majority of OECD countries are for the reference year 2008 and hence cannot be used to assess the performance of income support programmes during the Great Recession.45 However, 2009 data are available for two countries: Current Population Survey (CPS) data for the United States and Household Income and Labour Dynamics in Australia (HILDA) survey for Australia. While the labour market shock has been significantly larger and more persistent in the United States than in Australia, these two countries follow distinctive approaches in targeting income assistance to job losers setting the stage for an interesting case study.

The recession caused large losses in earnings and other forms of market income in the United States. Figure 1.22 analyses the effectiveness of the tax/transfer system in cushioning these income losses at different points in the income distribution. The analysis is restricted to persons living in households headed by working-age individuals and hence vulnerable to earnings losses due to unemployment. The shares of the market income lost

---

Figure 1.21. Change in the number of social/unemployment assistance benefit recipients as a percentage of the changes in the number of working-age persons living in jobless households and the number of unemployed, in selected countries, 2007-09

<table>
<thead>
<tr>
<th>Percentage growth rate in the number of persons who are:</th>
<th>Panel A. Social assistance (SA)</th>
<th>Panel B. Unemployment assistance (UA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In no-earner households</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
</tr>
<tr>
<td>Unemployed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Countries are shown in ascending order of the growth rate in unemployment.

SA: Social assistance; SNAP: Supplemental Nutrition Assistance Programme (former Food Stamps); TANF: Temporary Assistance for Needy Families; UA: Unemployment Assistance; UI: Unemployment Insurance.

* Comparison between 2008 and 2009 for Australia and Italy.

a) Growth in SA in Panel A is compared with the growth in the total number of working-age persons (aged 15-54) living in no-earner households not in receipt of UI/UA benefits, while growth in UA in Panel B is compared with the growth in the number of working-age persons (aged 15-54) living in no-earner household.

Source: OECD calculations based on data provided by the national authorities, the European Union Labour Force Survey (EULFS) and the Current Population Survey (CPS) March Supplement, for the data on no-earner households; and the OECD Main Economic Indicators for the harmonised unemployment data.

StatLink  
http://dx.doi.org/10.1787/888932479401
Box 1.3. Impact of the crisis on recent trends in disability benefit caseloads

Disability benefits are an important component of the social safety-net for working-age individuals, but they are intended to address health risks, not labour market difficulties resulting from an economic downturn. On average in OECD countries, close to 6% of the population aged between 20 and 65 received a disability benefit in 2007, at a fiscal cost of 1.2% of GDP, or about twice as much as the spending on unemployment benefits, prior to the crisis (OECD, 2010d). Given its size and the fact that exit rates for disability benefits are very low, it is important not to loosen the medical criteria for accessing these benefits in response to a recession-induced increase in unemployment.

Recent trends in disability benefit caseloads

Panel A. Disability benefits recipiency rates, 2007 and 2010*
Percentage of population aged 20-64

Panel B. Annual average growth of disability recipiency rates, 2000-07 and 2007-10*
Percentage

Note: Countries are shown in ascending order of the 2010 recipiency rate in Panel A and the 2007-10 growth in recipiency in Panel B.

a) 2009 for the Czech Republic, Germany, Finland, Mexico, Norway, New Zealand, Switzerland and the United Kingdom.

b) Information on data for Israel: http://dx.doi.org/10.1787/888932315602.


d) 2007-09 for the Czech Republic, Germany, Finland, Mexico, Norway, New Zealand, Switzerland and the United Kingdom.

Source: OECD estimates based on administrative data. http://dx.doi.org/10.1787/888932479515
between 2007 and 2009 that were off-set by decreases in taxes paid and increases in the receipt of benefits from the main public transfer programmes targeted to working-age individuals are shown separately for each of the quintiles of the distribution of adjusted disposable income (i.e. household incomes adjusted for family size). The share of lost income that was compensated by the tax/transfer system was largest at the bottom of the income scale and smallest between the middle and top of the income scale: ranging from an 89% off-set for the first quintile to about 60% for households in the third, fourth and fifth quintiles. Despite the strong cushioning role played by the fiscal system, average real disposable incomes fell significantly for households in all five quintiles (see the numbers in parenthesis below each quintile in Figure 1.22). Relative to 2007 average disposable income, the decrease was relatively low for households in the 1st and 5th quintiles and highest for those in the 3rd quintile.

Among the public transfer programmes analysed, unemployment insurance played the largest role in compensating for lost income across all quintiles. For those at the low end of the income scale, the Supplemental Nutrition Assistance programme (formerly known as Food Stamps) also played an important role, while public assistance programmes (e.g. Temporary Assistance for Needy Families) played a marginal one.46 Interestingly, the impact of the earned

---

Box 1.3. Impact of the crisis on recent trends in disability benefit caseloads (cont.)

In a number of countries, disability benefit recipiency rates have tended to increase following the upsurge in unemployment during past recessions, because disability benefits served to some extent as an alternative to unemployment benefits, particularly for the long-term unemployed (Rupp and Stapleton, 1996; Autor and Duggan, 2003; Bratsberg et al., 2010). Past experience has also shown that people on disability benefits are much less likely to return to work, even once economic recovery is well under way, than comparable people receiving unemployment benefits. A shift from unemployment to disability benefits is thus to be avoided, except in cases when it is justified on medical grounds (Kemp et al., 2006; OECD, 2003b and 2010d). Panel A in the chart above shows that the share of the population in receipt of disability benefits ranges from less than 1% in Mexico and Chili to about 12% in Norway. Recipiency rates for 2009 or 2010 are comparable to those observed in 2007 in most countries, suggesting that the “Great Recession” has not yet resulted in jump in disability rolls. Looking at benefit recipiency rates alone may be misleading over such a short period, because changes to disability benefit rolls tend to evolve gradually over time. Panel B provides a better gauge of the risk by focusing on inflows into disability. The annual percentage-point increase in the recipiency rate prior to the crisis (2000 to 2007) is compared to the growth rate observed after the onset of the crisis (2007 to 2009 or 2010 depending on latest information available).

While it is too early to draw definitive conclusions, these data suggest that recipiency rates have started trending upward since the onset of the crisis in Denmark, Australia, Slovak Republic, Korea and the United States, and are continuing to increase in Estonia, Iceland, Israel and Norway. That being said, factors other than the business cycle may also affect these recent trends in beneficiary numbers, making it difficult to discern the impact of the recent upsurge in unemployment. These factors include population ageing, since disability prevalence increases with age (OECD, 2010d), and disability benefit reforms. For instance, just prior to the onset of the crisis, Sweden, United Kingdom, Hungary and Switzerland all implemented structural reforms that have resulted in a downward trend in their recipiency rates.
Income tax credit (EITC) is marginal for those in the first quintile, but significant for households in the second and (to a lesser degree) third quintiles. This suggests that, as a result of the crisis, a greater share of working-age individuals became eligible for the EITC between 2007 and 2009, due to relatively lower earnings as well as temporary changes to the EITC applying in 2009.\textsuperscript{47}

Overall, the impact of the tax/transfer system prevented poverty from increasing in 2009 relative to 2007 (Sherman, 2011), despite the large increase in unemployment.

