Encouraging employment – OECD countries balance benefits, wages and taxes

Faced with labour shortages and pressures on pension funding due to ageing populations, one in three OECD countries has cut unemployment benefits in the last six years with a view to encouraging unemployed people to find jobs, according to a new OECD report.

*Benefits and Wages* provides a guide to how governments are tackling the twin challenges of supporting unemployed people while helping them back into work by tracking net benefit levels in individual countries. A decade ago countries were making it increasingly difficult to claim benefits: today many are actually cutting the level of benefits.

A single long-term unemployed person in Germany receives about €4000 per year less in benefits than they would have in 2001, and while in the Slovak Republic they get €2200 less. By contrast, there have been increases in benefit levels in Belgium and Ireland (€1300 and €1600) over the same period.

*Benefits and Wages* also compares the level of benefits which unemployed people typically receive with average after-tax earnings, taking into account different family types and unemployment durations ("Net replacement rates", see figure below). Across most OECD countries the level fell to 55% in 2005, from 59% in 2001. The Nordic countries are the most generous, with levels above 70%. In the United States, Greece, Turkey and Italy, where benefits for the long-term unemployed are very low or non-existent, the index of generosity is below 30%.

Unemployment benefits are only one of many factors which make people decide whether or not to look for a job. *Wages and Benefits* cites other barriers – high tax rates and low wages. When unemployed people start to work, on average they lose 66 cents in increased taxation and lost benefits for every €1 or $1 they earn. And a lone parent, working full time but earning the minimum wage, would still be below the poverty threshold in most countries.

The report also notes the need for high-quality affordable childcare which allows parents to reap financial advantage from working outside the home. Childcare costs typically consume more than a third of family’s incomes in Canada, Ireland, New Zealand, Switzerland, the United Kingdom and the United States. In one third of OECD countries - Canada, the Czech Republic, Denmark, France, Iceland, Ireland, Korea, New Zealand, the Slovak Republic, Switzerland and United Kingdom - lone parents may see no financial gain from low-wage employment.

See [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives) for further analysis.

Journalists can obtain a copy of *Benefits and Wages* by contacting the OECD’s Media Division (tel. 33 1 45 24 97 00).
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**New!** How much benefit would you get in different countries? Are taxes elsewhere higher or lower than those you pay? Find out for yourself, by using the OECD’s on-line Tax-benefit calculator ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)).

Figure 1: OECD synthetic measure of net replacement rates (a)

*a. After tax and including unemployment benefits, social assistance, family and housing benefits. Unweighted averages over 60 months of unemployment, for earnings levels of 67% and 100% of average earnings and four family types (single persons, lone parents, one-earner couples with and without children).*