

**EMPLOYMENT INSURANCE IN CANADA  
AND INTERNATIONAL COMPARISONS**

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## **EXECUTIVE SUMMARY**

This study examines Canada's EI program in an internationally comparative context and shows how it stands up when compared with other OECD countries. The study focuses on the program coverage, financing arrangement, eligibility criteria, waiting period, benefit duration, benefit level, and treatment of the unemployed who do not qualify for UI or exhaust their UI benefits after the statutory benefit period. The study highlights the similarities and differences of the Canadian EI program with those in other OECD countries.

As the legislative provisions relating to UI eligibility, benefit rates and benefit duration are substantially diverse in different countries and are subject to various terms and conditions, a simple comparison is difficult. The findings should, therefore, be interpreted in their proper context.

The Canadian EI system is more conservative than the UI system in other countries with respect to some provisions, but it is more generous with respect to others. The Canadian program shares some common features of the UI program in other countries. It is a temporary income support program with statutory and limited benefit duration, contributions are required to be made by both employees and employers, and the benefit level depends upon the wage rate, among other employment-related conditions.

But there are some notable differences. Canada is the only country where eligibility is determined by hours of work. Other countries link eligibility to worked days, weeks and months, or even the amount of paid contributions. This means that multiple job holders with several part-time jobs become more easily eligible for EI, and this is in sharp contrast with other countries.

Secondly, the Canadian EI system is a nationally run federal program, while in many other countries it is run as the state/provincial program (as in the US) with State-specific regulations. In several Scandinavian countries, it is not nationally uniform but is run by many private institutions or by unions in collaboration with the government.

Thirdly, although the Canadian government does not participate in EI financing, Canada is among countries with the smallest combined contribution rates, employers' and employees'.

Fourth, a two-week waiting period under the EI system in Canada is long relative to most other countries. Thus it is not very generous for workers with very short unemployment spells of two weeks or less.

Fifth, with maximum benefit duration of 11 months in Canada, it is longer than in the USA and UK but is substantially shorter than in several other countries. For instance, it is 4 years in Denmark, 18 months in Germany, and 24 months in Switzerland.

Sixth, the benefit level under the Canadian EI system is also much lower than in most other OECD countries. For instance, with 55 per cent of the reference wage in Canada as the benefit level, it is higher than in the US, but is substantially lower than 90 per cent in Denmark, 70 per cent in the Netherlands, and 80 per cent in Sweden.

Seventh, the EI system in Canada is less generous to the long-term unemployed. In several European countries such as France, Germany, Finland, and Sweden unemployment assistance (UA) is provided to those who exhaust their UI benefits.

Finally, eligibility criterion of employment from 420 to 700 hours in the past 52 weeks, depending upon the regional unemployment rate makes the Canadian EI system more favorable to seasonal workers than it is the case in other countries.

Although the UI program has several dimensions making a simple comparison rather difficult and often misleading without the proper context, it can be concluded that in general Canadian EI program is slightly less generous than those in most Scandinavian countries but is more generous than those in the USA and UK.

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## **I. INTRODUCTION**

The aim of this report is to compare the various unemployment insurance programs implemented in the countries of the Organisation for Economic Co-operation and Development (OECD) and to highlight the similarities and differences of these systems compared with the Canadian one. An accurate comparison necessarily takes into account the characteristics of other social safety net programs. Not only social assistance programs must be compared, but also elements that are beyond the scope of this report, including medical benefits, disability compensation, and the like. Moreover, the unemployment rate in a country influences the type of system it chooses and how generous it will be.

It is common in the OECD for countries to compensate the unemployed, although nations choose different avenues for doing this. Most countries have a benefit scheme that offers temporary compensation for lost earnings if claimants meet specific conditions. This mechanism is called unemployment insurance (UI). However, UI is only one part of a complex social safety net program. For example, even if UI is limited in duration in most countries, financial assistance exists for unemployed workers who have exhausted their UI entitlements, or for those who are not entitled to UI. Unemployment assistance (UA) may be paid to those unemployed people who do not qualify for UI. Such payments may also be conditioned on employment record and usually have a limited duration. Those who qualify for neither UI nor UA may receive social assistance (SA), whereby the government acts as a provider of last resort to secure a minimum standard of living. Table 1 shows the main elements of the tax and benefit systems for some OECD countries.

**Table 1: Main elements of the tax and benefit systems (Y = yes)**

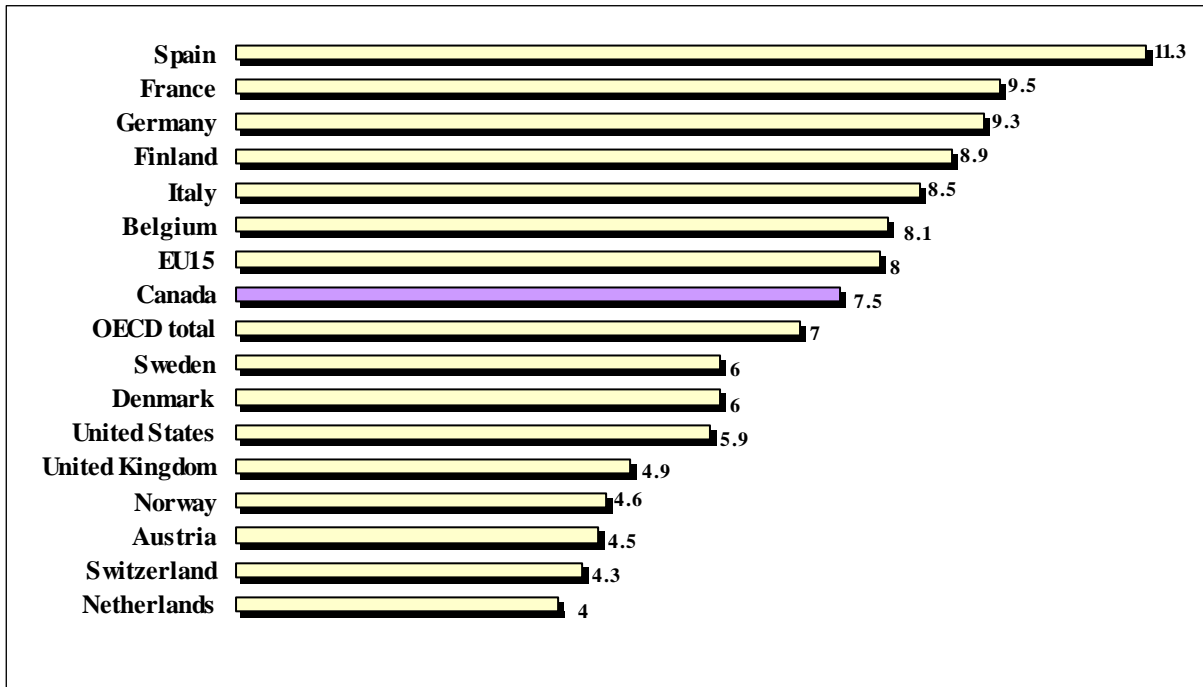
	UI Taxable	Unemployment assistance	Social assistance	Universal family benefits <sup>1</sup>	Means- tested family benefits <sup>2</sup>	Employment conditional benefits <sup>3</sup>	Childcare benefits
<b>Austria</b>		Y	Y	Y			
<b>Belgium</b>	Y		Y	Y			Y
<b>Canada</b>	Y		Y		Y	Y	Y
<b>Denmark</b>	Y		Y	Y			Y
<b>Finland</b>	Y	Y	Y	Y			Y
<b>France</b>	Y	Y	Y	Y			Y
<b>Germany</b>		Y	Y	Y			Y
<b>Italy</b>	Y		Y		Y		
<b>Netherlands</b>	Y	Y	Y	Y			Y
<b>Norway</b>	Y		Y	Y			Y
<b>Spain</b>	Y	Y	Y		Y		
<b>Sweden</b>	Y	Y	Y	Y			Y
<b>Switzerland</b>	Y		Y	Y			
<b>United Kingdom</b>	Y	Y	Y	Y		Y	Y
<b>United States</b>	Y		Y		Y	Y	Y

Source: OECD (2002)

Notes:

1. The amount paid per child does not vary according to the income of the household.
2. The amount paid per child varies according to the income of the household.
3. Benefits are paid to an unemployed person who becomes employed full- or part-time. These may take the form of tax credits.

**Figure 1: Standardised unemployment rates – January 2004**  
(Percent, seasonality adjusted)



Source: OECD (2004)

Our comparison of international UI systems takes into account the differences between countries in terms of social programs and economic context. These elements are very important; over time, each system has undergone successive reforms to adapt to the evolution of the economic and social environment. For example, the Canadian scheme underwent major overhauls in 1971 and 1996. In 1971, the UI system became universal and included maternity, sickness, and retirement benefits. Between 1975 and 1994, eight acts revised the UI system. Entrance requirements were raised, and benefit levels were restrained. In 1996, the name of the program became employment insurance (EI), and other changes included a decrease in the benefit ratios<sup>5</sup> resulting from an “intensity rule” that reduced benefits for repeat claimants. In 2001, this rule was abandoned, and the benefit ratios reached the same level as before the 1996 reform.

