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**AMSTERDAM INSTITUTE FOR  
ADVANCED LABOUR STUDIES**

## **Does it matter who takes responsibility?**

The distribution of responsibility for unemployment insurance, employment protection and active labour market policy in five European countries

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## **ABSTRACT**

In the debate on the relation between social security and the labour market, the focus is on retrenchment of the government to improve the market mechanism. Little attention is being paid to the role of intermediate organisations, in particular trade unions and employers' organisations (the so-called social partners). Are these institutions just as much an impediment to the market mechanism as the government is often considered to be? Will the social partners, when they are involved in the legislation or administration of social security, pursue their particular (group) interests at the expense of the community? Or can they constitute an efficient mechanism to reconcile conflicting interests of different social groups, or provide the means to highlight the concerns and interests of weaker market actors?

The aim of our paper is to gain more insight into the pros and cons of the various options for distributing responsibility between the government, market actors (private companies) and intermediary organisations, especially in the field of unemployment protection (i.e. unemployment insurance, employment protection and active labour market policies). Using cross-national information from Belgium, Denmark, Germany, the Netherlands and the United Kingdom we show to what extent different institutional arrangements of unemployment protection lead to different labour market outcomes. Although the government plays a dominant role in all five countries, there is still a lot of variation in the role of social partners and market actors with respect to unemployment protection. Both first and second order effects of alternative distributions of responsibility are analysed. First order effects include insurance policies, coverage rates, and replacement rates. Second order effects include expenditures on unemployment protection, unemployment rates, flows between employment and unemployment, and the resulting gap between insiders and outsiders.

We conclude that there is no systematic relationship between the distribution of responsibility for unemployment insurance, employment protection and active labour market policies on the one hand, and the outcomes in terms of benefit entitlements for various groups and labour market flows on the other hand. The two countries in which trade unions play an important role in the administration of unemployment insurance, viz. Belgium and Denmark, do not stand out with respect to benefit generosity or labour market performance compared to the other three countries.



# TABLE OF CONTENTS

<b>ABSTRACT</b>	<b>5</b>
<b>1 INTRODUCTION</b>	<b>9</b>
<b>2 THEORY</b>	<b>11</b>
2.1 Market provision of social insurance	11
2.2 Government provision of social insurance	13
2.3 The trade union as provider of unemployment insurance	16
2.4 Co-ordination between unemployment insurance, employment protection and active labour market policies	18
2.5 Some hypotheses on the effects of the distribution of responsibility	19
<b>3 METHOD</b>	<b>21</b>
<b>4 CASE STUDIES</b>	<b>23</b>
4.1 The Netherlands	23
4.2 The United Kingdom	27
4.3 Denmark	29
4.4 Germany	32
4.5 Belgium	34
<b>5 A COUNTRY COMPARISON</b>	<b>39</b>
5.1 Unemployment insurance	39
5.2 Employment protection	43
5.3 Active labour market policies	45
5.4 Second order effects: expenditures on labour market policy	46
5.5 Second order effects: labour market dynamics	48
<b>6 CONCLUSION: DOES IT MATTER WHO TAKES RESPONSIBILITY?</b>	<b>51</b>
<b>REFERENCES</b>	<b>53</b>



## I INTRODUCTION

Prominent in the debate on social policy and the welfare state of the past two decades has been the idea of a dichotomy between the state and the market. At present, most social scientists seem to agree that it is inevitable that governments step back and leave more room to the market. Although the idea of the welfare state originates from the understanding that the market often fails and some kind of social policy is needed to redress or compensate the undesirable and often unintended consequences of unfettered markets, gradually a consensus has grown that there are also serious government failures, which might even be worse than the market failures for which government intervention was called for in the first place. However, this dichotomy between the state and the market neglects the other actors that are involved in securing the income and the services that people need to participate in modern society. On the one hand, families and 'traditional' small-scale communities (e.g. neighbourhoods, networks of friends) still play an important role in providing assistance to individuals who are in need of help. On the other hand, non-governmental associational organisations are often involved in providing income and social services to the population. In many countries, trade unions and employers' organisations are important actors in shaping and administering social policy. However, these actors fit badly in a state-market dichotomy. This is why in debates on the future of the welfare state, and of social insurance and labour market policies in particular, the role of these social partners is often overlooked. Proponents of the market mechanism often consider the social partners to be actors that interfere with a flexible 'free' market and thus hinder social optimal outcomes. Supporters of the state as the guardian of social welfare often fear that the social partners will only pay attention to their own group interests – *i.e.* the vested interests of existing companies and incumbent employees – to the detriment of other social groups (the 'outsiders') and of broader societal interests. Since the social partners are situated inbetween the market and the state, it is tempting to surmise that they will incorporate the drawbacks of both the market and the state. However, it is also conceivable that they represent the best of both worlds, incorporating the advantages of both the market and the state.

When discussing the impact of the distribution of responsibility with respect to social insurance between state, market and social partners, one should be aware that (unemployment) insurance cannot be studied in isolation. Both in theory and in practice there is a close connection between unemployment insurance on the one hand, and employment protection and active labour market policies on the other hand. By focusing on unemployment insurance without considering the relationship with employment protection and active labour market policies, one can easily draw wrong conclusions on the effectiveness and efficiency of the unemployment insurance scheme. For example, generous unemployment benefits might go together with low unemployment rates or

short unemployment duration very well, thanks to strong employment protection or to effective labour market programmes.

This paper will therefore consider unemployment insurance, employment protection and active labour market policies simultaneously. We will try to fathom the combined impact of these elements of social policy and how they relate to the distribution of responsibility between the state, the market and the social partners. Section 2 surveys the theoretical considerations with respect to the effects of assigning the main responsibility for unemployment insurance, employment protection and labour market policies to the market, the state and trade unions, respectively. Section 3 briefly sets out the methodology used for the empirical part of this paper. Section 4 gives the results of our five country case studies, including Belgium, Denmark, Germany, the Netherlands and the United Kingdom. In section 5 we discuss the main results and try to interpret them. Section 6 draws some general conclusions.

## 2 THEORY

In this section we will first discuss the familiar theoretical arguments why both the market and the state are likely to exhibit failures in the provision of social insurance, the regulation of employment protection and the implementation of active labour market policies. Next, we will consider the consequences of including the trade unions. Finally, we will discuss the importance of a shared responsibility for unemployment insurance, employment protection and active labour market policies.

### 2.1 MARKET PROVISION OF SOCIAL INSURANCE<sup>1</sup>

As is well-known, markets for social insurance are characterised by a number of market failures, which seem to make some kind of government intervention desirable. The main market failures have to do with (*cf.* Barr, 2004): interdependent risks, adverse selection, moral hazard, imperfect information or myopic individuals, and economies of scale, which are discussed separately below.

The best known examples of interdependent risks are unemployment (which has a strong cyclical component) and inflation (which hurts all citizens simultaneously). This interdependence makes it virtually impossible to spread these risks and, hence, to find private actors who are prepared to offer voluntary insurance against these risks.<sup>2</sup>

Adverse selection is the result of asymmetric information with respect to the probability of individual risks. If an individual knows the probability that (s)he will be subject to an unfavourable event (e.g. catching a disease), while the insurer only knows the aggregate probabilities, the latter can only charge a premium based on average risks. As a consequence, individuals with above average risks only will insure themselves. This will result in ever more people with below average risk withdrawing from the insurance, leaving the people with the highest risks in the insurance pool, who will thus have to pay a very high, and probably insurmountable, premium. The problem of adverse selection can only be tackled by means of a mandatory insurance and an obligation for the insurer to accept all clients.<sup>3</sup>

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<sup>1</sup> This section is based in part on work in progress by our fellow researcher Lucy Kok of SEO Research.

<sup>2</sup> Shiller (1998) argues that it is, in principle, possible to spread these risks on a world market, which, however, does not exist at present.

<sup>3</sup> Under certain conditions a separating equilibrium may exist on the private market, in which two insurance policies are offered: one policy with full insurance and a high premium which attracts high risk employees, and one policy with only partial insurance (*i.e.* a replacement rate substantially lower than 100%) and a much lower premium, which attracts low risk employees. In general, however, this insurance scheme will not be the social optimum.

Moral hazard means that people who are well-insured will exert less effort to prevent the occurrence of risks. This does not only apply to employees, but also to employers, who may have stronger incentives to lay off personnel in case unemployed workers get a generous benefit. The moral hazard problem can never be removed completely, irrespective of the kind of insurer – private or public. The problem can only be reduced by close monitoring of the insured (which might, however, infringe on their privacy) and by limiting the coverage of the insurance (e.g. by introducing waiting days or excess risk clauses in the insurance policy). In order to reduce moral hazard of employers, other measures are needed, e.g. legal employment protection or experience rating of the insurance premiums.

Market failures may also be the result of imperfect knowledge or short-sightedness of potential clients. People who do not know that they run a particular risk or are not fully aware of the possible consequences, may later regret that they did not insure themselves. This is a common argument in favour of mandatory participation in pension schemes, even though it would be perfectly possible to get a private insurance.

Finally, private insurance may involve large transaction costs, since a separate insurance policy has to be specified, drawn up and administered for each client. In general, it is more efficient to draw up a collective insurance policy for a large group, especially if the preferences of the group members with respect to the insurance of their risks do not strongly diverge.

These theoretical arguments regarding market failures with respect to (unemployment) insurance start from the assumption that employees face an external risk of becoming unemployed. If they are risk averse, they want to insure themselves against the risk of income loss due to unemployment. In two respects, however, unemployment is not really an external risk, but a ‘manufactured’ risk (*cf.* Giddens 1998). First, whether or not a worker becomes unemployed, is the result of a decision taken by his/her employer. Thus, apart from insuring the financial consequences of the loss of a job, employees might try to come to an agreement with their employer to shield them from losing their job in the first place. Second, even if one loses his/her job, the resulting (aggregate) loss of income is strongly influenced by the actions taken to find a new job. A worker might thus want to ensure him/herself of sufficient support to go back to work once (s)he gets unemployed. Unemployment insurance is thus only one of several ways in which a risk averse employee might try to reduce his/her risks.

In a hypothetical situation in which there does not yet exist a system of unemployment insurance or some other benefit which an unemployed worker can claim, it would be optimal for risk-neutral

employers to offer their employees full employment protection (*cf.* Blanchard & Tirole, 2004). This is so, because as long as an employee has a positive (marginal) productivity (or at least a productivity that exceeds the utility of being unemployed), total output will be higher when the worker is employed than when (s)he is fired. If the employee is risk averse, (s)he will be prepared to accept a lower (constant) wage in exchange for a job guarantee. If the employer is risk neutral, (s)he will be willing to act as an insurer against the risk of falling demand. However, it is unlikely that an employer would offer his/her employees a full guarantee of keeping their job in practice, since (s)he would not be able to keep his/her promise in case the firm goes bankrupt. Moreover, a full job guarantee will cause a large moral hazard problem, since a worker who cannot be fired might be tempted to shirk and thus reduce his productivity. As is stressed in the well-known efficiency wage literature, involuntary unemployment might be an important incentive for workers to increase their efforts in order to reduce their risk of being laid off (*cf.* Akerlof & Yellen, 1986). So it is unlikely that individual employees will be able to get sufficient insurance either against loss of income or against loss of job by private insurance only.

The problems that a private insurer faces who wants to offer an insurance against unemployment, might be mitigated if (s)he also offers active labour market programmes (ALMP) to support the return of the unemployed back to work. In particular, this might reduce the moral hazard problem, in two ways. First, by making the entitlement to an unemployment benefit conditional on the participation of the unemployed in an activation programme, the unemployment spell, and thus the total amount of benefits the insurer will have to pay, will be reduced (Madsen, 2007, calls this the qualification effect of active labour market policies). Second, mandatory participation in an activation programme might make unemployment less attractive (since it reduces leisure time) and will thus increase incentives for workers to try to keep their job and to find a new job as soon as possible (Madsen, 2007, calls this the motivation effect). Since the other problems of private unemployment insurance – in particular, interdependent risks, adverse selection and transaction costs – still remain, it is not likely that incorporating active labour market programmes will be sufficient to overcome the barriers for private unemployment insurance.

## **2.2 GOVERNMENT PROVISION OF SOCIAL INSURANCE**

For most of the market failures discussed in the previous section government intervention might, at least in theory, be a (partial) solution. However, government intervention may give rise to new failures. The government cannot solve the problem of interdependent risks in itself, but it can spread out the consequences over the entire population, without running the risk that those who are hurt least by rising unemployment will withdraw from the insurance scheme. Nevertheless, as

this will result in rising expenditures on unemployment insurance, the population might exert a growing pressure on the government to curtail entitlements (e.g. by reducing benefit levels or benefit duration) in times of rising unemployment. The government can prevent adverse selection, as mentioned above, by making the insurance mandatory and accepting everyone. This will, however, result in many persons paying a higher premium than the actuarially neutral contribution. If these people are purely self-interested, they will not support such a mandatory insurance scheme. The government will thus have to rely on other-regarding or even altruistic motives of the population.

