

Chapter 4

ELIGIBILITY CRITERIA FOR UNEMPLOYMENT BENEFITS¹

Summary

In simple models, eligibility criteria which make the payment of unemployment benefits conditional upon job search and related behaviour can offset, or even reverse, the disincentive effects which arise when benefits are paid without such conditions. The main eligibility criteria relating to labour market behaviour are described here on the basis of legislation, statistics and other material relating to about half the Member countries of the OECD. For benefit purposes, legislation defines when loss of work has occurred, valid reasons for quits, availability for work, suitable work, obligations to enter labour market programmes, requirements for reporting independent steps of job search and requirements to co-operate with the Public Employment Service (PES) in such matters as calls to interview and specific instructions from employment counsellors. Failure to attend an interview or comply with requirements can lead in many cases to general ineligibility for benefit: but following quit without a valid reason, refusal of suitable work and labour market programmes, and in some other situations, legislation usually specifies a sanction in the sense of a benefit stop of a defined duration, which varies from one week to the entire remaining benefit period.

The recorded incidence of benefit sanctions varies greatly across countries. In general, the implementation of eligibility criteria is influenced by the institutional and administrative structure of the PES; management guidelines for employment counsellors concerning eligibility checks and sanctions, and the practical relevance of legislation and associated guidelines to this activity; the use of particular PES procedures, such as direct referrals of beneficiaries to vacant jobs and monitoring of job-seekers' independent steps of job search; and the frequency, timing and content of various types of PES intervention in the unemployment spells, such as intensive interviews, individual action plans procedures, and referrals to short-term courses or long-term job creation programmes. With good management and clear information, a moderate incidence of sanctions may suffice to enforce eligibility criteria.

Some studies have reported that interventions in unemployment spells under the authority of benefit legislation (such as intensive interviews), and also the direct experience of a benefit sanction, have a fairly large impact on individual rates of exit from registered unemployment. At the aggregate level, the European countries in which unemployment fell most sharply in the 1990s have markedly tightened implementation of benefit eligibility criteria. Tighter implementation, especially when a broad range of activation measures are involved, has contributed to the falls in unemployment. At the same time, a general improvement in labour market conditions and the perceived success of the initial labour market policy reforms have encouraged further steps in the same direction.

Introduction

Scant attention in economic theory has traditionally been devoted to the labour market eligibility criteria for unemployment benefits. Instead, most analysis has focused on the level and duration of benefit payments. In general, economic models interpret benefits as a subsidy paid conditional on a state of non-employment or of unem-

ployment, and predict that benefits will increase the quantity of non-employment or unemployment.²

Real-world systems in principle only pay benefit to people who meet *both* entitlement and eligibility conditions. "Entitlement" conditions restrict benefits to people who either, in the case of fixed-duration unemployment insurance (UI) benefits, have a sufficient record of contributions from work or an assimilated status and have been

unemployed for a limited duration or, in the case of assistance-type unemployment benefits, have low total income. “Eligibility” conditions, on the other hand, restrict unemployment benefit to people who:

- are unemployed roughly in the sense of the ILO definition of unemployment, *i.e.* not only out of work, but also able to enter work at short notice and undertaking active steps to find work; and
- meet administrative requirements, such as applying for the benefit with the necessary documentation, and attending interviews with employment counsellors and applying for vacancies as directed by the Public Employment Service (PES).

This chapter considers only the impact of *eligibility* conditions on unemployment. A first section considers how eligibility conditions in theory affect the level of unemployment. Four following sections describe some of the main eligibility criteria as laid out in legislation, summarise provisions for benefit sanctions, present statistics on the actual incidence of benefit sanctions and consider the problem of constructing a general indicator or ranking for the stance of benefit eligibility criteria in different countries. Further sections summarise some empirical evaluations of the impact of eligibility criteria and describe organisational issues in the implementation of eligibility criteria.

Main findings

In simple models, eligibility conditions concerning job search and related behaviour are able to offset and even reverse the disincentive effects on the level of unemployment which arise when benefits are paid without any such conditions. This chapter investigates the empirical situation further on the basis of information supplied by 12 OECD countries which have volunteered to participate in an OECD review of the subject, supplemented with partial information relating to some further countries.

Among the main topics covered by eligibility criteria are:

- The definition of loss of work and availability for work: factors such as severance pay, a seasonal pattern of work, household production, voluntary work, and uncertainties concerning child-care arrangements may affect eligibility.
- Valid reasons for quits: job-leaving leads to a benefit sanction or delayed entitlement to benefit, unless it is justified by changes in work conditions, transport conditions or household circumstances.
- The definition of suitable work: typically, refusal of work, failure to attend interviews and actions that

discourage the employer from making a job offer are assimilated, but refusal may be justified when the work involves a change of occupation, lower earnings, lengthy commuting times, geographical mobility, conflict with principles of conscience, etc.

- Obligations to enter approved labour market programmes.
- Independent job search: many countries have a general requirement to actively seek work, and some require the beneficiary to provide proof of job applications and other acts of job search.
- Contacts with the PES: to remain eligible, job-seekers may have to sign on at intervals, provide relevant documents and information, participate in assessments, attend interviews and collective information sessions, and follow specific instructions from employment counsellors.
- Variation of requirements: older workers are often partially or wholly exempted from many specific requirements.

Failure to comply with eligibility requirements has consequences for benefits:

- When a person has left work, failed to provide proof of independent job search, or failed to attend an interview with the PES, a defined sanction is applied in some countries, but benefit is refused on general eligibility grounds in others.
- A sanction, in the sense of a benefit stop of defined duration, is usually imposed following refusal of suitable work: the sanction for a first refusal varies from loss of one week of benefit to exclusion for the remainder of the benefit spell.
- Within the limited sample of countries here, 2 to 14 per cent of people entering benefits suffer a sanction for quitting the previous job, while sanctions imposed per year during ongoing benefit spells vary from 1 to 50 per cent of the average stock of beneficiaries.

National practices vary enormously and there is no simple way to classify countries in terms of “strictness”. This is because countries are often strict in relation to some of the specific eligibility criteria but not others, because where formal rules appear strict it is possible that they are not being systematically applied, and because sanctions are not necessarily a reliable indicator of effective implementation. The main types of available evidence concerning the impact of eligibility criteria relate to:

- The impact of compulsory interventions (*e.g.* interviews and referrals to ALMPs) on hazard rates (*e.g.* instantaneous or monthly rates of exit from

unemployment or entry to employment) of all individuals subject to the intervention.

- The impact of benefit sanctions on the hazard rates of individuals subject to the sanction.
- The correlation of regional or national differences in eligibility criteria, or changes in eligibility criteria, with regional or cross-country aggregate outcomes.

Each approach indicates a fairly large behavioural impact, but the formal research literature remains relatively thin.

I. Theoretically expected effects from benefit eligibility conditions

Benefit systems have various aims and effects: insurance-type unemployment benefits provide insurance and improve equity in the face of unpredictable job loss; assistance-type benefits are, for adults of working age, often the main component in a minimum income system which reduces the incidence of severe poverty; in either case, benefits may support job search and improve the quality of job matches. Eligibility criteria will influence such objectives as the insurance principle, poverty and the quality of job matches. Nevertheless, this chapter focuses mainly on them as a device for offsetting disincentive effects and reducing unemployment.

The enforcement of eligibility criteria may have a larger impact on behaviour than variations in replacement rates and effective marginal tax rates do, because the income implications for the individual are larger: when a person is found to be ineligible for unemployment benefits, his or her replacement rate falls to zero. For most unemployed with benefits, the eligibility criteria approximate roughly to a legal requirement that, if the person is able to enter work, he or she must do so. Enforcement of such a requirement will have a greater impact than any marginal adjustment to the financial incentives to enter work. For a more detailed theoretical analysis, however, it is useful to view the impact of benefit eligibility conditions on unemployment as the sum of several distinct “effects”, called here the “exclusion”, “behavioural”, “disutility” and “entry” effects.

“Exclusion” effects arise due to the fact that certain situations which are, in principle, beyond the control of the person (within the current spell of worklessness) are declared ineligible for benefit. When the person is clearly unable to work, benefit ineligibility has no obvious incentive impact. Often (*e.g.* in cases of sickness and disability) the people concerned are able to transfer to a more appropriate benefit. In other cases (*e.g.* people with caring

responsibilities), exclusion from benefit may result in a net income loss for the people concerned and a net saving for the public purse. In other cases, eligibility conditions exclude from benefit groups of people who have some non-zero chance of entering work (*e.g.* people with a contract to resume a seasonal job later in the year or people over the standard retirement age). Exclusion of these people reduces the likely disincentive impact of the benefit system simply because overall benefit coverage is reduced. Exclusion clauses may target groups of people whose behaviour is thought to be particularly sensitive to benefit disincentives, but this is not the only principle followed.³

Eligibility is also conditional on behaviour that is supposed to increase the chance of finding work. For example, benefit is restricted to people who are available to start work at short notice, who provide proof of their independent job search (*e.g.* job applications), who do not too easily reject job offers on grounds of wages, working hours, places of work and occupation, and who attend interviews and training courses as required by the PES. These behavioural requirements could affect unemployment in three ways, *via*:

- A direct “behavioural” effect. The specific behaviour that is encouraged, such as being ready to start work at short notice, directly increases the chance of finding work.
- A “disutility effect”. Compliance with the behavioural requirements involves some disutility. This in itself encourages a more intense search for work.
- An “entry” effect. If the behavioural requirements are onerous (if the disutility effect is sufficiently large), some people will opt to drop their benefit claim rather than comply with the requirements.

Some theoretical predictions can be made about the size of these three effects:

- Starting from an initial situation where unemployment benefit is paid with no behavioural requirement and individuals are choosing a level of job search that maximises expected utility, a small increase in job-search intensity (as compared to the utility-maximising point) involves only a second-order reduction in disutility. A mild job-search requirement may, therefore, have a moderately significant “behavioural” effect but small “disutility” and “entry” effects. Only in the case of relatively onerous job-search obligations are disutility and entry effects expected to become significant.
- An administrative requirement that the unemployed must search for work as intensively as they would have in the absence of benefits has no “entry” effect. This is because a person who drops a claim so as to

avoid requirements will search as intensively as he or she would have done in the absence of an entitlement to benefit. Compliance with the search requirement will always be a preferable strategy.

- It follows that benefits can, without provoking abandonment of benefit claims, be made conditional upon an intensity of job search *higher* than the individual would undertake in the absence of a benefit entitlement. So, under fairly general assumptions, benefit systems can be designed so as to generate unemployment levels below those that arise under *laissez-faire* (the absence of a benefit system).

The last theoretical prediction applies to a range of behavioural requirements. In the case of a requirement to accept a suitable job, suppose unemployed people receive a succession of job offers at different wage levels and reject those which pay wages below their “reservation wage” (W_r). The payment of benefit raises the reservation wage and, thus, increases the expected duration of unemployment spells. If now the PES observes the arrival of job offers and imposes strong sanctions (*e.g.* lifetime exclusion from the benefit system) when an offer paying a wage above some suitable level (W_s) is rejected, W_s can be set below the level W_r that unemployed people would choose in the absence of any benefit system. Unemployment spell durations are, therefore, lower than under *laissez-faire* [Ljungqvist and Sargent (1995)].