Almost all of the OECD countries have undergone major reforms over recent decades to adapt to the evolution of unemployment. In Europe, the UI systems were introduced in the early



1970s, when unemployment was low. These systems were created to respond to frictional unemployment, but they ultimately had to face mass unemployment. As financing problems for the unemployment compensations began to appear, and as some economists underlined the potentially negative effects of very generous systems, the eligibility criteria became stricter.

Recently, the UI systems experienced another kind of evolution. More and more UI systems place greater emphasis on job-skills training, job-search help, and similar measures. Different social goals underlie the UI systems in the OECD countries. A UI system can be considered as a *passive* labour policy, that is, one with an exclusive goal of compensating wage loss; or it can be part of *active* labour policies, those that focus on labour market training, reintegration, youth measures, active job search, support of work/life balance, and the like. Therefore, we analyse here the measures regulating unemployment compensation (called passive policies) and the measures involving training programs and social aspects (called active policies) that are specific to the Canadian EI. We will also compare similar policies in other countries.

Comparisons of the Canadian system with other OECD countries make up the bulk of the content of this paper. These comparisons will be made along more than a dozen dimensions. However, it should be pointed out that the list of OECD countries will not necessarily be complete or consistent from one list to another. These comparisons are also generally qualitative in nature as many of the concepts cannot be aggregated quantitatively in a rigorous consistent manner. The sources of information are contained in documents listed at the back of this report. No original data collection was done for this project. In many cases, the sources are not cited as the text would become too burdensome.

Precisely, this report first describes the UI systems across the OECD countries and compares them with the Canadian one in terms of key concepts, such as budgeting and financing, eligibility criteria, benefits level and duration, and replacement rates. Second, we analyse the impact of the UI system in the framework of passive and active policies. Then, through a literature review, our report questions the efficacy of sanctions and the use of experience rating at the employer and individual levels. Then we describe some active policies and the

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<sup>5</sup> The benefit ratio is the ratio of the payments from the employment insurance program over the gross salary

results of their implementation. The focus is on EI regular benefits – thus the sickness and maternity provisions, for example, have not been dealt with.

## **II. GENERAL CHARACTERISTICS OF THE INTERNATIONAL UI SYSTEMS**

In the OECD countries, UI systems are based on the International Labour Organisation (ILO) definition of unemployment: unemployed people are those who are out of work, want a job, have actively sought work in the previous four weeks, and are available to start work; or people who are out of work and have accepted a job that they are waiting to start. This definition gives a general framework for UI mechanisms, but each country determines its own benefit rules. The following sections contrast practices among some OECD countries in terms of budgeting and financing of the systems, eligibility criteria, entitlement periods, and benefits levels and duration.

### **A. Budgeting and financing of the UI systems**

Administration of UI varies considerably across countries. In Canada, the EI system has been regulated by the Employment Insurance Act since 1996. Although the Canada Employment Insurance Commission is responsible for some activities of administering the act and regulations, the EI system is primarily administered and delivered by Human Resources and Skills Development Canada (HRSDC) staff.

In most countries, UI is regulated by law and is mandatory for workers to contribute. The exceptions are Denmark, Finland, and Sweden,<sup>6</sup> where UI is not nationally uniform but is run by many private insurance institutions or by unions, on a voluntary or commercial basis. But, in fact, in these countries, almost 90% of workers decide to protect themselves from unemployment.

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used to calculate them.

<sup>6</sup> In Finland and Sweden, employees are covered by an obligatory minimum insurance. The choice of additional coverage, as a supplement to minimum insurance, is voluntary.

In Canada as well as in the United Kingdom and the United States, the EI systems are essentially managed by the state, even if the management is sometimes shared with unions and employers, as in France. In Belgium, Germany, and Spain, UI is managed by a board of directors that represents employers, workers, and government. In Italy, the Netherlands, and Switzerland, the state manages the system, but employers and unions have a consulting role.

The methods used to finance UI are usually the same as those for other branches of social insurance: contributions amounting to a fixed percentage of covered wages are paid on a scheduled basis. In Canada, Part III of the Employment Insurance Act says that for the year 2004, workers' contributions are 1.98% of their insurable earnings up to a \$39 000 threshold,<sup>7</sup> and employers' premiums are equal to 1.4 times the employees' premiums; i.e. 2.77% of the wage up to a maximum of \$1 080 per week. Finland, France, Germany, the Netherlands, Norway, Spain, and Switzerland use similar financing mechanisms, with employers' and workers' contributions specifically dedicated to UI. But in contrast to Canada, these governments also grant subsidies that may be quite large.

The ways in which the burden of contributions is divided between employers and employees vary greatly among these countries. For example, in Germany and Switzerland, the employers' and workers' UI contributions are the same, whereas in Canada, Finland, France, Norway, and Spain, employers provide a larger share (see Table 2). Interestingly, although the Canadian government doesn't participate in EI financing, Canada is among the countries with the smallest combined rates (employers + employees) of contributions. Moreover, in Canada, EI contributions are the same for all provinces and industries, whereas in other countries, they depend on sectors (Italy, the Netherlands, and Norway), company size (Italy), type of contracts (Spain), geographical regions (Norway and the United States), wage levels (Finland, Norway, and Switzerland), or a worker's age (Norway).

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<sup>7</sup> The maximum premium is also \$772 per worker.

**Table 2: The contributions of workers and employers to UI systems**

	<b>Workers' contributions (as a % of wages)</b>	<b>Employers' contributions (as a % of wages)</b>	<b>Other source of funds</b>
<b>Global management practice of social security (including EI and EA and all other social programs)</b>			
<b>Belgium</b>	13.07	24.87	State subsidies; Alternative financing through a Value Added Tax for example
<b>Portugal</b>	11.0	23.75	
<b>United Kingdom</b>	11.0	12.8	
<b>Specific financing for unemployment</b>			
<b>Canada</b>	1.98	2.77	
<b>Finland</b>	0.25	0.6% on first €840 940 of payroll, 2.45% on exceeding amount	
<b>France</b>	2.4	4.0	
<b>Germany</b>	3.25	3.25	State subsidies for any deficit
<b>Italy</b> 1. Industry (> 50 employees) 2. Industry (< 50 employees) 3. Commerce 4. Construction	0.30  0.30	4.41 4.11 2.21 2.71	
<b>Netherlands</b> 1. General unemployment fund 2. Social security agency's redundancy payment fund	5.80	1.55 1.30 (average for companies)	
<b>Norway</b>	7.8 in general Lower rates for employees 62 and older	14.1 in general Lower rates for certain branches and regions Higher rates for very high wages	State subsidies
<b>Spain</b>	1.55	6.0 Higher rates for temporary contracts	State subsidies
<b>Sweden</b>	0.0	3.70	State subsidies
<b>Switzerland</b>	1.00	1.00 (+1.00 for very high wages)	State subsidies
<b>United States</b>	None, except in Alaska, New Jersey, and Pennsylvania	From 0.0 to 10.0 according to states' and employers' records of employment stability (experience rating)	

Source: Compiled by the authors.

In some countries, the financing of the UI scheme deviates from the Canadian principle in the following ways:

*The entire contribution is made by the employer.* This is the case for Italy, Sweden, and the United States. In the United States, the amount of payroll taxes paid by employers on the employees' wages depends on the employers' records of employment stability, measured by benefit-cost<sup>8</sup> attributable to former employees. In this system, called experience rating, employers with favourable benefit-cost experience are assigned lower tax rates than those with less favourable experience. In some states, it is possible for an employer with a good experience rating to be assigned a tax rate as low as 0.5%, with the highest maximum rate at 10%. The experience rating mechanism will be described in the next section.

*A single contribution is paid to the social-insurance system as a whole. Funds for the UI scheme are subsumed.* This is the case in Belgium, Portugal, and the United Kingdom. In this system, it is difficult to provide a precise assessment of the proportion because the total contribution for the UI system varies from one year to another. It depends on the financing needs of the various social security branches.

There is no correlation between the combined contribution rate and the unemployment rate for any country. Obviously, UI systems are not described merely by their contribution rates. Other potential factors deserve attention. Their financial health is the first one. For example, even if Canada has low combined rates of contribution, the EI system produces a surplus. In 2002, the government of Canada received \$18.8 billion in EI premiums from employers and workers and paid out \$14.3 billion in EI benefits. Therefore, after taking into account all costs, the EI account showed an annual surplus of about \$3.5 billion.<sup>9</sup> By contrast, the French UI system had a deficit of \$7 billion<sup>10</sup> (4.3 billion Euros) in 2003 despite its higher contribution rate.

Table 3 presents the unemployment expenditure as a percentage of gross domestic product (GDP) for each country in 2001.

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<sup>8</sup> Benefit refers to the amount of unemployment insurance benefit payable to former employees, and cost is the amount of payroll tax paid by an employer.