The problem of moral hazard is, in general, not softened but worsened by government intervention. In particular, the government might offer an insurance policy which private insurers are not willing to offer, because they find it too risky due to a very large moral hazard. For example, a mandatory insurance may foster risky behaviour by people with above average risks, because many of them would not have bought the insurance if they had had to pay the actuarially neutral premium. Mandatory insurance might prevent underinsurance because of short-sightedness, but it might also result in too much insurance in case the government overestimates the extent of short-sightedness of the average person. More generally speaking, collective, mandatory insurance may result in cost savings because of economies of scale or scope and less transaction costs. At the same time, however, in drawing up collective insurance policies the government needs to know the preferences of the insured population. Contrary to private insurers, the government cannot directly measure people's willingness to pay for a collective insurance. Hence, the government has to rely on information gathered by general elections and expressed by lobby groups. However, social insurance is just one of the many issues on which people base their vote, while lobby groups often represent only a specific section of the population. Consequently, it might be difficult for the government to incorporate the true preferences of the population in its social insurance policy. Besides, a collective insurance will not leave much room for differentiation of policies to take account of diverging preferences among the population.

Finally, if the government (or a governmental body) provides social insurance, there is no competition between suppliers of insurance, which would foster cost efficiency. Hence, there may be more bureaucracy and other forms of inefficiency, which make collective insurance costlier than private insurance. An alternative might be that the government outsources social insurance to private companies, which will have to compete with each other. However, this introduces a principal-agency problem, since the government will have to monitor these private insurers.

Again, if we take employment protection and active labour market policies into consideration, the theoretical assessment of state provision of unemployment insurance might change. If a compulsory unemployment insurance scheme is introduced by the government, the loss of income faced by an employee who loses his job might be smaller than the loss of sales per worker the company experiences in case of a fall of demand. This makes it less attractive for the employee to pay the costs (in terms of a lower wage rate) of a full job guarantee by the employer. Consequently, there is a trade-off between compulsory unemployment insurance and employment protection: the higher the replacement rate of the unemployment insurance, the lower will be the employment protection offered by the employer in exchange for a lower wage rate. To counterbalance this negative impact of unemployment insurance on employment protection, which will result in a larger number of recipients of unemployed benefits and, hence, higher social expenditures, the government might introduce legal employment protection, specifying the conditions under which an employer is allowed to fire an employee. The impact of legal employment protection on the number of unemployment benefit claims depends, however, on the particular groups that are covered by both policies. If employment protection is restricted to employees with a permanent contract (the 'insiders'), the number of workers with a temporary contract who become unemployed (the 'outsiders') might rise. Whether this will result in more persons claiming unemployment benefits depends on the eligibility criteria for unemployment insurance.

The government can also use active labour market policies to reduce expenditures on unemployment benefits. As explained in the previous section, active labour market policies may both reduce the inflow into unemployment and increase the outflow from unemployment benefits to work. If the reduction of the expenditure on unemployment benefits outweighs the costs of the active labour market programmes, the government budget benefits from spending more money on activation policies.

To summarise, there is a trade-off between the advantages of government intervention to redress market failures and the drawbacks resulting from government failures. Depending on the weight one attaches to the various market failures and government failures, respectively, one might consider government intervention either an improvement or a worsening on the performance of the market. In general, state provision of social insurance will reduce (or even prevent) adverse selection and underinsurance due to short-sightedness, will mitigate the problem of interdependent risks, and will reduce transaction costs and increase economies of scale and scope. But, simultaneously, state provision of social insurance will often increase the problem of moral hazard, will lack the incentives from competitors to improve efficiency, will restrict individual freedom of choice and will not fully succeed in matching supply with individual preferences. The moral hazard problem of state provision

of unemployment insurance may, however, be reduced if the government establishes legal employment protection and finances active labour market programmes.

### **2.3 THE TRADE UNION AS PROVIDER OF UNEMPLOYMENT INSURANCE**

Now, let's include the social partners in the picture. It is possible to conceive of various forms of social partner involvement in the provision of social insurance. From a theoretical point of view, the logical counterpart of state provision is a trade union that provides social insurance for its members. As long as membership is voluntary, this option is in many respects similar to private insurance. There is, however, one important difference. Since the trade union is also involved in bargaining over collective labour agreements, it can reduce the costs of the insurance policy by agreeing with the employer(s) on employment protection and by mitigating wage demands. The stricter the employment protection – probably in exchange for a lower wage rate – the smaller the number of union members that will be laid off and, hence, the lower the insurance premium they have to pay. This may give the trade union a head start compared to private insurers. However, if non-union-members in the same company or industry are subject to the same employment protection, these workers may be able to get a discount on the premium for a private insurance, too. To counterbalance this, the union might offer activation policies to its members that lose their job after all. However, this will only be an attractive strategy if the costs of these policies do not outweigh the benefits in terms of reduced unemployment duration and, hence, a smaller loss of income for unemployed union members and a lower premium for the unemployment insurance.

Moreover, if the trade union charges the same premium – probably as part of the subscription fee – to all union members, irrespective of individual risks, employees with below average risks will have an incentive to quit the union and buy a private insurance. If no private insurance is offered, due to the problem of interdependent risks, this might result in part of the employees remaining uninsured. The trade union may thus be vulnerable to the problem of adverse selection. Neither can a trade union solve the problem of interdependent risks. When unemployment rises during a cyclical downturn, the union will have to charge higher premiums to the union members who are still employed. Those members who expect to keep their job, will then have a strong incentive to leave the union.

These problems of adverse selection and interdependent risks might be solved by making the social insurance compulsory for all employees of a particular company or industry. This might be accomplished either by mandatory union membership (*i.e.* a closed shop) or by a collective labour agreement which includes social insurance and which is binding for all employees. In the latter case

the social insurance might also be provided by the employer or jointly by the trade union and the employer. In this case employees can only avoid contributing to the insurance scheme by quitting their job and finding employment in another company or industry. Hence, the problem of adverse selection will be considerably smaller. However, another selection problem may arise because the incumbent employees (and the employer, if he contributes to the insurance scheme) have an interest in locking out new employees who run a relatively high risk of becoming unemployed. This might widen the gap between the insiders and the outsiders.

Interdependent risks still cause a problem if an industry is hurt by a serious economic downturn. Although the necessary rise of the insurance premium can be imposed on all employees, this might meet with fierce resistance, especially if, due to the unfavourable economic situation, wages have to be curtailed simultaneously. The incumbent employees and union members might thus insist on lowering the benefits for the unemployed. Some other problems of this kind of compulsory insurance are similar to the problems the government faces if it provides compulsory social insurance. The trade union will have to find out what the preferences of its members are and it will have to compromise between varying preferences among its members. In this respect it is important to know what kind of alternatives the employees have. If there are several unions representing the employees, an employee can express his/her preference by choosing which union to join. There can thus still be some competition forcing the trade unions to look after the interests of as many employees as possible.

Table I summarises the main conclusions of the foregoing discussion of the advantages and disadvantages of different forms of provision of unemployment insurance. A + means that a provider scores positively (and a double ++ very positively) with respect to the particular aspect (hence, this refers to an advantage), a – signifies a negative score (or a disadvantage) (and a double – – a very negative score) and a 0 means that no effect is expected (neutral).

Table I: Advantages and disadvantages of different forms of unemployment insurance provision

	Private insurance	State provision of social insurance	Voluntary union provision of social insurance	Mandatory union provision of social insurance
Interdependent risks	--	++	-	0
Adverse selection	--	++	-	+
Moral hazard	+	-	+	-
Imperfect information / short-sightedness	-	+	0	+
Economies of scale/scope, transaction costs	-	++	+	+
Match between individual preferences and insurance policy	++	--	+	-
Cost efficiency	+	-	+	-
Insider-outsider gap	0	+	0	-

If we also take employment protection and active labour market policies into consideration, the performance with respect to moral hazard will probably improve. The minus sign for moral hazard in the columns of state provision and mandatory union provision might change into a zero (0), since stronger employment protection and compulsory activation programmes may reduce the number of people that become unemployed and the average unemployment duration. Employment protection might, however, worsen the adverse selection problem, since in general it only protects employees who have a permanent contract (the ‘insiders’).

## **2.4 CO-ORDINATION BETWEEN UNEMPLOYMENT INSURANCE, EMPLOYMENT PROTECTION AND ACTIVE LABOUR MARKET POLICIES**

The analysis above assumed that the same actor is responsible for unemployment insurance, employment protection and active labour market policies. This creates the opportunity for improving performance, since it increases the degrees of freedom of the actor to balance the advantages and disadvantages of various instruments. However, in practice the responsibility for unemployment insurance, employment protection and active labour market policies is often attributed to different actors. In that case, performance may be worse since the separate actors might try to shift the costs of their actions partly onto other actors. If, for example, the government provides compulsory unemployment insurance, but employment protection is left to the responsibility of individual employers and employees, this may result in less employment protection and higher unemployment, since part of the costs of laying-off employees is passed onto the state. Another example is the relationship between unemployment insurance and active labour market policies. Since the benefits of active labour market policies fall upon the unemployed themselves and on the provider of unemployment benefits, an employer has no incentive to invest in activation programmes for the workers he has fired in case the government provides unemployment benefits. The unions might have some incentive to provide activation programmes to their unemployed members, but since the government will probably benefit the most from the reduction of unemployment spells, unions will not provide the social optimal amount of activation policies.

There is also a potential co-ordination problem between the legislation and the administration of unemployment insurance, employment protection and active labour market policies. In practice, the actor that formulates the rules and regulations with respect to these policies (*i.e.* the legislator) and the actor that implements and administers them are often not the same. This complicates the theoretical analysis of (un)employment protection. For example, the central government might decide on the unemployment insurance policies by law, while the implementation is delegated to independent administration offices, to local governments or to the trade unions. The levying of taxes

or contributions to finance the insurance may be the task of yet another body, e.g. the Inland Revenue. Dispersing the responsibility for legislation, administration and financing might result in a lack of co-ordination between the activities. This gives rise to the well-known principle-agent problem: how can the principle (*i.e.* the legislator) ensure that the agent (*i.e.* the administrator) performs his task in accordance with the principle's intentions. If, for example, the administration office does not share the objectives of the legislator, this may lead to excess use or even misuse of unemployment benefits. This risk will be even larger if the administrator is not responsible for the financing of the insurance scheme and can thus shift the costs to the tax-payers. Of course, this depends on the leeway and the discretionary power the administrator has in implementing the legal policies.

With respect to active labour market programmes, too, it matters which actor is responsible for the regulations and which one for the administration. If, for example, activation measures are contracted out to private companies, these may focus on those unemployed who are most likely to find a job ('creaming'), while the legislator may want to give priority to underprivileged unemployed who are most in need of job search assistance. A lack of co-ordination between legislation and administration may be partly overcome by creating an independent monitoring body. The task of this body is to inspect whether the administrator meets the priorities of the government. However, in practice it will be an arduous task for such a supervisory body to get sufficient information to monitor the performance of the administrator satisfactorily.

## **2.5 SOME HYPOTHESES ON THE EFFECTS OF THE DISTRIBUTION OF RESPONSIBILITY**

The preceding theoretical analysis of the consequences of allocating the responsibility for social insurance, employment protection and active labour market programmes to different actors does not lead to clear-cut conclusions. Nevertheless, we will formulate some hypotheses on the probable effects of particular configurations of responsibility, which will serve as guidelines for the empirical research in the second part of this paper.

### *No private insurance of the risk of unemployment*

Because of the interdependency of the unemployment risk we do not expect to find extensive private provision of unemployment insurance. Moreover, even if private companies would offer unemployment insurance, this would probably result in strong adverse selection which would urge the government to guarantee equal access to unemployment insurance for all employees. For the same reasons we do not expect extensive provision of voluntary unemployment insurance by trade

unions, because employees with below average risk will not be prepared to pay an average insurance premium.

*Strong protection of insiders in case of union responsibility*

In case of mandatory unemployment insurance under the responsibility of trade unions (possibly, jointly with employers) we expect a wide gap between the protection of insiders (employees with a permanent contract) and outsiders (employees with a temporary contract and entrants to the labour market, e.g. young workers, women and migrants). In particular, we expect strong employment protection and generous unemployment benefits (high replacement rate) for insiders, and no employment protection and austere benefits (possibly only social assistance) for outsiders. Activation measures will be limited to the short-term unemployed who have a reasonable chance of getting back to work. This will probably result in a dual labour market: a dichotomy between a group of employees with long tenure and a group with short tenure, small flows from permanent employment to unemployment, but possibly large flows between temporary employment and unemployment. The number of persons claiming unemployment benefits will be relatively small, but their unemployment spell will, on average, be long.

