

# **The missing dependent variable: problems in assessing and interpreting developments in case loads and benefit reciprocity**

Johan De Deken  
(University of Amsterdam)  
J.J.DeDeken@uva.nl

Jochen Clasen  
(University of Edinburgh)  
jochen.clasen@ed.ac.uk

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## **Abstract:**

Comparative welfare state research so far has primarily been centred around three kinds of dependent variables: (1) expenditure patterns, (2) social rights and benefit generosity, (3) income redistribution and poverty alleviation. In view of the fact that so-called activation and the reduction of benefit dependency has been at the centre of most welfare state reforms of the past decades, it somehow comes as a surprise that a fourth possible dependent variable appears to have been conspicuously absent in this kind of research: benefit reciprocity case loads. One reason for this neglect is related to a lack of data. In spite of the fact that most governments proclaim to reduce benefit dependency rates, they rarely publish comprehensive data on case loads of the various transfer programmes. The OECD, dependent as it ultimately is on national administrative data, has hardly more to offer. So far the only attempt to assemble and standardise national administrative data on case loads dates back to the late 1990s when the Dutch Ministry of Labour commissioned a study on this matter that covered nine European countries, Japan and the US for the period 1980-1997. The OECD has sought to improve the comparability of this database and updated it for a few subsequent years, but some of these updates turn out to be mere extrapolations.

The purpose of the proposed paper is twofold: (1) to discuss various modes of assessing case loads, and (2) to present some evidence of the development of case load of the most important working age benefit programmes in a selected number of countries. The main goal of the paper is to investigate 'how far one can go' with these kinds of data, i.e. to assess limitation and possibilities for comparative social policy research. It starts by addressing some of the methodological problems (issues of comparability, of functional equivalence, of standardisation etc.). It illustrates some of these problems with reference to national administrative data that have been collected for ten European countries covering the period 1980-2009 as part of an international project on the regulation of the risk of unemployment in Europe. In a subsequent step the trends in case load developments are related to changes in benefit generosity (measured in terms of disaggregated social expenditure and replacement rates).

## **Introduction**

During the past decades, the comparative study of cross-national variation in the development and reform of welfare states has been centred around three kind of dependent variables (1) social expenditure or the amount spend on social protection programmes; (2) social rights or entitlement conditions (the level and duration of benefits) and eligibility conditions (the conditionality of benefits); (3) distributional outcomes or the reduction of income inequality or of the incidence of poverty.

The possibilities for analysis of social spending data have been vastly improved over the last years because more comprehensive and more detailed data have become available and easily accessible in the form of the online databases of the OECD (Socx at OECDstat) and of Eurostat (ESSPROS). Not only are expenditure data now available for longer periods (1960-2005 in the case of the OECD and 1990-2007 in the case of Eurostat), it has also become easier to disaggregate expenditure data and as such examine shifts in policy preferences in a Schumpeterian way, i.e. by considering the way a governments spends its tax revenue as revealing “the skeleton of the state stripped of all misleading ideologies” (Schumpeter, 1954:769). In particular ESSPROS allows for a detailed disaggregated analysis, but one of the major remaining drawbacks of expenditure data is that as indicators of social policy developments they tend to conflate three different aspects of programmes: the level of benefits, their conditionality regarding access and continuing receipt (eligibility rules) and the duration of benefits (entitlement regulations). Changes in the relative expenditure on particular programmes can be caused by any of these three characteristics – or by exogenous factors that are at best indirectly related to the policies in question, such as demographic or labour market developments.

## **Enter Case Load Data**

Disaggregated social expenditure analysis allows estimating changes in the relative importance of the different branches of the welfare state, and is a central output variable to evaluate cost containment policies (Siegel, 2007). But because of the aforementioned conflation problems, social expenditure data need to be complemented by other indicators that allow to qualify and to contextualise the observed changes. If during the 1980s, the debates on limits of welfare state expansion which were primarily framed in terms financial sustainability in terms of expenditure might still have made sense from a public finance perspective. When the discussion on welfare state change came to be framed in terms of a debate on retrenchment, expenditure data had to be related to estimates of structural social need and to indicators of benefit generosity (Kangas and Palme, 2007). Thus, expenditure on unemployment benefits were 'standardised' to the level of unemployment and pension expenditure was estimated relative to the size of the elderly population (Clayton and Pontusson, 1998; Huber and Stephens, 2001). However valuable these early attempts were they are at best very rough estimates. Just as it was necessary to disaggregate social expenditure, it became important to develop a more complex understanding of social need. In particular, for working age benefits it remains difficult to deduce the needy population from labour market statistics such as the unemployment rate, as they tell little about where those of working age who are not or no longer engaged in paid work end up.