<sup>9</sup> The source for these numbers is the actuarial service of the HRSDC

< <http://www.rhdcc.gc.ca/en/ei/images/pr2004.pdf> >

<sup>10</sup> These figures are provided by Unedic.

<<http://www.assedic.fr/unistatis/index.php?module=bdd&idSousMenuPrec=12228&idmenu=12324&idarticle=12270&menu=unistatis&idpere=&chemin=10491|12228|12270>>

**Table 3: Unemployment expenditure as a percentage of GDP, in 2001**

Canada	0.8
Belgium	2.2
Denmark	3.0
Finland	2.0
France	1.6
Germany	1.2
Italy	0.6
Netherlands	1.3
Norway	0.4
Portugal	0.9
Spain	1.3
Sweden	1.0
Switzerland	0.5
United Kingdom	0.3
United States	0.3

Source: OECD (2004), Social Expenditure Database (SOCX, [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure))

The administrative costs of UI systems vary across the countries. On average, unemployment expenditure equals 1.2% of GDP. The OECD addressed this issue in 2002. Using data regarding the total administrative costs for all social policies in given countries, the OECD study estimated the portion related to the unemployment policy only. It was not possible to distinguish the expenditures related to the administration of UI from those concerning the public employee placement agencies. The countries in which there are placing services generally integrate them in the administration costs of UI. It is thus difficult to break down the costs for the two functions. Table 4 shows the administrative costs of unemployment insurance systems as a ratio of total unemployment cash and in-kind benefits for the year 2000.

**Table 4: Administrative costs<sup>11</sup> of the unemployment insurance system as a ratio of total unemployment cash and in-kind, 2000**

Austria	9.3
Belgium	5.0
Denmark	8.2
Finland	3.8
France	7.0
Germany	11.3
Greece	9.3
Ireland	8.1
Netherlands	11.4
Spain	1.6
Sweden	2.8
Switzerland	17.7

Source: OECD (2002)

The average is 8%, but the variability across the countries is high (from 2% to 16%). The OECD study found most of the highest percentages in the countries in which public employee placement agencies were integrated into the UI system (as in Greece, Switzerland, Austria, and Germany). However, in France, Denmark, and Ireland, UI is alone responsible for a high proportion of administration costs. In France and Denmark, UI is administered by union and parity funds, while in Ireland the administrative costs also include the management of a social assistance allocation based on means tests, which can be more costly to administer. According to EI records, the administrative costs in Canada would be around 11% to 12%<sup>12</sup>. Comparison is difficult, though, because the data do not come from the same source.

Another factor concerns the way the contributions are spent both in terms of eligibility criteria and of benefit levels.

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<sup>11</sup> Administrative costs include all administration costs of labour market agencies (at central and decentralised levels), including unemployment benefit agencies (even if these are separate institutions) as well as administration costs of other labour market programs. It can also include (it is not uniform across all the countries) general counseling,

<sup>12</sup> Administrative costs of the unemployment insurance system as a ratio of total unemployment benefits.

***B. Eligibility criteria***

In General, eligibility conditions restrict unemployment benefits to those who:

- are “unemployed,” roughly in the sense of the International Labour Organisation (ILO) definition of unemployment; i.e. not only out of work, but also able to begin work at short notice and to undertake active steps to find work<sup>13</sup>
- meet administrative requirements, such as applying for the benefit with the necessary documentation and attending interviews with employment counsellors and applying for vacancies

Almost everywhere, to qualify, a worker must be involuntarily unemployed and have completed a minimum period of contributions or covered employment (qualifying period). All programs require the applicants to be capable and available for work and registered for work at an employment office. Nearly all systems disqualify a worker who has left voluntarily without a good cause or who was dismissed for misconduct. Moreover, an unemployed worker who refuses a suitable job without a just cause is usually suspended from the insurance program. Tables 5 and 6 summarise the eligibility criteria for UI benefits.

A detailed reading of benefit legislation reveals large cross-country variations in the qualifying periods before entitlement. In Canada, in the last 52 weeks before a person becomes unemployed, she must have worked between 420 and 700 hours, depending on the regional unemployment rate; e.g., 700 hours for unemployment rate between 0% and 6%, 560 hours for unemployment rate between 9.1% and 10%, 420 hours for an unemployment rate higher than 13%. Canada is the only country among those OECD countries studied in which the eligibility criteria depend on the number of worked hours. Other countries link eligibility to worked days, weeks, and months, or even the amount of paid contributions (as in Norway, the United Kingdom, and the United States).

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<sup>13</sup> In Canada, unemployed persons are those who were available for work and were either on temporary layoff, had looked for work in the past four weeks or had a job to start within the next four weeks.



It is reasonable to equate easy access to the UI system with the duration of the contribution/employment period, a shorter period corresponding to a less strict scheme. From this perspective, the Canadian EI system appears the least strict, with a maximum qualifying period of 700 hours, equivalent to 20 weeks of work. The strictest is the Portuguese one, at 18 months. If the qualifying periods are the same for two systems, we must compare the reference periods (the timeframe during which the worker has to work the number of hours required to qualify): they will be longer for a system with lower eligibility criteria. Thus, it is easier to qualify in the Spanish scheme than in the German or Swiss one, despite identical contributions/employment periods.

**Table 5: Qualifying periods of employment with contribution payments before entitlement**

<b>Canada</b>	From 420 to 700 hours in the past 52 weeks, depending on the regional unemployment rate
<b>Belgium</b>	312 days in 18 months, rising to 624 days in last 36 months (depends on age) None for worker younger than 30
<b>Denmark</b>	At least 52 weeks of employment with contribution payments during the last 3 years AND minimum contribution duration of 1 year in the respective unemployment insurance fund
<b>Finland</b>	43 weeks during the last 28 months. Each week during at least 18 hours for basic allowance <sup>14</sup> AND 10 months of contribution of unemployment insurance fund for earnings-related benefit
<b>France</b>	6 months in the last 22 months
<b>Germany</b>	12 months in the last 2 years
<b>Italy</b>	2 years of affiliation with an employer AND 52 weeks of contributions in the last 2 years <sup>15</sup>
<b>Netherlands</b>	26 weeks over the last 39 weeks Different requirements for seasonal workers Wages received over 52 days in 4 of 5 preceding calendar years for salary-related benefit
<b>Norway</b>	Have had an income from work of at least 1.5 times the basic amount <sup>16</sup> the preceding calendar year, or an income from work at least equal to the basic amount as an average during the 3 preceding calendar years
<b>Portugal</b>	18 months in the past 24 months
<b>Spain</b>	12 months during last 6 years
<b>Sweden</b>	Minimum of 6 months of employment for no less than 70 hours per month OR minimum of 6 months (minimum 450 hours) of employment, no fewer than 45 hours in each of the last 12 months
<b>Switzerland</b>	12 months in the past 2 years

<sup>14</sup> Renewed access to earnings-related unemployment benefit requires 34 weeks within 24 months and benefit fund membership within a period of two years.

<sup>15</sup> The affiliation condition is reduced for seasonal workers or workers on temporary contracts. A worker can receive reduced benefit if he has worked at least 78 days in the last year.

<sup>16</sup> The basic amount is NOK 56 861 (\$CAN 11 580).

<b>United Kingdom</b>	Paid contributions equal to £1975 (25 x £79) <sup>17</sup> in the last 2 fiscal years AND paid or credited contributions equal to 50 times the base year's lower earnings limit in each of the last 2 fiscal years <sup>18</sup>
<b>United States</b>	Regional requirements, but in most states: - 6 months in the past year - a certain wage must have been earned in each quarter over the last 52 weeks

Moreover, other things being equal, it is expected that the share of young people receiving unemployment benefits will be higher in Canada than in most other countries because of its shorter qualifying period. Indeed, if receipt of unemployment benefits requires a long previous employment history, relatively few young people will be entitled to receive unemployment benefits. On the other hand, relatively many young people will be entitled to receive unemployment benefits if the unemployment benefit requirements concerning previous employment are less restrictive. In Belgium, students are generally eligible without a work record.

The Canadian EI system is often cited as an important contributor to seasonal employment because the work requirements are shorter and the benefits periods longer in areas of high unemployment, which in effect provides a subsidy to seasonal workers. It is clear that an hour-based insurance system is more likely to favour the eligibility of “traditional” seasonal workers than a month-based one; i.e., those who worked many hours during constrained seasons or spells of employment, or worked in high unemployment regions. Evaluation of the impact of the transition from a week-based to an hour-based system of accounting for insured earnings in Canada in 1996 shows that, even if the reform applies to all workers, this reform has encouraged seasonal workers to work more hours, leading to more entitlements. An hour-based system seems to reduce the number of seasonal workers who experience periods when they are neither collecting UI nor receiving employment income [Friesen and Maki (1999), Green and Riddell (1999), and HRDC (2001)]. Nevertheless, some countries have specific requirements for seasonal workers. For example, the Netherlands and Italy have reduced affiliation conditions for seasonal workers. For that matter, in May 2004, HRSDC announced changes to EI to help seasonal workers. Among the new measures proposed, the extension of the “transitional EI boundary” measures in New Brunswick and Quebec would make it easier

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<sup>17</sup> £79 is the “base year's lower earnings limit”. This is the threshold of weekly insurable earnings.

for seasonal workers to receive benefits by allowing them to qualify for benefits with fewer hours of work.<sup>19</sup>

Whereas Canada and the United States<sup>20</sup> are the only countries with regionally variable entrance requirements, some OECD countries adapt their UI eligibility criteria to specific industries. These include the Canadian fishing industry, intermittent workers in cultural activities in France, and the construction and agricultural sectors in Italy. Such sectors are often characterised by higher amounts of part-time work and temporary and seasonal contracts.