Alternatively, the PES might monitor only the frequency of job applications, leaving the unemployed person free to choose whether to accept or reject any actual job offer that results. In this case, the availability of the unemployment benefit raises W_r . However, if job-search requirements are so constraining that the disutility of unemployment with benefits is almost as great as the disutility of unemployment without benefits, the benefit system will cause a marginal increase in W_r , but a substantial increase in search intensity. Here too, unemployment spell durations can be made lower than under *laissez-faire*. Contrasting this model with the previous one, it may be noted that, in terms of the direct “behavioural” effect, a strict job-search requirement does “make work pay” by bringing the unemployed into contact with adequate jobs more frequently, but a strict “suitable work” requirement forces the unemployed to accept lower-paid jobs.

Another example of a “behavioural” requirement would be the requirement to attend PES training courses. In each case, benefits lose their passive character and become a “wage” paid to the unemployed in return for undertaking additional job search (or for standing ready to enter work sooner, or for participating in training, etc.). In simple models where the behavioural requirements are

assumed to be effective and the PES accurately observes job-search behaviour, benefit disincentive effects can be counteracted and potentially reversed. However, the limitations of such simple models should be kept in mind.⁴

To the extent that public consumption is financed by taxes on wages, the incentive to re-enter work may be socially suboptimal even at a zero level of benefit. A positive level of benefit, paid conditional on strict behavioural requirements, may then increase efficiency as well as social welfare. From this point of view a “welfare state” strategy, with high levels of public spending and high unemployment benefits subject to strong behavioural requirements, is a coherent whole, as long as it does in fact reduce unemployment. However the preconditions for such a theoretical result to hold may be rather stringent and difficult to maintain in practice.

II. A brief survey of eligibility criteria

A detailed reading of benefit legislation (see Annex 4.A) reveals great cross-country variation in some of the eligibility requirements. The definitions of *loss of work* and *availability for work* involve issues such as: Are seasonal and intermittent workers allowed to draw unemployment benefit during slack months even if there is little prospect of placing them? Are people allowed to draw unemployment benefit if they are spending much of their time on unpaid household production (*e.g.* agriculture, home improvement)? Should people whose availability for work appears to be restricted (*e.g.* with child-care responsibilities or intensive involvement in voluntary work) be disqualified from receiving unemployment benefit? If such people are not disqualified, should normal eligibility requirements (*e.g.* that the person should be able to start full-time work at short notice) be relaxed for them, or should these requirements be maintained with strengthened monitoring to ensure compliance?

Some features of legislation can be interpreted as attempts at limiting benefit payment to people who are effectively available for the types of work that are actually on offer. For example, workers may be allowed to restrict their availability for work in some way (*e.g.* by occupation or by geographical location) only on condition that “sufficient” numbers of jobs are still available.

In general, a lax definition of availability for work results in people who might otherwise report that they are out of the labour force being registered as unemployed. Depending on the magnitude of this impact, it could exhaust the energies of the placement service (*e.g.* its reputation with employers is undermined when such people are referred to vacant jobs). However, too strict a

definition will exclude some individuals who are genuinely unemployed.

In defining *suitable work*, Norway is a model of all-round strictness: the unemployed must generally accept shift and night work, must be prepared to work anywhere in Norway (and a spouse who quits his or her job to avoid separation of the couple and then claims benefit will be penalised for a voluntary quit), must be ready to accept any job they can do without reference to their previous occupation or wage level, and cannot refuse a job on religious or ethical grounds (albeit that administrative discretion may be invoked in such cases).

The geographical mobility requirement was a significant component in the Nordic model of active labour policy in the 1960s, but it encountered resistance not only from the unemployed themselves, but also from politicians in rural or depressed areas who saw it as removing the most employable people from the local population. In most other countries, even if there is some requirement for geographic mobility in principle, the wording of legislation and guidelines on the question is vague or contorted: for most unemployed the risk of being offered a job at the other end of the country is probably negligible. The question of travel-to-work time is more relevant. But the mildest requirement is for acceptance of placements involving two hours' travel daily (in the Netherlands and the United Kingdom) and it is doubtful whether the strictest countries, which require four hours travel daily (Belgium and Switzerland), achieve many stable placements involving such a long commute.

Occupational protection (*i.e.* allowing unemployed people to refuse a job offer that involves a change of occupation) is quite common, but this principle usually applies only to the first few months of unemployment. In France and Spain, it applies in general terms to both insurance and assistance forms of unemployment benefit, although in France its interpretation becomes more flexible as the duration of unemployment increases. In Austria, it applies for the whole duration of the insurance benefit, which is however relatively short.⁵ In Denmark, a progressive reduction in the duration of occupational protection for the unemployed (from 18 months in 1989 to 3 months in 1999) has been a significant component of a wider package of reforms which has been credited for much of the fall in unemployment since 1994 [MoL (1999)].

Suitable work criteria are, with some exceptions (see below), enforced only to the extent that the PES directly refers unemployed people to specific vacancies. If the PES fills vacancies only by advertising, then referrals to vacancies occur only at the initiative of the job-seeker, who can choose to apply for vacant jobs or ignore

them according to his or her own ideas of what is suitable, so that the suitable-work criteria embodied in legislation become more or less irrelevant. However, techniques of direct referral of job-seekers to vacancies chosen for them by the PES, with feedback from the employer, are used to a significant extent in at least one-half of OECD countries.

In most countries, legislation creates a general obligation to accept placements into official or approved *labour market programmes*. Job-creation programmes may, therefore, not need to conform to usual “suitable work” criteria.⁶ In Belgium and France, general legislation refers only to vocational training, so job-creation programmes need to conform to regular “suitable work” criteria (or be backed by specific legislation) if participation is to be obligatory. In Canada, the UI Act states explicitly that no claimant can be disentitled for refusing employment on a job creation project.

Requirements for *independent job search* vary especially sharply, with some countries (*e.g.* Belgium, the Czech Republic and Spain) having no general requirement in principle,⁷ and others (Australia, the Netherlands, Switzerland, the United Kingdom and the United States) specifying that individuals must report their job search in some detail and achieve a minimum frequency (which is often determined by the PES according to individual and local labour market circumstances) of job applications or assimilated acts of job search. In the latter case, the surveillance of independent job search can be the most important intervention by the PES to “activate” the unemployed. This is particularly clear in the United States, where the unemployed in most states have to make two or more job applications every week, but rarely have more than one or two other contacts with the PES (*e.g.* intensive interviews, action plans, attendance at a job-search seminar, etc.) during a six-month benefit spell.⁸ In France, there is a principle of permanent job search and although a minimum frequency of job applications is not specified, documentation must be kept and intensive reviews of job search, at intervals of four months or more, are a prime instrument in the verification of eligibility.

Monitoring of independent job search may play some role in implementing the “suitable work” criteria for benefit. Guidelines in Australia, in particular, suggest that the PES (the public body Centrelink, in the current context of privatised placement services) should disregard applications for types of work that the unemployed person has little chance of obtaining. This obliges unemployed people to apply for a range of jobs within limits that are defined by the “suitable work” criteria. Some employment offices in Switzerland also monitor the “quality” of independent job

applications reported by the unemployed as well as their quantity [OFDE (1999a)].

Legislation in relation to *contacts with the PES* generally gives the PES broad powers to require the claimant to provide relevant documents and information, participate in assessments, attend interviews and collective information sessions, etc. Swiss legislation provides for sanctions for refusal to follow instructions from the labour office, although it is not clear how broadly this could be interpreted. In some other countries, general clauses in legislation requiring beneficiaries to co-operate with the employment office (the Czech Republic) or not act in any way that gives the PES an impression of not being fully available for work (Denmark and Norway) might be invoked to sanction an unemployed person who rejects reasonable suggestions. But there is little evidence that these general clauses are actually invoked as the basis for benefit sanctions.⁹

The United Kingdom has tightened benefit eligibility conditions in various ways since the mid-1980s (see below). In 1996, a specific requirement for compliance with (reasonable) written instructions from a PES officer, the Jobseeker's Direction, was introduced. The general "authority" of PES staff in their dealings with the unemployed was fairly widely established by 1997, although the Jobseeker's Direction was only one of the factors involved.¹⁰

III. An overview of sanction provisions and statistics

A. Sanction provisions

Most national legislation uses a concept such as a benefit "sanction", which may also be called a "deferral" or a temporary or permanent "stop" or "exclusion". However "sanctions", as defined in legislation by any such words, may still apply only to a limited range of situations. Other situations may lead instead to a decision that the person is ineligible for benefit. For example, a person who has refused work is normally sanctioned, but a person who freely announces that he or she is no longer able or willing to work is not sanctioned, but, nevertheless, becomes ineligible for benefit. Inevitably, certain situations will be treated differently in different countries. National definitions of "sanction" do not have comparable coverage, and broad coverage may not imply strictness since the alternative treatment, *i.e.* a benefit stop on general eligibility grounds, may have more severe consequences for the person concerned than a sanction would do.

In most cases, temporary benefit stops imply loss of the corresponding benefit entitlement, but in Japan the UI entitlement is only postponed. In the case of decisions initiated by the placement service, France has a two-stage sanction system: the placement service strikes the job-seeker off its register for a defined period, resulting in suspension of benefit payment without loss of total entitlement, and state authorities then take a separate decision concerning loss of benefit entitlement. If this loss of entitlement is pronounced it should, according to current guidelines, cover at least the time that the person is struck off the job-seeker register.

Table 4.1 compares the duration of benefit sanctions or other benefit stops across countries for the situations which are most often handled through fixed-duration benefit stops or reductions, *i.e.* voluntary quit and refusal of work. In eight countries, the sanction for voluntary quit is the same as the sanction for a first refusal of a job, but in Denmark, Finland, Japan and New Zealand the former is more severe.

There are very sharp variations in the duration of sanctions for a first refusal of suitable work, ranging from one week in Denmark and four to five weeks in Australia and Japan, two or three months in many other countries, to six months or more in Belgium and exclusion in Spain. A typical or median duration of sanctions for a first refusal of a suitable job (two to three months) appears to be less than the likely cost of the refusal in terms of additional benefit payments as a consequence of the refusal (if no sanction were applied): it is perhaps half the expected duration of a new benefit spell and a quarter of the expected further duration of unemployment for a longer-term unemployed person.¹¹ The reasoning behind the mild sanction for a first refusal in Denmark (a benefit stop of one week) may be that this facilitates the application of sanctions. Conversely, the strictness of the sanction in Belgium (a benefit stop of 26-52 weeks) helps explain the very low actual incidence of sanctions for refusal of work in that country.