This is one reason why it is of central importance to compile data on reciprocity numbers, or so-called case loads, of various benefit programmes. Of course, changes in the expenditure of different working age benefits over a particular period of time can be used as a very rough indicator of case load, provided that changes in benefit generosity have been considered. But such an analysis needs

to be complemented by a careful study of case load data. A focus on case loads is also warranted because the political debate of welfare state reform, in particular regarding working age benefit schemes, has shifted from a mere emphasis of the public finance aspect towards reducing benefit dependency and so-called activation of the non-employed working age population as a goal in itself. The sustainability of the welfare state has come to be framed in terms of minimising the number of beneficiaries and maximising the number of people performing paid work.

In this context this paper addresses particularly the first of this conference stream on comparative methodology in this ESPAnet's conference, i.e. a 'neglected issue'. Indeed, it remains remarkable that neither academic research nor governments and their public administration have made significant efforts to collect and analyse case load data systematically over time or in a comparable fashion across countries. In spite of the fact that most governments proclaim to pursue policies aimed at a reduction of benefit dependency, they rarely publish comprehensive data on the case loads of the various transfer programmes. In part this may be related to the complexity and fragmented nature of most welfare states. Some governments, in particular in the United Kingdom, may have proclaimed that they intend to reform their welfare states towards a single working age benefit system, but the reality so far is that in all countries persons of working age who are out of work receive benefits from a variety of schemes that differ significantly in terms of their generosity and their conditionality. Those schemes also differ dramatically with respect to the precision that case loads are being documented.

For most countries, it is relatively easy to collect data on unemployment benefits. But for other working age benefit schemes – in particular work incapacity, but also early retirement schemes – the availability of administrative data becomes

much more problematic. Social assistance schemes are even more problematic. First, because in many countries social assistance is decentralised on a municipal basis, with variation within nation states. Second, because the 'target population' of social assistance can be very wide (general social assistance) or more specific (e.g. specific social assistance schemes for older people, lone parents, immigrants, long-term unemployed etc), making cross-national comparisons difficult but also comparisons within single countries due to re-categorisations over time (e.g. in Germany). A third complication is the very nature of social assistance as a residual benefit intended to alleviate poverty rather than to offer a replacement income for labour market participation. It is often impossible to separate out beneficiaries who receive a social assistance supplement to either another social security transfer. In addition, a means-tested social (or unemployment) assistance benefit might supplement labour market income (that thus only makes part of their income package). National statistics might make it complicated to separate those for whom social assistance is a complete or only partially substitute to labour market income within the same country. Across countries there are problems of comparability and functional equivalents which can be difficult to establish. For example, almost a third of recipients of unemployment assistance (UBII) in Germany are actually in work with earnings which 'top-up' their benefits (so-called *Aufstocker*). These persons are part of the benefit caseload in contrast to British persons who, despite similar types of (often low paid and/or part time) jobs are not counted within social security caseloads since they receive a tax funded wage subsidy (tax credit).

Even though originally the various branches of a country's social security system were established to provide income protection against specific risks, over time the boundaries between these risk groups have become blurred. To some extent this was no accident, but rather the consequence of deliberate attempts to

accommodate redundant workers who were the victim of the massive labour shedding that accompanied the decline of industrial employment since the late 1970s and early 1980s. Again, countries significantly differ with respect to which schemes this 'structurally unemployed' end up in (see Erlinghagen and Knuth, 2010). As we will demonstrate, in some countries they remain part of the administrative category of the unemployed. In other countries they end up in one of the work incapacity scheme, or exit the labour force via a dedicated early retirement. In line with the main argument by Clasen and Clegg (2011), it can be expected that where these problematic groups end up is related to the way unemployment is defined and redefined as an administrative risk category, and to the conditionality of the different schemes.