Given the shallow and short economic downturns experienced in Australia, a similar analysis examining the share of lost income compensated by either a decrease in taxes paid and/or by an increase in the main public transfers targeted to working-age individuals would not be meaningful. Indeed, average adjusted income increased in real terms in most quintiles between 2007 and 2009. It remains of interest, however, to compare the distributions of UB across income quintiles in the United States and Australia, both before and after the downturn. In Australia, about 70\% of UB benefits (NewStart and Youth Allowance) are targeted to the lowest two quintiles. By contrast, the distribution of UB benefits in the United States exhibits a hump-shaped pattern, such that about 70\% of benefits are targeted to the second, third and fourth quintiles, while the first and fifth quintiles receive proportionally less. In both countries, the distributions of UB have not changed significantly as a result of the economic downturn. The distribution of social assistance benefits is similar in both Australia and the United States with the bulk of benefits being allocated towards the first two quintiles. In the wake of the 2008-09 crisis, the distribution of last tier income assistance in the United States has changed slightly with an increased share of these benefits going to the second and third quintiles. This change mainly reflects the impact of temporary changes to the Supplemental Nutrition Assistance Programme (SNAP).
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

Comparisons of approaches

While limited to two countries, this analysis provides an interesting comparison of two distinctive approaches to the design of income assistance for job losers. Like the majority of OECD countries, the United States has a two-tiered income assistance system for the unemployed, consisting of a temporary higher tier of income assistance for eligible job losers and a lower tier targeted at those in financial hardship. The first tier of income assistance is a public insurance programme covering the risk of temporary earnings loss with benefit receipt being triggered by involuntary job loss and benefit levels reflecting prior work history and pay level. Neither eligibility nor benefit levels depend on other income received at the family/household level. In Australia, there is only a single means-tested unemployment assistance programme for all unemployed working-age individuals. The programme supports job losers for an indefinite period of time, as long as eligibility criteria are met. Neither benefit receipt nor benefit level depend on prior work history, and benefits are generally income-tested. Benefits may be withheld or paid at a reduced rate if assets exceed specified value limits.48

Both approaches have their advantages and drawbacks. In countries with a two-tiered programme of income assistance, such as the United States, the first tier tends to be very responsive to changing labour market conditions and to provide relatively high benefit levels, especially during the early stages of unemployment spells. However, this setup can create equity concerns because unemployed individuals with strong labour market attachment are entitled to relatively high benefit under the first tier, while other unemployed people are only entitled to lower levels of benefit under the second tier, at best.

A single tier of income assistance, such as is in place in Australia, provides for a more uniform treatment of all unemployed persons while targeting benefits to those who need them the most. On the other hand, relatively lower levels of benefits are typically provided, especially during the initial stage of an unemployment spell, because many job losers tend...
not to be immediately entitled to benefits as a result of the means-test. These programmes can also raise concerns over work incentives for the spouse of an eligible recipient, because means-testing typically applies at the family or household level.

The two-tiered approach illustrated by the United States can be seen as better meeting the objective of consumption-smoothing because the first-tier UB system covers most job losers with steady work histories and provides benefits that are graduated to previous earnings levels. While the single-tier approach illustrated by the Australian system does not provide such broad support to smooth consumption, it does target benefits to unemployed persons with low family incomes. These families are more likely to be liquidity constrained than other families containing unemployed persons and thus benefit more from income benefits that allow them to avoid inefficiently sharp drops in consumption levels (Chetty, 2008). A more targeted approach may also provide a larger fiscal multiplier, because it targets a greater share of benefits to those with the lowest levels of family resources and possibly also the highest propensities to consume. This latter advantage could be offset, however, if means testing also results in a lower level of benefit spending.

Although limited to two national case studies, this analysis highlights the inherent trade-offs that arise in choosing how many tiers of income assistance to offer, as well as benefit levels, duration, coverage and eligibility criteria for each tier. In some countries, the challenge to find the right design can also be complicated by institutional factors, such as different tiers of income assistance falling under the responsibility of different levels of government. Societal views on the respective roles of government, communities and families in providing needed assistance to the unemployed and inactive will also influence programme design choices.

4. What has the “Great Recession” taught us about income support for the unemployed in deep recessions?

Section 3 has analysed the extent to which the different systems of income assistance for job losers and other unemployed persons expanded in response to the 2008-09 recession. At least in a qualitative sense, both tiers of income assistance have been scaled-up in line with their respective roles, with unemployment benefits playing the lead role in supporting job losers, especially workers with steadier jobs living in middle-income families, and social assistance programmes ensuring a basic floor of assistance for those with no other sources of income. However, the responses of the two tiers of income support for the unemployed to deteriorating labour market conditions also suggest increased risks of both economic hardship and excessive benefit dependency during a deep recession. The fact that unemployment grew significantly more than benefit recipiency suggests that some of the unemployed may be “falling between the cracks”, with youth and the long-term unemployed being of particular concern. At the same time, an increasing number of persons are remaining on income benefits for extended periods of time raising the concern that they are not engaged in effective job search and may be at risk of becoming progressively disconnected from the labour market.

While the basic logic of income support systems is the same in good and bad economic times, there may be grounds for adjusting certain policy settings in the context of a depressed labour market. In order to shed light on this question, this section first revisits the perennial issue of how best to balance benefit generosity and work incentives, including whether business cycle conditions should be taken into account. It then examines whether unemployment benefit duration should vary with business cycle conditions, increasing as labour market conditions deteriorate and then decreasing as the labour market recovers. The
final issue discussed is whether means-testing under social assistance should be relaxed in order to provide a basic floor of income assistance that is more responsive to changing labour market conditions. Since a full picture of the operation of income support systems during the “Great Recession” is not yet available, this section seeks to highlight issues that require further study, rather than to reach definitive policy conclusions.

**Higher redistribution versus stronger work incentives – What is the right balance?**

One of the perennial issues that arise in setting the level of income assistance – both unemployment benefits and social assistance – is how best to strike the balance between benefit generosity and financial incentives to seek work. As described in Section 2, there is significant variation across OECD countries in the generosity of income support provided by both the higher and lower tiers of income assistance, illustrative of how different countries have opted for different solutions to this dilemma. The challenge to balance benefit adequacy with work incentives is not fundamentally different when labour markets are depressed during a deep recession, but it is possible that the optimal balance might be somewhat different than in periods when labour demand is more buoyant. More generous income support is attractive in the context of a downturn in so far as it further alleviates the economic hardship of individuals and families following the loss of employment income, at a time when they are particularly likely to be liquidity constrained (Bender et al., 2010). More generous unemployment benefits may also strengthen automatic stabilisers during a downturn. These potential advantages need to be balanced against the risk that too generous income support for job seekers will dull job search incentives and thus exacerbate the risk of long term unemployment. This would have short run costs in the form of lower GDP and higher public spending, while also increasing the risk of hysteresis effects in unemployment (e.g. due to a deterioration in human capital while jobless).

Figure 1.23 illustrates how the risk of setting “unemployment traps” for job losers tends to rise with benefit generosity, especially for those whose re-entry wage is likely to be lower than their wage prior to becoming unemployed. However, it also shows that it is possible to partially decouple benefit generosity from disincentives to become re-employed. Net replacement rates for job losers who were previously average-wage workers and qualify for first-tier UBs are juxtaposed with average effective tax rates (AETRs) corresponding to a return to work in jobs paying either the same average wage or only two-thirds as much. These AETRs provide a gauge of the financial returns to taking up work for an average stable worker who has just become unemployed. Among the key findings:

- Recipients of unemployment benefits who become re-employed in a new job paying the same wage they previously received face AETRs in the range between 60 and 80% in most countries (i.e. the increase in take-home pay ranges between 20% or 40%), while the (unweighted) average AETR is 68%. The cross-country correlation between the UB net replacement rate and the AETR is 0.68, indicating that there is quite a strong association between more generous benefits and weaker financial incentives to accept a job. However, other features of the fiscal system, such as in-work benefits, also affect AETRs.