In addition to a qualifying employment/contribution period, people must satisfy various other eligibility conditions to receive unemployment benefits. Table 4 compares the benefit sanctions countries impose for non-compliance with program requirements (such as voluntary quitting of jobs, dismissal for misconduct, and refusal of work). These sanctions are most often handled through fixed-duration benefit stops or reductions.

Canada and about half the countries studied in this report positively require the exclusion of a person who left her job without a good cause because voluntary quits are included under the general concept of “voluntary unemployment.” In Nordic countries, these infractions lead only to temporary sanctions (disqualification of five weeks in Denmark, three months in Finland, eight weeks in Norway, and 40 days in Sweden).

Dismissal for misconduct usually leads to a sanction of fixed duration rather than ineligibility for benefit. The exceptions are the Netherlands, where such a dismissal results in benefit exclusion and, at the other end of the spectrum, France, Sweden, and Portugal, where all dismissed workers satisfying required employment/contribution period receive benefits.

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<sup>18</sup> For a wage level between £75 and £89, workers don't pay any contributions: the contributions are “credited.”

<sup>19</sup> Another measure announced is a pilot project offering seasonal workers the possibility of receiving up to five more weeks of EI benefits to encourage them to find more work, and therefore reducing the income gap when EI runs out before the seasonal work begins again.

<sup>20</sup> In the United States, entrance requirements vary by states but not in a systematic way like the inverse of the unemployment rate. It is more a function of the states policies.

In all countries, legislation creates a general obligation to accept a “suitable” job offer. However, the wording of legislation and guidelines on their application are often vague or confusing. There are very sharp variations in the definitions and the duration of sanctions for refusal of suitable work. The Canadian Employment Insurance Act (Art. 27) says that

... a claimant is disqualified for receiving benefits if, without good cause since the interruption of earnings giving rise to the claim, the claimant has not applied for a suitable employment that is vacant or becoming vacant, or has failed to accept the employment after it has been offered to the claimant. [...] Employment is not suitable employment for a claimant if it is in the claimant’s usual occupation either at a lower rate of earnings or on conditions less favourable than those observed by agreement between employers and employees, or in the absence of any such agreement, than those recognised by good employers; or it is not in the claimant’s usual occupation and is either at a lower rate of earnings or on conditions less favourable than those that the claimant might reasonably expect to obtain, having regard to the conditions that the claimant usually obtained in the claimant’s usual occupation, or would have obtained if the claimant had continued to be so employed.

This definition is not really precise in terms of requirements. In some countries, legislation specifies more objective suitable work criteria [Grubb, 2000], such as:

*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. All countries consider casual or temporary work to be suitable, although some have legislated to make this explicit (France, Italy, and Germany).

*Travel-to-work time 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 Germany and Denmark (first three months of unemployment), and up to four hours per day in Belgium and Switzerland. In France and Portugal, relocation can be required unless family life would be unduly disturbed, and in Spain it can be required if suitable accommodation can be found. In several countries, Canada included, legislation never mentions geographic relocation, and the limits on reasonable travel-to-work time presumably take precedence.

*Occupation protection.* In France, Switzerland, Italy, and Portugal, work that does not resemble the beneficiary's work specialization or previous professional experience or training is never 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 six months in Belgium and the Netherlands. In Canada, Germany, and Norway, 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, wage protection is relatively unusual. In Belgium and Switzerland, the unemployed can refuse jobs with net wages (taking into account the transportation cost and other factors) that are less than received unemployment benefits. In Germany and Italy, wage protection is more prominent. In Italy, work paying 10% or more below previous earnings is deemed unsuitable. In Germany, work is considered unsuitable if it pays 20% or more below previous earnings during the first three months and more than 30% below during the next three months.

Whatever the restrictions are, it is not clear that the countries with the strictest suitable work criteria and the highest associated sanctions perform better. The duration of sanctions for a first refusal of suitable work ranges from one week of suspension of benefit in Denmark, two to three months in many countries, and to exclusion in Italy. Canada has a mild situation, with a disqualification of seven to 12 weeks for refusal of a suitable offer.

Finally, in most countries, the unemployed worker has the obligation to accept placements into official and approved labour-market programs. For example, in Belgium, Canada, and France, this obligation applies to training. However, in Canada, there are no explicit guidelines about the process by which unemployed workers seek work or about the minimum acceptable frequency of job applications. Conversely, unemployed workers must make one job application every week in the Netherlands and two or more in most American states. They must attend interviews with public employment services once a month in Switzerland and in

the Netherlands, twice a month in the United Kingdom and Belgium, and every six months in France.

**Table 6: Conditions required for unemployment benefits entitlement**

	Capable + Willing to Work	Registered at employment office	Disqualified if			Penalty		
			Leaving voluntarily without just cause	Dismissal for misconduct	Refusal of a suitable offer	Leaving voluntarily without just cause	Dismissal for misconduct	Refusal of a suitable offer
<b>Canada</b>	Yes		Yes	Yes	Yes	Exclusion	Disqualified for 7 to 12 weeks	Disqualified for 7 to 12 weeks
<b>Belgium</b>	Yes	Yes	Yes	Yes	Yes	Disqualified for 4 to 52 weeks	Disqualified for 4 to 26 weeks	Disqualified for 4 to 52 weeks
<b>Denmark</b>	Yes	Yes	Yes	Yes	Yes	Disqualified for 5 weeks	Disqualified for 5 weeks	Disqualified for 1 week; excluded after second refusal)
<b>Finland</b>	Yes	Yes	Yes	Yes	Yes	Disqualified for 3 months	Disqualified for 3 months	Disqualified for 2 months (only one month if job offered would have lasted for up to 5 days; exclusion for repeat refusal)
<b>France</b>	Yes	Yes	Yes	No	Yes	Disqualified for at least 4 months <sup>21</sup>	---	No precise rule (usually from temporary suspension of benefits to exclusion)
<b>Germany</b>	Yes	Yes	Yes	Yes	Yes	Disqualified until 12 months	From waiting period to permanent disqualification	Disqualified for at least 12 weeks
<b>Italy</b>	Yes	Yes	Yes	Yes	Yes	Exclusion	Disqualified for 30 days	Permanent disqualification (difficult to apply)

<sup>21</sup> The workers who left without just cause can receive benefits after five unemployed months if they show they have made great efforts to find a job.

<b>Netherlands</b>	Yes	Yes (before 2 days)	Yes <sup>22</sup>	Yes	Yes	Exclusion	Exclusion	Interrupt payment of benefits for the number of offered hours to work
<b>Norway</b>	Yes	Yes	Yes	Yes	Yes	Disqualified for 8 weeks	Disqualified for 8 weeks	Disqualified for 8 weeks (12 weeks or 26 weeks in the event of recurrence once or twice, respectively, within a 12-month period)
<b>Portugal</b>	Yes	Yes	Yes	No	Yes	Exclusion	---	No precise rules
<b>Spain</b>	Yes	Yes	Yes	Yes	Yes	Exclusion	Waiting period of 3 months	Disqualified for 3 months to exclusion for repeat refusals
<b>Sweden</b>	Yes	Yes	Yes	No	Yes	Disqualified for 40 days	---	Disqualified for 60 days (shorter if the job was planned to go on less than 10 days)
<b>Switzerland</b>	Yes	Yes (in the 3 first months)	Yes	Yes	Yes	Exclusion	Disqualified for 1 to 60 days, depending on the misconduct	Disqualified for 1 to 60 days
<b>United Kingdom</b>	Yes	Yes	Yes	Yes	Yes	Disqualified for 1 to 26 weeks	Disqualified for 1 to 26 weeks	Disqualification takes into account the expected duration of the refused job. Maximum disqualification of 26 weeks.
<b>United States</b>	Yes	Yes	Yes	Yes	Yes	Disqualification varies among states. May be for a specific period, for a variable period, or for the entire period of unemployment following the disqualifying act. In general, exclusion results when worker leaves voluntarily or is dismissed for misconduct.		

Source: Compiled by the authors.

<sup>22</sup> In the Netherlands, if the worker leaves voluntarily with a good cause, the application for benefits will be refused partially, on a temporary basis, and the benefit will be reduced by 70% to 35% for a period of 26 weeks.