About half the countries shown positively require exclusion of a person who repeatedly refuses (typically, within a one or two-year period, or within a given benefit entitlement period) suitable work. In Australia, New Zealand and the United Kingdom, benefit entitlements are of unlimited duration, so exclusion would not make much sense. In many cases, "exclusion" means that the person's UI contribution record is wiped out and has to be earned again through work before any new benefit claim. However, Denmark and Finland have specific provisions allowing readmission to the benefit system after ten weeks and three months of work, respectively. In some cases, repeated refusal of work leads to an indefinite suspension

Table 4.1. Periods of benefit sanction following a voluntary quit and refusal of work or ALMP placement

| | First voluntary quit or dismissal for fault | Refusal of work or ALMP placement | | |
|----------------|---|--|---|--|
| | | First refusal | Second refusal | Subsequent refusals |
| Australia | 4-5 weeks ^a | 4-5 weeks ^a | 6 weeks ^b | 8 weeks |
| Belgium | 8-52 weeks ^c | 26-52 weeks | Exclusion | |
| Czech Republic | Exclusion ^d | 3 months ^e | Exclusion | |
| Denmark | 5 weeks | 1 week (job), exclusion (ALMP) ^f | Exclusion | |
| Finland | 3 months ^g | 2 months ^g (job), 0-2 months (ALMP) | 2 months or exclusion ^h | 2 months or exclusion ^h |
| France | 4 months ⁱ | Temporary or definitive exclusion ^j | Temporary or definitive exclusion ^j | Temporary or definitive exclusion ^j |
| Germany | 12 weeks ^k | 12 weeks ^k | Exclusion ^l | |
| Japan | 1-3 months ^m | 1 month ⁿ | No change | No change |
| New Zealand | 13 weeks ^o | 1 week (job), until recompliance (ALMP) ^p | 13 weeks (job), until recompliance ^p minimum 1 week (ALMP) | 13 weeks |
| Norway | 8 weeks | 8 weeks | 12 weeks | 26 weeks |
| Spain | Exclusion ^q | Exclusion | | |
| Switzerland | 6-12 weeks | 6-12 weeks | 6-12 weeks or exclusion ^r | 6-12 weeks or exclusion ^r |
| United Kingdom | 1-26 weeks | 1-26 weeks (job), 2 weeks (ALMP) | 1-26 weeks (job), 4 weeks (ALMP) | 1-26 weeks (job), 4 weeks (ALMP) |

a) Full-time equivalent of an 18 per cent reduction in benefit level that lasts 26 weeks.

b) Full-time equivalent of a 24 per cent reduction in benefit level that lasts 26 weeks.

c) 8-52 weeks in cases of dismissal for fault, 26-52 weeks in cases of voluntary quit.

d) May apply only in cases of repeated quits during a 6-month period.

e) Exclusion is also possible.

f) A first refusal of an ALMP placement leads to exclusion only during the “active period” (after 12 months of unemployment).

g) Reduced to 1 month if the job in question is for less than 5 days.

h) Legislation specifies exclusion for repeated refusals, which are not defined, but in practice a second refusal within a year is a repeat refusal. However, the sanction for people with wage-related benefits who repeatedly refuse ALMP placements is limited to 2 months.

i) Admission to benefit after 4 months of unemployment is conditional on proving active job search during these four months.

j) The word “exclusion” in this table generally implies an indefinite benefit stop or definitive loss of remaining benefit entitlement. In France, legislation also provides for temporary exclusions. When an attitude of refusal of work is observed, exclusion is in principle definitive.

k) Reduced in some circumstances.

l) Exclusion follows when sanctions totalling 24 weeks have been pronounced.

m) Typically 3 months.

n) One month in case of refusal of work, but up to 1 month in case of refusal of training.

o) Under a “clean slate” provision, benefit payments can resume after 4 weeks on a provisional basis if the person is participating satisfactorily in community work, employment-related training or another organised activity. If the person obtains full- or part-time short-term employment for at least 6 weeks, the remaining stand down can be waived.

p) Recompliance means attending an interview following the failure to attend one: in a case of refusal of “community” work or training, etc., it could mean participation in an activity as under the “clean slate” provisions.

q) Exclusion in cases of a quit, but a 3-month waiting period in cases of dismissal for fault.

r) A second refusal of an ALMP place leads to exclusion, and a second or third refusal of a job might lead to exclusion.

Sources: Legislation and other material, in many cases as supplied for the OECD thematic review of labour market behavioural criteria for unemployment benefits.

of benefit on eligibility grounds (*i.e.* it is interpreted as evidence that the person is not available) which may be reversible if and when the person provides better or renewed evidence of availability.

In Finland (for those on wage-related benefits) and the United Kingdom, repeated refusals of an active labour market programme (ALMP) placement attract a relatively light sanction. But in Denmark, although a first refusal of a suitable job leads only to a one week sanction, a first refusal of an ALMP placement within the so-called “active period of benefit” (after 12 months of unemployment) leads to exclusion, with no readmission until 52 weeks of work have

been performed. These remarkable contrasts probably relate to rather specific national circumstances (union ownership of the wage-related benefit system in Finland, the short duration of most participation in ALMPs in the United Kingdom and the current forceful commitment to the “active period of benefit” strategy in Denmark).

In cases of failure to co-operate with the PES (*e.g.* failure to attend interview), some countries apply sanctions. In others, the PES considers that the benefit claim has been dropped, and simply stops benefit payments until the person has re-contacted the PES and complied with requirements. Where there are defined-duration

sanctions for failure to co-operate with a regular administrative requirement (including attendance at interviews with the PES), they tend to be considerably lighter than for refusal of a job.¹² But there are some significant exceptions in relation to individual action plan procedures, the “active period” of benefits and placements into ALMPs. Thus, an indefinite benefit stop applies for refusal to co-operate with the action plan procedure in Belgium and Denmark.

B. Sanction statistics

Table 4.2 shows the incidence of benefit sanctions in a number of countries in terms of annual sanctions as a percentage of the inflow to benefits or the stock of beneficiaries. The table includes, in principle, all recorded decisions to temporarily or permanently stop benefits for “voluntary

quit” and “labour market behavioural” reasons (including stops on general eligibility grounds), but in the case of “administrative infractions” the table only includes stops which officially have the nature of a “sanction”. This is because, for the few countries where statistics apparently covering all negative decisions on benefit applications or continuation of benefit have been obtained, these are clearly not all sanctions and the categories used are too broad to allow separate identification of “administrative infractions”, as defined here.¹³

The statistics at the more aggregate level in Table 4.2 are probably the least comparable across countries, because for the Czech Republic and Denmark stops for voluntary quit are not recorded, and for six countries no sanctions for administrative infractions (such as failure to

Table 4.2. Incidence of unemployment benefit refusals and sanctions in thirteen countries

| | Australia Jul-Nov 1997 | Belgium 1997 | Canada 1998 | Czech Republic 1997 ^a | Denmark Q1 1997 | Finland 1997 | Germany 1997 | Japan 1998 ^b | Switzerland 1996 ^c | New Zealand 1997/98 ^d | Norway 1998 | United Kingdom 1997-98 | United States 1998 ^e |
|---|------------------------------|-----------------|----------------|--|--------------------|-----------------|-----------------|----------------------------|----------------------------------|--|----------------|------------------------------|---------------------------------------|
| As a percentage of the inflow to benefits | | | | | | | | | | | | | |
| Sanctions for behaviour before benefits start | 2.21 | 4.70 | 19.38 | .. | .. | 3.44 | 3.62 | 57.26 | 13.12 | 0.50 | 10.55 | 4.32 | 11.13 |
| Miscellaneous initial conditions | .. | 0.03 | 1.09 | .. | .. | 0.61 | .. | .. | .. | .. | .. | .. | .. |
| Voluntary unemployment ^f | 2.21 | 4.67 | 18.30 | .. | .. | 2.83 | 3.62 | 57.26 | .. | 0.50 | 10.55 | 4.32 | 11.13 |
| Total sanctions in a year (or data at an equivalent annual rate) divided by the average stock of beneficiaries, in percentages | | | | | | | | | | | | | |
| Sanctions and refusals for behaviour during benefit period | 14.71 | 4.20 | 6.07 | 14.70 | 4.30 | 10.19 | 1.14 | 0.02 | 40.29 | 0.37 | 10.84 | 10.30 | 56.97 |
| Labour market behavioural conditions | 3.30 | 0.78 | 6.07 | .. | 2.12 | 10.19 | 1.14 | 0.02 | .. | 0.37 | 7.32 | 5.52 | 35.35 |
| Refusal of work | 0.33 | 0.02 | 2.74 | .. | 0.57 | 2.69 | 0.64 | 0.00 | 13.23 | 0.01 | 5.01 | 1.23 | 1.90 |
| ALMP or related action plan | 1.82 | 0.76 | .. | .. | 1.55 | 7.50 | 0.50 | 0.02 | .. | 0.36 | 2.31 | 2.21 | .. |
| Evidence of job search | 1.15 | .. | 3.33 | .. | .. | .. | .. | .. | 25.26 | .. | .. | 2.08 | 33.46 |
| Administrative infractions^g | 11.41 | 3.42 | .. | .. | 2.18 | .. | .. | 0.00 | .. | .. | 3.52 | 4.78 | 21.62 |

.. Unknown or zero.

a) Because data in the Czech Republic relate to exclusions from the job-seeker register, total registered job seekers (not beneficiaries) are used as the denominator in computing the incidence of sanctions.

b) In Japan, some exclusions from benefit (on grounds of lack of willingness to work) may occur in cases of insufficient evidence of active job search, but these cases are not recorded.

c) Total sanctions in Switzerland in 1996 are allocated to quits, job search, refusal of work and other sanctions for behaviour during the benefit period (included in this total but not in any sub-category), according to incomplete results of partial surveys conducted by OFIAMT in 1989, 1992 and 1998. Data for 1993 (a year with a similar unemployment rate) were used as the denominator in calculating incidences. New benefit claims were estimated as 72 per cent of new registrations with the placement service [OECD (1996), Table 2.2, p. 103].

d) In New Zealand, sanctions shown in the “ALMP or related action plan” category could relate to failures to provide evidence of active job search under Workplan or to failures to attend work readiness interviews.

e) The US “active job search” sanction total includes some sanctions related to ability and availability issues. In the United States, sanction rates for ongoing claims are usually cited on a per-claimant-contact basis, where claimant contacts occur weekly. The annual rates shown here can be read as saying, for example, that the average weekly rate of sanctions applying to persons with a current claim for active job search reasons is 0.63% (i.e. 33.46% divided by 52 weeks).

f) Voluntary unemployment includes dismissal for fault.

g) “Administration infractions” here refer to non-attendance at interviews with the PES and failure to send necessary forms or notify changes in circumstances, including in some countries sanctions for non-declaration of income. However, where failure to attend interviews called specifically to discuss a job, programme place or action plan is assimilated to refusal of these measures, the sanctions have been left in the relevant category.

Sources: Information from national authorities and Secretariat calculations.

attend interviews with the PES) are recorded. But benefit stops of some kind must occur. However, in the case of lack of evidence of active job search, where no statistics are shown this probably does indicate that no, or very few, sanctions occur on these grounds, except perhaps for Japan. In Japan people whose job-search, as reported on four-weekly declaration forms, is considered inadequate lose their remaining benefit entitlement but since this is considered as enforcement of a general eligibility (willingness to work) criterion rather than a formal sanction, statistics are not recorded.

In six countries, less than 5 per cent of new benefit claims are sanctioned on grounds of voluntary quit or dismissal for fault. This is far lower than the proportion of the experienced unemployed who report in labour force surveys that separation occurred through leaving rather than dismissal or termination of a fixed-term contract [OECD (1990), Table 2.4, shows that this proportion often exceeded one quarter and it approached one half in Germany and the United Kingdom]. This discrepancy arises partly for valid reasons (*e.g.* a quit when the spouse moves to a different part of the country for professional reasons is often not sanctionable), but also partly because employers collude with employees (*i.e.* agree to falsely report that they were dismissed) and because many situations are ambiguous (*e.g.* unsatisfactory workers are persuaded to leave, dissatisfied workers are dismissed, etc.).¹⁴ In the United States, the experience-rating of UI benefits gives employers some incentive to contest employees' claims that they were dismissed. In most other countries this incentive is lacking, although the Netherlands recently made employers responsible for financing the first six months of benefit. However in Japan, where companies have traditionally been concerned to provide job security and few personal reasons for quit are allowed, more than half of all new claims are subject to a three-month postponement for reasons of voluntary quit.