### **The NEI study and the revisions by the OECD**

So far the only comprehensive attempt to assemble and standardise national administrative data on case loads in different countries dates back to the late 1990s, when the Dutch Ministry of Labour commissioned a pioneering study on this matter that covered nine European countries, Japan and the US for the period 1980-1997 (Arents, et al, 2002). The OECD has sought to improve the comparability of this database and updated it for a few subsequent years, but some of these updates turn out to be little more than extrapolations (at any rate the series ends in 1999; OECD, 2003). In the context of an international project on regulating the risk of unemployment (Clasen and Clegg, 2011), we have sought to rearrange and extent the time series of the NEI-OECD database up to the year 2008.<sup>1</sup> However, our aims are less ambitious than those of the original NEI study. Whereas Arents et al. (2002) sought to estimate a *total* benefit dependency ratio,

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<sup>1</sup> We would like to thank David Grubb of the OECD to provide use with the original datafiles.

i.e. to calculate the percentage of the population that is dependent upon some kind of benefit, we are interested in documenting the development of the case load of different working age benefit schemes over time that are provided with the specific purpose of forming an alternative to performing paid work and hence intended to allow recipients to exit the labour force. This means that we have not sought to collect case load data on survivor benefits or maternity benefits, and that we have only examined old age benefits in so far they allow people to leave the labour market prior to the statutory retirement age.

The OECD too has focussed primarily its attention to the working age population, but just as the authors of the NEI study still aims to estimate a total dependency rate, which invites a whole series of methodological challenges, in particular the problem of partial benefit (benefits that only in part replace labour market income so that the beneficiary continues to employed on a part-time basis), of periodic benefits (benefits that are only paid for part of the year), of double counts (individuals receiving more than one benefit at the same time from different transfer programs), and of benefits paid at household (rather than individual) basis. In contrast to what in later publications has sometimes been suggested (see for example CESifo, 2003), these problems have at best only been partially resolved. Even though we are not interested in the total benefit dependency rate which means that these methodological problems are less consequential for our analysis, we nevertheless have sought to apply the same principles as in the NEI study:

- (i) *The number of persons dependent on a benefit will be expressed in full time equivalents*

Partial benefits are often prevalent in disability schemes and also exist in early retirement and in unemployment benefit schemes in some countries. In order to make the case load comparable, it is necessary to transform partial benefits into full benefit years. For disability schemes full time

equivalents are calculated by multiplying the number of beneficiaries by the average degree of disability. In some countries, including the Netherlands and Sweden, partial unemployment is already expressed in full time equivalents. For other countries where such schemes exist, including Belgium, Denmark, Spain and France, a factor of 0.5 is applied to beneficiaries of part-time benefits. The procedure is applied to part-time early retirement.

*(ii) Periodic benefits will wherever possible and appropriate be expressed in benefit years*

In the case of unemployment, early retirement, disability and social assistance this problem is at best circumvented by taking stock of the case load in the same particular month of every year. For sickness benefits, benefits years are calculated by dividing the number of days during which a benefit was paid by the maximum number of days for which a benefit can be paid out. This differs from country to country: it ranges from 260 days in France over 312 days in Belgium to 365 days in Germany. This problem is not limited to sickness benefits, but is in fact a problem for all schemes in which beneficiaries stay less than a year or where benefits are not paid for every day of the week (for example unemployment benefit in Sweden are also only payable five days a week). The problem is that often the information of the number of days benefits were paid is missing and that often one only can retrieve figures of a particular benchmark month in the year. In that case, the NEI and the OECD use the number of beneficiaries in December of the year or “the figures of from whatever month there is available” (Arents, 2002: 11). The evident problem is that one cannot know whether persons who received a benefit during the benchmark month, received it during the whole year. But by the same token persons who received a benefit during other months than the benchmark month are not taken into account, and the assumption is that these two opposite effects somehow cancel each other out. This implies though that seasonal effects are neglected. To limit this problem we choose whenever possible to use September figures rather than December figures (as seasonal effects are the most likely to manifest themselves in June and December of a year).

*(iii) Double counts ought to be eliminated*

In principle one person should count for no more than one full-time equivalent benefit dependent. In practice though, the fragmented nature of social security administrations makes it impossible to implement this lofty principle in countries where the simultaneous receipt of different benefits is allowed. In the NEI study, this problem manifested itself in particular in the

case of survivor benefits that are often combined with an old age pension benefit, and for old age pensions that are often supplemented by social assistance. As we are only interested in working age benefits, the problem of double counts is less likely to occur.

(iv) *Payments to couples ought to be individualised.*

Again this problem manifests itself primarily in the case of old age pensions and social assistance. In all countries social assistance is paid on a household basis, but as only in Sweden a breakdown of this benefit between singles and married couples is available, it is impossible to individualise this benefit, which implies that for all countries except Sweden, the number of persons dependent upon social assistance is underestimated.