***C. Waiting period and benefits duration***

Although Canada has relatively easy eligibility criteria for unemployment benefit entitlement, no benefits are paid for a transitional period of two weeks. This waiting period for benefits to begin is the longest of the countries studied. There is no such waiting period in Belgium, Denmark, Germany, the Netherlands, Portugal, or Spain. In the other countries, the waiting period is approximately one week (Table 7). In the United States, nearly all states require a waiting period of one week of total unemployment before the employment insurance benefits begin. Three states pay UI benefits retroactively for the waiting period if the unemployment lasts a certain period or if the employee returns to work within a specified period [Wu (2000)]. The general purpose of the waiting period is to reduce the administrative burden entailed in large numbers of small claims.

**Table 7: Waiting period before benefit payment**

<b>Canada</b>	2 weeks
<b>Belgium</b>	None
<b>Denmark</b>	None
<b>Finland</b>	7 working days
<b>France</b>	7 days
<b>Germany</b>	None
<b>Italy</b>	7 days
<b>Netherlands</b>	None
<b>Norway</b>	5 of the latest 10 days
<b>Portugal</b>	None
<b>Spain</b>	None
<b>Sweden</b>	5 days
<b>Switzerland</b>	5 days
<b>United Kingdom</b>	7 days
<b>United States</b>	None/one week

Therefore, the Canadian EI system is less generous for people with very short unemployment spells. Like strict eligibility criteria, a long waiting period reduces the number of unemployed people receiving EI benefits.

One other factor that can affect the percentage of unemployed people who can receive benefits is the benefits duration. Most countries place a limit on the period during which benefits can be continuously drawn. Some UI systems include identical benefit duration for all unemployed workers no matter how old they are or how long they have contributed. Other schemes allow the payment of benefits for a variable duration depending on the claimant's age, employment duration and/or the region in which the claimant lives (Table 8).

**Table 8: Unemployment benefit duration**

	Duration	Benefit duration depends on		
		Employment history	Age	Region
<b>Canada</b>	From 14 to 45 weeks (3 to 11 months)	Yes		Yes
<b>Belgium</b>	Unlimited or not greater than 1.5 times the average regional unemployment duration	Yes	Yes	Yes
<b>Denmark</b>	From 6 months to 4 years		Yes	
<b>Finland</b>	Uniformly, 500 days (around 16 months)			
<b>France</b>	From 7 to 42 months	Yes	Yes	
<b>Germany</b>	From 6 to 18 months	Yes	Yes	
<b>Italy</b>	From 6 to 9 months		Yes	
<b>Netherlands</b>	From 6 months to 5 years	Yes		
<b>Norway</b>	From 12 to 24 months	Yes	Yes	
<b>Portugal</b>	From 12 to 38 months		Yes	
<b>Spain</b>	From 4 to 24 months	Yes		
<b>Sweden</b>	From 300 to 450 days			
<b>Switzerland</b>	From 400 to 500 days (18.5 to 24 months)	Yes	Yes	
<b>United Kingdom</b>	Uniform, 182 days (6 months)			
<b>United States</b>	In general, up to 26 weeks (6 months)	Yes for some states		

Finland, the United Kingdom, and 12 American states have uniform durations of UI benefits for all unemployed workers. In Italy, there are only two possible benefit durations: six months for people under the age of 50, and nine months for people 50 and older.

In most countries, the duration of the employment insurance benefit varies according to formulae that relate potential duration to earlier income from work (as in the United States and Norway) or employment (as in Canada, Belgium, France, Germany, the Netherlands, Spain, and Switzerland). The payment of contributions or an employment period beyond the

minimum qualifying period prolongs the time during which a benefit can be received. Spain and the Netherlands use only employment duration as a criterion for determining benefit duration. However, this criterion is associated with regional unemployment rates in Canada and Belgium and with age in France, Germany, Norway, and Switzerland. For the Danish, Swedish, and Portuguese UI systems, age is the only criterion for benefit duration.

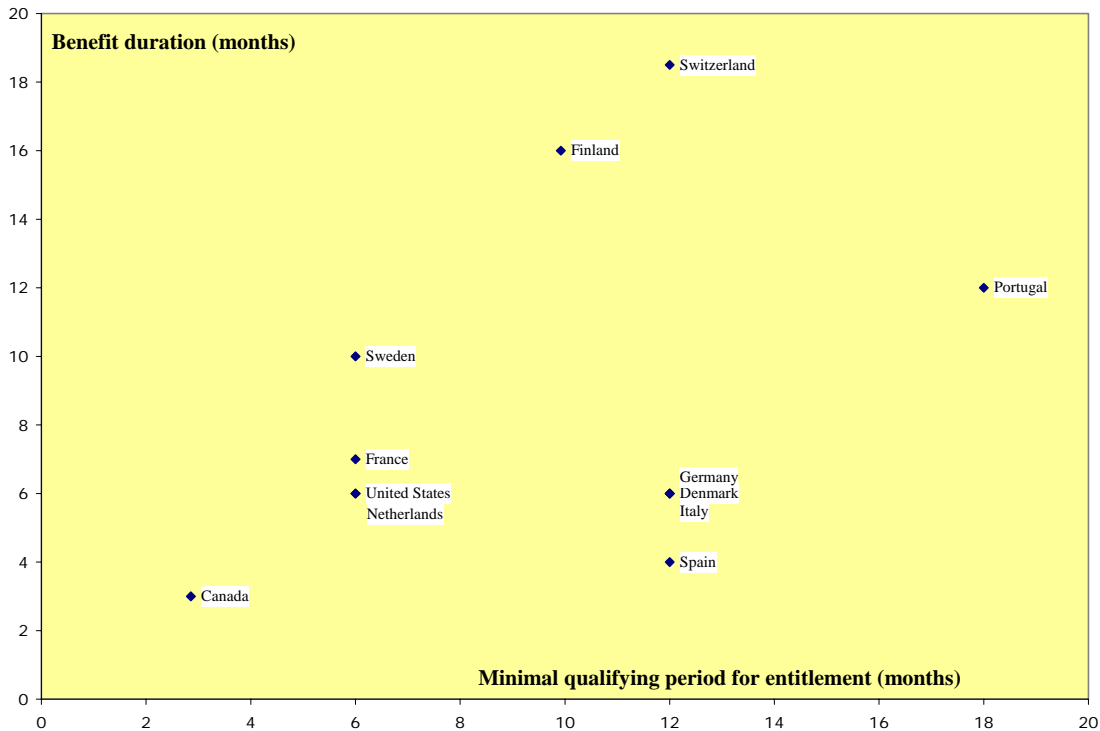
More precisely, in Canada, regular benefits can be paid for a minimum of 14 weeks to a maximum of 45 weeks, usually over a period of 52 weeks. The number of weeks for the entitlement to a benefit increases with the unemployment rate in each region and the amount of insurable hours accumulated. For instance, to receive benefits for 32 weeks, an unemployed person must have worked 1 680 hours in regions with 0% to 6% unemployment but only 420 hours in regions with unemployment rates over 16%. In Belgium, the benefit payment stops<sup>23</sup> when it reaches duration greater than 1.5 times the observed average regional unemployment duration, which is established by age category and gender. Therefore, women have longer benefit duration because of their higher unemployment rate; the difference between a man and a woman the same age and living in the same region can reach 52 months.

Figure 2 allows for a comparison of the benefit duration associated with a minimal qualifying period for entitlement among countries. The Canadian EI system has not only the least strict qualifying period, but also the shortest benefit duration. This figure appears to show a positive correlation between eligibility criteria and benefit duration: the longer the qualifying period of employment with contribution payment is, the longer the duration of the entitlement to a benefit is.

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<sup>23</sup> Except for workers 50 and older or workers with more than 20 worked years.

**Figure 2: Benefit duration for workers with minimal qualifying period for entitlement**



Source: Calculations of the authors

***D. Benefits level***

For comparison purposes, the most studied aspect of unemployment benefit systems is the level of benefits. The OECD has systematically collected data on the unemployment benefit replacement ratio for different types of family (single, with dependent spouse, with spouse at work, and so forth) in various duration categories and has derived a synthetic measure of the benefit replacement ratio (see OECD 1994, OECD 2002).

For a more precise view of the UI systems, we first focused on benefit levels and studied whether there is a strong correlation between the level of benefits and the strictness of the UI schemes. Unemployment benefits are almost always determined by the last income that was earned, although the basic rates of unemployment benefits vary considerably among countries (see Table 9). The United Kingdom is the only country with a fixed unemployment allowance, independent of earned income but related to the individual age. In the other

countries, monthly benefits are a percentage of the worker's past wages during a recent period.<sup>24</sup> However, the benefit rates differ within the countries, and several methods are used to determine the UI benefit amount. France, Finland, and Switzerland use a system of wage classes instead of a single fixed percentage as in Denmark, Italy, Portugal, Sweden, the Netherlands, and most American states. In Belgium and Spain, benefit rates have a regressive structure: benefits are generally cut by 10% after one year of unemployment compensation in Belgium and after six months in Spain. In Belgium, Canada, Finland, Germany, Spain, Switzerland, and the United States, people with dependents are paid a higher benefit rate.