*Small insider-outsider gap in case of government responsibility*

In case the government takes the responsibility for unemployment insurance, employment protection and active labour market policies, we expect universal schemes which do not distinguish between insiders and outsiders. This would imply moderate employment protection at most for all employees, irrespective of the type of contract, universal, possibly flat-rate unemployment benefits with a low replacement rate (except for low wage workers) and extensive activation measures which focus on weak groups. This would result in a flexible labour market, characterised by large flows between employment and unemployment, relatively short average tenure of employees and relatively short average unemployment spells.

### **3 METHOD**

To make a coherent international comparison we use detailed country studies written by researchers from these countries. We deemed this necessary to get a full description of the distribution of responsibilities (which is often not available from international comparisons by organisations such as the EU or the OECD) as well as first and second order effects of the system of unemployment insurance, employment protection and active labour market policy. The countries chosen for our study are Belgium, Denmark, Germany, the Netherlands and the United Kingdom. These countries are chosen because of different engagement of intermediary organisations in the administration of social insurance and active labour market policy. Although the government and public bodies play a dominant role in all five countries, there is still variation in the role of the social partners and market actors with respect to unemployment protection. The country studies are written by Johan de Deken<sup>4</sup> for Belgium, Per Kongshøj Madsen<sup>5</sup> for Denmark, Bernard Ebbinghaus<sup>6</sup> and Werner Eichhorst<sup>7</sup> for Germany, Jochen Clasen<sup>8</sup> for the United Kingdom, and Trudie Schils<sup>9</sup> for the Netherlands. The results of these in-depth country studies are published as working papers by the Amsterdam Institute of Advanced Labour Studies (no. 49-53)<sup>10</sup>.

The researchers provided us with two kinds of information: an analysis of the system of unemployment insurance, employment protection and active labour market policy (e.g. decision-making and legislation, implementation of policy, supervision, distribution of responsibility) and an analysis of the performance of the social insurance and labour market (e.g. coverage rates, replacement rates, public expenditures, labour market flows, wage determination).

In this paper we summarise the information from the country reports on the system and the distribution of responsibilities in order to assess whether the countries differ with respect to the institutional context of unemployment insurance, employment protection and active labour market policy. In addition, we analysed the information on the performance of the social insurance market and gathered additional data from the OECD on the performance of the labour market to assess whether the performance differs between countries with different institutional settings in the mentioned social policy fields. This part of our analysis is, however, very much work in progress. This paper should thus be regarded as a first attempt to an international comparison of the available data.

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10 The working papers can be downloaded from [www.uva-aias.net](http://www.uva-aias.net).



## 4 CASE STUDIES

In this section, a description of the organisation of social insurance is given for the five countries mentioned in the previous section. The description concerns the system of unemployment insurance, employment protection and active labour market policy, because of the interrelation between these policy fields as explained in the theoretical part of this paper. The focus is on the actors that are involved whereby a distinction is made between the three fields: legislation or policy determination, administration or implementation of the policy and monitoring of the administration. In addition, a short summary is given of the main ‘rules of the game’, *i.e.* entitlement conditions, benefit levels, notice periods *etc.*

### 4.1 THE NETHERLANDS<sup>11</sup>

Legislation in all three policy fields is set on a national level, by the government and established by law. The government determines unemployment insurance policy (e.g. entitlement conditions, benefit levels, premiums), the objectives for activation policies (e.g. the time span within which an unemployed worker should be enrolled in an activation programme) as well as the budget and the policy targets for the administration of unemployment insurance and active labour market policy. Unemployment insurance is contribution-based and compulsory for all employees, including people of working age on sickness or disability benefits. In addition to unemployment insurance, tax-based social assistance exist for workers who are not entitled to unemployment insurance, whose unemployment insurance expired but also for people without any labour market attachment (*i.e.* universal system of social assistance). As for employment protection, the government determines the minimum notice period for both employers and workers, the maximum trial period (during which the employee can be dismissed without notice) and the conditions under which dismissals are considered to be fair. Yet, an important remark should be made on the Dutch dismissal system. In the Netherlands two options are available to employers who want to dismiss their workers: a public route and a court route. For the latter route most of the conditions determined by the national government, such as the minimum notice period, do not apply, yet other conditions might apply such as a severance payment which does not exist in the public route. The level of severance payment is then determined by the civil court and a nationally accepted formula is used for this. Table 2 shows the main elements of the Dutch system of unemployment insurance, employment protection and active labour market policy.

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<sup>11</sup> This text is based on the country report of the Netherlands, see Schils (2007a).

Table 2: Unemployment insurance, employment protection and active labour market policy in the Netherlands

Unemployment Insurance	
Legislation	National government (supplements in collective labour agreements - CLAs).
Administration	Public bodies (UB) and municipalities (SA).
Monitoring	Public body.
Main system	UB: Basic benefit plus extended benefit. SA: Social assistance for non-entitled people.
Coverage	UB: All employees. SA: All citizens.
Financing	UB: Payroll taxes (5.2% by worker, 3.45% by employer). SA: Tax-funded.
Entitlement conditions	UB: Basic benefit 26 out of previous 36 weeks of work; Extended benefit: 4 out of previous 5 years of work. SA: Means-test.
Benefit level	UB: 2 months 75% previous wage, following months 70%. In some CLAs supplements up to 80% are found. SA: Flat-rate depending on family situation, max. 70% of minimum wages (e.g. €540 for single person).
Benefit duration	UB: Basic benefit 3 months; extended benefit up to 38 months depending on tenure. SA: Indefinite.
Employment protection	
Legislation	National government (deviations allowed for in CLAs)
Administration	Employers.
Monitoring	Public body and court.
Notice period	National law: 1 to 5 months depending on tenure for regular contracts and none for fixed-term contracts. CLA: 1 week to 8 months depending on tenure and sector for regular contracts and 0 to 1 month for fixed-term contracts.
Trial period	National law: 1 month for fixed-term contracts and 2 months for regular contracts (and fixed-term > 2 years). CLA: usually 2 months for all contracts.
Severance payment	No binding principle, yet court formulae makes severance payment dependent on age and tenure of the worker.
Regulation of fixed-term contracts	National law: no provisions on use of fixed-term contracts, only on number and duration: maximum 3 successive fixed-term contracts, with interception of maximum 3 months and maximum total duration of 3 years allowed, consecutive contract gives right to regular contract. CLA: large variation, up to maximum of 6 fixed-term contracts, interception period of 31 days, maximum total duration of 72 months.
Active labour market policy	
Legislation	National government.
Administration	Public bodies, private companies and municipalities (SA)
Monitoring	Public body.
Basic principles	First 6 months no reintegration programme, merely job mediation support if necessary. After 6 months enrolment in reintegration programme possible, yet no later than 12 months after unemployment started.

The social partners mainly have an advisory role in policy determination through their participation in various tripartite bodies (e.g. SER, RWI), but their advice is not binding. Yet, important in the Dutch system is that national labour law is only  $\frac{3}{4}$  binding, implying that there is room to set extra-

statutory legislation in collective labour agreements (on a sector or company level). This is established by the social partners. Collective bargaining coverage is about 85 percent in the Netherlands, showing the scope of the social partners' influence. There is a notable difference between unemployment insurance and employment protection. With respect to unemployment insurance, legal provisions determine the minimum protection level for the workers and only supplements are allowed for in collective labour agreements, *i.e.* the worker cannot be made worse off by sector provisions. In contrast, for employment protection, less strict provisions are allowed for in the collective labour agreements. It depends on the collective bargaining power and the goals of the trade unions what kind of provisions are established in collective labour agreements. There might be a trade off with supplementary unemployment insurance at the sector level or with wage increases (*cf.* Schils, 2007b).

The administration of social insurance as defined here is also mainly in hands of public bodies. With respect to unemployment insurance four authorities are involved, that all operate through local branches. The Centre for Work and Income (CWI) is responsible for the registration and intake of the unemployed, the Social Security Agency (UWV) is responsible for the administration of unemployment benefits (e.g. judgment of benefit claims, payment of benefits, sanctioning, payment of extra-statutory benefits), the tax office is responsible for the collection of insurance premiums from employers and the municipalities finally are responsible for the administration of social assistance. The UWV and CWI are independent public bodies, both operating through local offices. Since 2005 the tax office collects the unemployment insurance premium and transfers these to the UWV who administers unemployment insurance. Before, the collection of premiums was done by the UWV itself. The reason for changing this is to have one office for employers (e.g. payroll taxes and social security premiums). Before 1995, the social partners had a prominent role in the administration of social insurance. Bipartite (*i.e.* made up of representatives of employers and trade unions) trade associations, organised by sector, were responsible for both the policymaking and administration of social insurance. In practice, the trade associations left the administration to specialised administration offices. After some reforms, the system was changed into the current system in 2002 with the role of the social partners being reduced to an advisory role in national public councils.

The employers are the responsible bodies for the implementation of employment protection, *i.e.* they are the ones who dismiss employees according to the legislation. Yet, the employers are not fully free to dismiss their employees, not even when they mutually agree on the dismissal. For the 'approval' of their dismissal the employer needs the consent of either a public body (CWI) or the court, reflecting the dual structure of the Dutch employment protection system. About half of the dismissal cases go through court. In both cases, compliance with the national (or sector) regulations

on the fairness and the conditions of the dismissal is checked, which is more or less the monitoring function of the public body or the court. Yet, as mentioned before the financial consequences for the employer and the worker can be different between the two routes. The public route usually takes longer, involves a lot of administration for the employer, and implies a notice period after which entitlement to unemployment insurance can exist. The court route is faster and involves less administration for the employer and the worker can be dismissed immediately after the court's decision, usually with a relatively high severance payment. After a waiting period entitlement to unemployment insurance can exist.<sup>12</sup> For collective dismissals, the employer always needs the consent of the public body and the trade unions have an important role here, in the development of a mandatory social plan.

As for the administration of active labour market policy, this is also in the hands of public bodies, the same as those responsible for the administration of unemployment insurance. The CWI is responsible for the job mediation for the short-term unemployed who are likely to find a job relatively quick. The CWI both has an intermediary role between employers and job seekers and an advisory role to the job seekers. The UWV is responsible for the reintegration of the unemployed after the first six months of their unemployment and during the duration of their unemployment insurance (currently maximised to 38 months). For the actual reintegration, private reintegration companies are used. An individual job seeker can choose between a set of reintegration companies, *i.e.* those who comply with the conditions of the UWV. Finally, the municipalities are responsible for the reintegration of the unemployed on social assistance. They can also use private reintegration companies, yet they also apply other instruments such as subsidised jobs.

Monitoring of the administration of unemployment insurance and active labour market policy is performed by a public, yet independent, body (IWI). This body regularly tests whether the unemployment benefits are legally handed out, whether the administration costs are kept as low as possible, whether outflow rates out of unemployment insurance into employment are high enough etc. For municipalities who exceed their budget for benefits and reintegration, first an own-risk applies of ten percent of the income budget, to increase efficiency. Only in case the higher expenditures are not due to mistakes or inefficiency of the municipality (*e.g.*, economic shocks), the central government pays. Finally, the municipality can use a possible surplus for other means, which is meant as an incentive to reduce the number of people on social assistance.

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<sup>12</sup> The court route could imply that the worker has an earlier entitlement to unemployment insurance compared to the CWI route in addition to the receipt of severance pay. To prevent this 'double income', entitlement to unemployment insurance starts after a waiting period equal to the notice period the employer would have when the CWI route was used.

## 4.2 THE UNITED KINGDOM<sup>13</sup>

Legislation for unemployment insurance is set by the national government (i.e. the terms and conditions of unemployment insurance). The social partners have no role with respect to unemployment insurance. The system of unemployment insurance in the United Kingdom exists of both an contribution-based and an income-based (tax-funded) Job Seekers Allowance (JSA). It is a compulsory system for wage earners above a certain threshold. Note that the income-based Job Seekers Allowance is social assistance for the unemployed, for those without any labour market attachment a separate system of income support exists. The importance of the contribution-based system has declined in the last decades with only about one-fifth of the unemployed being contribution-based JSA beneficiaries. The main reasons given for this are contribution deficiency or exhausted entitlement, yet it is also argued to reflect tighter eligibility conditions and changing labour contracts (e.g. part-time employment). With respect to employment protection legislation, as a 'common law country' the UK relies less on substantive and procedural codification but more on 'decision making by juries, independent judges, and the emphasis on judicial discretion.' (Botero et al., 2004: 1344). Some minimum statutory provisions are established by law, such as minimum period of notice or a minimum redundancy payment. Collective labour agreements, established by the social partners, improve these statutory provisions in many cases. Yet, bargaining coverage rate in the United Kingdom is only about 35 percent. Finally, as for active labour market policy, national government (the Department of Work and Pensions – DWP) retain full policy responsibility for its design and coordination. The social partners do, however, play a role here as an advisory body. Table 3 shows the main elements of the system of unemployment insurance, employment protection and active labour market policy in the United Kingdom.