### **Categorisation of out of work benefits for the working age population**

As indicated above the main aim of this paper is not to estimate a total benefit dependency rate, but rather to analyse changes in the case load of different working age benefit programmes over time. For that purpose we make a distinction between 5 types of programmes that provide benefits that allow exiting the labour market. The distinction is based on the differences in terms of the behavioural requirements the beneficiaries of such programmes are subjected to. In some countries those distinctions might have conflated over time (in particular those countries where the insurance nature of transfer systems has been hollowed out and steps have been undertaken towards a single working age benefit system).

- (1) **unemployment:** beneficiaries are expected to re-enter the labour market
- (2) **work incapacity benefits:** beneficiaries are exempted from labour market participation on medical grounds (but increasingly subjected to some form of periodical work test)
- (3) **early retirement:** beneficiaries are permanently exempted from labour market participation on age grounds

- (4) **sabbatical and leave schemes:** beneficiaries are temporarily exempted from labour market participation to allow them to perform a non-remunerated activity outside the labour market
- (5) **social assistance:** a residual category often consisting of needy persons who are considered incapable of participating in the labour market (but see the problematic nature discussed above)

### **Reliability Problems of Administrative Case Load Data**

In spite of the increased political salience of case load data, it is hard to obtain reliable comprehensive time series of the number of recipients of different social security benefits. The quality of the readily available data varies not only between countries, but also within the same country depending upon the branch of social security system. Case loads of unemployment benefits tend to be relatively well documented, but this is far less the case for the beneficiaries of incapacity or early retirement schemes, or for claimants of social assistance schemes. Sometimes this seems to be a consequence of the fragmented and complex nature of those schemes. For example in the NEI and OECD studies, the category of early retirement overlooked one of the many early retirement schemes in the Belgian case, and thus underestimated the case load in this category.<sup>2</sup> The NEI study and the OECD claim that they “only included social security benefits that are regulated by law ... regardless of the way they are administrated and financed” (Arents et al, 2002: 8). The application of this principle leads them to exclude Dutch early retirement schemes because they are

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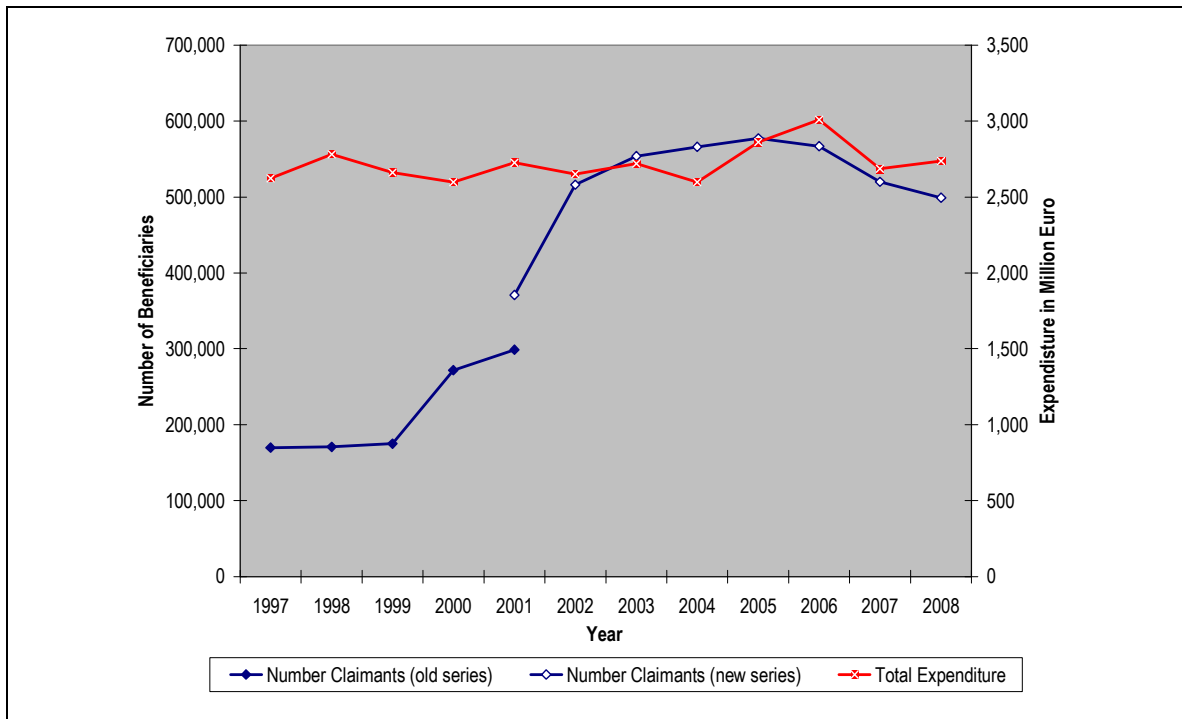
<sup>2</sup> During the 1980s, there were four main early retirement options in Belgium: two schemes were administered by the old age pension system (the so-called ‘Exceptional bridging pension’ and the ‘Early retirement pension’) and two options essentially resulted under unemployment insurance administration (the ‘Conventional bridging pension’ and the ‘Statutory bridging pension’). The OECD failed to take into account the former.