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<sup>24</sup> To calculate the level of benefits, the countries use different periods of time during which wages must have been received for work done. For example, Canada uses the pay received over the last 26 weeks. Switzerland uses the pay received during the last month before the unemployment spell.

**Table 9: Unemployment benefit level**

Country	Basic rate of unemployment benefit (% of reference wage)	Minimum <u>monthly</u> unemployment insurance benefits (CA\$ <sup>25</sup> )	Maximum <u>monthly</u> unemployment insurance benefits (CA\$ <sup>26</sup> )	Unemployment benefit rate depends on		
				Wage levels	Dependants	Unemployment duration
<b>Canada</b>	55%	---	\$1 800	---	Yes	---
<b>Belgium</b>	From 40% to 60%	\$900, \$1 210, or \$1 440, depending on family status	\$1 540 or \$1 680, depending on family status	---	Yes	Yes
<b>Denmark</b>	90%	---	\$2 860	---	---	---
<b>Finland</b>	From 60 to 90%	---	---	Yes	Yes	---
<b>France</b>	From 57.4% to 75%	\$1 260 <sup>27</sup>	\$8 440	Yes	---	---
<b>Germany</b>	From 60% to 67%	---	Depending on tax income class: between \$1 940 and \$3 220 without children; between \$2 170 and \$3 590 with dependent children	---	Yes	---
<b>Italy</b>	40%	---	\$1 350 or \$1 620 if the reference wage is greater than \$2 920	---	---	---
<b>Netherlands</b>	Short-term benefit: 70% of minimum wage Salary-related benefit: 70% of one's last salary	---	\$8 530	---	---	---
<b>Norway</b>	62.4%	---	\$3 600	---	Yes <sup>28</sup>	---
<b>Portugal</b>	65%	\$610 (national minimum wage) <sup>29</sup>	\$1 830	---	---	---
<b>Spain</b>	From 60% to 70%	\$710 without children \$900 with children	\$1 530 without children \$1 750 with 1 child \$1 980 with 2 children or more	---	Yes	Yes
<b>Sweden</b>	80%	\$980	\$2 300	---	---	---
<b>Switzerland</b>	From 70% to 80%	---	\$7 610	Yes	Yes	---
<b>United Kingdom</b>	Uniform, depending on age	---	From \$350 to \$590, depending on age	---	---	---
<b>United States</b>	50% on average	From \$30 to \$510	From \$780 to \$2 300, varies by state	---	Yes	---

<sup>25</sup> For the sake of uniform presentation, we use the exchange rate observed on August 20, 2004, and the reported results are rounded numbers.

<sup>26</sup> For the sake of uniform presentation, we use the exchange rate observed on August 20, 2004, and the reported results are rounded numbers.

<sup>27</sup> Or 75% of the reference wage if its amount is less than CA\$1 260 (€753.12).

<sup>28</sup> A supplement of \$2 (NOK 17) per day is provided for each dependent child under the age of 18.

<sup>29</sup> Or the reference wage if this wage is less than the national minimum wage.

In the Canadian EI system, the benefit level is influenced by the local unemployment rate. The computation of gross benefit is based on a 55% replacement rate of average weekly earnings. Nevertheless, a claimant's average weekly earnings are calculated by taking the total earnings within the preceding 26-week period and dividing this amount by the number of weeks worked, or a "minimum divisor," whichever is higher. The minimum divisor ranges from 14 to 22 weeks, depending on the regional unemployment rate.

In general, an additional one-percentage point in the local unemployment rate increases the minimum divisor by one additional week. If the worker has worked less weeks than the divisor, the higher the unemployment rate is, the higher the individual benefit level is (all else being equal). The maximum weekly benefit rate is \$413 per week, based on the maximum weekly insurable earnings of \$750. If more weeks are worked, the benefit rate will be the same in either a low or a high unemployment rate region. Claimants from low-income families with children are eligible for the family supplement. Recipients can receive up to an 80% replacement rate depending on their family income and the number and ages of their children.

Therefore, to calculate the level of benefits, most countries use different periods of time during which earnings have been received for work done, but Canada combines it with a measure related to the unemployment rate. Canada has one of the most complex methods for benefit computation.

Differences in the benefit levels come, not only from the reference wage/period, but also from the replacement rate. Table 9 shows the basic rate of unemployment benefits ranges between 40% and 90% of reference earnings. With a 55% replacement rate, Canada is comparable to the United States.

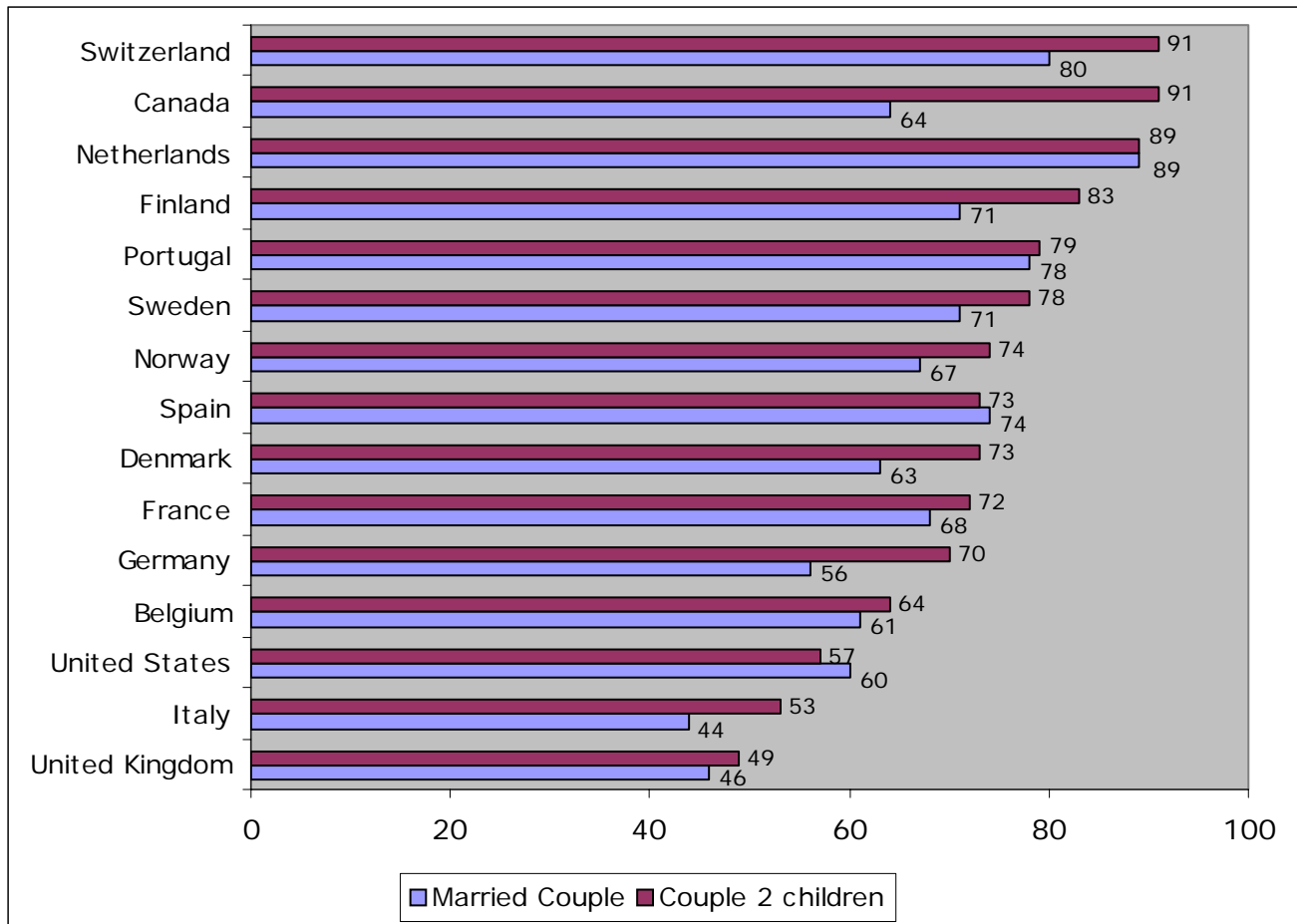
Moreover, a ceiling on the wages used for benefit computations or maximum benefit provisions may considerably narrow the range within which the basic percentage of wages applies. When we look at the maximum monthly UI benefits (Table 9, column 4), Canada's

program is among the least generous, with \$1 800, compared to around \$8 500 for France and the Netherlands.