Regarding the administration of social insurance, the government is fully responsible for the administration of unemployment insurance. The social partners are not at all involved, neither is there a role for local authorities in the delivery of unemployment benefits. Premiums are part of an overall social insurance premium paid into the National Insurance Fund, from which transfers are made to unemployment insurance, entirely under the control of the central government. The implementation of employment protection is left to employers, yet two bodies are important. The Employment Tribunals, independent judicial bodies, are responsible for the settlement of employment disputes with respect to dismissals, redundancy, or discrimination. Second, the Advisory Arbitration and Conciliation Committee (ACAS), a publicly funded independent body, plays a role in the outcome of individual and collective employment disputes. The role of ACAS has become more important since 2001 when, supported by the Trade Union Congress and the

<sup>13</sup> This text is based on the country report of the United Kingdom, see Clasen (2007).

Confederation of British Industry, the ‘arbitration’ alternative to the Employment Tribunals was established as a way of ‘tackling undue legalism and the failure of tribunals to live up to their original remit to provide an accessible and informal way of resolving individual employment disputes’ (Dickens & Hall, 2003: 135). However, this route has hardly been used, with fewer than 50 cases by 2004.

Table 3: Unemployment insurance, employment protection and active labour market policy in the UK

Unemployment Insurance	
Legislation	National government.
Administration	National government.
Monitoring	National government.
Main system	Contribution-based (cb) and income-based (ib) Job Seekers Allowance.
Coverage	All employees above certain wage threshold.
Financing	Cb-JSA: Payroll taxes (11% overall social insurance premium). Ib-JSA: Tax-based.
Entitlement conditions	Cb-JSA: 25 weeks contribution, 100 in previous 2 years. Ib-JSA: means-test
Benefit level	Flat-rate: €85.60 a week for workers aged over 25.
Benefit duration	Cb-JSA: 6 months. Ib-JSA: Indefinite.
Employment protection	
Legislation	National government (minimum) and practice.
Administration	Employers.
Monitoring	Public body and court.
Notice period	A minimum of 1 to 12 weeks depending on tenure for regular contracts, none for fixed-term contracts.
Trial period	No statutory provision, left to employer and worker agreement.
Severance payment	A minimum of 0.5 to 1.5 week’s pay.
Regulation of fixed-term contracts	No provisions on use of fixed-term contracts, only on maximum duration: up to 4 years use of fixed-term contracts possible, after which right to regular contract exists.
Active labour market policy	
Legislation	National government.
Administration	Public body.
Monitoring	National government.
Basic principles	Compulsory enrolment in reintegration programme depending on age but no later than after 18 months of unemployment.

Finally, a public body, the Jobcentre Plus, operating via local branches, is responsible for the administration of active labour market policy. It has been created as a single point of contact for all claimant groups of working age and has a dual function: to help working age people find employment and receive social security support. Its clientele consists of all people of working age and ‘unemployed or economically inactive’. The Jobcentre Plus has significant operational autonomy but is accountable to the Secretary of State and Ministers at the Department of Work and Pensions. While the social partners have no formal role, there is a ‘National Employment Panel’, comprising of

25 Chief Executives, more than half of whom are from large employers in the private sector and with three representatives nominated by the Trade Union Congress. The Panel's role is to scrutinise and 'help develop' welfare to work policies. It has been 'instrumental in ensuring that the DWP and Jobcentre Plus have focused on developing services for employers' (Finn, 2005).

The monitoring of the administration of social insurance and active labour market policy, is mainly conducted by the Department of Work and Pensions and the Department of Trade and Industry, since these are the relevant ministries to determine legislation on unemployment insurance, employment protection (though minimal) and active labour market policy. In addition, as mentioned, the National Employment Panel supervises the administration of active labour market policies, involving the social partners. With respect to employment protection, the Employment Tribunals are basically monitoring institutions since they play an important role in the settlement of disputes between employers and workers in the dismissal procedures.

### **4.3 DENMARK<sup>14</sup>**

The Danish system of social insurance and labour market policy has developed into a rather complex structure. The system of unemployment insurance and active labour market policy is a two-tier system: unemployment insurance for members of unemployment insurance funds and social assistance for non-members (*i.e.* the same system of social assistance for those with and without labour market attachment). The first group is under the auspices of a state-run system, while the latter is taken care of by the municipalities. The conditions and rules of both tiers are set by the national government. These conditions are universal, *i.e.* there are no differences between occupations or groups on the labour market. Legislation with respect to employment protection is largely left to the social partners, *i.e.* the dismissal of salaried workers is regulated by a special piece of national law (covering public employees and about half of private sector workers), while the rules for blue-collar workers are defined as part of the collective bargaining by the social partners.

The two-tier system of unemployment insurance and active labour market policy is mainly reflected in the administration. The unemployment insurance funds are responsible for the administration of unemployment insurance for the insured (the so-called Ghent system) and the municipalities are responsible for the administration of social assistance for the non-insured. The demand for unemployment insurance is basically individual in the sense that the choice to become a member of a fund is a choice made by each worker. Given the strong links between the unemployment insurance funds and the trade unions, the membership of the fund and the trade union is conceived

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<sup>14</sup> This text is based on the country report of Denmark, see Madsen (2007).

as a package, although formally these are independent of each other. Members of the insurance funds contribute a flat-rate universal premium to the unemployment insurance, and an administrative fee, which varies between the unemployment insurance funds (see Table 4).<sup>15</sup> Additional financing comes from state subsidies. It is worth mentioning that in the past years some unemployment insurance funds have introduced supplementary unemployment insurance schemes, in cooperation with private insurance companies. Yet, since contributions are calculated on an actuarial basis, these are relatively high compared to the level and duration of the benefits (maximised by the state).

Employment legislation is implemented by the employers who apply the rules set by the law for salaried workers and those laid down in collective labour agreements by the social partners for blue-collar workers. For the latter group, the level of protection against dismissals varies between different sectors (Table 4). Cases brought against employers for offending the regulations with respect to employment protection are handled by the separate legislative system that is established for the labour market.

Active labour market policy is administered by regional labour market authorities (for the insured) and by the municipalities (for the uninsured). The Regional Labour Market Councils are tripartite bodies with representatives both from trade unions, employers organisations, regional and local government. These councils receive a lump-sum for active measures and have a large discretion with respect to the actual allocation of funds between the different programmes – typically in cooperation with public actors (e.g. educational institutions) or private actors (e.g. private training providers). The aim of the decentralisation of activation policy is to achieve ‘a higher degree of responsiveness vis-à-vis local and individual problems, as it has been assumed that a decentralisation of competence and responsibility will generate a more complementary relationship between policies and structural problems of unemployment’ (Jensen, 1999). A social coordination committee, composed of representatives of the municipalities, the social partners, medical advisers, handicap organisations and the public employment service, advises the municipal authorities about preventive social measures. The committee strengthens the cooperation between the municipal authorities and various partners in the public and the private sector in relation to active labour market programmes. As from 2007 onwards important reforms are implemented and active labour market policy is overtaken by the Jobcentres, that operate on a municipal level and are responsible for the reintegration of both the insured and the uninsured, *i.e.* take a hybrid position between a one-tier and a two-tiered system.

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<sup>15</sup> In addition, members contribute to a supplementary compulsory pension and voluntary to an early retirement fund.

Table 4: Unemployment insurance, employment protection and active labour market policy in Denmark

Unemployment Insurance	
Legislation	National government.
Administration	Unemployment insurance funds (UB) and municipalities (SA).
Monitoring	National government.
Main system	Insured: Unemployment insurance. Uninsured: Cash-benefits (social assistance)
Coverage	Insured: voluntary insured members (i.e. possible for salaried workers and selfemployed) of unemployment insurance funds Uninsured: uninsured workers.
Financing	Insured: individual premiums (universal membership fee and varying administration fee – from €83 to €370 a year), supplemented by state subsidies. Uninsured: tax-based.
Entitlement conditions	Insured: member $\geq 1$ year, employment $\geq 52$ weeks in previous 3 years. Uninsured: means-test.
Benefit level	Insured: up to max. of 90% of previous earnings. Uninsured: flat-rate (e.g. €1,100 per month single person aged 25+).
Benefit duration	Insured: up to max. of 4 years. Uninsured: Indefinite.
Employment protection	
Legislation	National government and CLA.
Administration	Employers.
Monitoring	Court.
Notice period	Depending on sector and tenure. Varying from 3 days for construction workers with 1 year tenure to 6 months for salaried workers with 10 years tenure for regular contracts.
Trial period	Depending on sector. Varying from a maximum of 9 months for blue-collar workers to 12 months for salaried workers.
Severance payment	Depending on sector and tenure. For salaried workers varying from 1 month's wage with 12 years of tenure to 3 month's wage with 18 years of tenure. For blue-collar workers in collective labour agreements, if not zero.
Regulation of fixed-term contracts	The use of fixed-term contracts is only allowed for specific periods of time and/or specific times, with a maximum duration of 30 months.
Active labour market policy	
Legislation	National government.
Administration	Regional public bodies (UB) and municipalities (SA).
Monitoring	National government.
Basic principles	Both insured and uninsured workers have to be registered and follow job-search directions of PES or municipality. An activation plan is developed depending on the individual needs of the job seeker, and job search requirement laid down here have to be met to keep benefits.

As for the monitoring of social insurance administration, the Labour Directorate, a separate public body under the Ministry of Employment, is responsible for the supervision of the activities of the unemployment insurance funds and for the recognition of the funds themselves. Part of the same ministry, the National Labour Market Authority is responsible for the monitoring of the administration of active labour market policy for the insured by the Public Employment Service as well as that for the uninsured administered by the municipalities. Yet, the autonomy of the local

government is reflected in the fact that both the regions and the municipalities have their own national organisations. These organisations play a key role when tasks and resources are allocated between the different levels of government and in the preparation of the National Action Plans for Employment. These organisations are seen as much as representative of social partners as of the local and regional level.

#### **4.4 GERMANY<sup>16</sup>**

In Germany, both unemployment insurance and unemployment assistance are regulated by national legislation. Hence, there is a unified legal framework. In recent, major reforms have taken place which have resulted in a new system of unemployment insurance as from 2005. The main changes were the merge of unemployment assistance and social assistance for employable persons (still a separate system for those incapable of working) and the shift from earnings-related to flat-rate unemployment assistance (both means-tested), see Table 5. The social partners can influence policy-making and – to some extent – have a say in the actual implementation of the benefit system through the tripartite Federal Employment Office (Bundesagentur für Arbeit, BA) governed by the principle of self-administration, but this influence was curtailed significantly with the Hartz reforms between 2003 and 2005. Dismissal protection is regulated by national legislation, court decisions and collective labour agreements. Yet, it is mainly an issue of national legislation. Since labour market insiders have a strong position in politics (through the workers wing in the Social-Democratic and Christian-Democratic parties) and due to the institutionalised role of trade unions in the industrial relations arena, they tend to defend the status quo of dismissal protection. This effect is enlarged through the collective labour agreements that provide even stronger dismissal protection than employment protection in national legislation and further strengthen the insider protection over the interests of outsiders. Bargaining coverage is about 65 percent in Germany. Court-made jurisprudence also plays a major role in defining the concrete substance of dismissal protection, the level of severance payments or the regulation of fixed-term employment. Finally, the structure of active labour market policies also determined by national legislation.

As mentioned, the Federal Employment Office (BA) is responsible for the administration of unemployment insurance (including premium collection) and unemployment assistance and corresponding activation policies. Actual implementation takes place through regional and local BA agencies. In some districts there are joint bodies of BA and municipalities, while in others the municipalities have taken over the administration of unemployment assistance. There is an integrated organisational structure responsible for passive and active labour market policies for the

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<sup>16</sup> This text is based on the country report of Germany, see Ebbinghaus & Eichhorst (2007).

short-term unemployed (BA), whereas the responsibility for passive and active labour market policies for long-term unemployment is divided between the BA and municipalities. In most districts, joint agencies have been established (Arbeitsgemeinschaften), while the municipalities have taken over these tasks in some districts (Optionskommunen). The regional bodies have some leeway in the administration of active labour market policy, yet not with respect to unemployment insurance/assistance, which is highly formalised in legal terms.