based on 'private' industry-wide collective agreements, but to include German and Belgian early retirement schemes (because the former are regulated by law, and the latter are in essence topped up unemployment benefits – and the topping up is not relevant for the case load as the level of benefits is not an issue). In our estimates did include Dutch early retirement schemes, as the collective agreements they are based upon are not private voluntary contracts, but settlements made under the shadow of the Dutch neo-corporatist system that gives collective agreements almost the same status as laws and backs them up with a procedure of administrative extension (De Deken, 2011). In a way the NEI justification comes as a surprise as they overrule the formal voluntary nature of the Danish unemployment insurance system as “not including [Danish unemployment insurance schemes] would render international comparison difficult because one important benefit category ... would not be included...” (Arents et al, 2007: 8). This it seems to us, applies as much to Dutch early retirement schemes.

A similar problem can be observed for the Netherlands, where only the unemployed exempted from job search requirements are taken into account, but not the beneficiaries of the early retirement schemes which were set up as part of the pension system. Even the data that are published by national administrations appear sometimes as unreliable. The data on early retirement in the Netherlands that are published by the CBS statistical office contain hard to explain erratic fluctuations that are sometimes attributed to a revision of the office's own figures. For example, in 2001 the number of beneficiaries was revised from 299,000 to 371,000 claimants for the very same year. In addition there are also discrepancies between the total case load and the total expenditure on benefits. Figure 1 illustrates such a problem by plotting total expenditure on early retirement benefits (left Y-axis) to the total number of recipients of benefits (right

Y-axis) as they are both as reported by the Dutch statistical office in its statistical database: one can observe a tripling of the case load over a period of 5 years while total benefit expenditure remained more or less stable during that period as well as during the subsequent 5 years.<sup>3</sup>

Figure 1. The development of case loads and total expenditure on early retirement schemes in the Netherlands 1997-2008.



Source: Statline Database of the Dutch Statistical Office<sup>4</sup>

In order to check for such deficiencies we will combine case load data with expenditure data. A discrepancy between trends in the number of recipients and

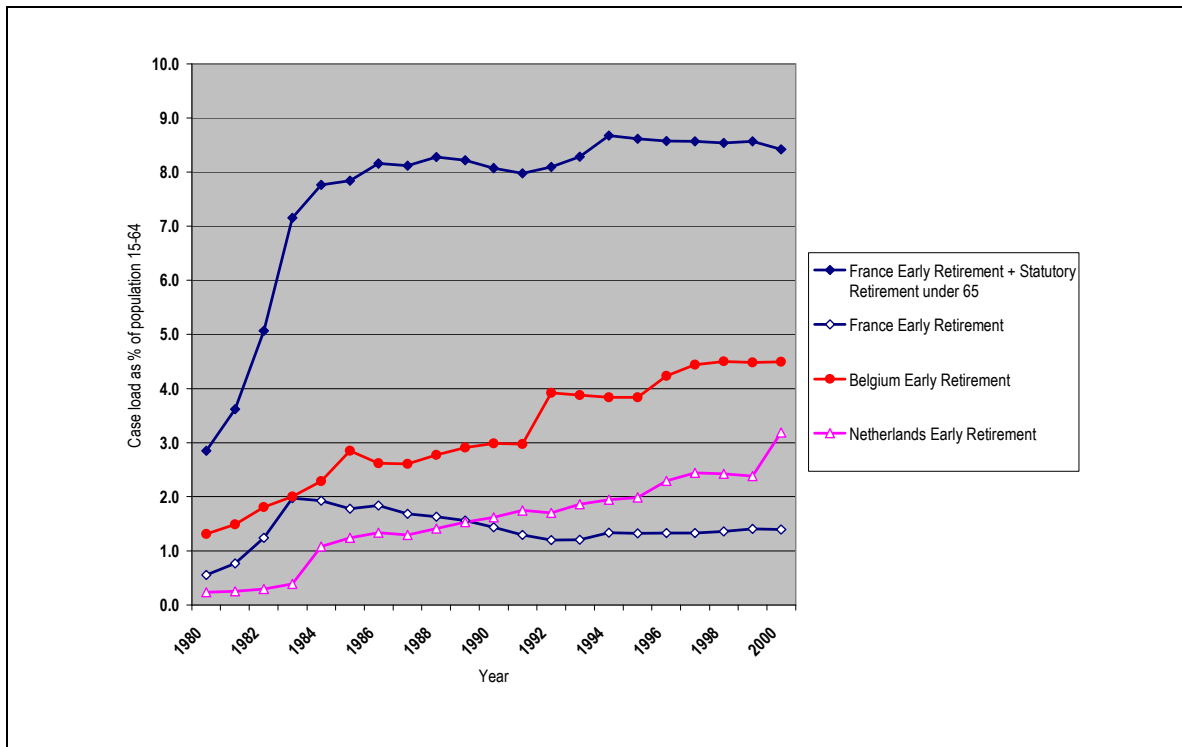
<sup>3</sup> To some extent this discrepancy might be related to an increase in part-time early retirement (the CBS statistics do not allow to split the case load of early retirement benefits into full-time and part-time), but the scale of the deviation in trends is more likely to be related to either a measurement/reporting problem on the expenditure or the case load side. In one of its publication, the statistical office recognised that a substantial part of the early retirement plans is implemented by companies and their pension funds remained invisible (Gebraad and Pfaff, 2006: 2).

