

Summary and Policy Considerations

An evaluation of the suspension measure Article 80 in unemployment insurance on re-entry and poverty (Part I)

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Summary of the research findings

1. In order to compensate for the unlimited benefit entitlement period under Belgium's unemployment insurance regime, Article 80 imposes a time limit on benefits (through suspension) for cohabiting unemployed persons who are assumed no longer to be willing to work. The group of unemployed cohabitants now encompasses about half of the population of unemployed persons. In the course of the 1990s, over 200,000 unemployed cohabitants were deprived of their unemployed benefit through suspension. In this study, the suspension measure laid down in Article 80 is assessed on the basis of two rationales: re-entry and needs assessment (poverty prevention). Also some attention is paid on the insurance objective. This study is based on a survey of suspended and non-suspended long-term unemployed and cohabiting women, relating to the period 1998-1999. These groups were followed over time. Clearly it concerns a (albeit important) portion of the population of the long-term unemployed; the results should therefore not be generalised to the entire unemployed population.

2. The profile of suspended unemployed women indicates that there is a substantial occurrence of *abuse* of unemployment insurance: benefits are often used for other purposes than looking for work. Over 60% of the suspended and 50% of the non-suspended long-term unemployed were not looking for a job in the late 1990s. A substantial proportion have not been looking for work in the past two years either (respectively 40% and one third). Unemployment benefits are, to a large extent, used improperly as a care benefit. The vast majority of suspended women is under the age of 40 and has dependent children (85%), is living in households with a partner whose income is relatively high, has little working experience (one in three has never worked), and has already been unemployed for a very long period (almost 60% have been receiving benefits for over two years). Over half of the suspended women are low-skilled, while the other half hold a degree (36% higher secondary education, 9% higher education or university). A substantial proportion of the non-working suspended women experience their unemployment positively. The suspension measure eliminates improper use of unemployment insurance benefits to a considerable extent.

3. First and foremost, suspension Article 80 results in a retreat from the formal labour market. In the late 1990s, one in four suspended women made the transition to the labour market, but 70% exchanged former unemployment for (unpaid) inactivity. Deflection to other social security branches remained very limited. But even without suspension, some of the long-term unemployed women found work. Using a logit model, we find that suspension increases by 9 percentage points the likelihood that long-term unemployed women will find a job. However, this result should be considered with some circumspection. Given the data and the assumptions made, it may either be an overestimation or an underestimation. The IRES, which collaborated

with CSB in analysing this database, has, starting from other assumptions, found a larger effect of suspension on the likelihood of re-entry .

4. Our research also provides insight into the *actual earning potential* of long-term unemployed women. The difference between unemployment benefit and an expected income from work remained an unknown factor in estimations of the unemployment trap. It appears that, in reality, few women within this group find themselves caught in an unmistakable unemployment trap. Just 10% of the long-term unemployed women would not benefit financially from making a transition from the (former) unemployment benefit to work. The vast majority of suspended unemployed women who re-enter the labour market (about a third of whom do so in a temporary job) gain substantially in comparison to their (former) unemployment benefit, despite the considerable proportion of part-timers among them. At individual level, 60% earn a net income that is at least double the amount they used to receive in (although low) unemployment benefits. At household level, the relative advantage of work is smaller, but work does remain sufficiently lucrative for the vast majority, especially if it is a full-time job. In the case of part-time employment, the gain in terms of household income is around 20% for most women. A policy aimed at combating unemployment traps (however necessary in order to safeguard the legitimacy of the system) can, at least in the case of this unemployment category, only be considered as an additional activation tool. Moreover, our research indicates that non-financial barriers to re-entry are also important, especially in the context of combining work and care.

5. The implementation of Article 80 did not cause a significant increase in *poverty*. Thanks to the selectiveness of the measure (i.e. it targeted cohabitants above a relatively generous income threshold only) poverty after suspension is limited and fewer means are directed at unemployed persons who do not require the benefit for financial security. Suspension does increase inequality to some extent, as the low re-entry rate implies that many more households are worse off than better off after suspension. For a small group of women, i.e. those who do not re-enter and who cohabit with a low-earning partner, the income thresholds applied in Article 80 cannot prevent that they must manage on a very low income. This may be a consequence of a temporary (because measured on a monthly basis, while Article 80 works on an annual basis) negative income transition caused by strongly fluctuating careers of their partners or a change of partner. We cannot ascertain on the basis of this study to what extent some women may be losing their benefit undeservedly because they are not aware of their rights under a rather complex legislation.