The annual total of sanctions for refusal of suitable work, relative to the stock of beneficiaries, is highest in Finland, Norway and Switzerland. In each case, there is some evidence that a substantial proportion of vacancies are filled by active matching to the unemployment register and the direct referral of suitable candidates. But this also occurs in Denmark and Germany. Perhaps the biggest surprise here is that sanction rates for refusal of suitable work are higher in the United Kingdom and the United States than in Denmark and Germany. Most reports indicate that the PES in the United Kingdom and the United States relies overwhelmingly on advertising-type methods to fill vacancies, but they do make direct referrals under case management procedures.¹⁵ New Zealand (which in principle has similar case management arrangements) pronounced

just 13 sanctions for refusal of work in 1998/9 and Japan just one for this reason in 1998.

Sanctions for refusal of an action plan or ALMP placement may be more frequent in Finland than in Denmark because in Denmark such refusals are heavily sanctioned and in Finland vocational training programmes are large, but sanctions are sometimes mild and there are some perverse incentives to refuse offers [OECD (1996a)]. The relatively high sanction rate for refusing ALMP places in the United Kingdom (despite relatively low levels of spending on ALMPs) probably arises because inflows are large (many ALMPs are one or two-week courses, rather than long-term) and sanctions are mild: non-attendance rates even for compulsory courses are sometimes very high [Finn *et al.* (1998)]. Although New Zealand, in principle, put more emphasis on obligations to undertake community work as from 1998, its actual sanction rate remained low.

Switzerland and the United States report many more sanctions related to monitoring of independent job-search activity than Australia and the United Kingdom. The normal sanction for insufficient reporting of job-search contacts in the United States is loss of benefit for the reporting week only. Also, in Switzerland and the United States, benefits are based on insurance principles and many of the unemployed have recent work experience, which may encourage a more rigid interpretation of job-search requirements. In Australia, the sanction is more severe (an 18 per cent reduction in benefit for 26 weeks). In the United Kingdom, the job-search requirement is often less explicit: a required weekly or monthly frequency of job applications is often not specified, reporting of name and address for employer contacts is not generally required and there is a considerable local flexibility in monitoring job-search requirements [Finn *et al.* (1998)]. The fact that Denmark, Germany and Norway report no sanctions for insufficient levels of independent job search confirms that the general requirement for such job search in these countries does not have much impact, in the absence of a legal basis for more specific and detailed monitoring procedures.

The incidence of sanctions for specific reasons in specific countries depends largely upon various aspects of PES procedure. If there is no regular procedure that is capable of monitoring the behaviour in question, few sanctions will arise. The incidence of sanctions generated by a regular procedure (*e.g.* direct referral to PES training programmes) no doubt varies with the frequency of the intervention itself, but it also varies with other factors such as whether legislation allows flexible interpretation of the criterion in ways favourable or unfavourable to the unemployed, the harshness of the sanctions themselves, guide-

lines for individualised counselling (*e.g.* counsellors may be encouraged to issue warnings to at-risk clients and arrange further counselling before initiating any sanction action), and administrative blockages (which arise when employment counsellors have to transmit documents to a separate benefit administration for decision). Appeal procedures also influence outcomes.¹⁶ In Nordic countries there is generally a consensus among social partners in favour of the active approach to labour market policy, but this does not in itself guarantee compliance with requirements by unemployed people. Sanctions for non-compliance are therefore also needed in these countries and relatively high sanction rates can arise.

IV. Can a reasonable index for the strictness of benefit eligibility criteria be constructed?

The Danish Ministry of Finance [MoF, 1998] recently constructed an index for the strictness of eligibility criteria based on a limited number of indicators: independent job-search requirements; occupational mobility and geographic mobility criteria for suitable work (the latter including both travel to work and relocation); and the standard duration of benefit sanctions following voluntary quits and refusals of job offers. This section advances two main observations: first, it is not always easy to compare these eligibility criteria, and other criteria tend to be even less comparable, so it will be difficult to construct a much better index for the relative “strictness” of the criteria as they appear in legislation than the Ministry of Finance one; and second, if the aim is to guide policy or help explain international differences in unemployment rates, an indicator focusing on a concept closer to “tightness” or “effectiveness” of eligibility criteria, including implementation arrangements, would be more appropriate and would classify countries rather differently.

An attempt at measuring the overall “strictness” of legislation involves scoring strictness in selected specific areas and weighting these partial results together. However, legislation can be obscure:

- Some legislation (*e.g.* in the Czech Republic and Spain) is worded generally and does not mention, for example, whether part-time work, casual work, shift work and night work are considered “suitable”.
- Even legislation that is quite developed in detail often contains ambiguous or partial treatments of specific issues, such as geographic mobility and the practical content of active job-search requirements.

- Legislation may include broadly-worded statements (*e.g.* that the unemployed person “must use all possible ways to end his joblessness” in Germany and “must permanently and effectively seek work” in France) which on a literal reading are clearly “strict”. However, courts commonly refuse to pronounce benefit sanctions on the basis of these phrases alone in concrete situations (*e.g.* when someone has refused an offer of work abroad or has failed to maintain a diary record of job applications).

At the national level, jurisprudence may clarify how some standard situations are likely to be treated if they are brought before the courts, but no suitable comparative summary of jurisprudence is available.

Any ranking of countries for the “strictness” of their legal provisions will be fairly sensitive to the weighting system applied to the components of the index, because strictness in one area is quite often balanced by relative laxity in another. For example, Spain is very strict in relation to voluntary quits, but may be rather lax in other respects. Australia and the United Kingdom provide rather limited occupational and wage protection, but go furthest in accommodating conscientious and religious objections to work. Similarly, Finland and Norway define suitable work strictly, but impose few requirements for independent job search.

Although “strictness” at the level of legislation is a concept of interest in its own right, it is unlikely to capture the overall impact of eligibility criteria requirements on unemployment levels well because variations in implementation are very large. Implementation in general has declined to rather low levels at some times and in some countries: in a given country at a given time, some eligibility criteria may be effectively implemented while others have only limited practical relevance. As mentioned above, “suitable work” criteria have practical relevance mainly to the extent that the PES uses a specific method of job-brokering (*i.e.* the direct referral of job-seekers to specific job vacancies that the PES has selected for them).

The formal strictness of legislation will be misleading as a guide to its actual impact if the formal strictness results from, or provokes, infrequent implementation. Starting from the observation that the strictest requirements – for example, that the unemployed person should accept jobs involving up to four hours of commuting per day – will, in some circumstances, be unreasonable, the following observations are relevant:

- In countries where legislation is consistently implemented, everyday practice regularly throws up individual cases where the general rules appear unreasonable and experts are kept busy developing

exception clauses.¹⁷ The absence of such exception clauses, although it makes the legislation stricter in a formal sense, could merely indicate that the strict general rule is rarely applied.

- Even if courts do in contested cases support a literal interpretation of strict general rules (*e.g.* that all unemployed must accept almost any legal job), employment counsellors will be reluctant to initiate sanctions each time that this is possible. But if sanctions are only infrequently implemented, their application in any individual case will seem arbitrary. If employment services develop approximate unwritten rules about when they do and do not apply their sanction powers, as long as these rules are out of line with general legislation they cannot be codified and employment counsellors will continue to face a large degree of personal responsibility and uncertainty as to what standards apply. For such reasons, actual implementation may become unnecessarily troublesome and infrequent.

Given the variability in implementation, an overall indicator for the impact of eligibility criteria should incorporate some direct indicator of implementation. However there are some difficulties in using sanction rates for this purpose. Legal strictness and implementation indicators interact in a multiplicative rather than an additive way (*e.g.* a strict legal definition of suitable work is irrelevant if there is no implementation of this criterion), and data rarely report sanctions by detailed reason in ways that would allow such sophisticated calculations. A more basic difficulty is that sanction rates are not a direct indicator of implementation. Sanction rates are highest when levels of monitoring and levels of non-compliance are *both* high. If communication and information errors are minimised (*i.e.* when the unemployed are well informed about requirements and monitoring procedures reliably detect non-compliance), compliance may be high with a fairly low sanction rate.¹⁸ From this point of view, the frequency of PES interventions that might detect non-compliance could be a better indicator of implementation than the actual incidence of sanctions that results. Often the PES has adequate legal authority for its behavioural requirements and their impact is mainly a function of the frequency of interventions that take place under this authority (*e.g.* how often job-seekers are called to interview, referred to vacant jobs or asked to report their job-search activities).

An international comparison of the “strictness” of eligibility criteria also raises some issues of “reverse causality”. In some countries, legislation may not give detailed powers to the PES because its general powers are found to be adequate.¹⁹ A favourable overall employment or unemployment situation may encourage the legislator to

be more “lax” in some areas and “stricter” in others. Strict eligibility provisions in Belgium and Spain (four hours travel-to-work time in Belgium, voluntary quit is never justified in Spain and sanctions for any infraction are very severe in both countries) suggest a political perception that people are lucky to have any job or job offer at all and are, therefore, never justified in abandoning or rejecting it. Apparently lax eligibility requirements for benefits (*e.g.* those which make allowance for child-care problems) will be developed in countries where many people with constraints on availability (*e.g.* people with child-care problems or mildly disabled older workers) have jobs – which is a necessary condition for a high overall level of employment. And formal requirements for independent job search are applied mainly in countries with relatively flexible labour markets (Australia, Switzerland, the United Kingdom and the United States) where job vacancies are in any case easier to find.

Much of the information about eligibility criteria that is available relates only to unemployment insurance benefits, which vary in their duration and coverage. A general principle of allowing the unemployed to refuse work that involves a change of occupation, for example, would be a fairly standard arrangement when applied to a benefit that lasts six months or less, but a relatively “lax” arrangement if applied to a benefit that lasts two years or more. In many countries, a significant proportion of the unemployed receive a separate assistance benefit (*e.g.* municipal social assistance, or the RMI in France) so labour-market-behavioural eligibility criteria for these benefits should be taken into account. Eligibility criteria for assistance benefits vary greatly in terms of strictness, clarity and implementation, but it is often difficult to get detailed information about them.