- Accepting a job with lower pay than on the prior job usually results in higher average effective tax rates. The AETR for becoming re-employed at two-thirds of the prior wage is 80% or higher in nearly one-half of the countries and the (unweighted) average rate rises to 77%. The cross-country correlation between the UB net replacement rate and the AETR falls to 0.59, indicating the greater importance of the full constellation of fiscal
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

Policies in determining the net returns to accepting a low-paid job. For example, in-work benefits and personal income tax exemptions tend to matter more for low-paid workers.

- These relatively high AETRs apply only so long as the worker remains entitled to unemployment benefits. The disincentive to seek work associated with more generous benefits is thus likely to be of greatest concern in countries where the maximum entitlement duration for unemployment benefits is long.

Work disincentives can also be high for unemployed persons who are not eligible for first-tier benefits but are receiving the lower tier of income assistance. This will often be the case if they are only able to access low-paying jobs, since much of the (modest) gross earnings from their new job is offset by reduced income support and increased income or payroll taxes. Figure 1.24 shows the schedule of average effective tax rates (AETRs) facing single individuals receiving SA, when they take a job paying either one-third or one-half of the average earnings of a full-time worker.\(^51\) These AETRs are juxtaposed with a (net) replacement rate defined as disposable income when unemployed and receiving social assistance as a percentage of disposable income when working full time at the average wage. Among the key findings:

- Last-tier assistance benefits tend to be low relative to the net earnings of an average worker, averaging 31% for single individuals without children and 41% for single individuals with children.

---

\(^51\) The net replacement rates displayed correspond to the situation of a worker who has just become unemployed and receives unemployment benefits (following any waiting period) based on previous earnings equal to full-time employment at the average wage (AW), while the average effective tax rates (AETRs) refer to that person becoming re-employed full-time at two different hourly earnings levels: the AW and two-thirds the AW. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (\(i.e.\) monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. Following the transition into employment, in-work benefits that depend on the transition are assumed to be available. The replacement and tax rates displayed are averages across three household types: single individuals and one-earner couples with and without children. When present, children are assumed to be aged four and six years and neither childcare benefits nor childcare costs are considered.

\(^a\) Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

Individuals with children. This is much lower than the 60% average replacement rate offered by first-tier unemployment benefits to qualifying job losers (see Figure 1.23 above).

- Even though SA benefits tend to be quite low, the AETR associated with moving to a low-paid job can be quite high, although they tend to be somewhat lower than those faced by UB recipients. As with UB, the problem of low financial returns to accepting a
job eases as earnings levels on the new job rise because the claw back of benefits ceases to play such a large role.

- Replacement rates and AETRs vary greatly across the countries analysed. For a small group of countries, which typically provide relatively high minimum level of income assistance to those not working, AETRs of 80% or more occur implying that the net return to work is relatively low, potentially translating into long spells of social assistance receipt.

- Relatively high average effective tax rates typically arise from complex interactions between the tax and benefit structure, which can include numerous components. This means that there typically is no simple fix to high effective tax rates, but also that there is some scope to decouple benefit generosity from work disincentives. Countries such as Belgium, Canada, France, Sweden, the United Kingdom and the United States have introduced broad in-work benefits with a view to encouraging the transition from welfare to work, while also providing additional support to those already working in low-paid jobs.

- The results for lone parents in Panel B suggest that it is sometimes possible to make progress on both the work incentives and higher redistribution fronts. While Australia, Ireland and New Zealand provide benefit levels that are comparable to those observed in Belgium, Japan and the Netherlands, the average effective tax rates are significantly lower for the former group of countries.

Financial incentives are not the only factor affecting the return-to-work decision of benefit recipients. Active labour market policies, including job-search requirements and work-availability obligations that are backed up by regular monitoring and benefit sanctions can help offset the financial disincentives otherwise resulting from the receipt of income support benefits (OECD, 2009c). Indeed, staying on benefits is not an option in some countries, particularly during non-recessionary periods. Other factors encouraging a return to work may include financial commitments (e.g. a mortgage), stigma associated with inactivity and long-term considerations about earnings and career prospects which may lead an unemployed person to accept a job even when the short-term consequence is a fall in family income (OECD, 2007b). Various features of the labour market, such as the existence of a minimum wage and its level, the role of collective agreements in determining wage levels or the relative importance of more precarious types of job contracts, can also have an important impact of incentives to transit from UB or SA to work.

The relevance of financial incentives to work may be somewhat lower when labour market demand is slack during a recession, although evidence on this question is very limited. Several recent studies have concluded that the impact of unemployment benefits in lengthening jobless spells and raising the aggregate unemployment is smaller during a recession, largely due to weaker job search externalities (“congestion effects”). For example, Kroft et al. (2011) find that the elasticity of the duration of unemployment with respect to the replacement rate for UI in the United States falls as the unemployment rate rises. Similarly, Schmieder et al. (2011) conclude that lengthening the duration of UI benefits has a smaller effect during a recession. Both of these papers also conclude that the optimal generosity of UI rises in a recession, because its role in smoothing consumption for unemployed workers who are liquidity constrained becomes more important. However, this evidence must be viewed as very preliminary and weighed against the much more extensive evidence supporting a link between permanent increases in benefit generosity and duration, and increases in the equilibrium unemployment rate associated with a stable rate of inflation (the so-called “NAIRU”) (De Serres et al., 2011). The latter concern highlights the importance of getting the
structure of financial incentives right and combining the receipt of benefits with effective measures to activate the recipients back to employment throughout the business cycle.

**Should benefit duration vary over the business cycle?**

The severity of the 2008-09 crisis in some countries created pressures for governments to extend maximum durations for the receipt of regular UB, so that the level of income support offered would better reflect the difficult labour market conditions confronting job seekers and better support aggregate demand (Shierholz and Mishel, 2010). The resulting *ad hoc* changes to duration raise the questions whether it is desirable for benefit duration to be adjusted as business cycle conditions vary and, if so, whether this should be done in a more systematic manner (Moyen and Stähler, 2009). 53

Canada, Iceland, Israel and the United States provide recent examples of adjusting UB programme parameters in response to changing labour market conditions. In Canada, both the number of hours required to qualify for regular benefits as well as regular employment insurance (EI) benefit duration automatically vary based on the unemployment rate in the region where unemployed individuals live (there are 58 economic regions across Canada). Building on the automatic features of the regular EI benefit programme, a discretionary choice was made to temporarily extend EI benefit duration for long-tenured workers in 2009 and 2010. 54 In Israel, benefit coverage was temporarily extended through a reduced qualifying period (i.e. having worked nine out of the last 18 months instead of 12 out of 18 months) conditional on the national unemployment rate exceeding 7.5%. The extension was triggered as of June 2009 and ended in February 2010 when the national unemployment rate dropped below 7.5%. In December 2010, Iceland temporarily increased UB duration, retroactively lengthening the period of benefit entitlement from three to four years for workers who had claimed after end-April 2008 and those claiming before 30 June 2011 (Central Bank of Iceland, 2011). In the United States, under the extended benefits (EB) programmes, some states have laws that automatically extend unemployment insurance (UI) benefit duration when the unemployment rate is above a certain level. In addition, the emergency unemployment compensation (EUC) programme, which began in July 2008, is divided in four tiers, which provides for varying UI benefit extensions based on the unemployment rate in the state where unemployed individuals live (National Employment Law Project, 2010). Extensions under the EUC programme are discretionary, rather than automatic, and have been modified (and even briefly expired) several times since 2008.