Table 5: Unemployment insurance, employment protection and active labour market policy in Germany

Unemployment Insurance	
Legislation	National government.
Administration	Regional public bodies and municipalities.
Monitoring	Tripartite public body.
Main system	Unemployment Insurance (ALG-I) and Unemployment Assistance (ALG-II)
Coverage	ALG-I: private sector employees with some exceptions (workers in minor jobs below €400 per month), public sector workers with private law contracts (except civil servants with fixed-term contracts). ALG-II: all people that are capable of working.
Financing	ALG-I: payroll taxes (3.25% by workers, 3.25% by employer). ALG-II: Tax-funded.
Entitlement conditions	ALG-I: employment of $\geq 12$ months in previous 24 months. ALG-II: means-test.
Benefit level	ALG-I: 67% of insured net earnings for those with children, 60% for others. ALG-II: flat-rate (€345 per month single person). Old system: 53-57% of previous net income (means-tested, depending on family situation)
Benefit duration	ALG-I: 6 to 18 months depending on age and prior employment duration. ALG-II: indefinite.
Employment protection	
Legislation	National government and court decisions (supplements in CLAs).
Administration	Employers.
Monitoring	Court.
Notice period	Depending on years of service. Varying from a minimum of 4 weeks to 6 months with 15 years of tenure for regular contracts, none for fixed-term contracts. Longer notice periods in CLA's possible.
Trial period	6 months in which the notice period is 2 weeks.
Severance payment	No legal obligation to pay severance pay (only in case of dismissal for business reasons or when decided by court: 50% of last monthly wage times the number of years of tenure). Additional legislation in CLA's, usually after 25 years of tenure CLA provides severance pay ranging from 6 to 18 months depending on the worker's age.
Regulation of fixed-term contracts	Fixed-term contracts can be used without specification of the reason, with a maximum of 4 renewals and a maximum duration of 2 years.
Active labour market policy	
Legislation	National government.
Administration	Regional public bodies and municipalities.
Monitoring	Tripartite public body.
Basic principles	Beneficiaries have to follow job placement rules of PES and participate in ALMP schemes if PES determines so.

The main body of social partner influence is the tripartite supervisory board (*Verwaltungsrat*), which is responsible for supervising the BA executive board, approving the annual budget and the annual business report. The supervisory board can also request additional information, internal audit reports or external review. In addition, and most importantly, the supervisory board has to approve the business objectives of the BA management. In this respect, the most recent shift towards effectiveness and cost efficiency in BA resource allocation is also due to political support by the supervisory board. Representatives for this board are nominated by the social partners and the government. Competing providers of unemployment insurance do not exist. As a consequence of a lack of a clear distribution of responsibilities and ambiguous incentives for the administrating actors, currently there are governance problems in the area of active labour market policy. The BA focuses its own activities (funded by unemployment insurance contributions) on better risks, *i.e.* the potentially short-term unemployed, whereas the potentially long-term unemployed, identified through profiling, are neither provided with enabling active labour market schemes nor subject to “demanding” or activating elements during the period that they draw unemployment insurance benefits. After expiry of unemployment insurance, the long-term unemployed are transferred to the tax-funded unemployment assistance. Expenditures on unemployment insurance benefits and active labour market policies for the short-term unemployed tend to decline at the expense of higher expenditure on tax-based unemployment assistance and active labour market programs for recipients of unemployment assistance.

As for the monitoring of employment protection, dismissals can be nullified by Labour Courts, which regularly leads to agreements on severance pay. Employees who are organised union members can be represented by trade union officers before the court, others rely on lawyers. Works Councils have to be consulted in all cases of dismissals. Dismissals of disabled people need authorisation by the BA. Notifying the BA is also required in case of collective dismissals.

## **4.5 BELGIUM<sup>17</sup>**

During the past decades, Belgium has been transformed from a unitary state into a federal state, in which labour market policies have been devolved to the regional authorities. The responsibility for social security and labour market policies was distributed over various levels of government with different authorities following different policy pathways. This has led to a complicated system of government, and in a myriad of quasi governmental bodies with responsibilities in the area of unemployment insurance and labour market policies. In addition, the Belgian system of collective bargaining occurs at three levels: the national, the industry-wide, and the company level. There is a

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<sup>17</sup> This text is based on the country report of Belgium, see de Deken (2007).

hierarchical relationship between these levels implying that an agreement at one particular level cannot be less favourable than one at a higher level. At the national level, the social partners conclude multi-industry agreements (IPAs) that have no binding power but rather are a kind of “gentlemen’s agreements”. The content needs to be elaborated and formalised into national or industry-wide collective labour agreements. Bargaining coverage in Belgium is over 90 percent.

With respect to unemployment insurance, some argue that the Belgian system hardly qualifies as an insurance system, *i.e.* it lacks the strict actuarial logic of a system of earnings-related benefits and seems to have more in common with a status-based social assistance scheme, or with a social provision system. It is largely needs-based, not by means of a means-test, however, but the needs are inferred indirectly from the age and family status of the individual including the labour market status of such family members. To those who do not meet the entitlement conditions of unemployment insurance, the regular social assistance scheme applies. It is the federal government who determines the conditions of both systems. A very limited number of collective labour agreements offer supplementary unemployment benefits. These extra-statutory benefits, however, hardly increase the earnings-related nature of the insurance, mostly consist of flat rate supplements. In a way, this comes as a surprise, as the Belgium statutory scheme, with its relatively low replacement rates for middle and higher wage earners, ought to form a fertile ground for the growth of extra-statutory schemes. Table 6 shows the main elements of the system of unemployment insurance, employment protection and active labour market policy in Belgium.

As for employment protection, the main conditions are determined on a national level, by law or in national collective labour agreements. The Belgian system of collective bargaining occurs at three levels: (1) national or inter-sector, (2) industry-wide or sector, and (3) enterprise. There is a hierarchical relationship between these levels that implies that an agreement at one particular level cannot be less favourable than agreements on a higher level. At the national level, negotiations take place in the National Labour Council, a bipartite organisation that was established in 1952.<sup>18</sup> Within this council the central trade union federations and employer associations negotiate wages and employment conditions for private sector employees. In the field of active labour market policy, the regions are the main actors, influenced by European guidelines on activation. The Flemish government<sup>19</sup>, for example, introduced a compulsory career guidance system in which the job seeker is automatically enrolled after three to nine months of unemployment depending on the job seeker’s age and education level.

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<sup>18</sup> There are two bodies where the social partners meet at the national level: the National Labour Council (*Nationale Arbeidsraad* or NAR) is responsible for social affairs and forms the framework for national collective labour agreements. In addition it advises the government and parliament on labour law and social security. The National Economic Council (*Centrale Raad voor het Bedrijfsleven* or CRB), on the other hand, advises the government on economic matters.

<sup>19</sup> The study was limited to the region of Flanders only.

Table 6: Unemployment insurance, employment protection and active labour market policy in Belgium

Unemployment Insurance	
Legislation	Federal government.
Administration	Public bodies and unemployment insurance funds.
Monitoring	Federal government.
Main system	Needs-based unemployment insurance system (i.e. earnings-related but based on age and family situation). (Regular) social assistance for those who do not meet entitlement.
Coverage	UI: All employees. SA: All residents.
Financing	UI: payroll taxes: overall social insurance premium 13.07% by workers, 24.79% by employers, 7.48 wage moderation levy, supplemented by state subsidies. SA: tax-funded.
Entitlement conditions	UI: Depending on age. Ranging from $\geq 312$ days of work in previous 18 months for workers aged below 36 to $\geq 624$ days of work in previous 36 months for workers aged over 55. SA: means-test.
Benefit level	UI: Earnings-related, declining over time, depending on family situation: 60% always for breadwinners, declining from 60% to flat-rate for cohabitants with an earning partner. Low maximum ceiling (1.4 times minimum wage about €1,744 per month). SA: flat-rate (€ 626 per month for singles).
Benefit duration	UI: 3 phases: I = 12 months, II = 6 months, III = as of 18 <sup>th</sup> month. indefinite SA: indefinite.
Employment protection	
Legislation	Federal government and national CLAs.
Administration	Employers.
Monitoring	Court (only when workers asks for it)
Notice period	Manual workers: depending on tenure. Ranging from 1 week with tenure less than 6 months to 16 weeks with tenure over 20 years. For fixed-term contracts no notice period. Salaried workers: depending on income and tenure. When earning less than €26,912 notice period is 3 months plus 3 months for every 5 years of tenure. When earning more, individual agreement with employer.
Trial period	Manual workers: 7 days. Salaried workers; 1 month and within this period notice period is 7 days.
Severance payment	No legal provisions on this.
Regulation of fixed-term contracts	Without specification of an objective reason 4 successive fixed-term contracts can be used up to a period of 2 years (each > 3 months) or up to 3 years (each > 6 months), with authorisation of the labour inspectorate. With specification of an objective reason, no regulation.
Active labour market policy	
Legislation	Regional government.
Administration	Regional body.
Monitoring	Regional government.
Basic principles	Compulsory career guidance system after 3 to 9 months of unemployment, depending on age and education of unemployed worker.

Unemployment insurance policy is administered by the tripartite National Employment Office (RVA, operating via district and local offices), i.e. this body decides on the entitlement and benefit level of

claimants, and issues payment orders to the paying bodies. The RVA is a public body, governed by a board with representatives of the federal government, the employers' associations and the trade unions. Since 2002 the RVA has been subject to a public service contract with the government. The payment bodies are responsible for the actual payment of unemployment insurance. These include one public fund and three auxiliary funds that are linked to the three national trade union federations. As a default, an unemployed person will receive his benefits from the public fund (via the municipalities), but he can also opt to apply for and receive his benefits via an auxiliary fund (via the trade unions). The auxiliary funds can be compared with insurance brokers: they give advice, they help the unemployed with completing their dossiers and they also offer legal assistance. Most unemployed (88 percent) rely upon an auxiliary fund (path dependency, e.g. Ghent system). The trade unions and their auxiliary funds, however, have no influence whatsoever on the decision of granting unemployment benefits. This decision is solely made by the National Employment Office. The compulsory career guidance system to activate the unemployed is administered by tripartite regional public bodies (e.g. VDAB, FOREM, BGDA-ORBEM and ADG for the four different regions).

Since 2002, the National Employment Office is supervised by the Federal Minister of Employment. As for dismissal decisions, employer's do not need the consent of either a court or a the National Employment Office. The employee, however, can take the dismissal to court. The regional bodies implementing the activation schemes are monitored by the regional government who set the rules for the schemes.



## **5 A COUNTRY COMPARISON**

### **5.1 UNEMPLOYMENT INSURANCE**

In all countries the national government determines the conditions of unemployment insurance, as expected according to hypothesis 1. In most cases an advisory, yet not binding, role is given to the social partners. Except for Denmark, participation is compulsory for the majority of employees (in the United Kingdom only for those above a certain income threshold and in Germany some groups are excluded). This is probably due to the problems of adverse selection explained earlier. With respect to the administration of unemployment insurance, some differences are found between the countries. In Germany, the Netherlands and the United Kingdom the administration is conducted by a public body on the national level (although operating through regional offices), while the administration is partly (in Belgium) or fully (in Denmark) in the hands of unemployment insurance funds. In Belgium a public body, yet governed by a tripartite board, is responsible for the administration of unemployment insurance and that the funds are merely payment bodies. In Denmark, by contrast, the unemployment insurance funds are the responsible bodies for the administration of unemployment insurance. As for the monitoring of the administration, this is in hands of the national government or a public body in which the social partners have a seat.

Looking at the main features of unemployment insurance, in all countries but one unemployment insurance exists of earnings-related benefits for those who fulfil the entitlement conditions, except in the United Kingdom where only flat-rate benefits exist. In both Belgium and Germany the benefit level further depends on the family situation. Statutory unemployment benefits are generally highest in Denmark, where unemployment insurance can amount to 90 percent of previous earnings. In the Netherlands national provisions lead to benefits with a maximum 75 percent of previous earnings, yet in some collective agreements this is supplemented to a maximum of 80 percent. In Germany benefits are maximised at 67 percent of previous earnings and in Belgium at 60 percent. As for the duration of unemployment benefits, this depends on the employment history of the unemployed workers, but it is generally longest in Denmark where benefits are paid for a period of 4 years at most. In the Netherlands benefits are paid for 38 months the most (but only for people who fulfil all entitlement conditions), in Germany for 18 months and in the United Kingdom for only 6 months. Belgium is a special case, with an indefinite, but phased unemployment insurance, during the first 12 months the highest benefit is paid (60 percent), during the next 6 months it is reduced depending on the family situation and the final phase lasts from the 18<sup>th</sup> month of unemployment till a job is found (see Table 6).

To compare the entitlement conditions, we have expressed these as the percentage of the time one should have worked in the previous years. For example, in the United Kingdom one has to have contributed 100 weeks (usually this requires employment) in the previous 2 years, which is comparable to having contributed 96 percent of the previous years, as expressed in Table 7. It seems 'easiest' to meet the entitlement conditions in Denmark where a working history of one-third of the previous years is sufficient for entitlement and most difficult in the United Kingdom, where the ratio of minimum contribution weeks to previous years is almost 1.