V. Evidence for the impact of eligibility criteria: a brief survey

Do eligibility requirements and sanctions affect unemployment? They will most directly affect unemployment as measured by the number of people with benefits. In countries with high benefit coverage, a long-term change in beneficiary numbers may typically be associated with a change in unemployment according to the standard ILO definition that is at least one half as big, although the link may be erratic and it needs further research. The potential importance of eligibility requirements of an “exclusion” nature is illustrated by experience in Canada, where benefit payments to seasonal workers (who are often not really available for work during the slack season) are a major and persistent concern, and in Belgium where a

substantial proportion of benefits goes to mothers with child-care responsibilities (who are often not really available for full-time work). Their experience suggests that defining these groups as ineligible, or at least tightly defining when they are eligible, as some other countries do, could have quite a large impact on the beneficiary population. The impact of “exclusion” clauses is generally taken for granted in the sense that analysts have pointed to restrictive changes in entitlement and eligibility criteria as influences on benefit coverage in the United States during the 1980s and in Canada during the 1990s, and as an influence on registered unemployment in the United Kingdom in the 1980s. But as far as benefit coverage is concerned, entitlement conditions influence outcomes more than eligibility conditions.²⁰

Evaluations of labour market programmes often provide information about the impact of “behavioural” eligibility requirements, but relatively few evaluations directly assess whether the compulsory or non-compulsory nature of participation modified its impact or generated “disutility” or “entry” effects. Some relevant findings include:

- Compulsory *intensive interviews* reduce the volume of benefit claims. Administrative experience has often been that the introduction of a procedure for interviewing unemployed people (when such a procedure was previously little used) leads to 5 to 10 per cent of benefit claims being dropped [OECD (1994b)]. Dolton and O’Niell (1996) also report from an experiment conducted in 1989 in Britain that the treatment of dropping the 25-minute Restart interview normally conducted at six months reduced hazard rates out of unemployment over the next five to six months by 20 to 30 per cent.
- *Job-search requirements* for UI benefits in the United States yield significant cost savings, as has been confirmed in a number of experiments conducted in co-operation with employment services in several states [OECD (1999) and Box 1].
- *Long-term labour market programmes* (e.g. four to six months vocational training or work experience programmes) reduce open unemployment through the mechanical effect of participation itself, but there is mixed evidence on whether they reduce “broad” unemployment (i.e. the total including programme participants). In Finland and Sweden, the general policy of placing the long-term unemployed into labour market programmes lasting about six months (substantially modified around 1993 in Finland) did not keep total unemployment low in the 1990s. But there is room for debate about how far these programmes should be interpreted as “compulsory”:

according to the “carousel” argument, these programmes have increased unemployment because participation in them creates a right to a new period of benefits. In Denmark, the general policy of placing the long-term unemployed continuously into active measures for three years corresponds more clearly to the concept of an “onerous condition” for the continued receipt of benefit and has been more successful, at least for the moment. Most unemployed drop their benefit claim in one way or another long before expiration of this three-year “active period of benefit”.

Various further specific “behavioural” requirements in benefit eligibility criteria have rarely, if ever, been evaluated in any systematic way. This applies to the suitable work criteria which oblige the unemployed to move to a different area, change occupation or accept a lower wage. Only the United Kingdom and Switzerland have a “pilot scheme” clause in benefit legislation which would, in principle, allow experimental relaxation of such requirements for particular individuals or local areas.

A few studies provide some evidence on the impact of benefit sanctions. Abbring *et al.* (1999) found in 1992 data from the Netherlands that (after controlling for heterogeneity and modelling the probability that individuals would receive a sanction) the imposition of a sanction on unemployed people raised the subsequent transition rate to employment by 77 per cent in the metal sector and 107 per cent in the banking sector. Van den Berg *et al.* (1999) conducted a similar analysis in data for unemployed people in Rotterdam who had previously worked and were receiving the assistance form of benefit during 1994–1996. In this case, a sanction raised the transition rate from welfare to work by 140 per cent. Sanctions may have encouraged exit by reducing the perceived utility of continuing unemployment (a second sanction may be perceived as more likely to occur, and likely to be more severe). The estimated impacts seem large, and suggest that any significant risk of sanction may have quite a large impact on behaviour. However it should be kept in mind that sanctions may have been successfully targeted on people for whom they are likely to have an impact (i.e. employable persons who appear to lack motivation): the impact at the margin, if sanctions were used more widely, might be much smaller.

General evaluations of the effectiveness of the PES work quite commonly treat sanctions as an irrelevant or highly secondary issue, apparently on the grounds that sanctions are the policy responsibility of a separate benefit administration, or that sanctions involve only a small minority of clients and have little relevance to overall placement strategy. However, some evaluations have con-

Box 1. Work search requirements in Maryland, United States

In June 1993, the US Department of Labor and the State of Maryland began an experimental programme with a design that drew upon experience from several previous studies. New UI claims during 1994 were randomly assigned to varying work search “treatments”, both modifications in the work search reporting requirements and job-search training.

The normal work search requirement in this state at the time was to report two contacts with named employers per week. A treatment which increased the number of employer contacts required from two to four per week reduced the average duration of UI payments by 0.7 week (5.9 per cent). Another treatment which retained the requirement for two employer contacts per week, but informed claimants that reported contacts would be verified with the employer (in practice, only about 10 per cent of reported contacts were verified), reduced the average duration of UI payments by 0.9 week (7.5 per cent). Dropping the requirement for reporting of work search contacts each week (although in this case, the claimants were still informed that they must search for work) increased the average duration of UI payments by 0.4 week.

In contrast to the first two treatments with more stringent requirements, which recorded only insignificant increases in total annual earnings (as measured over the year following the initial claim for benefit), the third treatment with relaxed requirements led to a statistically significant increase in total annual earnings of \$347 (4.1 per cent). This suggests that claimants in this group found higher-paying jobs, perhaps because they waited longer for recall by the previous employer or for a better-paid job offer, or searched more efficiently or had a stronger bargaining position with potential employers, when freed from the reporting constraints.

A fourth treatment, where claimants were required (usually in the third to fifth week of their claim) to participate in a four-day job-search training workshop reduced the average duration of UI payments by 0.6 week. The overall impact came largely through a 28 per cent increase in the hazard rate (*i.e.* the proportion of people whose status changes in each time period) of out of UI for the two weeks immediately preceding the date of the scheduled workshop: the hazard rate during the workshop period itself fell, and evidence concerning the period after the workshop was mixed. This suggests that the workshop obligation had an impact more because it increased the cost of UI receipt than because it increased job-search skills. Nevertheless, this treatment significantly increased the proportion of job re-entrants who found a new employer rather than being recalled by the previous employer.

Source: Benus *et al.* (1997).

sidered in more or less depth the impact of the sanctions policies adopted by employment offices (see Box 2).

The Danish Ministry of Finance reports cross-country regressions for 19 countries in which the 1994-1996 average unemployment rate is regressed on its index for the strictness of eligibility criteria and six or seven further explanatory variables (including the net replacement rate and the employment requirement to qualify for UI [MoF (1999)]. Coefficients on this index were large (they indicated that Ireland could reduce its unemployment rate by about 5 percentage points if it adopted the eligibility criteria that prevail in the Netherlands or Sweden). Indeed, MoF (1999) commented that several of the reported coefficients seemed too large. Separate regressions suggested that eligibility criteria influence long-term unemployment more than short-term unemployment. The regressions suggested that strict benefit eligibility criteria offset the impact of a high replacement rate in some countries, such as the Netherlands and Sweden. Such results should of course be treated with caution.²¹

Historical information about benefit eligibility criteria and their implementation in OECD countries is not available in any systematic form.²² However Auer (2000),

in a study of four European countries that have enjoyed recent labour market success, observes “all resorted to a much stricter enforcement of job search and suitable work provisions”. Considering four European countries where unemployment fell during the 1990s to around half of its earlier peak level (*i.e.* Denmark, Ireland, the Netherlands and the United Kingdom), three of the four clearly tightened their surveillance of benefit eligibility in the early to mid-1990s. In each case a general shift in attitudes and/or policy stance, which no doubt expressed itself in many ways, was involved. A few key events were:

- *Denmark*: Starting in 1989 labour market criteria have been tightened through a succession of minor changes (*e.g.* in terms of the obligation on the unemployed to accept a change in occupation as mentioned above and benefit sanctions for repeat refusals). In 1994, information systems were set up through which the Ministry of Labour could consult all communications from the placement service to the union insurance funds about refusal of work and similar problems. In 1995, a special “availability inspection unit” was set up to audit the sanction decisions of the insurance funds, and this unit began to

Box 2. An analysis of eligibility issues from Switzerland

Following a reform to the PES in 1995 which introduced regional placement offices (ORP), the Federal Council on 6 November 1996 ordered an evaluation of the functioning and the effectiveness of the new system. This evaluation [OFDE (1999a)], carried out by ATAG Ernst & Young Consulting, has a high-profile official status intended to guide further reform of the employment service. This analysis evaluated the effectiveness of a number of placement strategies.

As regards sanctions, the report found that sanctions per job-seeker were 43 times higher in the ten ORP with the highest rates than in the ten ORP with the lowest rates, and concluded that benefit legislation was not being applied uniformly throughout Switzerland. It also found that “the duration of job search shows a significant negative correlation with the number of sanctions and the days of suspension of benefit per job-seeker”, yet “there was no significant relationship between the extent of sanctions, and success in placing hard-to-place and long-term unemployed. More precisely, as far as placement of the long-term unemployed is concerned, several ORP with harsh sanction practices get negative results”.

At a more qualitative level, the report found that the least effective ORP fell into two categories: those which gave priority to placement of the easiest-to-place people; and those which were “passive and social”. It found that in some ORP or cantons (benefits are administered mainly at the cantonal level) the implementation of a sanction takes several months, and recommended that employment counsellors should be able to implement sanctions independently and immediately, without any need for prior authorisation by another part of the organisation. It recommended a general strategy of a “progressive reduction in freedom of choice in job-search” as the duration of unemployment continues. However, a few of the ORP had been able to achieve this with a below-average incidence of sanctions. The report emphasised that sanctions have a negative effect, or no effect, if the job-seeker is punished for violating rules he or she has not been told of or if the job-seeker is unable to find and accept a job. It was important, therefore, to inform job-seekers of their obligations and to apply sanctions only when unemployment was being voluntarily prolonged. Counselling interviews were of primordial importance, and a high frequency of counselling interviews per job-seeker was positively related with sanctions per job-seeker, successful placements and placements of the long-term unemployed.*

* Although OFDE (1999a, pp. 52-54) found that counselling interviews improved outcomes, it also noted that they are resource-intensive and that the most successful ORP had reduced the general frequency of counselling interviews in order to increase their intensity in targeted cases and release time for other work.

publish quarterly reports analysing the “fault percentage” (*i.e.* mainly failures to impose benefit sanctions which should have been imposed) of the funds. In 1994, the “active period of benefit” was introduced and it has been backed up by legislation which makes exclusion from benefit the sanction for failure to accept referrals to programmes (see Ministry of Labour, 1999, for a further account).

- *The Netherlands:* Starting in the late 1980s there was “a change in focus” which “led to a policy change with respect to the application of unemployment insurance sanctions [...] over the period 1987 to 1994 [...] the number of unemployment insurance benefit sanctions increased from 27 000 to 140 000”. In relation to the assistance form of unemployment benefit, “By instruction of the Ministry of Social Affairs and Employment, the welfare agencies started to use sanctions as an instrument to stimulate re-employment of welfare recipients and as instrument against fraud at the end of 1992 [...]. Before 1992, sanctions were hardly ever used. By the mid-nineties, about 5 per cent of the welfare recipients in a given year received a sanction” [Abbring *et al.*

(1999); Van den Berg *et al.* (1999)]. A little later, 13 per cent of welfare recipients reported being sanctioned during the two-year period after January 1996 [Engelen *et al.* (1999)]. In 1995, a new body with about 200 staff, the CTSV, was created “to control and supervise social security spending” in an attempt to “restore the ‘primacy of politics’ and curtail the ‘primacy of industrial self-organisation’ in the area of social security” [Visser and Hemerijck (1997)]. In 1996, legislation imposing harsher benefit sanctions was introduced: in the case of unemployment insurance, the sanction following a first instance of voluntary quit or refusal of work or labour market programme participation became exclusion from benefit (subject to an exception clause for cases where the person is not entirely to blame).