Under the premise that one of the objectives of UB programmes is to smooth consumption during a typical job-search period, there is a rationale for extending benefit duration during recessionary periods when unemployment spells typically are longer, such that benefit exhaustion rates remain roughly in line with the rates observed during non-recessionary times, especially for programmes with relatively short durations, and then returning to normal duration limits as the labour market recovers (Schmieder et al., 2011; Woodbury and Rubin, 1997). Temporary benefit extensions during a recession can also be viewed as a potentially effective way to reduce the risk of labour force withdrawals that may imply long-run dependence on disability benefits or other social protection schemes, where few beneficiaries return to work even after labour demand picks up again (De Serres et al., 2011; OECD, 2010d). Lastly, duration extensions would further support otherwise weak aggregate demand, thereby acting as an economic stabiliser.

Raising benefit durations during a recession also has potential drawbacks. In particular, longer benefit periods could incite benefit recipients to slow their transition
back into employment (see e.g. Aaronson et al., 2010; Bender et al., 2010; Chetty, 2008; Daly et al. 2011; Fujita, 2011; OECD, 2006a). To mitigate this negative impact, job-search monitoring and activations measures ideally would be scaled-up alongside the temporary benefit extensions. However, it is unclear how feasible this would be in practice. Especially in countries with relatively short UB duration, where short duration can be viewed as the main system feature relied upon to encourage a rapid transition back into the employment, scaling up job-search monitoring and activations measures to be more akin to those used with UB systems of relatively long duration is likely to be difficult or even impossible to achieve in the short run.

This suggests that an apparent paradox, namely, that UB extensions during recessions appear to be most apropos in countries where the normal benefit duration is low, but these also tend to be the countries where it would be most difficult to scale up activation measures. However, a longer period of benefit receipt need not necessarily be associated with a flat level of compensation over time. For instance, extensions could be designed to provide relatively higher compensation levels during the early stages of an unemployment spell and lower compensation levels during the later stages or be set to decline with the length of an unemployment spell, a feature that some have highlighted as optimal for the design of a unemployment insurance system (Shavell and Weiss, 1979; Hopenhayn and Nicolini, 1997; Kiley, 2003).

As in Canada and the United States, changing benefit duration at the sub-national level can serve as a means to target benefits to the regional labour markets that are most affected by an economic downturn (e.g. Southern Ontario in Canada and the State of Michigan in the United States in the current downturn). However such mechanisms also tend to result in a more generous benefit system in persistently lagging regions and it can be argued that there are more efficient ways to mitigate persistent regional economic disparities. Regional differentiation of benefit duration can also raise equity concerns if it is deemed to be too redistributive towards areas with relatively weaker labour markets (Mendelsohn and Medow, 2010). At the individual level, it could be considered unfair that displaced workers with similar work experience can be entitled to different levels of compensation, simply because of their different places of residence and regional differentiation of benefit duration could also reduce incentives to migrate from lagging to booming areas, especially in non-recessionary times.

Linking benefit duration to labour market conditions also raises a number of practical policy questions about how it should be activated, including whether changes should be adopted on an ad hoc or automatic basis. If one accepts that benefit duration should be linked with changes in labour market conditions, relying on ad hoc/discretionary extensions instead of automatic ones can appear sub-optimal, since an automatic response is likely to offer a more timely, predictable, and transparent method of adjusting programme rules to changing labour market conditions (Woodbury and Rubin, 1997). However, automatic rules also have their drawbacks, since it is not easy to specify an optimal rule (see below). Political considerations may also argue for ad hoc adjustments because discretionary changes can be seen as visible evidence that governments are reacting to help workers at a time of need. However, political considerations also suggest that discretionary changes can be subject to unpredictable delays and that it may be difficult to reverse discretionary extensions of benefit duration as labour market conditions improve.
The relative merits of automatic versus ad hoc/discretionary extensions are likely to depend on the standard duration of UB receipt. For programmes with relatively long UB duration period (e.g. more than two years), there is little rationale for automatically increasing benefit duration at the beginning of a recession. At that point, it is difficult to predict how labour market conditions will evolve in the medium term when excessive benefit exhaustion rates are likely to become a problem should the downturn be deep and long. A relatively long benefit duration period also means that there is more time to assess the severity of a crisis, before deciding whether to adjust policy, making discretionary measures more attractive. In countries where the normal benefit duration period is relatively short (e.g. less than one year) discretionary extensions are less likely to provide for a timely response to changing circumstances. It may take some time, at the political level, to recognise changing labour market conditions and to pass the necessary legislation to implement a policy change, potentially leaving the first wave of individuals impacted by the crisis with relatively less generous coverage relative to later waves. In this context, an automatic response may offer more timely and predictable assistance to job losers.

The introduction of a temporary extension, whether automatic or discretionary, also raises the question of its window of application and more specifically whether the extension would apply to new UB claimers only or also to existing claimants or even exhausters. Iceland provides a good example of retroactive temporary extensions mainly applying to existing UB recipients who had lost their jobs at the worst of the crisis and thereby were more likely to have suffered from long-term unemployment. The first benefit duration extension introduced in the United States under the Emergency Unemployment Compensation in June 2008 also applied retroactively to recent exhausters (Isaacs and Whittaker, 2011).

An automatic mechanism inherently involves determining trigger points for changes to benefit duration. Triggers should be based on readily-available and timely information on the state of labour markets and as neutral to changes in public policy as possible. In Canada and the United States, for instance, automatic triggers are based on regional unemployment rates. Other potential triggers could include changes in the unemployment rate, changes in the vacancies-to-unemployment ratio or changes in the total number of hours worked. Furthermore, over time, triggers may become obsolete or irrelevant. This suggests that triggers should be subject to pre-defined formal reviews (e.g. once every five to ten years). Still, an automatic mechanism brings an element of rigidity in the way policy responds to changing circumstances. This response is inherently informed by past events and could thus prove to be sub-optimal given current circumstances. An alternative could lie in semi-automatic mechanisms whereby a policy adjustment would be triggered, but its precise nature would not be designed in advance (Bhadwal et al., 2009). Linking benefit duration with the business cycle also raises the important question of financing, especially in a context of UI programmes financed through matching payroll contributions. One avenue to mitigate the risk that an automatic trigger leads to excessive public spending is to limit the scope for automatic flexibility between pre-defined bands (see Box 1.4 for an example of how this works in Canada).

In sum, there is a rationale for better linking UB duration with the changing labour market circumstances, but doing so raises a number of practical policy considerations that are not easily resolved. Linking UB features, such as duration, to economic cycles may nonetheless provide a useful way to better balance the competing UB programme objectives to provide “short-term” insurance between two employment spells and to
Box 1.4. **Practical example of automatically linking UI duration to the business cycle**

In Canada, the Employment Insurance (EI) programme has built-in flexibility specifically designed to respond automatically to changes in local labour markets, with entrance requirements easing and the duration of benefits increasing as the unemployment rate rises. However, these adjustments are designed so as to limit the automatic variation in benefit duration to a pre-defined range.

In Canada, eligibility for and duration of benefits depend on the number of insured hours worked and the EI economic region in which an individual lives. For example, for a 40-year-old who has recently become unemployed and has a long and uninterrupted employment record, the maximum duration of EI regular benefits can range from 36 to 45 weeks depending on the regional unemployment rate of the EI economic region in which the individual resides. More specifically, in this example, the maximum duration of EI benefits is 36 weeks when the regional unemployment rate is 6% or under and is extended by an additional two weeks for each percentage-point increase in the unemployment rate over and above 6%, until it reaches a maximum of 45 weeks of EI regular benefits (e.g. maximum benefit duration is reached when the unemployment rate exceeds 10%).