However, taxation and social transfers affect the evaluation of the benefit level. Consequently, a precise comparison must take into account legislation related to these factors in the countries. The OECD calculated the net earnings replacement rates (OECD 2002) during the first month for a 40-year-old worker with the average earnings of the country and 22 years uninterrupted employment record (see Figure 3). Canada, at the bottom of the scale when one looks solely at the basic rate of unemployment benefit, moves to the top when the comparison is based on the net replacement rate after tax and some other benefits, and particularly in the case of couples with two children. Nevertheless, it is difficult to definitively characterise the generosity or strictness of the UI systems as a whole because the benefit levels, taxation, and social transfers can be in favour of some unemployed workers but against others.



**Figure 3: Net earnings replacement rate after tax and including unemployment benefits and family and housing benefits in the first month of the benefit receipt**



Source: OECD (2002), *Benefits and Wages OECD Indicators*, Paris, p.33.

Note: Childcare benefits are not included and no social assistance is assumed to be paid.

### Earnings Disregard

Another important factor that can affect the financial statement and the return to work of unemployed workers is the possibility, or not, of simultaneously earning unemployment benefits and labour incomes. In Canada, a person who qualifies for full unemployment benefits can receive a wage up to 25% of his benefit—or \$50 per week, whichever is higher—without a reduction of his benefit amount. Therefore, the Canadian EI system allows an unemployed worker to earn incomes from part-time or temporary jobs while receiving complete unemployment benefits. This is true in most other countries but with some

conditions entailing earned income, worked hours, and contract duration. For example, in Switzerland and Portugal, an unemployed worker can keep partial unemployment benefits if he gets a part-time job with a wage less than his benefits; in Finland, the period is shorter than two weeks; in France, less than 136 hours worked in a month; and in the United Kingdom, 16 weekly worked hours. Each of these countries has specific and more or less complex rules for the determination of adjusted unemployment allowance. Generally, benefits do not decline by the total amount of work incomes but only by a fraction of them. For example, in Denmark, the adjustment is carried out by deducting from the allowance 50% of the earned income within a period of a month. The period, in which it is possible to earn both work income and unemployment benefits, differs across countries.

***E. Unemployment assistance***

In contrast to Canada, in some OECD countries, unemployment insurance is not the only program designed to replace wage losses as a result of job loss. These countries provide unemployment assistance (UA) for unemployed workers who are not entitled to unemployment benefits because they have not fulfilled the qualifying period and/or who, although they meet all eligibility criteria, have already exhausted their UI entitlement. Table 10 shows the existence, or absence, of UA and the categories of unemployed workers who are covered by the UA system in different countries.

**Table 10: Unemployment assistance**

Country	Existence of Unemployment assistance	After exhaustion of regular UI			If no entitlement to UI		
		Existence	Means-tested	Duration	Existence	Means-tested	Duration
<b>Canada</b>	No	---	---	---	---	---	---
<b>Belgium</b>	No	---	---	---	---	---	---
<b>Denmark</b>	No	---	---	---	---	---	---
<b>Finland</b>	Yes	Yes	No	180 days	Yes	Yes	Unlimited
<b>France</b>	Yes	Yes	Yes	6 months to 2 years	Yes	Yes	6 months
<b>Germany</b>	Yes	Yes	Yes	Unlimited	Yes	Yes	Unlimited
<b>Italy</b>	No	---	---	---	---	---	---
<b>Netherlands</b>	Yes	Yes	No	2 years	Yes	No	6 months
<b>Norway</b>	No	---	---	---	---	---	---
<b>Portugal</b>	Yes	Yes	Yes	6 to 15 months	Yes	Yes	12 to 30 months
<b>Spain</b>	Yes	Yes	No	6 to 18 months	No	---	---
<b>Sweden</b>	Yes	No	---	---	Yes	No	150 days to 450 days
<b>Switzerland</b>	No	---	---	---	---	---	---
<b>United Kingdom</b>	Yes	No	---	---	Yes	Yes	Unlimited
<b>United States</b>	No	---	---	---	---	---	---

In Finland, France, Germany, the Netherlands, Portugal, Sweden, and the United Kingdom, UA is paid to those who do not qualify for UI but who fulfill some conditions. Generally, claimants have to be registered unemployed looking for work and available for work. Employment requirements for receiving UA are similar to those for receiving UI. For example, in Germany and Portugal, a claimant must have worked at least six months in the last year to be eligible for UA; in Sweden, she must have worked at least 75 hours in each of the last five months, but there is no contribution requirement. In the Netherlands, people do not need to meet specific qualifying employment criteria to receive the UA benefit at 70% of the minimum wage for a period of six months. This kind of unemployment assistance provides replacement income to categories of workers who have difficulties meeting the eligibility criteria, specifically youths and short-time workers.

In Finland, France, Germany, the Netherlands, Portugal, and Spain, people who have still not found new employment after exhausting their insurance benefits are transferred to unemployment assistance. In these countries, the systems are also more generous for the long-term unemployed people than the Canadian EI system is. Germany, for instance, pays 53% to 57% of previous net wages for an unlimited period.<sup>30</sup>

However, UA is generally designed for unemployed people in precarious financial condition. UA benefits are means-tested (except in the Netherlands, Spain, and Sweden) and generally depend on family situation (dependent children, spouse's income, age). In each country, UA is substantially less generous than UI in terms of compensation levels and sometimes in terms of benefit duration. We have cited previously the example of Germany, with a replacement rate of 53% to 57% for UA compared to 60% to 67% for UI.<sup>31</sup> In the Netherlands, the UA benefit amounts to 70% of the minimum wage. In the other countries, the UA benefit is also set at a flat rate and is not conditioned on previous employment earnings.

Consequently, the advantage of a UA system is to offer subsidy income that may be withheld if the jobseeker's family has sufficient means of support. The principal drawback is that such payments could discourage a fast return to work.

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<sup>30</sup> Starting 1 January 2005, UA will be merged with the general social assistance scheme to create Unemployment Benefit II, effectively being abolished in its current form.

<sup>31</sup> Starting 1 January 2005, the amount of Unemployment Benefit II will, unlike unemployment assistance, no longer be related to the former income of the recipient. It will be set at a fixed rate at the same level as the social benefit.

### **III. EI SYSTEMS AND PASSIVE AND ACTIVE LABOR POLICIES**

#### **A. Passive policies**

Fougère (2000) reported that the sanctions and the suspensions entailed in the unemployment compensation programs are often presented as the most efficient instruments, having helped Denmark, Ireland, the Netherlands, and the United Kingdom to reduce their unemployment rates in the second half of the 1990s. These measures, set up to regulate unemployment compensations, are examples of passive policies. Table 5 of this report summarises the conditions required for unemployment benefits entitlement. In this section, we discuss more thoroughly the sanctions and their impact on unemployment duration, based on various studies conducted in OECD countries. Then we analyse another passive policy, experience rating.

#### **The sanctions**

*The sanctions and their effects.* In Switzerland, unemployment compensation is subject to precise conditions: each month, the unemployed worker must apply for “suitable” jobs. As mentioned before, there is no unique definition to explain what a suitable job is. In Switzerland, it is less than two hours transportation from home and one that offers a wage that is at least two-thirds of the last wage received. Local public employment services decide on the minimum number of jobs that the unemployed worker must apply for. Then, they meet with the unemployed worker monthly to draw up his assessments and define the future actions that should be taken. Finally, the unemployed worker must accept any training program that is recommended. When the conditions are not respected, sanctions may be applied.

Since 2001 in France, the UI has provided a program that offers personal support if the unemployed worker is actively engaged in a job search. However, it seems that the mandatory meeting each six months is insufficient to help an unemployed worker find a job. Moreover, the notion of suitable job is unclear, and there are no repercussions when the unemployed worker does not undertake the required actions [Cahuc and Zilberberg (2004)]. According to

Lalive, Van Ours, and Zweimüller (2002), the number of people leaving UI increases when the credibility of the sanctions is higher. The sanctions' credibility has a positive impact on all unemployed workers, even on the ones who are not penalised. Other studies support this positive credibility effect.

In the United Kingdom, Dolton and O'Neill (1996) tested the impact of a mandatory additional meeting between the unemployed worker and the person in charge of the case. Their experiment compared the behaviour of two groups of unemployed workers, group A and group B. Group A had a mandatory extra meeting after six months of unemployment (the unemployment compensation was cut out if the person was absent without justification). Group B did not. The authors concluded that the average unemployment duration decreased significantly for group A, and the probability of leaving unemployment increased for those who received notification about an extra meeting, even before the first meeting.

*The sanctions that reduce or eliminate compensation.* As in Switzerland, an unemployed worker in the Netherlands must do an active job search and accept any appropriate jobs. He must also participate in training programs offered by the public employment services, send a report each week relating his job search activities, and meet an agent of the public employment services each month. If the worker has not respected all the conditions, a reduction in the unemployment compensation can be considered but is not automatically applied. Local agencies make the decision. For example, if the job search is not done properly, the compensation may decrease by 10% for two months. The sanction can be a temporary or permanent reduction of the compensation, partial or complete. In practice, the temporary and partial reduction can vary from 5% for four weeks to 25% or 30 % for 13 weeks.