<sup>4</sup> CBS (case load = Beroepsbevolking>Binding met de Arbeidsmarkt>Wil geen betaald werk 12 uur of meer>Reden geen betaald werk>GepensioneerdVUT; expenditure = VUT Fondsen>Resultatentrekning VUT Fondsen>Lasten>Uitkeringen)

total expenditure of a social security program of course does not need necessarily need to imply a measurement problem, as it might also be caused by a change in benefit generosity. One can even use the combination of case loads and expenditure as an indication that it might be worthwhile to investigate further the nature of the benefit entitlements (for example by examining changes in the rules governing benefit generosity in a country).

Whenever we present data on a cross-national basis in this paper we have opted for expressing the case load as percentage of the population between 15 and 64. The assumption behind this is that in most countries this approximates the working age population. But this poses a serious problem when comparing early retirement benefits. Countries differ significantly in terms of their statutory retirement age. Though in most countries this still is around 65 for men, women (and in some countries) also men (used to) enjoy a lower statutory retirement age. In principle it would be preferable whenever making cross national comparisons to consider all pensioners below 65 as enjoying a form of early retirement, but national data often make it hard to separate out pensioners aged 64 or less. The NEI-OECD project has made such attempts for France covering the period 1980-2000. For that period, the population of beneficiaries under 65 drawing a statutory pension was much higher than both the *préretraités* and *dispensés* (older beneficiaries of unemployment benefits exempted from looking for employment) as illustrated by Figure 2.

Figure 2. Retirement below 65 in France compared to the Netherlands and Belgium



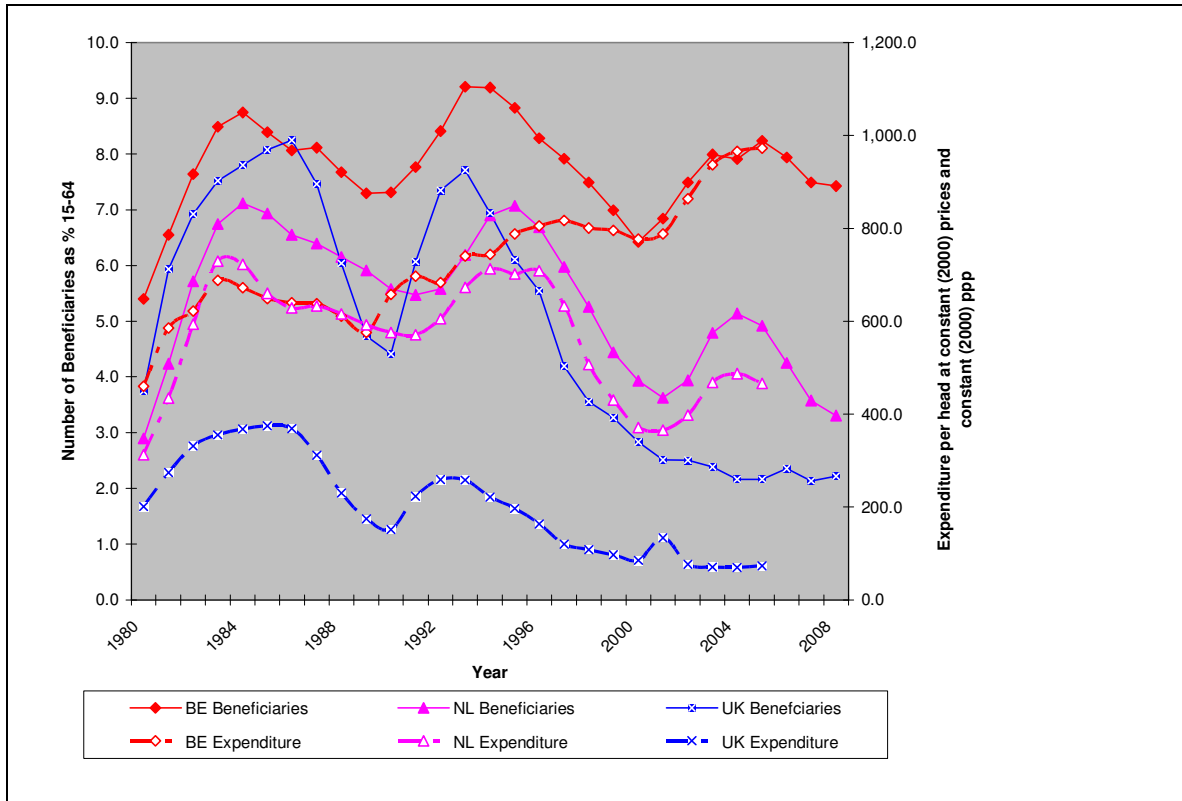
**The development of the case load of out of work benefits for the working age population between 1980 and 2008**