**Example of variable employment insurance duration during the crisis and early recovery**

A 40-year-old from Kitchener, Ontario, who has recently become unemployed and has a long and uninterrupted employment record, claiming EI regular benefits between March and April of a specific year

<table>
<thead>
<tr>
<th>Year</th>
<th>Regional unemployment rate (%)</th>
<th>Regular EI duration (weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5.1</td>
<td>36</td>
</tr>
<tr>
<td>2009</td>
<td>9.1</td>
<td>44</td>
</tr>
<tr>
<td>2010</td>
<td>10.1</td>
<td>45</td>
</tr>
<tr>
<td>2011</td>
<td>6.7</td>
<td>36</td>
</tr>
</tbody>
</table>

Note: Does not reflect the impact of the temporary 5-week extension of EI regular benefits for all eligible claimants who had an active claim on 1 March 2009 and to claimants whose claim was established between 1 March 2009 and 11 September 2010. Moreover, this does not reflect up to an additional 20 weeks of regular benefits provided to unemployed long-tenured workers who made a claim between 4 January 2009 and 11 September 2010.

http://dx.doi.org/10.1787/888932480313

For the purposes of determining/triggering an automatic increase in the eligibility and benefit duration, regional unemployment rates for a given month are equivalent to the average seasonally adjusted monthly rates of unemployment over the preceding three months. The use of a three-month moving average can smooth out monthly variations in estimation of unemployment, especially for smaller regions, but it translates in a short lag behind actual conditions in regional labour markets (Bishop and Burleton, 2009).

Canada provides a practical example of linking UB eligibility and benefit duration to the business cycle while limiting the scope for flexibility between pre-defined bands of maximum weeks of benefits received. Such a scheme makes it easier to manage the financial risk associated with increased flexibility inherent to automatic adjustments.

ensure a minimum level of income for those affected by longer unemployment spells. This consideration is likely to be especially pertinent in countries where the normal duration period for first-tier unemployment benefits is relatively short and unemployed persons who are not eligible for UB or exhaust their entitlement have only limited access to second-tier assistance benefits.
Should the lowest-tier of income assistance be more responsive?

As discussed in Section 3, a large share of unemployed individuals or job seekers are not eligible for unemployment benefits in a number of OECD countries. Low UB coverage exerts pressure on the last tier of income assistance to provide for a responsive basic floor of income support for job losers and other unemployed persons, especially in a context of a depressed labour market and a high incidence of long-term unemployment. However, there are also risks in easing the access of unemployed persons to SA or other last-resort benefits. These benefits typically are not associated with activation measures that are as effective as those associated with UBs, creating the risk of a long-run increase in benefit dependency. However, if it is not considered desirable or feasible to expand UB coverage, then it is generally more desirable that unemployment assistance or social assistance play this role, rather than other income replacement benefits such as early retirement or disability benefits. Using these latter programmes as de facto last-resort benefits for the unemployed should be avoided on both labour market efficiency and costs grounds (OECD, 2006b and 2009a).

The empirical analysis in Section 3 shows that social assistance programmes have been much less responsive to deteriorating labour market conditions than first-tier unemployment benefits. This difference mainly reflects the more stringent means-testing, particularly asset-testing, generally applying to the determination of benefit entitlement (see Box 1.5). A more responsive lower tier of income assistance could relieve some pressure on unemployment benefit systems, as well as alternative income-replacement schemes such as disability benefit programmes, especially during recessionary periods, potentially setting the stage for better aligning unemployment benefit programmes with their objective of covering temporary losses of earnings between two employment spells.

The different structures of income assistance for jobless individuals not in receipt of unemployment benefits provide for a range of avenues to foster the responsiveness of the lower tier of income assistance for the unemployed. As for the highest tier of income assistance, changes can be implemented temporarily on a discretionary basis during depressed economic times. For instance, in Portugal, the duration of unemployment assistance was temporarily extended by six months during 2009 and the first two quarters of 2010, while in the United States, the American Recovery and Reinvestment Act (ARRA) eliminated the time limit for able-bodied adults without dependents from April 2009 until

Box 1.5. Assets-testing under social/unemployment assistance programmes in OECD countries

Eligibility to social/unemployment assistance programmes is usually conditional on the amount of assets owned by a household not exceeding certain limits. Typically, the lower the asset threshold, the longer it will take for job losers who have exhausted eligibility for unemployment benefits to become entitled to social assistance, even if overall household income is low. A comparison of the treatment of assets among OECD countries is complex and the description below – which is based on countries’ responses to an OECD Questionnaire and the European Union’s Mutual Information System on Social Protection (MISSOC, July 2010) – provides a simplified overview of the main types of assets-testing that are used, with a focus on the treatment of liquid assets as well as the treatment of the value of a claimant’s home (a similar approach was used in Eardley et al., 1996).
Box 1.5. **Assets-testing under social/unemployment assistance programmes in OECD countries (cont.)**

Liquid assets (e.g. money accumulated in savings accounts) represent the main type of assets owned by non-homeowners. A number of OECD countries apply no assets disregard, such that benefit eligibility is reduced one-for-one with the amount of liquid assets owned. This is generally the case in Austria, Estonia, France, Iceland, Israel, Norway, Slovak Republic, Slovenia, Spain, Sweden and Germany. A positive but relatively low asset disregard applies in other countries, including the Czech Republic, Denmark, most states in the United States under the Temporary Assistance for Needy Families (TANF) and a number of provinces in Canada, while assets disregards are generally higher in Australia, Ireland, Korea, Switzerland, Belgium and the Luxembourg. Finally, the value of assets owned are simply not taken into account in New Zealand, Poland (if deemed reasonable) and in about half the states in the United States under the Supplemental Nutrition Assistance Programme (SNAP). Similarly, assets-testing does not apply over specific periods of benefit receipt in Finland, including while participating in labour market measures and during the first 180 days after the maximum period of payment of unemployment allowance and for some specific eligible persons aged 55 to 64.

For homeowners, about two-thirds of countries disregard the value of the claimant’s home in determining eligibility to social assistance benefits. In some countries (e.g. the Netherlands and Switzerland), the value of the home exceeding a given threshold is included in the assets test. In Belgium and Korea, a relatively small share of the value of the home is included for the purposes of determining benefit eligibility under social assistance. Similarly, in France and Luxembourg, asset testing includes the value of the home converted into a revenue stream (e.g. akin to the concept of imputed rent). Finally, the total value of the home is included as part of the means test in some countries, including Denmark, Israel (in principle, cannot be a homeowner) and Portugal.

Assets-testing under social/unemployment assistance involves a number of facets and its effective stringency depends on its detailed design. The rationale for including assets in the means test is that it better reflects the distribution of economic welfare among individuals, leading to a fairer allocation of public support. It could also be argued that a portion of a household savings (e.g. liquid assets) should be used to smooth the impact of lost earnings. For instance, in Australia, unemployment assistance benefits are subject to a liquid assets waiting period of up to 13 weeks. On the other hand, asset testing can be viewed as unduly impoverishing benefit recipients who can be expected to return to work when labour market conditions improve and, to a certain extent, punishing those who carefully managed their budgets prior to losing their job. For instance, including non-liquid assets in the assets test implies that these should be liquidated before public support will be provided, or alternatively that households should borrow against these assets to cover lost income. Selling assets could involve high transaction costs, while financial markets may not be developed enough to allow people to borrow against their assets to fund consumption. While the concept of “saving for a rainy day” is not novel, there is no consensus on the portion of savings that households should allocate towards the compensation of lost earnings or whether a portion of it should be retained towards other goals such supporting a child’s education or one’s retirement. Furthermore, there is also some evidence suggesting that net worth and disposable income are highly, albeit not perfectly, correlated (OECD, 2008). The distribution of disposable income may then give a reasonable indication of the distribution of economic welfare or the base on which to allocate public support (Jantti et al., 2008).
September 2010 under the SNAP programme. Similarly, in Australia, the liquid assets threshold used to determine the waiting period before unemployment assistance benefits are paid was increased temporarily from April 2009 until March 2011. As mentioned earlier with respect to UB benefits, there are pros and cons associated with the implementation of discretionary policy changes after a recession has begun.