Table 7: Entitlement conditions for unemployment insurance

	Actual entitlement condition	Percentage of previous years
Netherlands – basic benefit	26 weeks in previous 36 weeks	72.2
Netherlands – extended benefit	4 years in previous 5 years	80.0
United Kingdom	100 weeks in previous 2 years	96.2
Denmark	52 weeks in previous 3 years	33.3
Germany	12 months in previous 24 months	50.0
Belgium – aged under 36 years	312 days in previous 18 months	56.8
Belgium – aged over 36 years	624 days in previous 36 months	56.8

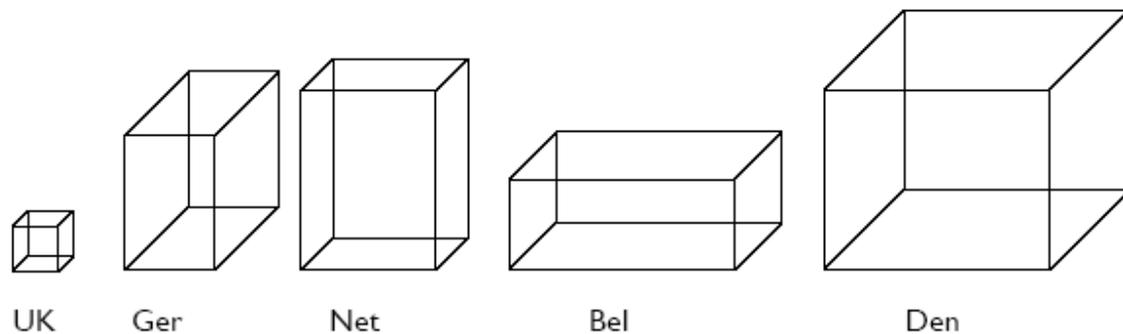
Table 8 summarises this evidence and ranks the countries according to the tightness of the entitlement conditions and to the maximum level and maximum duration of unemployment benefits. A 1 is appointed to the most 'difficult to access system' (e.g. tightest entitlement, lowest benefits or shortest duration) and a 5 to the 'easiest to access system'. Imagine that these three different rankings lead to different boxes in an xyz-diagram ( $x$  = tightness of entitlement conditions or depth of the box,  $y$  = unemployment benefit level or height of the box and  $z$  = unemployment benefit duration or width of the box), as sketched in Figure 1. The smaller the box, the 'smallest' unemployment insurance is, which is clearly the case for the United Kingdom where entitlement conditions are most tight, unemployment benefits lowest and duration of such benefits the shortest. In this view, Denmark has the largest box, with relatively easy-to-meet entitlement conditions, generous benefits that are granted for a relatively long period of time. The second largest box is for Belgium and both Germany and the Netherlands have equally sized boxes, yet with a different shape. The Dutch system offers higher benefit levels and longer benefit durations, while the German system is characterised by less tight entitlement conditions. When looking at the hypotheses, one might conclude –very carefully though, since at this point in time we only have limited evidence– that in the two countries where the trade unions are involved in the administration of unemployment insurance, and in the past had a more dominant role in the policy determination as well, the maximum size of the boxes is largest (i.e. in Belgium and Denmark), while in the country with the least involvement of the trade unions (i.e., the UK), the maximum size is smallest. Trade unions might try to increase the size of the box to protect the insiders on the labour market, i.e. their members. We will see whether this conclusion holds when looking at other evidence.

Table 8: Organisation, entitlement conditions, benefit level and duration of unemployment insurance

	Bel	Den	Ger	Net	Uk
Legislation	state	state	state	state	state
Coverage	all employees	all members	all employees	all employees	all employees
Administration	state & unions	Unions	state	state	state
Monitoring	state	State	state	state	state
Entitlement <sup>a</sup>	3	5	4	2	1
Benefit level <sup>b</sup>	2	5	3	4	1
Benefit duration <sup>c</sup>	5	4	2	3	1

<sup>a</sup> 1 is most difficult to meet, 5 is most easy to meet. <sup>b</sup> 1 is lowest benefits, 5 is highest benefits. <sup>c</sup> 1 is shortest duration, 5 is longest duration.

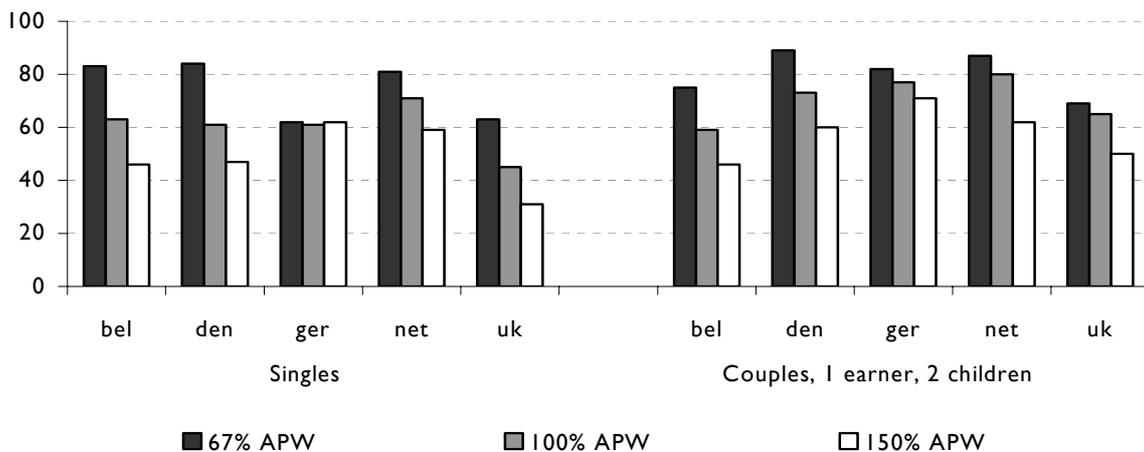
Figure 1: 3-dimensional representation of the system of unemployment insurance



These figures are based on the maximum statutory benefit levels and durations. Figure 2 shows some figures on the average replacement rates in case of unemployment calculated by the OECD for different family situations. Now the picture is less clear. When only considering the average production worker (APW), the conclusion would be that the Dutch system yields the highest benefits for both family types. For single persons, the lowest benefits are paid in the British system, while for couples with two children this is the case for the Belgian system. The picture becomes even more complicated when allowing for other income levels. For singles with the lowest incomes (67% of APW), the highest benefits are paid in the Danish, Belgian and Dutch system and for couples in the Danish, Dutch and German system. For couples with the highest income levels (150% of APW), the German, Dutch and Danish system are most generous, while the latter system is less generous for singles with high income levels. Looking at the gap between the replacement rate for the lowest incomes and for the highest incomes, it can be seen that this is largest in Belgium and Denmark for both family types and smallest in Germany. No systematic pattern results and no relation can be made to our hypotheses.<sup>20</sup>

<sup>20</sup> An important note that should be made is that it is not entirely clear what kind of insurances are included in the OECD replacement rates. For example, in some of the countries there is an integrated social assistance system including those without an employment history but also those who are unemployed but are not entitled to unemployment insurance benefits.

Figure 2: OECD replacement rates in case of unemployment by family type and income level



In addition to unemployment insurance for those who meet the entitlement conditions, a system of social assistance exists in all countries for those workers who do not meet these conditions or for whom unemployment insurance has expired. In Germany and the United Kingdom there is a different system for those with labour market attachment (unemployment assistance) and those without (social assistance), yet the payable benefits are about the same in both cases, as is the means-test. In the other countries the same system of social assistance applies to both groups of people. The difference in the benefit conditions between unemployment insurance (*i.e.* those with solid employment history) and unemployment/social assistance (*i.e.* those without such history) might be a first indicator for the gap between insiders and outsiders. Social assistance levels in all countries are flat-rate rather than earnings-related and the highest benefits are found in Denmark (€1,173 per month for single persons), while the lowest benefits are found in Belgium (about €625 per month for single persons). Entitlement in all countries is based on a means-test and duration of benefits is indefinite, yet dependent on job search. It is evident (and not surprising) that in all countries workers who are not entitled to unemployment insurance are worse off compared to those who are entitled.

To get a rough indicator of the cleavage between insiders and outsiders, we calculated the difference between the average unemployment benefit and the social assistance benefit paid to singles. For the first we used gross average wages and the OECD replacement rates in case of unemployment, as presented in Table 9. We also present the ratio of the income of social assistance beneficiaries to the income of unemployment insurance beneficiaries. Though this is a very rough exercise, we think it gives a first indication of an income gap between those who are entitled to unemployment benefits and those who are not. The smallest gap between insiders and outsiders is found in the United Kingdom and the largest gap is found in Belgium, Germany and the Netherlands.

Except for the result of Denmark, which seems to be close to the United Kingdom, this is according to our expectations.

Table 9: Difference between unemployment and social assistance benefits for single persons (in euros)

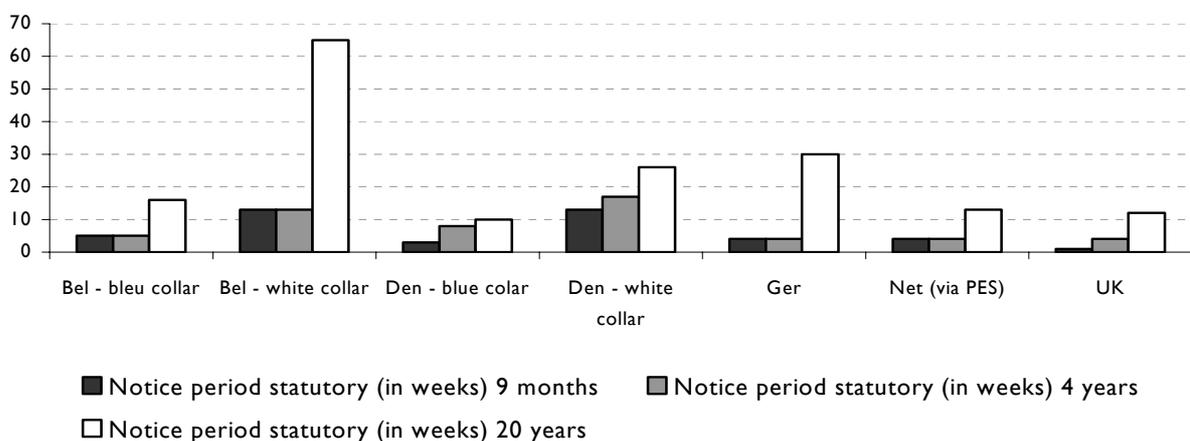
	Average gross monthly UB (using OECD replacement rates)	Average monthly social assistance benefit <sup>1</sup>	Average social assistance benefits as a percentage of average unemployment benefits
Belgium	1564	625	40.0
Denmark	2060	1173	56.9
Germany	1599	673	42.1
Netherlands	1772	746	42.1
United Kingdom	1107	704	63.6

<sup>1</sup> Including housing benefits or other supplements for single persons.

## 5.2 EMPLOYMENT PROTECTION

With respect to employment protection, in some countries only a limited set of provisions is given on the national level (e.g. Denmark and the United Kingdom), while in others rather extensive national legislation exists (the Netherlands). In addition, in some countries (e.g. Denmark and the Netherlands), additional legislation is established by sector or company level collective labour agreements. Figure 3 shows the statutory notice periods for employees on regular contracts. In all countries the period of notice increases with tenure, the steepest in Belgium and Germany (corporatism and strong elements of seniority in employment relation). In addition, in both Belgium and Denmark, white collar (or salaried) workers enjoy higher protection compared to blue collar workers. On average, statutory notice periods are shortest in the United Kingdom, followed by Germany and the Netherlands. For the latter country, however, this only applies to workers who are dismissed via the public route, for workers dismissed via the court route no statutory notice period applies.

Figure 3: Statutory notice period for regular contracts by tenure (in weeks)



As mentioned, in both Denmark and the Netherlands extra-statutory employment protection can be arranged in collective labour agreements, which might differ from the national provisions. For example, in Denmark there is a large difference in the notice period of construction workers and that of industrial workers. For construction workers with a tenure of 1 year, the notice period is only 3 days, while that of industrial workers with the same tenure is 7 times as long, 21 days. This gap is even larger for workers with longer tenure: after 5 years construction workers can be dismissed after a notice period of 5 days while for industrial workers this is 2 months. In the Netherlands, there is also differentiation in notice periods between sectors. Recent research shows that for 20 percent of the workers under collective labour agreements a longer notice period applies (*i.e.* compared to national legislation) for tenure shorter than 5 years, up to a notice period of 2 years for employees working in education.<sup>21</sup> In this sector, union membership is above average with 38 percent of the workers being unionised, compared to 24 percent on average. In general, the lowest notice periods are found in retail and commercial services, where union density is below average, about 9 percent in both sectors. In addition, for 30 percent of the workers covered by a collective labour agreement, a shorter notice period applies for tenures over 15 years, to a minimum of 3 months in construction. In this sector, union membership is a little over average which does not explain the lower protection, yet in a large number of collective agreements in this sector, supplementary unemployment insurance exists, mitigating the income loss due to dismissal. This preliminary view on sector provisions on employment protection seems to support the idea that when trade unions play a larger role (*i.e.* high union density) conditions for the insiders are relatively good, either by means of higher employment protection or higher unemployment insurance (or higher wages perhaps, which has not been analysed yet).