During the past two decades, welfare states have sought to reform the unemployment protection systems they inherited from the industrial era (Clasen and Clegg, 2011). In many countries, these reforms reversed policies of labour shedding during the 1980s and early 1990s and entailed changes in behavioural requirements that sought to encourage or force the working age population out of benefit dependency into paid employment. The success of these so-called ‘activation policies’ can to some extent be measured in terms of a decline of benefit dependency and of the case load of working age benefit schemes. However, as is well known, some of the decline in caseload in one benefit programme (e.g. unemployment) has led to a concomitant growth in others (e.g. disability or social assistance), particularly for some groups such as low-skilled

men (Clasen et al., 2006). Such a ‘substitution effect’ has been noted in several countries and can be gauged from some of the graphs below. In the subsequent paragraphs we will try to map the impact of reforms by describing to what extent the size of benefit programs has changed during the period 1980 to 2008 in terms of number of beneficiaries and in terms of total benefit expenditure. The case load data originate from the above described sources, the data on benefit expenditure originate from the OECD’s Socx database and from Eurostat’s ESSPROS database. Those expenditure databases are similar in the data they report, but there are also differences in the categorisation of programmes (Adema and Ladaïque, 2009: 51-52; De Deken and Kittel, 2007) and in the fact that ESSPROS, in contrast to Socx, does also include the costs of administering schemes. Where necessary we tried to re-categorise ESSPROS data (for example by including sickness benefits together with disability benefits into our work incapacity benefits – Socx already includes sickness in its incapacity category). On the other hand, the OECD has a separate functional category for active labour market policy, hence for the ESSPROS unemployment category, we only include cash benefits, and left out the costs of such measures as placement services, job search assistance and mobility and resettlement benefits.

In Figure 3 we have plotted the development of the case load (beneficiaries as a percentage of the population 15-64 – left axis) and of total expenditure (in US \$ at constant 2000 prices at the 2000 purchasing power parity – per right axis) of unemployment benefit schemes in three countries that underwent quite a different trajectory during that period.

Figure 3. The case load and total expenditure on cash benefits of unemployment benefit schemes between 1980 and 2008 in Belgium, the Netherlands and the UK



Whereas in Belgium the case load fluctuated with the economic cycle but remained persistently high throughout the entire period, the trend in the UK is in the beginning similar to the one in Belgium, but during the second half of the period the case load systematically declines. In the Netherlands too, the case load declines in the second half, though there still seem to be fluctuations with the economic cycle. Either the UK economy performed better than the two Benelux countries and did not suffer any cyclical downturns, or changes in the eligibility conditions made access to benefits more restrictive so when there was an economic downturn many of those who lost their job were less likely to enter the unemployment benefit system. It is true that during the period 2002-2005 the UK economy performed marginally better than the Dutch and even more so than the Belgian economy, but it is unlikely that it was completely shielded off from the

economic cycle, and hence the lack of 'responsiveness' of the case load is also likely to be related to changes in eligibility conditions.