Responsiveness of the lower tier of income assistance can also be fostered through structural adjustments. In the past decades, most structural adjustments have aimed at reducing the role played by assets-testing in determining overall benefit entitlements under the last tier of income assistance. For example, child or in-work benefits are provided outside the confines of social assistance and thereby generally not subject to assets-testing in a number of countries. Similarly, as seen previously in this chapter, some countries have specific, often temporary, programmes delivered outside social assistance for those unemployed who are not eligible for unemployment benefits (i.e. unemployment assistance). Typically, these unemployment assistance programmes are subject to less stringent means-testing than social assistance benefits and can be complemented by more stringent SA-type programmes, depending on the specific needs of the individual or family. For instance, in 2009, Japan introduced a new scheme to provide assistance to unemployed workers who are enrolled in training programmes, but do not receive unemployment benefits. Means-testing also can be relaxed for existing programmes with a view to broaden eligibility.

While reducing the role of asset-testing (or other types of means-testing) in determining benefit entitlements under the last tier of income assistance may have the advantage of fostering greater responsiveness to changing labour market conditions, it also runs the danger that benefit dependency will grow in the long run, reducing effective labour supply and imposing a heavy burden on the public purse. That said, one of the policy lessons from the past decade is that responsiveness should not be seen as a “one-way road” into benefit recipiency during an economic downturn. Active labour market programmes (ALMPs) as well as the ability to monitor job availability and sanction noncompliance can help mitigate the risk of job losers relying indefinitely on the lower tier of income assistance (OECD, 2006b). Institutional arrangements, including the division of responsibilities between central and local authorities, also need to be taken into account when considering adjustments to the way income assistance is provided under the last tier of income assistance. Local governments often deliver social assistance, but their role in policy design and financing varies from one OECD country to another (Adema, 2006).

In sum, the general case for fostering a lower tier of income assistance for working-age individuals who are expected to work, which combines basic income support with effective activation, is reinforced by this chapter’s analysis of income support for the unemployed. Having such a system in place, makes it more feasible to make last-resort benefits more responsive to a depressed labour market. Since there are also potentially important costs associated with such a change, any such reform would need to be designed carefully. Furthermore, the extent to which this option should be considered depends on the coverage and generosity of the first tier of income support for the unemployed. While the responsiveness of the last tier of income assistance can be fostered in a number of ways, ultimately this involves reducing the share of the overall basic level of assistance that is conditional upon meeting stringent means tests.
Conclusions

Following the recession of the early 1990s, reforms to income assistance systems for the working-age population mainly focused on encouraging unemployed or inactive individuals who were able to work to make the transition into employment (OECD, 2006a). This trend towards an employment-centred social policy was mainly achieved through a combination of more-targeted assistance, broader tax-benefit reforms intended to make work pay (e.g. the introduction of in-work benefits) and activation policies. Since these reforms were enacted in a period of relative macroeconomic stability (the so-called “Great Moderation”), relatively little attention was paid to the challenge of designing a system of income assistance that could withstand severe recessionary shocks, when an increased share of the working-age population become dependent on benefit systems. This chapter has drawn upon the experience of the past several years to better define that challenge and identify some ways that progress might be made in accomplishing that goal.

Since unemployment remains very high in many countries, it is too early to draw definitive conclusions from the “Great Recession” about how labour market and social policies can help workers to get through a deep recession while also encouraging labour market recovery. Nonetheless, this chapter’s analysis offers new insights into how to provide adequate income support to unemployed persons without hindering their quick reintegration into employment. Five lessons particularly standout:

● Income support systems need to be ready to respond to a deep recession in which the number of unemployed rises rapidly and a growing share of them experience long periods of joblessness.

● There appear to be significant gaps in the safety net for the unemployed in a deep recession. This was true during the Great Recession despite the considerable responsiveness of first-tier unemployment benefit programmes to rising unemployment and the many crisis-related measures that OECD countries took to reinforce these programmes.

● Temporary extensions of the maximum period of unemployment benefit receipt during a recession may have a useful role to play, especially in countries where the normal duration of these benefits is relatively low and access of the long-term unemployed to last-resort benefits such as social assistance is limited.

● Enrolment in last-resort income support programmes has shown limited responsiveness to rising unemployment during the recession. This suggests that it would be timely to consider whether asset tests or other eligibility rules for these programmes are too strict for them to function effectively as a backstop to first-tier unemployment benefit programmes during an economic downturn.

● Any permanent or temporary increases in the coverage or generosity of income support for the unemployed must be scrutinised carefully in light of their potentially adverse impacts on job search intensity and the public purse.

It would be useful to deepen this analysis of the operation of income support programmes during the “Great Recession” and, especially, to complement it with a parallel analysis of how effectively active labour market programmes (ALMPs) were scaled up during the recession’s deepest period of unemployment. While it is known that all OECD countries took steps to reinforce ALMPs in the early stages of the downturn (OECD, 2009a and 2009b), little is known about which policy measures most effectively limited the build-up in long-term unemployment and offset the detrimental impacts of long jobless
spells on workers’ future employment prospects. There is a longer time lag in the availability of these latter data, but it will soon become possible to analyse the operation of both passive and active labour market programmes as sources of support for job losers and other unemployed people during the 2008-09 downturn.

It is also important to continue to assess how different labour market policies and institutions affect the resilience of national labour markets to large negative shocks. The analysis of cyclical earnings volatility in Chapter 3 of this publication, together with other OECD work in this area, are shedding new light on this complex issue. However, much remains to be learned and the OECD Employment Outlook 2012 will devote a chapter to this topic. The ultimate goal of such research is to better understand how to integrate cyclical and structural employment policies. The Reassessed OECD Jobs Strategy (OECD, 2006b) provides an extensive set of structural policy guidelines. However, the strategy largely lacks cyclical policy recommendations, aside from a general acknowledgement of the importance of having appropriate macroeconomic policy. The OECD’s guidelines for employment policy may soon need to be reviewed and modified to take fuller account of the challenges that the business cycle poses for labour market policy.