- *The United Kingdom:* Obligatory Restart interviews were introduced in 1986, an “actively seeking work” eligibility condition for benefit was introduced in 1989, participation in a labour market programme (a one-week course for those who had been unemployed for two years) was made compulsory for the first time in 1991 and under the “Stricter Benefit

Regime” an administrative drive led to a doubling of the number of sanctions in 1994/95 as compared with the preceding few years [Murray (1995)]. In 1996, benefit legislation was radically overhauled, creating a clear-cut legal framework for processes that define and monitor availability, job-search and compliance with PES instructions.²³ In 1998, under the New Deal, participation in a labour market programme was made obligatory for all youth remaining unemployed after six months plus an additional four-month “gateway” period.

Although these three countries have reformed legislation during the 1990s, this does not mean that they have made their legislative requirements and sanction provisions uniformly strict in international comparative terms.²⁴ Many of the changes focused more on the operational implementation of benefit eligibility criteria, and were part of broader reforms aiming to activate the unemployed and improve the administration of social security benefits. They were already well under way in the early 1990s, before the main falls in the unemployment occurred, making it more plausible that they actually caused some of the later falls in unemployment. In Ireland, the first sharp falls in unemployment preceded the current drive to implement a greater degree of benefit conditionality which dates from 1996.²⁵

Although empirical information remains rather patchy, it does suggest that some countries get into a “virtuous circle” with sustained falls in unemployment and tighter implementation of eligibility criteria. An obvious interpretation is that these developments reinforce each other. This syndrome would then represent the unwinding or reversing of the “vicious circle” which can set in after an adverse shock to the economy.²⁶ A recession – or indeed a structural shortage of vacancies – clearly tends to make the monitoring of benefit eligibility criteria less effective because job vacancies and PES staff per unemployed person fall, often very sharply. It may also encourage opposition to the general principle of monitoring benefit eligibility (on the argument that unemployed people are not responsible for their unemployment and that monitoring is futile because the lack of jobs is the real problem). There is clearly a risk, especially if these ideas gain hold in a context where benefit durations can be long, that the economy may enter a new equilibrium with high unemployment and lax application of benefit eligibility criteria persisting alongside each other for a long period.

VI. Implementation issues

Institutional arrangements and procedures for implementing benefit eligibility criteria vary greatly between

countries. In Australia, Belgium, Finland, Ireland and the United Kingdom, the benefit administration and placement functions of the PES come under different ministries. But in the United Kingdom, the functions are integrated at the local office level, and in Finland, established procedures make it relatively easy for the placement service to initiate sanctions. In countries such as Germany, Greece, Japan, and Norway, the benefit and placement functions are united under a single labour market agency which reports to a single ministry, but in several cases offices and staff working on benefit administration are largely separated from those working on placement.²⁷ Even if the functions are co-located at local office level as in Japan, vacancies may be filled almost entirely by advertising methods so that willingness to take all “suitable” work available is rarely tested. Thus, it is difficult to predict, on the basis of the institutional hierarchy, what degree of functional integration exists between benefit and placement work.

Most commonly, sanction and eligibility decisions are initiated (subject to appeal) by employment counsellors. In some countries, the counsellor can, in principle, decide directly (although counsellors commonly discuss cases with the local office manager). In other countries, the employment counsellor formally only notifies the evidence to a separate benefit administration, which takes the actual decision. In the United Kingdom, specialist benefit adjudication officers decide usually on the basis of written evidence, and in some other countries the benefit administration interviews the person prior to imposing any sanction.

Job search is evaluated not by the placement services, but by separate bodies in Ireland (the social welfare ministry), France (the state, although placement is a responsibility of another body, ANPE²⁸), and Denmark and, until recently, Switzerland (insurance funds). Perhaps especially in the latter cases, it will be worth considering whether their knowledge of local labour markets, and their access to information from the job-seeker register and management of labour market programmes, allows efficient evaluation of job search. Evaluations of voluntary quits are also commonly the responsibility of the benefit administration rather than the placement service.

Many ALMPs are run by private sector organisations. They typically see their role as providing help to the unemployed and are reluctant to take on unwilling participants or to report non-attendance or misbehaviour.²⁹ However, when the PES purchases provision from a competitive market,³⁰ it can insist that AMLP providers should accept referrals and report non-attendance, etc.

Australia has recently privatised the placement function for the great majority of the unemployed. Contracts with private providers of placement services do not give

them direct financial incentives to report evidence of ineligibility for benefit (e.g. refusal of suitable work), but they do give an incentive to achieve rapid placements. One pattern is that private providers negotiate an individual action plan with the unemployed person, which is submitted to the relevant State office of the Department of Employment, Workplace Relations and Small Business for approval and then acquires legal force. This allows private providers to specify (within certain limits) eligibility requirements on an individual basis designed to increase the chances of a placement, and it may, in turn, encourage the private providers to report any infractions to Centrelink for a potential sanction decision.

Conclusions

Up to now relatively little attention has been paid, in either theory or empirical analysis, to the potential impacts of varying benefit eligibility criteria and their enforcement on unemployment. However, this situation is changing slowly with increasing awareness that eligibility criteria represent another instrument of labour market policy, and some countries have instituted significant reforms in recent years. While empirical evidence in this area is relatively disparate in nature and limited in terms of country coverage, it does suggest that there could be significant payoffs to major reforms in terms of lower unemployment rates. Clearly, net replacement rates and durations of benefit payments alone are not decisive for the incentive impact of a benefit system, which can be properly assessed only by analysing them together with eligibility criteria.

Analysis and policy are complicated by doubts about whether eligibility criteria can be made effective by enacting *strict* legislation. Where legislation specifies that all unemployed should accept jobs which involve a change in occupation, lower pay or long commuting times, it would not make sense to apply these criteria immediately to every person claiming benefit and probably no country does so in practice. The impact of eligibility criteria probably depends more importantly on the efforts devoted to the *implementation* of legislation. Effective implementation of

eligibility criteria requires an organisational and political commitment, typically at the national level, and the extent of this commitment has varied greatly through time and across countries.

At the same time, there is considerable uncertainty about the overall effectiveness of particular methods, such as job-search reporting requirements and individual action plans, which attempt to oblige the unemployed person to take initiatives to find work. While these methods are likely to be effective to some degree, they are also likely to encourage and even unfairly reward purely formal compliance and dissimulation, e.g. applications for jobs which the person does not expect to get. Another form of “work test” which avoids this problem is compulsory participation by unemployment benefit recipients in active labour market programmes (ALMPs). This, however, raises a series of political, moral and practical issues, with the nature and the enforcement of the basic legal requirement to participate – as examined in this chapter – being only one of them. In general, the enforcement of eligibility criteria is greatly facilitated when sufficient levels of job vacancies are available. Not only can eligibility criteria then often be enforced through a general or targeted policy of direct referrals of job-seekers to vacancies, but also job-seekers are better able to respond to other forms of pressure to return to work.

Although underlying eligibility criteria in legislation are on average sufficiently strict, probably with room for some tightening in certain countries and areas and some relaxation in others, many countries could improve implementation by introducing a more precise legal framework for procedures such as individual action plans, reporting of independent job search and instructions from the PES, and by reforming institutional arrangements and responsibilities. Such reforms might help some more countries to embark on or prolong a virtuous circle of a trend decline in the aggregate unemployment rate accompanied by increasingly active interventions in individual spells of unemployment, such as a few OECD countries have already experienced during the 1990s.

NOTES

1. This chapter is a modified version of an article presented in September 1999 by David Grubb, OECD, to an OECD Workshop on Making Work Pay whose proceedings will appear in *OECD Economic Studies*, No. 31. Most of the information in Sections II and III and Annex 4.A has been supplied to the OECD Secretariat by countries participating in a thematic review of “Eligibility criteria for unemployment benefits and their impact on labour market outcomes”. Thanks are due to all people who contributed to the thematic review. Ann-Kristin Nilsen of the Norwegian Ministry of Administration and Labour, Department of Labour Market Policy assisted in the analysis of the information, and particular thanks are due to her and to the Ministry for financing this.
2. Layard (1988) claimed “the correlation of unemployment duration with unemployment benefits is predicted by almost every known model of unemployment”. Strictly speaking, unemployment benefits are predicted to increase unemployment as measured by the number of beneficiaries: to the extent that benefits discourage job search, they might reduce unemployment as measured by the standard international definition.
3. The case for excluding seasonal workers from unemployment benefit often involves considerations such as the insurance principle (foreseeable events should be excluded), need (seasonal workers may not need or merit extra help), the practical possibilities for documenting whether people are in the group or not and whether alternative work can be found for them during the slack season.
4. Unemployed people may respond to a behavioural requirement partly through substantive compliance (which increases the chance of finding work) and partly through dissimulation. Extreme behavioural requirements may have a negative impact on job-finding chances if, for example, there is a requirement for full-time participation in an active labour market programme which is inherently ineffective and reduces the time available for job search. In general models, unemployment depends upon the wage bargaining behaviour of employed workers as well as the search behaviour of the unemployed: as long as benefits provide effective insurance against unemployment, employed workers will show less restraint in wage bargaining.
5. UI legislation in Austria states that work is suitable only if it does not render a return to a person’s original occupation considerably more difficult and, in practice, occupational mobility is not usually required. However entitlements to UI here are relatively short (20 to 52 weeks), and no occupational protection applies to the unemployment assistance benefit. Protection in relation to the previous wage is less common: see note 25 concerning Ireland.
6. Under much benefit legislation, people could be required to work on a job creation programme in return for continuing payment of the equivalent of their unemployment benefit (plus, perhaps, a small supplement), and the equivalent hourly wage might work out below a national minimum or standard wage rate for the activity in question. In Denmark, the list of valid reasons for refusals applies to both regular jobs and offers of programme places during the first year, then during the “active period of benefit” a shorter list applies for programme places (see also Annex 4.A).
7. In Belgium, unemployment insurance payments are in some cases, after a period of around 5 years, stopped unless the person supplies evidence that they have made exceptional and continual job-search efforts. In Spain, although the regular UI benefit has no clear search requirement, long-term unemployed workers aged over 45 with family responsibilities can apply for an “active re-employment income”, which is conditional on active job search and agreeing to a personal re-employment plan, etc.
8. Continental European countries, other than the Netherlands and Switzerland, do not require frequent reporting of independent job-search. This is certainly related to a historical view of PES work in which all vacancies should be reported to the PES (many countries had, and some still do have, a legal requirement on employers to report all vacancies to the PES) and the PES should directly manage the allocation of them to the unemployed. The PES has often partly abandoned direct referral methods (*i.e.* it more often fills vacancies by advertising methods) but independent job-search requirements may still be seen as inappropriate for other reasons (*e.g.* they are regarded as oppressive and futile in situations where few vacancies are available and employers already have too many candidates).
9. In all countries examined here except Belgium, Japan, New Zealand and possibly France and Spain, behaviour or statements that deliberately discourage a potential employer can be assimilated to refusal of work and sanctioned even though no actual job offer has been made. In New Zealand, such behaviour is assimilated to an administrative infraction (which involves a smaller sanction).