6. Our research shows that long-term unemployed women are not knowledgeable about their rights and duties with regard to unemployment insurance. In spite of information provision by the public benefit agency RVA and payment institutions (mainly trade unions), 40% claim not be aware of rights and duties at the start of unemployment, 40% were not aware beforehand of circumstances that can lead to suspension under Article 80, and over 40% have no knowledge of regulations such as exemptions on familial and social grounds and income guarantee benefits (by contrast, almost everyone does know about local employment agencies or PWAs). Moreover, long-term unemployed women tend to have had few experiences with public employment services (VDAB/FOREM/BGDA). Over 50% (among both suspended and non-suspended women) say never to have been offered a job and a third claim

never to have been invited to a meeting with a job mediator. Such claims seem to suggest an inadequate activation policy of support, counselling and training.

7. It is sometimes argued that Article 80 is incompatible with the *insurance principle* in unemployment protection. Under this principle, which dictates that there should be reciprocity between contributions and benefits, an unlimited benefit duration is hard to justify. In reality, long-term unemployed women either contributed to unemployment insurance a long time ago or they did not contribute at all. One in three suspended women has no work experience at all and has gained access to unemployment insurance on the basis of studies. Thus, Article 80 de facto implies a closer relationship between benefits and contributions. On the other hand, Article 80 creates unjustifiable differences in rights between unemployed persons, as the one might be able to enjoy benefits for much longer than the other, even if their circumstances are rather similar. The practice of taking into account the region and the sex of the individual, as is the case in Article 80, is hard to reconcile with the reciprocity principle between contributions and benefits.

Policy considerations: Reform of Article 80 or reform of the unemployment insurance system?

1. Reform or abolition of Article 80

So what are the policy implications of the above research findings? First and foremost, it should be noted that Article 80 is fairly effective: to a certain extent it has a stimulating impact on re-entry of long term unemployed women into the labour market. Foremost the incidence of abuse of benefits has been reduced by the fact that the entitlement period of cohabiting unemployed persons has been restricted, without a significant rise in poverty and without major shifts towards other social security provisions. On the other hand, the limitation of the entitlement period under Article 80 has created unjustifiable differences in rights among the unemployed, as some are now able to claim benefits for much longer periods than others, even though their respective circumstances are not fundamentally different. Furthermore, Article 80 is not very transparent and rather complex in its execution. Therefore this measure is also very demanding on the bureaucratic competences of the unemployed.

Simply abolishing Article 80 is, however, hard to argue. While such a measure would eliminate differences between the unemployed and simplify the implementation of the unemployment insurance system, it ignores the fact that there is a considerably large group of claimants in Belgium whose unemployment benefits are hard to justify, either from a re-entry perspective (because they hardly look for work, if at all), or on a needs-assessment basis (because their household income would also be sufficiently high without the benefit), or on the strength of the insurance principle (as they contributed to the system a long time ago, if at all). To continue with the provision of benefits to these individuals will thus undermine the legitimacy of the system, while clearly resources could be used more meaningfully, including within the unemployment insurance system itself.

Therefore, what is required is not the abolition of Article 80, but a strengthening of activation policies. The focus of unemployment benefits is still very much merely on

income protection, with a weak link between benefits and counselling, mediation, training, control and sanctions.

An effective reform of Article 80 would probably require a switch to a different logic whereby, contrary to the current automatic procedure of suspension of unemployment benefit, the right to an unemployment benefit depends on the individual behaviour of the unemployed person. After an offer of counselling, mediation and training, the claimant could be punished if he or she is considered to be making too small an effort to find a job or exhibiting too small a willingness to accept work, taking into account his or her capacities and limitations (including household situation) and the situation in the labour market. Such a career guidance policy (with supportive as well as punitive measures) would have to be introduced into the unemployment career more emphatically and at an earlier stage than is presently the case under Article 80. After all, it would appear that Article 80 has only a modest effect on the re-entry rate because it becomes effective at too late a stage, i.e. when many unemployed persons have already lost touch with and interest in the labour market. The criterion of intensive job-seeking behaviour in the appeals procedure of Article 80 presently works in only one direction (i.e. in order to avoid the application of Article 80), while 'normal' controls and punitive measures are implemented rather leniently. Although the rather scarce research efforts thus far have failed to come up with an unequivocal answer to the question of what impact punitive measures have on job-seeking behaviour, foreign studies (Blank, 2002; Abbring et al., 1998; Lalive et al., 2002) do suggest that a sanctions policy can actually make the unemployed re-enter the labour market or can at least accelerate their re-entry.