Notes
1. The analysis in this chapter reflects data available as of 25 May 2011.
2. Past experience shows that the decline in unemployment rates following deep recessions typically is much slower than its rise during the recession (OECD, 2009a).
3. For a detailed historical analysis of the risk that poorly designed income support schemes can cause unemployment rates to ratchet up from one recession to the next, see Chapter 4 in OECD (2003a).
4. Past recessions have shown that both macro and labour market policies are required to offset persistence effects that would otherwise convert some portion of a cyclical increase in unemployment into higher structural unemployment. Hysteresis effects following a cyclical upsurge of unemployment during a recession appear to be closely associated with increases in long-term unemployment (Ball, 2009; Guichard and Rusticelli, 2010). At the individual level, the progressive loss of human capital, health and morale associated with extended periods of joblessness can reduce the attractiveness of these workers to potential employers. At the aggregate level, the unemployment rate associated with a stable rate of inflation (the so-called NAIRU) tends to rise with the size of the pool of the long-term unemployed, since their relative disconnection from the labour market means that they have little impact in restraining inflationary wage pressures.
5. This OECD total omits Mexico because quarterly harmonised data are lacking. If the missing value is approximated using other sources, the total rises to approximately 47.1 million unemployed persons.
6. The unemployment rate in Estonia has fallen by 4.5 percentage points since its peak. However, that is less than one-third of the 14.8 percentage-point rise that had occurred and the unemployment rate is still above 14%.
7. Ireland is one of six countries where the continuous rise in unemployment rates has not yet ended.
8. This recession actually began in the second quarter of 1979, but unemployment did not peak until mid-1983. [The historical comparisons for the OECD area reported here refer to the 30 countries for which the necessary data are available since 1970. See Annex Table 1.A1.2 in OECD (2011c) for details.]
9. Most of the rise in unemployment during the recession beginning in 1973 occurred in the first nine quarters, generating a similar profile to the curve for the most recent recession up until that point. However, unemployment remained at approximately that level for an extended period of time in the 1970s recession, finally reaching its highest point after 15 quarters. The pattern was quite different in the recession staring in late 2007 with the unemployment rate switching much more rapidly from its rapid rise during the nine quarters up to 2009Q4 to a slow decline since. While the percentage increase in the OECD-area unemployment rate was approximately 50% in both recessions, the peak rate was much higher in the more recent recession (8.5% as compared to 5%), due to a higher initial unemployment rate in 2007 than prior to the first oil shock.
1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?

10. The case of Kurzarbeit in Germany has attracted particular attention. However, the majority of OECD countries either set-up new STW schemes early in the crisis or took steps to make existing schemes more attractive to workers and employers (OECD, 2009b).

11. Whereas an Okun's coefficient value (i.e. the ratio of the percentage-point increase in the unemployment rate to the percentage decrease in real GDP) of one-half to two-thirds is often considered to be typical during a recession, this value exceeded 1.0 in Spain, the United States and four other countries where the downturn in output was quite mild. While these six countries are located above and to the left of the 45° line in Figure 1.3, Panel A, most OECD countries are to be found below and to the right of that line, indicating various degrees of labour hoarding. For example, the Okun's coefficient value was below 0.2 in Japan and 0.1 in Germany.

12. These are weighted averages for the OECD area. The so-called “jobs gap” (i.e. the number of additional jobs required to restore pre-crisis employment rates) has also closely tracked the increase in unemployment in most countries, with the correlation between these two measures being 0.97 (see Annex Table 1.A1.4 in OECD, 2011c), consistent with most of the decline in employment resulting in unemployment rather that inactivity. There are, however, a few countries where the jobs gap in mid-2010 significantly exceeded the rise in unemployment, due to falling participation (most notably, Ireland and the United States). At the same time, a notable increase in participation in Poland, Turkey and, to a lesser extent, Israel resulted in a negative jobs gap, despite a small increase in unemployment. Current OECD projections foresee a progressive closing of the jobs gap in most countries, but it will remain above 5% in 2012Q4 in six countries, including Greece where it is currently 5.5% but projected to be significantly higher in both 2011 and 2012.

13. Note that the employment rates by skill level displayed in Figure 1.5 differ quite sharply from the employment growth rates in Figure 1.4, because the composition of the workforce is rapidly shifting towards higher skill levels in many countries.

14. The combined number of persons who were marginally attached or underemployed was approximately 90% of the number unemployed on average in the OECD area in 2007. That share fell to 79% in 2010Q3 due to the small increase in the number of marginally attached workers.

15. Unless otherwise noted, references to unemployment duration in this chapter always refer to the amount of time that currently unemployed persons have been jobless. Most of the currently unemployed will accumulate some additional time in unemployment, so that their currently observed durations (the so-called “interrupted” durations) understate the total time they ultimately will be unemployed (“completed” durations).

16. The share of all unemployed with a year of more of unemployment increased sharply in Denmark, Estonia, Hungary, Ireland, Spain and the United States. By contrast, the majority of the OECD countries saw a dip in the long-term share early in the recession that was then reversed in 2010, leaving the share approximately unchanged. Even in these countries, there is a risk that this share will continue to rise for some time unless the recovery in employment strengthens. In Germany, the Netherlands, Poland and a few other countries, where there was a declining trend in the long-term share prior to the recession and the recent rise in unemployment was small, the long-term share was significantly lower in 2010Q3 than three years early, despite a small increase in recent quarters.

17. The historical evidence presented in OECD (2011a) suggests that the low spending on ALMPs in many of the hardest hit countries plausibly might have tended to increase how strongly unemployment rose in response to the negative output shock and it is notable that the sharp increase in long-term unemployment is highly concentrated in countries which have tended to invest relatively little in the public employment service and back-to-work measures. However, it is still too early to assess whether the relatively underdeveloped state of employment programmes in these countries played a role in causing labour market conditions to deteriorate so sharply, especially since the hardest hit countries also tended to be most affected by a strong boom-bust pattern in the construction sector and a severe banking crisis. These latter factors are likely to have contributed to a particularly large and persistent fall in employment, as well as considerable structural mismatch between the skills of unemployed workers and the new jobs being created in the recovery period.

18. The results in Figure 1.10 are restricted to countries having replied to both the 2010 and 2011 OECD questionnaires.

19. This qualitative evidence, together with that reported in the 2009 and 2010 editions of the Employment Outlook, does suggest a break with the historical pattern in which spending on active measures was essentially acyclic (OECD, 2009a).

20. Other components of the social safety-net can also provide income support for certain groups of the unemployed during an economic downturn. For example, income-replacement programmes for working-age individuals with a disability can serve as an alternative to unemployment benefits for
job losers with health problems that fall short of total disability (Rupp and Stapleton, 1995; Autor and Duggan, 2003). Likewise, a recession may induce older workers to retire earlier than otherwise would have been the case and to claim basic retirement income benefits. While providing significant income support in some countries, these types of programmes will not be the focus of this chapter.

21. In a number of countries, self-employed individuals are not eligible to UB programmes mainly because of conceptual and practical considerations including the difficulty of distinguishing periods of employment from periods of unemployment and ascertaining reasons for separation (O’Leary and Wandner, 1997).

22. In the United States, entitlement to Temporary Assistance for Needy Families is subject to time limits, which vary across the states.

23. The net replacement rates presented in Table 1.1 exclude social assistance and housing benefits, which are analysed separately below. The tight eligibility rules regulating these programmes of last resort, especially with respect to accumulated assets, makes it difficult to identify a typical point during a spell of unemployment when a worker who has exhausted UB would become eligible for SA.

24. It is possible that some crisis-related measures taken early in the recession were not yet in operation and are not reflected in the 2009 replacement rates presented in Table 1.1. Systematic data on the evolution of replacement rates since 2009 are lacking, but it is known that some of the crisis-related measures operating in 2009 have since expired. Some governments have also implemented recent changes to their UB systems as part of broader fiscal consolidation exercises (e.g. Denmark, Ireland and Portugal) or other UB reforms initiatives, such as that decided by referendum in Switzerland in 2010.

25. While not shown in Figure 1.11 because of its focus on the first two years of an unemployment spell, Iceland temporarily and retroactively increased UB duration in 2010, such that the period of entitlement to benefits was lengthened from three years to four years for workers who had claimed UB since the end of April 2008 and were still unemployed, as for new filers through 30 June 2011. Similarly, Portugal temporary extended UA duration for the long-term unemployed during 2009 so that the period of entitlement to benefits was lengthened by 6 months.

26. In Turkey, destitute and needy citizens can be taken under social protection and the Ministry of Health can grant “green cards” to support citizens who are not able to afford their health service expenses.