10. Finn *et al.* (1998, pp. 28-31) report that many unemployed people in the United Kingdom do not know exactly what legislation requires of them, but are likely to co-operate with suggestions from PES staff because they fear that a sanction might otherwise be applied.
11. If the incidence of long-term unemployment (over 6 months and over 12 months) is modelled assuming one fixed hazard rate during the first six months and another thereafter, the expected further duration of unemployment is about 7 months at month zero and 14 months from month 6 onwards, for a country where the incidence of unemployment over 6 months is 50 per cent. Durations are typically somewhat lower in data for registered unemployment [OECD (1994a), Statistical Annex].
12. Some countries have sanctions for failure to report income (undeclared working), which not surprisingly are more severe than sanctions for refusal of work. But other countries appear to deal with this infraction by requiring repayment of benefits received incorrectly and also prosecuting the person when significant amounts of money are involved.
13. Clearly many benefit stops on general eligibility grounds, *e.g.* when the person becomes entitled to a disability benefit, enters employment, or simply ceases to report for unknown reasons, cannot be assimilated to sanctions.
14. In Japan, the period of sanction following a voluntary quit runs from the time of the initial application for benefit, so people who have quit work have an incentive to apply immediately despite the sanction. In New Zealand, the sanction period runs from the time of the quit irrespective of when the benefit application is made, so people who are certain that they will be sanctioned have no incentive to apply (until the end of the sanction period) and administrative statistics understate the effective number of sanctions.
15. Even though self-service is the main job-broking technique used by the PES in the United Kingdom and the United States, specialised literature also describes “case management” procedures in these countries. Their experience may indicate that a targeted use of direct referrals for a relatively limited proportion of job-seekers and vacancies can verify eligibility as effectively as a more generalised use of direct referral techniques. In the United Kingdom, two programmes involving up to six or seven (usually fortnightly) interviews with the long-term unemployed each had about 200 000 participants in a recent year [Finn *et al.* (1998), p. 82] and direct matches in this context could account for the reported number of sanctions for refusal of work.
16. Although appeal procedures are not described here, in some countries a large proportion of initial sanction decisions are appealed and are overturned or withdrawn at administrative discretion.
17. Norway has detailed guidelines describing circumstances under which the requirement for geographic mobility are relaxed (*e.g.* when the job-seeker has children of school age, who have already moved and changed school once). The existence of such guidelines tends to confirm that the general requirement for mobility is quite often applied. In some other countries, individual circumstances may be taken into account through jurisprudence, but rules developed this way may not take into account the needs of labour market policy.
18. Although sanction rates cannot always be a reliable guide to the extent of enforcement of an eligibility criterion, it does seem reasonable to interpret very low sanction rates (*e.g.* when less than one in a thousand referrals to jobs are followed by a sanction for refusal) as indicating a lack of enforcement. Increases in sanction rates over time in the Netherlands and the United Kingdom can be cited as evidence of a drive to improve enforcement. Nevertheless, in an international comparative context a 2 per cent sanction rate may enforce eligibility criteria more effectively than a 5 per cent rate: too many other things will not be equal.
19. In both Norway and Finland, the PES attempts to implement an “action plan” procedure and to monitor independent job search (*e.g.* encouraging the unemployed to keep a job-search booklet documenting the job applications they have made) without specific legislation to enforce these measures. This arrangement works reasonably well in Norway but less so in Finland. In Norway (where suitable work criteria are strict and direct referrals to vacancies are relatively frequent), the unemployed may perceive a greater incentive to co-operate with suggestions made by PES officers because the PES decides what kind of job offers will be made.
20. International variations in benefit coverage are driven by entitlement conditions more than by eligibility conditions (*e.g.* benefit coverage in the United States is low compared with European countries primarily because of the prior-work requirements and the six-month limit on benefit duration).
21. Reported regressions which explain unemployment across countries using multiple explanatory variables are usually the tip of a large iceberg of alternative specifications which were not followed up. Often the equation actually reported has an implausibly tight statistical fit, given the size of known errors in the input data and short- and medium-term fluctuations in unemployment rates. The real significance of such findings is not clear.
22. The basic eligibility requirements that the person must register for employment, be capable of work and available for work and accept suitable work, go back to the inception of unemployment benefit systems. OECD reviews of national manpower policies published between 1963 and 1977 report some detailed eligibility criteria which resemble those considered here: for example in Sweden a benefit sanction applied in the case where a person “without expressly refusing a job, has clearly acted in such a way as to prevent his employment” (OECD, 1963) and in Belgium “a job is deemed to be suitable if it corresponds to the normal job of the person concerned; where unemployment is prolonged, the requirement becomes less strict” (OECD, 1971). In some cases benefit sanctions were shorter than today, no doubt related to the fact that unemployment spells were shorter. Implementation may have varied more sharply through time than the basic criteria. In 1969, the *rappporteur*

of an OECD Working Party noted disapprovingly that “the employment office is sometimes regarded as an adjunct of the unemployment insurance system and as a legalistic institution when it becomes excessively involved in matters turning on statutory requirements such as eligibility for benefits, disqualifications for benefits, and tests of ‘suitable employment’”, and claimed that past experience had shown the use of compulsory powers “sets in motion counter actions which vitiate its efforts and are self defeating” [Levine (1969)]. Some other OECD publications from this period reflect this view. A detailed study and manual for the employment service issued by the ILO stated that the employment counsellor should never refer jobseekers to less qualified jobs [Ricca (1982), p. 140]. In general terms, the attention given to enforcement of eligibility criteria probably declined in the 1970s and 1980s and increased again in the 1990s.

23. The UK government elected in 1997 eased the implementation of benefit sanctions, but through the New Deal it made entry into longer-term work, training or related measures compulsory for all unemployed beyond a certain duration of unemployment.
24. MoF (1998) scores both Denmark and the United Kingdom below the OECD average in terms of the overall strictness of benefit eligibility criteria, a measure that includes the duration of benefit sanctions. It scores the Netherlands relatively high due mainly to its new sanction regime for UI (although many unemployed here receive assistance benefits, for which the sanction regime is much milder).
25. In Ireland, by late 1996, although unemployment as measured by the labour force survey had already fallen sharply from its peak, the total number of benefit claims had fallen hardly at all. Investigation of this paradox eventually led to an anti-fraud drive. At the same time, Ireland began to require some groups of unemployment beneficiaries to register with employment offices [OECD (1998), pp. 135-147]. In April 1997 existing administrative guidelines on availability were published for the first time, and in June 1998 legislation was extensively amended through new Regulations on Availability and Genuinely Seeking Work (S.I. No. 137 of 1998). These dropped earlier clauses allowing refusal of work at a rate of remuneration lower than habitually obtained [as reported in MoF (1998)] and specified, for example, that jobseekers must in the current economic climate be prepared to change occupation after 3 months of unemployment, and must show that they have taken reasonable steps to secure employment (website www.cidb.ie, items under Social welfare/Unemployment Assistance/General). In late 1998, under Ireland’s Employment Action Plan young people were required, after six months of unemployment, to take up a job or training or risk loss of benefit (website www.cidb.ie, items under Mediascan). Despite moves in this direction, the regular checking of eligibility criteria remains less vigorous than in, for example, the United Kingdom.
26. Tight benefit eligibility criteria and implementation of them might help explain why Norway has kept unemployment low in the 1990s while Sweden and Finland succumbed to adverse shocks. Although Norway and Sweden have similarly strict suitable work requirements, they have different institutional arrangements. A recent report by Sweden’s National Audit Office (RRV, 1999) concludes that institutional arrangements are a fundamental obstacle to the development of effective control mechanisms for unemployment insurance and leave room for wide fluctuations in the interpretation and application of suitable work criteria, and that the application of suitable work criteria should be overhauled as an urgent matter of national significance. In Finland, eligibility criteria are not so strict in certain respects (*e.g.* requirements for geographic and occupational mobility) and some general concerns about their effectiveness have been expressed [*e.g.* the central duties of the job-seeker arising from unemployment security “do not require him to show initiative or activity in job-seeking” and are “more appropriate for managing short-time and temporary unemployment rather than employment situation our country has today”, according to Räsänen and Skog (1998), p. 150].
27. In Spain, the benefit and placement functions were for many years institutionally integrated, but responsibility for the placement but not the benefit function is currently being decentralised to regional governments.
28. Three bodies, each with specific responsibilities, are involved in the verification of eligibility conditions in France: the benefit administration ASSEDIC; the placement service ANPE; and the state SCORE. In addition to the checks initiated directly by SCORE, ASSEDIC and ANPE notify SCORE if their own checks suggest doubts about eligibility for benefit, notably the reality of job search.
29. The behaviour of programme providers may help explain the common tendency for eligibility requirements to tighten when labour market conditions improve. As the number of voluntary participants in programmes falls, providers have to take on more difficult clients and drop any opposition to compulsory referrals if they are to stay in business.
30. An employment services market which is competitive in the sense that the unemployed can select among providers, and funding follows them, has different implications from one where the PES selects among providers. In Switzerland, the unemployed can choose among UI funds and competition for business among the private sector funds may be leading them to impose fewer benefit sanctions than the public sector funds [OFDE (1999b)].

Annex 4.A

Some International Differences in Eligibility Criteria for Unemployment Benefits

Information in this annex refers to thirteen countries: Australia, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Japan, New Zealand, Norway, Spain, Switzerland and the United Kingdom. Some errors may remain in the descriptions, particularly errors of omission (*i.e.* the cases cited may not represent a comprehensive listing of all that could be cited). The information is based on legislation and other material, in many cases as supplied for the OECD thematic review of labour market behavioural criteria for unemployment benefits.

Loss of work and its timing

Seasonal and intermittent work

Finland, and probably some other countries, pay benefits to seasonal workers without reservations. However, the authorities in many other countries appear reluctant to do this. In Denmark and France, seasonal workers may be entirely disqualified from benefit during the slack period. In Australia and Switzerland, an extended waiting period may be applied. However, no country has found a very satisfactory operational definition of seasonal work or intermittent work. Switzerland includes in the concept of self-inflicted unemployment the leaving of a job that is likely to be long-term in order to take another which the person knows, or ought to know, is likely to be short-term. Guidelines in the United Kingdom are similar.

Part-time work

In some cases, unemployment benefits are payable during short-time work (when the employment contract has not been broken, but hours of work have been reduced). Benefits are payable only if weekly working hours are reduced by at least 7.4 hours in Denmark, at least 25 per cent in Finland and at least 40 per cent in Norway. Wholly unemployed people who take part-time work can often retain beneficiary status (subject to the impact of earnings on the amount of benefit payable), but in Germany only if the work is for less than 15 hours per week and New Zealand only if it is for less than 30 hours per week.

Self-employment, unpaid family work and household production

Most countries have strict requirements for proof that a self-employment activity has terminated, or apply an additional waiting period before unemployment benefit is payable. A few

countries have strict or detailed legislation about family work, unpaid work and household production: Belgium specifies several general conditions which imply that, for example, work on renovating a property with a view to selling it is incompatible with the receipt of benefits; in France, there are specific limits on the amount of agricultural land that an unemployed person can cultivate; and in Spain, benefit is incompatible with any form of self-employment (except under official schemes promoting co-operatives and business start-ups). Most countries have no such formal restrictions on the amount of household production for personal consumption during unemployment, and in the United Kingdom work on a community self-build housing project has been ruled to be compatible with the receipt of benefits.

Voluntary quits

Insofar as statistics are available, in the 13 countries considered here (in contrast to Canada and the United States) benefit sanctions following dismissal for misconduct at work are relatively rare and quit is the main form of voluntary unemployment. All countries recognise that serious misbehaviour by the employer can justify a quit. In Spain, jobs quits for any personal reason lead to loss of the entire benefit entitlement and in Japan, the only personal reason that can justify quit from a job is a decline of physical ability to do the work. But most other countries recognise a number of personal reasons why a quit which appears to be voluntary from the point of view of the employer may be involuntary from the point of view of the individual.