A genuine guidance policy for the unemployed implies that two important conditions are met. *First*, it speaks for itself that the job supply should be adequate. Encouraging job creation is therefore an essential ingredient of any such policy. Moreover, the available jobs must be adapted to the job desires in today's dual income society, where care and work need to be combined. Our research revealed, for example, that long-term unemployed women have a strong preference for part-time work. *Second*, an adapted implementation is required. Given our research results, this presupposes a serious effort and reorientation on the part of the implementation bodies, and possibly more substantial resources as well.

Two further remarks are in place with regard to implementation. *First*, with a view to a fair control and sanctions policy, the criteria and procedures should be objectified to the greatest possible degree, even though substantial discretionary powers for local implementation bodies will be inevitable, especially if one strives towards a more individualised approach in which the possibilities and limitations (including the household situation) of the unemployed person and circumstances in the labour market are taken into account (formalised versus individualised approach, see for The Netherlands rapport CTSV, 1999 and Centraal Planbureau, 2000). *Second*, in a guidance and sanctions policy, one would want to prevent that (some) unemployed persons fall into (even deeper) poverty as a result of sanctions. Earlier research (De Lathouwer et al, 2000) has indicated that the imposition of sanctions on single-income households causes a substantial increase in poverty among such families. Consequently, from a poverty perspective, it could be argued that, in the case of heads, single persons and even cohabitants with a low household income, financial sanctions ought to be adjustable. However, from the perspective of equal treatment, one could just as easily

argue that sanctions must be applied similarly for all unemployed persons, irrespective of their household situation. For that matter, the present research does not allow us to answer the question to what extent the behaviour observed among long-term unemployed and cohabiting women, i.e. little effort to find work and a de facto retreat from the labour market, also occurs among unemployed heads and single persons. A follow-up study, involving a sample of the entire unemployed population, would therefore be extremely useful.

2. A radical reform of the unemployment insurance system?

The question arises whether a reform of Article 80 should perhaps lead to a complete overhaul of the Belgian unemployment system. It should be noted in this respect that very diverse, partly contradictory, requirements are imposed on the unemployment system: it must protect the unemployed against poverty (cf. the needs principle), it must reward higher or lower contributions with higher or lower benefits (cf. the insurance principle), it must stimulate re-entry into the labour market, respect individuals' freedom of choice, which presupposes a number of degrees of freedom with regard to 'suitable work' (cf. right to self-determination), and finally it must remain affordable. We know from international comparison that there are many models of unemployment protection. Although these various systems are often subdivided ideal-typically according to the threefold typology of the Continental tradition (a multi-pillar system of insurance and welfare), the Anglo-Saxon tradition (limited insurance and welfare as the most important safety net), and the Scandinavian tradition (generous insurance, but combined with a policy of activation), the differences between systems are quite substantial (e.g. the various insurance systems in North-Western Continental Europe). However, none of the existing systems of unemployment benefits applied in OECD countries has succeeded in realising all goals of an unemployment system (although the Scandinavian countries, who combine a high level of employment with a strong willingness to work, have come close). All regimes, be it insurance-oriented or social assistance-oriented ones, are challenged with regard to the objective of promoting re-entry. Therefore, it would appear to make little sense on the occasion of an evaluation of Article 80 to open a debate on the main principles or on the need to fundamentally reform Belgium's unemployment insurance system. Our research does however lead to the conclusion that, within this system, the objective of re-entry needs to be reappraised.

3. Towards a reappraisal of the re-entry objective

Over the past decades, the Belgian system of unemployment benefits has evolved from an insurance system (with a clear relationship between contributions and benefits) to a system with quasi fixed-amount benefits that are mainly differentiated on the basis of household composition. Consequently, the reciprocity between benefits and contributions has become weak, while social contributions have developed into a general tax on labour. This creeping (yet far-reaching) evolution has presented itself as an answer to the social and economic changes that have altered the nature of the unemployment risk: it is no longer cyclical and randomly distributed across the population, but has become structural, selective and partly voluntary (endogenous) in nature. As a result, the average unemployment period has lengthened

quite considerably. The merits of unemployment insurance should not be underestimated. It is partly thanks to the broad scope of unemployment benefits that Belgium has a relatively low poverty rate among its active population, while the system has remained affordable.