27. Note that the figure focuses on changes to “broad-based” means-tested programmes and may not encompass all targeted enhancements introduced as a result of the crisis. See Annex Table 1.A1.6 in OECD (2011c) for more detailed information on income-support changes introduced to the lower tier of income assistance.

28. These two countries were chosen because household income data for 2009 are already available and they illustrate distinct approaches to structuring income support for job losers and other unemployed persons.

29. As part of the National Accounts, social benefits paid by general government reflect current transfers to households, in cash or in kind, in response to certain events or circumstances such as unemployment, sickness, disability or retirement that may adversely affect their well-being (OECD, 2009d).

30. This analysis first estimates the OECD-average response elasticity of spending on social benefits to the changes in, respectively, the harmonised unemployment rate and the output gap. These elasticities are from unbalanced panel regression models for the OECD area that were estimated using 1970-2007 data (see Annex Table 1.A1.7 in OECD, 2011c). These OECD-average elasticities are then applied to the country-specific changes in harmonised unemployment and output gap that were observed between 2007 and 2009.

31. The unweighted OECD-average spending prediction based on observed declines in the output gap is just over 1% of GDP higher than actual spending. This historically low responsiveness of social spending to falling output could be sizeable enough to have weakened the automatic stabilisation effect from social spending during the 2008-09 recession, but any such effect may have been offset by the large discretionary fiscal stimulus enacted by many governments.

32. Okun’s coefficient is defined as the ratio of the percentage-point increase in the unemployment rate to the percentage decline in real GDP. OECD (2010a) shows that these are the only two OECD countries where the percentage-point increase in the unemployment rate exceeded the percentage fall in real GDP during the crisis.
33. Hungary is the only other country where 2009 social spending was far below the level that would have been expected based on the rise in unemployment. In this case, the explanation appears to lie in a strong and early government move towards fiscal consolidation, rather than particularly strong labour shedding by employers. Indeed, social spending in Hungary undershot even more strongly with respect to the prediction based on the fall in the output gap, whereas Spain slightly overspent with respect to the prediction based on the output gap.

34. For the purposes of the analysis, general government expenditures are adjusted using GDP deflators from the OECD Economic Outlook Database.

35. A more complete analysis of fiscal stabilisation would need also to take account of tax reductions, such as the broad (and often temporary) reductions of employer social security contributions enacted by a number of OECD countries (OECD, 2009a, 2009b), which are not captured by the change in government general expenditures analysed here.

36. Social security expenditures grew but by less than 1% of GDP in nine countries and were essentially unchanged in Hungary.

37. OECD (2010a) reports estimates that publically subsidised short-time working accounted for only 25% of the sizeable reduction in average hours per worker in Germany during the recession. Reduced over-time, debiting of individual working-time accounts and other employer-initiated reductions in working-time accounted for the rest of the fall in working time.

38. Double-counting may be a particular concern in Austria, Finland and Germany.

39. Receipt of UB also increased sharply in New Zealand despite an average-sized increase in the unemployment rate from 3.4 to 7%. This reflects the very broad coverage offered by the single-tier unemployment assistance programme in this country.

40. More specifically, Figures 1.17 and 1.19 present the ratios of the average changes in the number of benefit recipients to the average change in the number of unemployed (OECD harmonised unemployment level) during the first year of the crisis, the second year of the crisis and for some countries the third year of the crisis relative to the year preceding the crisis. In order to avoid distortions from seasonal patterns in benefit recipiency, changes are first calculated between the same quarters in different years and then the average of these four changes is used to calculate the ratios. Germany is excluded from the analysis because the very small and short-lived increase in unemployment in this country means that it would not be very meaningful to ask whether UB rolls expanded along with the number of unemployed people.

41. This factor may have been particularly important in Denmark (during its 2nd year of the crisis), Estonia (during its 2nd and 3rd years of the crisis), Luxembourg (during its 3rd year of the crisis), Norway (during its 2nd year of the crisis) and the United States (during its 3rd year of the crisis).

42. For a number of these countries, such as Australia, Chile, Israel and Mexico, this second year mainly took the form of a labour market recovery.

43. However, it should also be borne in mind that an unemployed worker who was self-employed immediately prior to becoming jobless might not have been self-employed during the entire qualifying period for unemployment benefits and the prevalence of self-employment varies significantly across countries.

44. Given the focus of this chapter on income support for the unemployed, this section looks at the receipt of SA by working-age individuals. In contrast with the usual convention, working-age individuals are defined here as persons between 15 to 54 years of age. The reason for excluding the 55-64 age group is that many jobless households including persons in this age range are retired households which receive pension income. The empirical analysis also assumes that individuals generally do not combine the receipt of social assistance with unemployment benefits. That being said, in some countries, social assistance may act as a top-up to unemployment assistance benefits.

45. In most cases, data for 2009 are expected to be released later during 2011 or early in 2012.

46. Relative to 2007, benefit receipts under public assistance programmes have slightly decreased for households in the first quintile. This may reflect an increase in the share of the population in the first quintile receiving benefits from other public sources, such as the UI programme, as well as the financing of the Temporary Assistance for Needy Families through a Federal block grants to the states that are not adjusted for inflation nor changes in caseloads.

47. The American Recovery and Reinvestment Act (ARRA) included a temporary increase in EITC and expanded the credit for workers with three or more qualifying children. These changes were temporary applying to the 2009 and 2010 tax years.
48. The asset value limits vary depending on whether the payment recipient is single or partnered and whether the person is a homeowner or non-homeowner. For partnered recipients, the asset test applies to the combined assets of the claimant/recipient and their partner. Lower limits apply to homeowners and reflect the fact that the value of the “principal home” is exempt from the asset test. The asset value limits are indexed on 1 July each year to reflect changes in the broad cost of living as measured by the Consumer Price Index.

49. For a fuller analysis of this issue, see Carone et al. (2004).

50. That is, the AETR shows the extent to which taking up employment leads to an increase in disposable income relative to staying on unemployment benefits, taking into account increases in taxes and reductions in benefits. For example, an AETR of 80% means that the increase in disposable income upon re-entering employment, as compared with staying on unemployment benefits, represents 20% of total gross earnings.

51. It is important to note that these rates do not account for the effect of housing subsidies, additional work expenses such as child care nor the loss or gain of in-kind benefits as a result of working.

52. Depending on their design, these programmes can raise work-incentive concerns of their own, especially for the second earner in a two-earner couple.

53. While the discussion in this section mainly focuses on adjustments to benefit duration, the notion of better linking UB programmes to the business cycle could also apply to other features of UB programmes such as minimum eligibility requirements, benefit levels (Kroft et al., 2011) or financing rules.

54. Eligible unemployed individuals must have contributed to the programme at least 30% of the annual maximum EI premiums for at least seven of the ten previous years and have received no more than 35 weeks of regular benefits in the five years prior to the start of their claim.

55. This does raise the difficult practical question of how to determine optimal economic and labour market areas (McNiven et al., 2000; and Czajka et al., 1989).

56. During recessionary periods, the ability of relatively stronger labour market areas to absorb additional inactive or unemployed individuals from weaker areas is limited (Mishel et al., 2010).

57. This can be difficult, since labour market policies, such as short-term work programmes, can have important repercussions for a number of labour market indicators including the overall level of unemployment.

58. Unless a state chooses to offer a qualifying work activity.

59. In some countries, child and in-work benefits are delivered through the tax system, which can raise responsiveness issues of their own as benefit entitlements are typically determined according to the previous year of income.

**Bibliography**


1. INCOME SUPPORT FOR THE UNEMPLOYED: HOW WELL HAS THE SAFETY-NET HELD UP DURING THE "GREAT RECESSION"?