Fougère (2000) mentioned that some studies conducted in the Netherlands in the early '90s showed that the sanctions related to a lack of job search led to an average 20% reduction of the compensation. Abbring, Van den Berg, and Van Ours (1997) suggested that, for people who don't have required qualifications and who need guidance towards appropriate training programs, the combination of personal support and credible sanctions improved the job

prospects. This study also showed that a system of control and sanctions without significant support for unemployed workers can be inefficient.

In Belgium, workers unemployed for long periods can receive benefits for an unlimited period under the insurance program. Then the system offers compensations to a large number of people, but the amount that each person receives is smaller than in other countries. Unemployment duration was limited at the end of the '90s, when sanctions were introduced. Compared to the Netherlands, the sanctions in Belgium can be a complete ending of compensation. De Lathouwer, Bogaerts, and Perelman (2000) found weaknesses in this system of sanctions. A majority of the unemployed workers who were suspended or penalised said when surveyed that the penalty did not have any effects on their job search. They also found out that 40% of the unemployed workers ignored their obligations and that one third was not asked to attend a meeting at the local employment agency. Hence, the efficiency of the sanctions rested on a steady policy, including an appropriate transmission of information to the unemployed workers and equivalent treatment for everyone.

*The impact of control reinforced.* A paper from Ashenfelter, Ashmore, and Deschênes (1999) reported the results of randomised trials designed to measure whether stricter enforcement and verification of work search behaviour alone decreases UI claims and benefits paid in UI programs in the United States. These experiments were designed to test whether the failure to actively search for work had been a cause of overpayments in the UI system. Their results provided no support for this view. Further, there was no significant effect on the increase of the disqualification rate when interviews were made more thorough regarding financial motivations and when more severe warnings were issued about the mandatory active job search. Only one combination of two particular actions (interview about financial motivations and effective check of the contacts established with employers) led to a significant decrease of the weekly average amount of compensations granted. This study showed that a stricter control of indemnity rights and job search activities did not lead to shorter claims or lower total benefit payments. The authors tested if a more effective review of the candidate's eligibility could reduce the unjustified demand for unemployment compensations, but the result was not statistically significant.

### **Experience rating and EI repeat users**

In 1996, Canada introduced into EI a worker's experience rating, or a reduction in the benefits for frequent users. It was a unique system, with no precedent. The experience rating of unemployment insurance programs in other countries, such as the United States, has usually involved raising the premium rates of employers whose workers have claimed more unemployment insurance benefits over specified past periods. Two reforms were part of the worker side experience rating: (1) the intensity rule, whereby the replacement rate for insured earnings falls with increased use of the program by an individual worker, and (2) the clawback provisions, which result in repayment by the unemployed workers of greater amounts of the benefits collected by repeat users with relatively high incomes. Under the intensity rule Canada applied during the years 1996 to 2001, for every 20 weeks of benefits paid out over the preceding five years, a claimant's replacement rate was reduced by 1% of insured earnings, up to a maximum of 5%. However, in 2001, the intensity rule was repealed when the Canadian government adopted Bill C-2.

### ***Experience rating at the employer level***

In theory, the experience rating at the employer level is supposed to increase the cost of layoffs for companies tempted to overuse UI as a way to keep workers that would experience multiple temporary layoffs rather than being permanently let go. It introduces a tax on layoffs, which is supposed to counter the implicit subsidy on layoffs resulting from the UI system [Brechling (1977)]. Nakamura and Diewert (2000) described two methods to increase the payroll tax rates for firms whose workers have claimed more in UI compensations: a reserve ratio method and a benefit ratio method.

The *reserve ratio* method (the most common among the United States) is defined as the difference between the taxes paid by a company and the benefits received by its employees, all divided by the company's average UI covered payroll (average over the last three years). In



fact, the tax rate is calculated based on the UI balance of the companies. When the reserve ratio of a company increases, the tax rate it faces decreases. In the United States, the tax scale depends on the unemployment insurance reserves of each state.

The *benefit ratio* is defined as the ratio of the average benefits paid to the average taxable wages for the company's workers, where both are generally averaged over the last three years.

Margolis and Fougère (2000) describe a third method to compute the company's tax rate, the *benefit wage ratio*, which is based on the wages received by the employees just before their layoff. The total of the unemployed workers' wages is divided by the total taxable wages. Then this is compared to a scale (each state has its own scale) to determine the tax rate.

#### **B. Active policies and coordination with passive policies**

*Incentive bonus to find a job.* Fougère (2000) mentions four experiments conducted in the United States in which bonuses for employment return were offered. The four differed in the amounts of the bonuses, the lengths of the qualification periods (i.e., the length of the unemployment period during which the bonus can be obtained), and the lengths of the periods for which jobs had to be kept. Nevertheless, the bonus was the central element of the four studies, which all showed that the incentive bonus prompts the unemployed workers to reduce the period during which they receive unemployment compensation. However, the impacts on wages were weak and insignificant in the four experiments.

In Canada, a welfare reform program offering a bonus for employment return was evaluated in two provinces between 1992 and 1999. The objective of the Self-Sufficiency Project (SSP) was to "make work pay" for lone parents who were long-term social assistance recipients (Michalopoulos et al. (2000)). They could receive an earnings supplement if they found full-time work and left the welfare program within 12 months after they entered the project. The bonus was important, almost doubling the pre-tax earnings during periods of full-time work in the next three years. The program has significant incentive effects on return to work.

*Broader personalised help for job search.* Research conducted in the United States reached the same conclusion. The Nevada Claimant Placement Program (researched in 1977-1978 and then 10 years later under the name Nevada Claimant Employment Program) gave one group more effective services and personal support, with stricter control over job search activities. There was also a control group that did not receive such treatment. In 1977-1978, the average unemployment duration for the first group was over three weeks less than that for the control group. Ten years later, the average for the treatment group was still smaller, but the difference was less than two weeks. Fougère (2000) mentions other experiments similar to the one in Nevada conducted in the United States between 1978 and 1990. They all showed that combination of control with job search and support leads to a decrease in unemployment duration, without significant effect on the wages at the time of being hired.

In Denmark, the government set up a program to fight unemployment among young people. The unemployed young workers had to participate in a training program adapted to their profile. This program was combined with a 50% reduction of their unemployment benefits. There was also another sanction: the whole of the compensation was lost if the person refused to take part in the training program. This population of young unemployed workers was separated into two groups. One of those group was not eligible (the control group) for the program and the other group was eligible (the program group). Jensen, Nielson, and Rosholm (1999) conducted a study based on these two groups. They found that the rates of transition from unemployment to employment and especially from unemployment to training programs were higher for people engaged in the program.

In the United Kingdom, Dolton and O'Neill (1996) studied the impact of more personal support (like individual job counselling) to the unemployed workers. The conclusion was a significant decrease in the average unemployment duration and a significant increase in the rate of departure from unemployment. According to Fougère (2000), this study reinforced the idea that personal support should be provided to unemployed workers early in the unemployment period, before the entry into long-term unemployment.

Also, Van den Berg et al. (2004) studied experimental data collected in the Netherlands in 1998. They concluded that the program offered to unemployed workers (frequent meetings and job search support) had an insignificant effect on the probability of return to the labour market. The researchers offered two possible explanations. First, the treatment and control groups both had good chances to find jobs because of their personal skills and qualifications. Second, the support that was offered may have been insufficient. Furthermore, it's also possible that the support made the unemployed workers stop searching for a job by themselves and to rely instead upon the employment agency.

#### **IV CONCLUSIONS**

It is very difficult to rank the Canadian system among the other Western countries studied in this report. The Canadian system seems conservative in some aspects and progressive in other aspects. It does not provide as high a degree of coverage as some of the Nordic countries but more than the United States and some others. This is apparent from an overall assessment of various features of the program and the expenditures relative to GDP. The Canadian system appears to make coverage highly accessible for the seasonally unemployed as it has the shortest eligibility period of the countries studied. In fact, some countries block the seasonal use of EI with eligibility periods greater than a year. However, it provides weaker coverage to the long-term unemployed with shorter entitlements and no system of unemployment assistance after the benefits run out. It extends special coverage to the fishing industry whereas other countries extend special coverage to other industries such as construction. Finally, the Canadian system does not have any program targeting specific demographic groups but it does make allowances for local unemployment rates.

Even if we could rank the Canadian system with a single metric, we could not say anything about the relationship between this metric and the labour market performances. There is no tangible correlation between any of the measures and the labour market performances. The primary reason why it is hard to find such a relationship is the endogeneity of the institutions and the laws. It is not clear what has an impact on what. Does the legal environment influence the economic performances or conversely, do the economic performances influence the government and eventually the laws?

In terms of active and passive labour policies, the major difference between Canada and the other countries studied was the worker experience rating policy introduced in 1996 and removed in 2001. It was the first time such an experience rating was introduced. All the other experience rating programs that exist are employer-side programs. With an appropriate marginal taxes calculation, the whole cost of laying off worker could be paid by the employers. In practice, there are no such marginal taxes calculations and this type of programs subsidises the employers.

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