A “return” to a purely insurance-based system (which unemployment protection has, in all fairness, never truly been because of the fact that solidarity has always been an important consideration) would therefore appear not to be the correct way to go. What is required is a reappraisal of the re-entry objective. The Belgian system of unemployment benefits is, in fact, still geared towards economic circumstances as they were in the first half of the 1980s: a significant inflow of (probably strongly labour-oriented) unemployed persons, combined with a very modest supply of jobs. The system must be adapted to the situation that Belgium may be expected to face during the next few decades: a shrinking population of active age combined with the threats of labour shortages and increasing care needs (including as a result of population ageing) and thus a growing demand for workers. It is therefore necessary to use the available potential of workers as optimally as possible, and not to allow this human capital to be relegated to long-term unemployment.

For this reason, genuine stimulation of the labour supply requires a combination of policy options:

1. First, more attention needs to be paid in an early phase of unemployment to a policy of active career counselling through (appropriate) schooling, work experience and labour mediation.
2. Second, this supportive policy needs to be combined with more stringent controls and, if necessary, the imposition of sanctions in order to prevent abuse of the unemployment system and a slide towards long-term unemployment. More support and control require a reorientation of the implementation bodies.
3. Third, care should be protected through explicit care regimes, e.g. time credit, rather than hidden care benefits through unemployment insurance. Combining care and labour should be facilitated with a view to increase the employability of women.

Part 2: The impact of the expiration of unemployment insurance benefits on the return to work

Bart COCKX and Jean RIES¹

The Belgian unemployment insurance system is unique in the world, in the sense that it provides compensation for an unlimited period. There is one exception to this general rule. Under certain conditions, Article 80 of the law regarding unemployment insurance provides for an end to entitlement to compensation for long-term unemployed cohabitants. The benefit is suspended once unemployment compensation has been paid for longer than a threshold period. This threshold varies between approximately 2 and 8 years depending on the gender, age and place of residence of the unemployed person. The unemployed person is notified of the end of entitlement between three and six months before the threshold period expires. The current government intends to repeal Article 80.

The second part of this research rapport focuses on the following question: does the end of entitlement to unemployment compensation under Article 80 increase the likelihood of employment, compared to the situation in which benefits had not been suspended? Although this is a simple question, answering it is not so easy. Nobody can say what would happen if benefits were not suspended. In order to solve this problem, researchers often quantify the employment rate in the absence of suspension using the employment rate of a “control” group. The control group is composed of people whose compensation has not (yet) ended. However, this type of estimate can be biased because the members of the control group are likely to have particular characteristics, which may or may not be observed by the researcher, leading to different employment rates from those of the people whose compensation has expired. This study corrected this bias using two different analysis methods. Since these two methods produce similar results, we are convinced that our impact estimate is reliable.

We evaluated the impact of the end of entitlement on a group of *women* whose unemployment compensation was suspended during the first half of 1997. The evaluation cannot be carried out for men because they are rarely affected by the measure. The figure below summarises the results. The time of suspension corresponds to zero on the horizontal axis. The negative values on this axis indicate the number of months of compensation before entitlement ended, the positive values show the number of months elapsed following suspension. The vertical axis measures the gap in employment rate with respect to what would have happened without suspension. The employment rate is the proportion of the population in work as reported by the surveyed woman.²