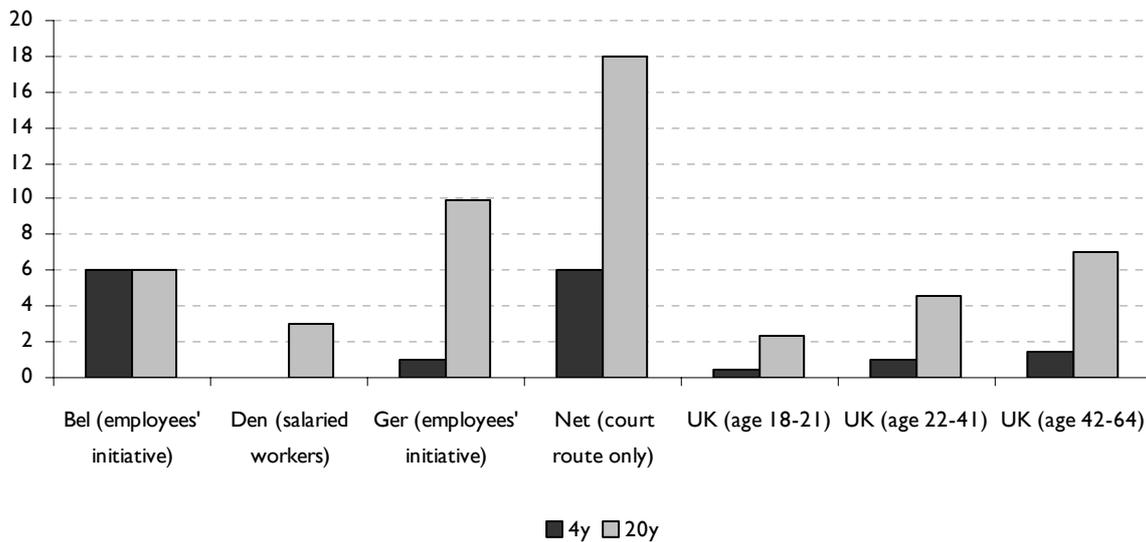
Another type of employment protection is severance pay. Only in Denmark and the United Kingdom statutory severance (or redundancy pay in the case of the United Kingdom) exists. In Denmark this only applies to salaried workers with a tenure over 12 years and in the United Kingdom it depends on the age of the individual and tenure. Statutory redundancy pay in the latter country is among the lowest in Europe, but usually employers pay additional redundancy pay and up to €45,550 are tax free. In the other countries, severance pay is paid as a consequence of court decisions. In the Netherlands, where according to law permission for dismissal is needed either by court or a public body, about half the cases go to court and severance pay depends on the age and tenure of the employee. In Belgium and Germany court cases are mainly initiated by the employee. Figure 4 shows the statutory or court-based severance pay in all countries. Severance pay is highest in the Netherlands, followed by Belgium and Germany, yet in the latter country only for employees

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<sup>21</sup> This is based on an unpublished paper on employment protection in collective labour agreements of Schils (2007).

with long tenure. In the United Kingdom redundancy pay is highest for prime-aged employees, especially those with longer tenure.

Figure 4: Statutory and court-based severance pay (months of salary)



Finally, it is of importance to look at the regulation of fixed-term contracts. The employment protection regulation described above only concerns workers on regular or permanent contracts. In most of the countries studied here, there are no regulations on the use of fixed-term contracts, except for Denmark where these are only allowed for specific tasks or time periods. In addition, however, in all countries a maximum duration and/or a maximum number of renewals is specified for a sequence of fixed-term contracts. The maximum duration is shortest in Germany (24 months) and longest in the Netherlands (36 months) and the United Kingdom (48 months). In Belgium the maximum duration depends on the length of the fixed-term contract and varies between 24 months and 30 months, a position in between Germany and Denmark (30 months).

### 5.3 ACTIVE LABOUR MARKET POLICIES

Table 10 gives an overview of the relative numbers of participants in active labour market programmes and compares these to the number of persons on unemployment and early retirement benefit (passive labour market programmes).

Table 10: Participants in labour market programmes as a percentage of the labour force, 2004

	Belgium	Denmark	Germany	Netherlands	United Kingdom
Training*	2.43	1.24	1.76	1.14	1.13
Employment incentives	1.27	1.15	0.48	0.58	0.01
Integration of the disabled	0.64	2.49	0.42	2.11	0.50
Direct job creation	2.54	–	0.68	0.60	0.02
Start-up incentives	0.02	–	0.64	–	–
Active, total	7.11	4.88	4.90	6.37	1.66
Passive**	16.05	9.70	10.90	10.18	2.88
Ratio of active to passive programmes	0.44	0.50	0.45	0.63	0.58

\* Excluding workplace training and integrated training in which employed persons participate.

\*\* Includes unemployment benefits and early retirement schemes.

Source: OECD (2006: table H)

According to these figures, participation in active labour market programmes is the highest in the Netherlands and Belgium, and the lowest in the United Kingdom. Denmark and Germany are in between. If we compare the number of participants in active labour market programmes to the number of persons receiving an unemployment or early retirement benefit, this active-passive ratio is the largest in the Netherlands, somewhat surprisingly closely followed by the United Kingdom. Nevertheless, in all five countries, the number of persons in passive programmes is considerably larger than the number of participants in active programmes.

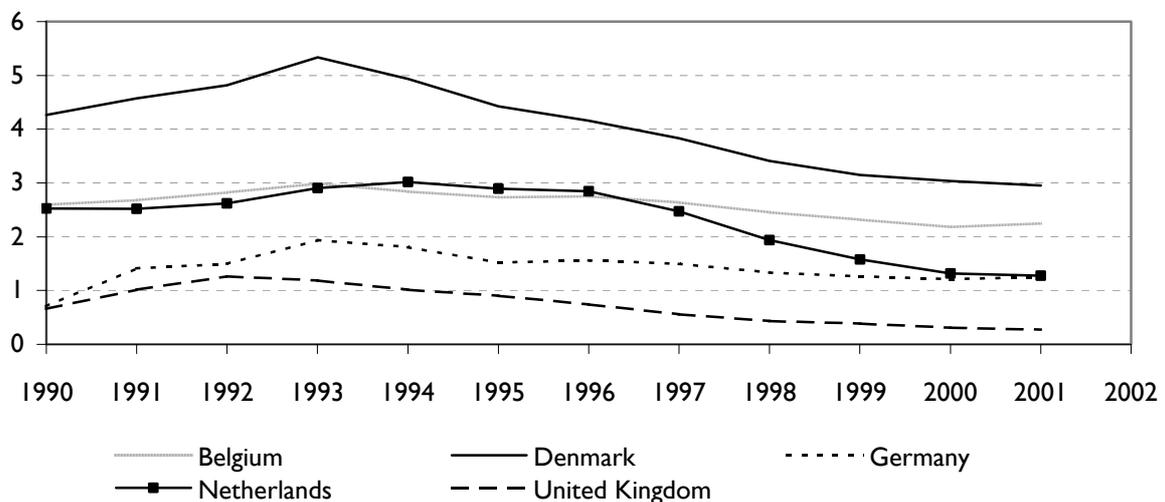
There are large differences in the emphasis the countries put on various activation programmes. Belgium focuses strongly on training and direct job creation subsidised by the government, Denmark and the Netherlands concentrate on measures to integrate disabled persons in the labour market, Germany supports relatively many persons who start-up their own company and the United Kingdom focuses on training. It is not clear in what way these differences in emphasis are related to the various actors that are responsible for active labour market programmes.

## 5.4 SECOND ORDER EFFECTS: EXPENDITURES ON LABOUR MARKET POLICY

In this and the next subsection we give an overview of the second order effects of (un)employment protection. First, we look at the public expenditures for both passive and active labour market policies. Figure 5 shows the public expenditures on unemployment benefits as a percentage of GDP in each of the five countries. Denmark spends the largest share of GDP on unemployment benefits and the United Kingdom the smallest share. In all five countries expenditures on unemployment benefits declined strongly between 1993 and 2001, probably due to the economic upswing in this period. Figure 6 shows that Belgium, Denmark, Germany and the Netherlands all spend between 1 and 2 percent of GDP on active labour market policies. The United Kingdom stays far behind with

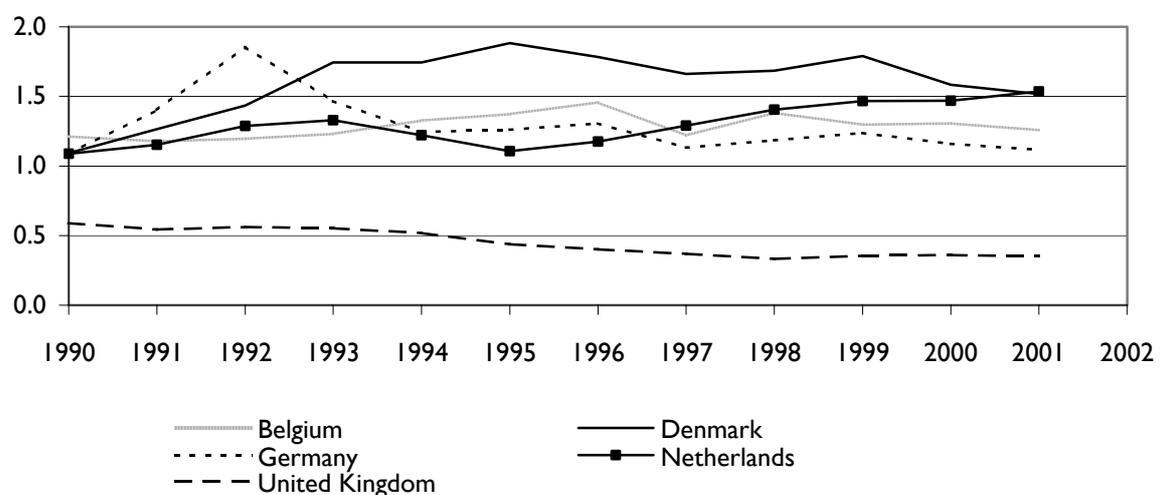
expenditures on active labour market policy of less than 0.5 percent. Spending on active labour market policy did not change much in the second half of the 1990s, although the Netherlands increased its expenditures and the United Kingdom reduced active labour market policy expenditures even further. There is no indication of a trade-off between active and passive labour market spending from these figures. On the contrary, Denmark spends the most on both unemployment benefits and on active labour market policy, while the United Kingdom spends the least on both kinds of policies. However, it is interesting to note that the two countries in which the trade unions are involved in the administration of unemployment insurance, spend the most on benefits and are also among the biggest spenders with respect to active labour market policy.

Figure 5: Expenditures on unemployment benefits (% of GDP)



Source: OECD Social Expenditure Database

Figure 6: Expenditures on active labour market policies (% of GDP)



Source: OECD Social Expenditure Database

## 5.5 SECOND ORDER EFFECTS: LABOUR MARKET DYNAMICS

In this section, we take a closer look at the the labour market performance of the countries studied. Because we expect that the distribution of responsibility has the largest impact on labour market dynamics and the gap between insiders and outsiders, we focus on several indicators for flows and durations. Figure 7 shows the annual inflow into dependent employment (calculated as the proportion of employees with a job tenure of less than one year as a percentage of the total number of jobs). In Denmark and the United Kingdom, on average for one in five jobs a new employee is hired each year, while in Germany and Belgium this is only for one in seven jobs. Although the inflow in employment shows a cyclical fluctuation in each country, these swings are the largest in the Netherlands, where the inflow in employment is the lowest of all five countries during an economic downturn, but one of the highest during an upswing.