Suitable-work-type criteria often justify quits (*e.g.* if a change in transport facilities has made the journey to work unacceptably long, if the person has a health problem leaving them unable to continue in the current job or if the person needs to change jobs in order to permit care for relatives). Criteria for quitting are sometimes stricter than the criteria for accepting suitable work (*e.g.* voluntary quit from a job paid on commission or involving lengthy transport to work may be sanctioned even though the person in question could not be required to take such a job starting from an unemployed status).

Quit when moving home with a spouse who is taking up work in a different area is generally not sanctioned. Norway is an exception (*i.e.* an extended waiting period would normally be applied in this case), and in the United Kingdom claimants must show they have done everything reasonably possible to find employment which they will be able to start immediately in the new area.

Quit during a trial period. Voluntary quit provisions may dissuade people from taking up a new job because it may turn out to be unexpectedly unpleasant or impractical and yet the person will be sanctioned if they leave it. In France and the United Kingdom, benefit sanctions are automatically inapplicable in certain pre-defined cases of quits during the early months of a new job.

Availability for work

Delay before taking up work and hours available for work are tightly defined in some countries. A requirement that the unemployed must be available to start work within 24 hours and be willing to accept shift work, for example, allows the PES to guarantee (to employers) the speed of referrals and the filling of shift-work vacancies. As a general rule, the United Kingdom requires the unemployed to be able to start work immediately, but in France the unemployed can be absent from their usual residence for up to a week without informing the PES.

Family responsibilities and voluntary work may be associated with limited availability for work, or lead to a suspicion that the person does not really want market work (*i.e.* prefers to continue combining voluntary work or child care with an income from unemployment benefit). In most countries, permissible hours of voluntary work are restricted in some way, independently of any direct evidence that they reduce availability for market work. Many countries vary availability requirements in some way in the presence of child care constraints, but there is little consistency across countries. Some countries shift mothers onto a different benefit or a variant form of unemployment benefit. Thus, in Denmark and Japan people who have been in part-time work have different benefit entitlements with the availability requirement also limited to part-time work. Belgium has created a separate benefit (not requiring availability for work, with claim duration limited to five years) for people with family responsibilities, at a slightly lower benefit level. Where regular unemployment benefit is still received, availability requirements may be relaxed. People with childcare responsibilities in the United Kingdom, and sole parents or partners of beneficiaries with the oldest child aged 6 to 13 in New Zealand, can restrict their availability to part-time work. In several countries, the allowable delay before taking up work is increased for people who will need to find alternative child care. At the same time, in Australia the PES interprets receipt of a parenting allowance by the job-seeker's partner (the usual situation for an unemployed couple with young children) as a risk factor that may require increased surveillance of job search.

Suitable work

“Suitable work” here means work that a person cannot refuse without risking a benefit sanction. Many issues arise in defining it.

Working conditions and type of work

In Finland and Norway, the unemployed must generally accept shift work and night work, whereas in Belgium night work is not generally considered suitable and in New Zealand a job

which requires a person to work on a Saturday or Sunday when the person has other commitments on those days may be considered unsuitable. Several countries allow people with availability restrictions (child care constraints, disability) to restrict search to jobs with a suitable schedule, and in the United Kingdom all unemployed can specify such a restriction, provided that a sufficient number of jobs will still be available after this restriction. All countries consider casual or temporary work to be suitable, although some have only recently legislated to make this explicit, sometimes also with an explicit exception for the case where the temporary job would interfere with an offer of a permanent job to start later. Most countries consider part-time work suitable as long as net income (including partial unemployment benefit) is not reduced by entering work, but in the United Kingdom the unemployed can reject jobs of less than 24 hours per week. In France, apprentice contracts are considered suitable work, though they may pay below the minimum wage. Some countries specify that work paid only on commission is not suitable. Only Australia (in the context of its action plan, the Newstart Activity Agreement) and Norway have an explicit basis for disqualifying a person who insists upon seeking dependent employment when he or she could make a living through self-employment.

Travel to work time and cost, and geographic mobility

In standard cases, work involving up to two hours per day of travel-to-work time is considered suitable in the United Kingdom, up to three hours in Australia, Germany and Denmark (first three months of unemployment), and up to four hours per day in Belgium, Denmark (after three months of unemployment) and Switzerland. Several countries cite no specific figure. In Norway, the unemployed are generally required to accept work anywhere in the country, so the question of excessive travel-to-work time does not arise. In France, Japan and Germany, relocation can be refused if family life would be unduly disturbed. In Japan it can be refused if the company provides no facilities or company housing and in Spain, if no suitable accommodation can be found. In Australia and the United Kingdom, a placement involving relocation can be considered suitable if there is little prospect of finding a job without relocation (although in neither country are the guidelines on this point very clear). In Finland, such a placement can be suitable only if the vacancy in question cannot be filled locally. New Zealand never requires relocation. However in several other countries legislation never mentions geographic relocation, and the limits on reasonable travel-to-work time presumably take precedence.

Occupational and wage protection

In France, work incompatible with the beneficiary's work specialisation or previous training is never considered suitable, although this is interpreted with some flexibility and work with wages 20 to 30 per cent lower than the previous job may be considered suitable. Work outside the usual occupation is not considered suitable during the first three months of unemployment in Denmark, Finland and the United Kingdom, and during the first six months in Belgium. In Australia, Germany, Norway and Spain, work in a different occupation is considered suitable from

the first day of unemployment. Wage protection (except in the sense that the work must be paid according to collectively bargained rates) is relatively unusual although Germany and the United Kingdom allow some wage protection for 6 months (in Germany, work paying more than 20 per cent below previous earnings during the first three months and more than 30 per cent below during the next three months is not suitable).

Conscientious and religious objections

Australia, Belgium, New Zealand and the United Kingdom state clearly that work inconsistent with sincere and genuinely-held moral or religious convictions (*e.g.* work on Sundays, arms production, etc.) is not suitable. Finland and Norway state that religious and ethical convictions are not generally grounds for refusing suitable work, and in many other countries' legislation, the person has no legal grounds for refusal because legislation never mentions the issue. Administrators tend to assert, however, that, in practice, appropriate discretion is exerted.

Labour market programmes

In most countries, general legislation requires unemployed people to accept placements into any kind of official or approved labour market programme. In the United Kingdom, the requirement applies only to a specific list of official programmes. In some countries, it is not clear that the unemployed person could object to the "suitability" of the LMP placement, but, in others, programmes must meet "suitability" criteria similar to those applying for a job placement although occasionally some particular objections (*e.g.* on the basis of travel-to-work time, during the "active period of benefit" in Denmark) are disallowed or different objections (*e.g.* that a vocational training course will not improve employment prospects) are admissible. In Belgium, France, and Japan, general legislation mentions only vocational training programmes, but subsidised work programmes in Belgium and France are designed to conform with "suitable work" criteria, so that participation can still be imposed. Belgium also has specific legislation for its Agence Locale pour l'Emploi work programme. Programmes may, of course, be filled entirely by advertising-type methods even when there exists a legal basis for making participation obligatory: as in other areas, legislation is not a reliable guide to practice.

Independent job search

General legal obligation and specific reporting requirements

Countries can be divided into those where independent job search is not normally required at all (*e.g.* Belgium, the Czech Republic and Spain, although see endnote 7), those where independent job search is required in principle but there is no requirement for recording or reporting it frequently or by a particular method (*e.g.* Denmark, Germany and Norway), and those with explicit guidelines about the reporting process (which includes France) and those which also specify a minimum acceptable frequency of job applications or other acts of job search (which

includes Australia, Switzerland and the United Kingdom). New Zealand has a general requirement which is enforced only where a reporting requirement has been included in an individual action plan. In Japan, primary legislation does not refer directly to job search, but job-search activities must be stated on four-weekly declaration forms as proof that the general "willingness to work" requirement has been fulfilled during the reference period.

Contacts with the Public Employment Service (other than in relation to job offers or job search)

Legislation generally requires as a condition for benefit that the person register with the placement service, sign on or otherwise confirm the continuation of unemployment at specific intervals and in a specific way, and participate in assessments and attend interviews and collective information sessions as instructed. More unusual provisions include a requirement that the person remain contactable *e.g.* by mail (this is implicit everywhere, but often not explicit), a requirement that the claimant should formally acknowledge his or her duties as a benefit recipient (*e.g.* sign a document that lists the obligations), and the United Kingdom's specific requirement for compliance with (reasonable) written instructions from PES officers (the Job-seeker's Direction: *e.g.* if lack of a current driving licence is a barrier to placement the instruction issued might be "renew your driving licence").

Individual action plans

An individual action plan is a document negotiated between the unemployed person and a PES officer, signed by the unemployed person, describing actions to be undertaken by both parties. Australia, Belgium, Denmark, Finland, New Zealand, Norway and the United Kingdom use some such procedure. In Finland and Norway, the action plan procedure is not explicitly mentioned in benefit legislation (in Finland it is mentioned in labour market policy legislation) and failure to co-operate could only be sanctioned under some very generally-worded provisions (in Finland, a requirement for co-operation with measures intended to promote the chance of finding employment). In the other countries, the obligation to co-operate with the procedure and carry out the actions entered into the plan are explicit. However in Belgium, Finland and Norway, there is no legal basis for the PES to insist upon including, in the plan, actions that are not required under general benefit legislation. Legislation in Australia lists some additional requirements that can be included. Legislation in the United Kingdom allows the PES to include any "reasonable" action in the plan, subject to appeal.

The New Zealand *Job-seeker Contract* at initial registration often covers only general recognition of rights and duties. The UK *Jobseeker's Agreement* at initial registration defines not only actions to be undertaken but also availability for work (*i.e.* restrictions that the person wishes to place on working hours, occupation, pay, etc. must be stated and included, subject to negotiation, in the Agreement if they are to be valid). In other cases, the action plan is established only after some months of unemployment.

Variation of requirements

Older workers

Older workers can get benefit without being available for work as from the age of 50 in Belgium (if they are unemployed for 12 months), and from age 55 in France (if they are on the lowest level of benefit, otherwise 57^{1/2}), 57 (usually) in Finland, 58 in Germany, and 60 in the United Kingdom (transfer to Income Support) and Australia (if unemployed for at least nine months). In New Zealand, as from age of 55 (if unemployed for at least six months) “reasonable steps to secure employment” are still required in principle, but no specific requirements that could lead to sanctions are applied. Australia allows people aged over 50 to continue in voluntary work or in a part-time job paying at least 35 per cent of average male full-time weekly earnings without looking for any other work. Norway allows people aged over 60 to be available only for part-time work, and drops the geographical mobility requirement for them. By contrast, in Denmark unemployment benefit can be paid up to age 67 with no variation in principle of requirements for availability and suitable work (though many workers are able to transfer to an early retire-

ment benefit). In Japan, people who are dismissed upon a reaching company retirement age are allowed to delay their application for benefit for up to a year, without loss of total entitlement.

Youth

Many countries have labour market programmes targeted on youth. For youth aged under 25 and unemployed for more than six months, Denmark has removed the right to passive unemployment benefits and other countries have specific requirements for participation in programmes (*e.g.* Mutual Obligation in Australia, the New Deal in the United Kingdom). Finland has entirely removed the right to passive benefits for youth aged under 25 without a vocational qualification, subject to the person being offered a suitable programme place.

Pilot schemes

Benefit legislation in Switzerland and the United Kingdom explicitly allows pilot (*e.g.* local) variations in eligibility regulations to be implemented subject to certain constraints

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