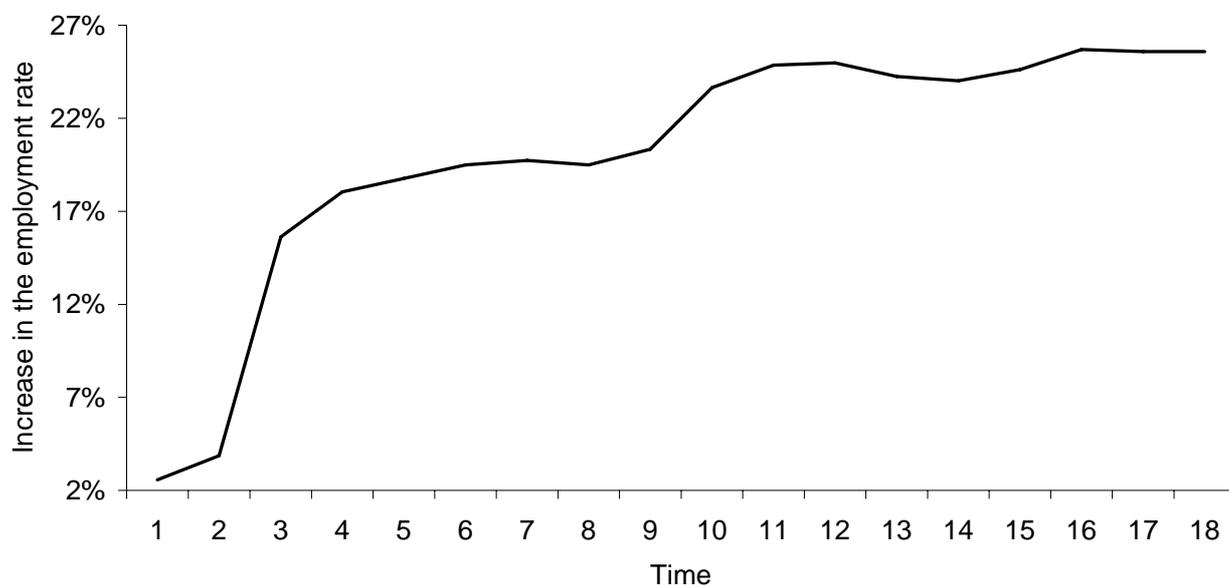
It can be said that suspension affects the employment rate well before the effective benefit exhaustion. This effect becomes significant (in other words, statistically different from zero) from the third month before the end to entitlement. One month before suspension, the employment rate is already 16 percentage points higher than its level without suspension. Many women therefore anticipate the end of their entitlement and find a job well before suspension takes effect. This anticipation enables them to prevent a loss of income after suspension. We should remember that the analysis is confined to women whose compensation has effectively been withdrawn: this change in behaviour heralded by the end to entitlement has not therefore allowed them to escape suspension. However, other women have found sufficiently long-term jobs to avoid an end to entitlement. Since these women were not present in the

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² The definition excludes unpaid domestic work and work in Local Employment Agencies (ALE/PWA), but does not exclude part-time work.

sample, we were not able to evaluate the significance of this phenomenon. We can only conclude that we underestimate its impact.

Figure: Increase in employment rate before and after the end to entitlement



< 0 : months of benefit receipt before exhaustion = 0 : date of benefit exhaustion > 0 : calendar months after benefit exhaustion

In the month suspension takes effect, the employment rate among the women sampled is 18 percentage points higher than the level that would have been achieved without suspension.³ Subsequently, the pace of growth of the employment rate is slower. The employment rate does however rise again by 8 percentage points to achieve an impact of 26% fourteen months after suspension. These impacts are important if we compare them to the levels of employment rates without the suspension which we estimate at 2.5% one month after suspension and virtually nil 14 months afterwards.

These impacts are not observed, but estimated. It is therefore important to take into account a margin of uncertainty. This margin grows with the passage of time after suspension. For example, at the time of suspension, we are 95% certain that the impact is between 14 and 20 percentage points. Fourteen months after the end of entitlement, this confidence interval is greater: between 19 and 31 percentage points. It is important to note that the impact remains high, even if we take as a basis the lower boundaries of these confidence intervals. Moreover, we should remember that these impacts are underestimated.

The limits of this study are as follows. Firstly, the estimated impact is a net effect for the women affected by the suspension; we cannot conclude from it that total employment in Belgium necessarily increases at the same pace. Any work found may be partially at the expense of other workers. The results only provide us with information about the impact on the employment rate of a specific group of women. We cannot blindly extrapolate these results to other groups. In any event, this study does not provide any indication of the impact of the suspension on indicators of the quality of work, such as the duration of employment, the share of part-time, the share of permanent contracts, salaries, etc.. These questions will be tackled in a subsequent study.

³ The margins of uncertainty have been updated: we did not have the time to incorporate these updates into the final report.

Policy recommendations

Firstly, we must emphasise that we should not overestimate the role of incentives in reducing unemployment. Elsewhere,⁴ we argue that the main cause of structural unemployment in Belgium is a lack of job offers for low skilled workers. This is why we recommend, as a priority, increased reduction of social security contributions on a narrow low salary bracket, rather than broadening this bracket as advocated in the recent governmental agreement. The reform of unemployment insurance put forward below must be seen as complementary: it would ensure that the boost in employment demand brought about by reducing contributions leads to additional job creation.