Figure 7: Annual inflow into employment (% of total jobs)

Source: OECD.Stat; calculations by the authors

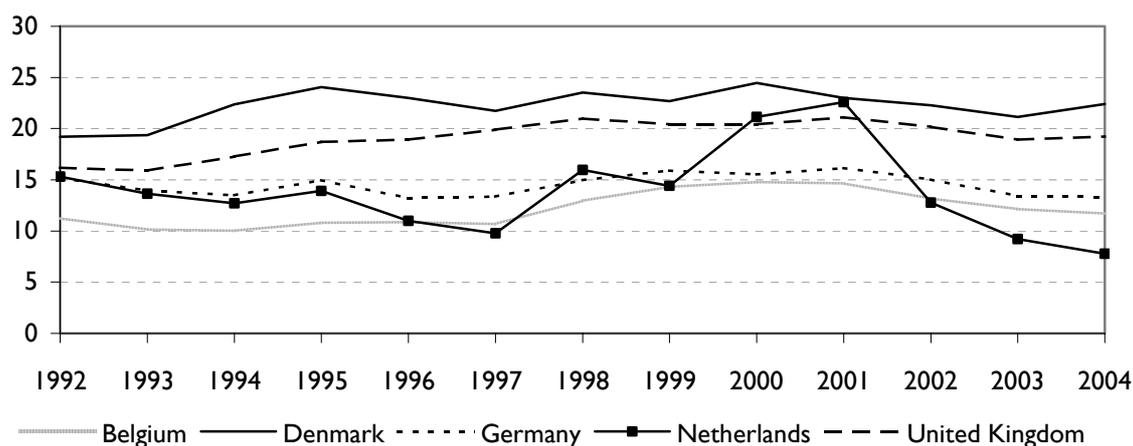
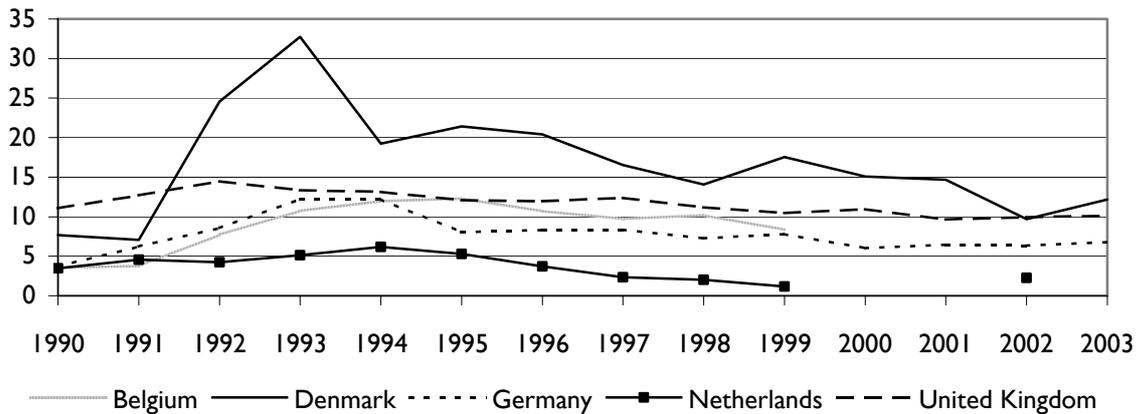


Figure 8 shows that there are large differences in the inflow in unemployment (calculated as the number of persons with unemployment duration of less than one month multiplied by 12, as a percentage of total employment). One should, however, note that these figures include the inflow into unemployment of new entrants to the labour market and thus might not be a reliable indicator of the flows from employment to unemployment (of which we do not have data). The flows into unemployment are the largest in Denmark, where during an economic downturn one person enters unemployment annually for every three persons employed. When the economy is booming, as in 2002, still one out of ten employed persons becomes unemployed. The Netherlands shows the smallest inflow into unemployment. In the second half of the 1990s the number of people that became unemployed was only a few percent of the total number of employed.

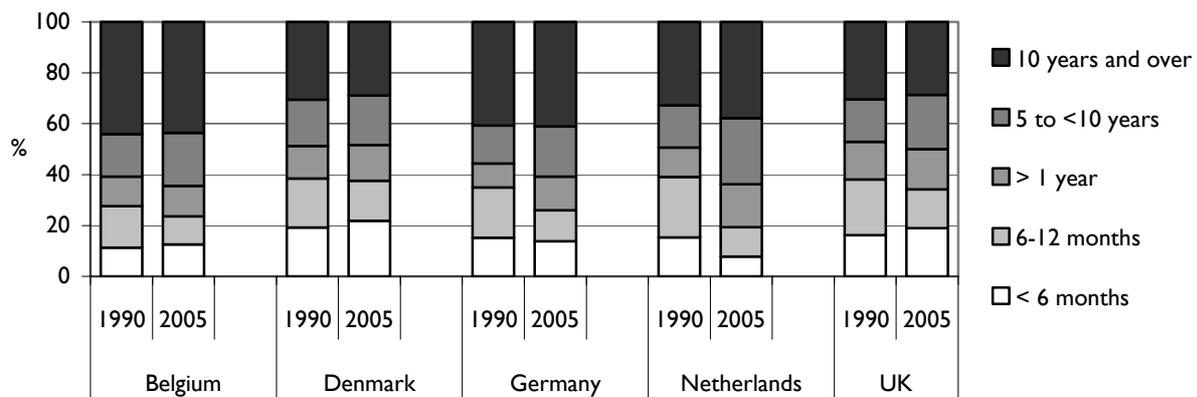
Figure 8: Annual inflow into unemployment (% of employment)



Source: OECD.Stat; calculations by the authors

Smaller flows between employment and unemployment or non-participation will in general result in longer job tenure and longer unemployment duration. This is largely confirmed by Figures 9 and 10, which show the composition of the employees by job tenure and the composition of the unemployed by unemployment duration.

Figure 9: Employment by job tenure (%), 1990 and 2005

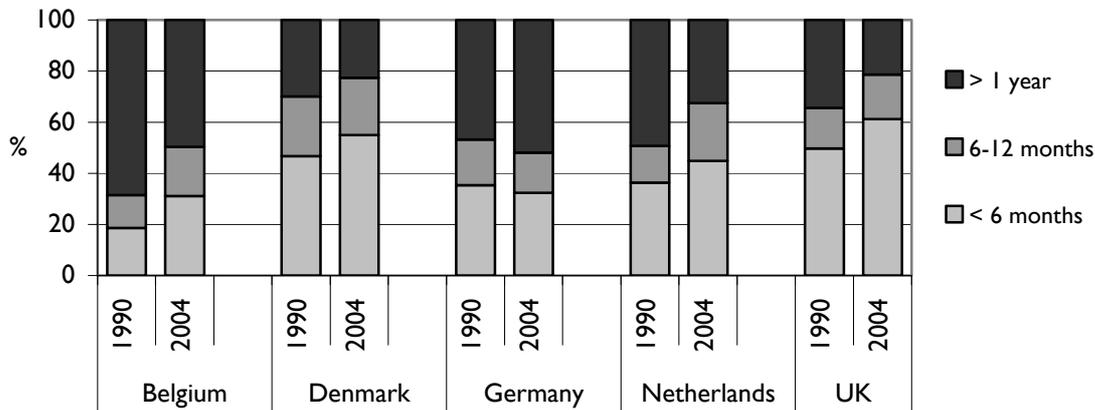


Source: OECD.Stat

Figure 9 shows that Denmark and the United Kingdom have the largest share of employees with a tenure of less than one year (c. 40%) and the smallest share of employees who have been in the same job for over ten years (c. 30%). In Belgium and Germany the picture is the opposite: the share of employees that were hired last year is smaller than 30%, while over 40% of the employees have a tenure of 10 year or more. The Netherlands also has a small share of recently hired employees, but the share of employees with a tenure of over 10 years is smaller than in Belgium and Denmark. Consequently, employees with an intermediate tenure (1-10 years) are overrepresented in the Netherlands.

The composition of the unemployed by unemployment duration in Figure 10 is more or less similar. Denmark and the United Kingdom have the largest proportion of short-term unemployed and Belgium and Germany the largest share of long-term unemployed, with the Netherlands in-between.

Figure 10: Unemployment by duration (%), 1990 and 2005



Source: OECD.Stat

From Figures 7 to 10 we can conclude that Denmark and the United Kingdom have the most dynamic labour market of the five countries considered here: the inflows in employment and unemployment are larger than in the other three countries and average job tenure and unemployment duration are shorter. Belgium and Germany are the least dynamic with relatively small flows into employment and unemployment and long average job tenure and unemployment spells. The Netherlands shows a distinctive pattern with large swings of the inflows into employment, a very small inflow into unemployment and a relatively large share of employees with intermediate tenure.<sup>22</sup>

It is not particularly clear how these labour market patterns relate to the role of the various actors in active and passive labour market policies in the five countries. The role of the trade unions in the administration of unemployment insurance does not seem to have a substantial impact on these outcomes, anyhow. Differences in legislation with respect to employment protection appear to be quite important in explaining these patterns, however. Expenditures on passive and active labour market policies do not seem to matter, since both the biggest spender (Denmark) and the smallest spender (United Kingdom) have a dynamic labour market.

<sup>22</sup> It should however be noted that the results for the Netherlands might be distorted due to incompatibility of the data for various years.

## **6 CONCLUSION: DOES IT MATTER WHO TAKES RESPONSIBILITY?**

If we confront the overview of the five country case studies in section 4 and the empirical outcomes in section 5 with the theoretical analysis in section 2, it is immediately clear that one cannot draw any definite conclusions on the validity of the hypotheses. The main reason for this is that the actual distribution of responsibility for unemployment insurance, employment protection and active labour market policies in the five countries we studied does not fit with the theoretical 'pure' models we distinguished in section 2. There is no country in which the responsibility for all parts of active and passive labour market policies is unambiguously assigned to a single party. Even within each policy branch, the responsibility for legislation, administration and supervision generally is divided between different actors. Even the two countries which are generally considered to be exponents of the so-called Ghent model, in which trade unions assume responsibility for unemployment insurance, viz. Denmark and Belgium, cannot be called real union models. In both countries, just as in the other three countries, both the legislation and the financing of unemployment insurance is primarily a state responsibility. The role of the trade unions is restricted to the actual payment of benefits to the unemployed who are member of a trade union fund. However, the insurance policy – qualifying conditions, benefit level, benefit duration – and the actual granting of the benefit do not fall under the responsibility of the trade unions. The trade unions in these countries thus do not have a larger say in unemployment insurance policies than the trade unions in the Netherlands, Germany or even the United Kingdom.

If we consider the three hypotheses formulated in section 2 in turn, only hypothesis 1 is clearly supported by the empirical evidence. In none of our five countries there is private insurance of the risk of unemployment – nor is there in any other developed welfare state, as far as we are aware of. The only private elements that exist are marginal, additional insurance policies, like the mortgage protection payment insurance in the United Kingdom. However, voluntary unemployment insurance by trade unions does exist in Denmark, contrary to our expectations. This might be explained by the fact that the contributions for these voluntary schemes are largely paid by the government, which strongly reduces the problem of adverse selection.

The second hypothesis, which postulates that there will be strong protection in favour of the insiders in case trade unions take responsibility, cannot be tested by the empirical evidence used here, since there is no country in which labour market policies are primarily a union responsibility. However, if we would consider Belgium and Denmark to be the countries that come closest to a union model, then we have to refute the hypothesis. Although Denmark offers quite generous unemployment benefits to employees who lose their job, employment protection is, apart from the

United Kingdom, the weakest. Belgium, on the contrary, combines a relatively low replacement rate of unemployment benefits with quite strict employment protection. Nevertheless, in general, these two countries do not seem to differ systematically from the other three countries with respect to the gap between the rights of insiders and of outsiders.

The third hypothesis, regarding the impact of government responsibility on the rights of insiders and outsiders, is difficult to assess, since the government takes the main responsibility for unemployment insurance, employment protection and active labour market policies in all five countries. In each country the unemployment insurance for employees who become unemployed differs from the unemployment benefits or social assistance on which other unemployed persons (in particular, labour market entrants, former employees who do not meet the qualifying conditions and unemployed persons for whom unemployment insurance has expired) are dependent. The difference in benefit level between unemployment insurance and unemployment assistance or social assistance is the smallest in the United Kingdom, since unemployment insurance only provides a flat-rate benefit in this country. This result is in accordance with the complete absence of any union involvement in unemployment insurance in the United Kingdom. However, in Belgium and Denmark the gap between the average unemployment insurance benefit and the level of social assistance is also quite small, despite the role of the trade unions in the administration of unemployment insurance. Hence, differences between the benefit entitlements of insiders and outsiders do not seem to be related to the role of trade unions in unemployment insurance. The same is true with respect to employment protection and active labour market policies.

If we look at the second order effects of (un)employment protection in terms of labour market dynamics, the Danish and British labour market turn out to be the most dynamic and the Belgian and German labour market the least dynamic, with the Netherlands inbetween. This outcome seems in no way to be related to the distribution of responsibility with respect to unemployment insurance, employment protection and active labour market policies. We thus have to conclude that the answer to the question in the title of this paper is probably: No, it doesn't matter!

However, we have to add immediately that the five countries we studied do not allow us to test our hypothesis rigorously, since they show little variation in the actual distribution of responsibility. In future research we will try to shed more light on this question by incorporating more countries in our international comparison and by studying differences between sectors which are due to particular clauses with respect to unemployment benefits and employment protection in collective labour agreements.

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