The results of this study suggest that the suspension of compensation under Article 80 is effective. On the one hand, by directing the measure at household members whose incomes are above a certain threshold, suspension of the compensation does not increase the risk of poverty. On the other hand, it noticeably increases the likelihood of employment. However, the research did not evaluate the administrative costs of the measure. Although identifying unemployed people who are reaching the end of their entitlement is increasingly computerised and, consequently, less expensive, processing appeals against suspension decisions risks absorbing substantial resources. For example, in 2002 77% of the 24,633 people notified of the end of their entitlement by virtue of Article 80 lodged an appeal based on objective grounds (65%) and subjective grounds (12%). We believe that simplification of the regulations would allow for a considerable reduction in the number of appeals and would thus lead to major savings. Moreover, it would reinforce the transparency of the compensation system such that unemployed people could anticipate the end of their entitlement earlier. This kind of reform would require a simplification in the calculation of the length of unemployment and would no longer require the region of residence to be a differentiation criterion for the time of suspension. The latter criterion was justified in order to take into account local labour market conditions. However, without adjustment since its introduction, it no longer correctly reflects the current situation. If we want to take into account the local labour market conditions, it would be better to take as a basis a simple statistic which is easy to update, such as the regional unemployment rate produced by Belgian National Employment Office (ONEM).

Rather than repealing Article 80, as proposed in the recent government agreement, we suggest reforming it. The effectiveness of the financial incentives presented in this study, as well as in several foreign studies, leads us to suggest a reform which does not necessarily influence the average level of unemployment compensation, but which enables these incentives to be precisely administered. It is better to gradually reduce the level of unemployment benefit as a function of unemployment duration.⁵ In this way, the unemployed person would be more aware that the compensation will not be paid for an indefinite period and that he has to continue looking for work in order to avoid complete suspension of the benefit. As under current legislation, the unemployed person could lodge an appeal if the household income falls below a certain threshold. In such a case, the unemployment compensation level would be adjusted to guarantee a minimum income. On the other hand, without changing the average level of the benefit, compensation that declines with unemployment duration would enable its level to be increased at the beginning of the period of inactivity (provided the ceiling imposed under current legislation is abolished). This would enable the replacement rate to be increased at the beginning of the period of unemployment and thus the level of coverage provided by unemployment insurance as well, as is the case in several other countries.

It is important to mention that we cannot in any way extrapolate the results of our analysis beyond the population analysed. This is why we suggest to *study* the extension of the reformed Article 80 to other categories of unemployed people, possibly based on a pilot experiment. Since the household income of these other categories is generally lower, it is however not very likely that such an extension

⁴ Cockx, B., H. Sneessens and B. Van der Linden (2003), "Allègements des charges sociales : une mesure à promouvoir mais à réformer", (Lightening the social security burden: a measure to be promoted as well as overhauled), *Regards Economiques*, 15, <http://regards.ires.ucl.ac.be/>.

⁵ We should remember that, under the current system, the level of benefits is reduced in stages. The unemployment compensation replacement rate for cohabitants is 55% for the first year of unemployment, 40% for the three first months of the second year (sometimes extended) and a fixed benefit after this second period. Since a ceiling and a floor exist, strictly limiting the gap between the minimum and maximum compensation, the effective replacement rate is often lower or higher than stated.

could substantially increase the employment rate without producing a notable increase in the poverty rate.

Finally, it should be pointed out that the present government intends to replace the end to entitlement to unemployment compensation, set forth in Article 80, with a system which reinforces the rights and obligations of workers. Rights would be reinforced by more intensive counselling for benefit recipients looking for work and by expanding the supply of activating measures. On the other hand, obligations would also be tightened up by additional checking of benefit recipients' availability for the labour market and by penalising them if they are unavailable. This penalty would involve withdrawing unemployment compensation. An unemployed person who has insufficient income following the penalty could appeal for the Minimum Income Guarantee ("Revenu d'Insertion") following means testing. However, it should be pointed out that the smaller the gap between the Minimum Income Guarantee and the unemployment compensation, the less the penalty effectively reinforces the job search incentives. Moreover, in order to design this new system, the government takes its inspiration from the Scandinavian model. Recent studies⁶ voice serious reservations concerning the capacity for job creation of the Scandinavian model, particularly if it is implemented on the same scale as in Sweden. However, the purpose of our study was not to evaluate such a system.

⁶ See the summary by Calmfors, L., A. Forsslund and M. Hemström (2002), Does active labour market policy work? Lessons from the Swedish experiences, *IFAU Office of Labour Market Policy Evaluation, Working Paper 2002-4*.