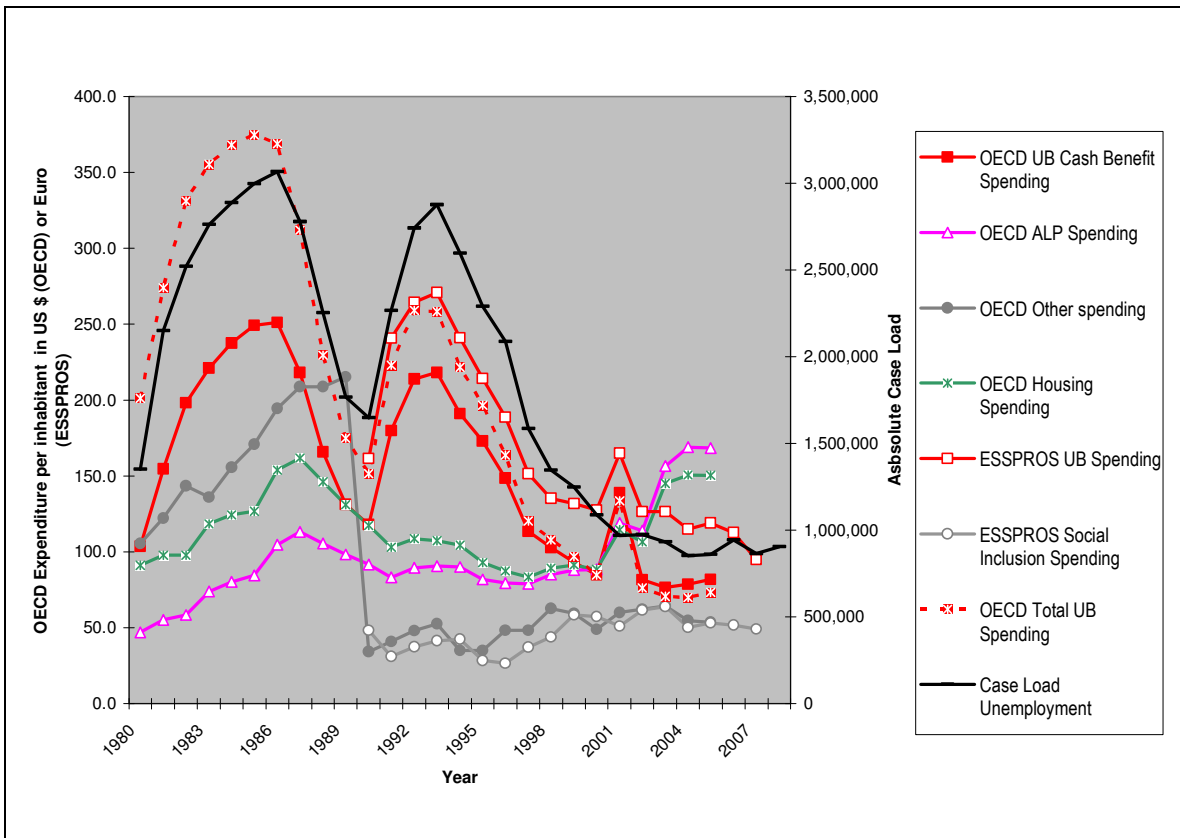
However, the considerably steeper decline of British beneficiary (benefit case load) after 1993 compared with the more moderate decline of expenditure remains a puzzle. The gap between the spending and case load line in the UK always was much larger than in Belgium and the Netherlands (which suggests a far less generous unemployment benefit system), but it has become less wide during the second half of the period. This could suggest that even if the system became more restrictive in terms of access, benefits paid to those who enter the system have not worsened compared to the earlier period.

Legislative change however, is unlikely to be an explanation. There was a reform in 1996 (introduction of Jobseekers Allowance; JSA) which brought about a halving of the contributory benefit entitlement and thus certainly led to some decline in claimants number (and expenditure). Another explanation might be due to changes in the stocks and flow of unemployment benefit caseloads. If the British decline of caseloads in the UK after the mid 1980s and again after 1993 applied particularly to claimants with shorter unemployment benefit spells, whereas long-term unemployed (and thus long-term benefit claimants) remained in the 'stock' of unemployed, annual case loads would drop indeed faster than benefit expenditure. Potentially there are other reasons to do with national data reporting and consistency over time which have yet to be resolved. For the time being the British case illustrates that it is risky to simply 'reading off' expenditure from case-load date (or vice versa).

Part of the British puzzle might be related to the way we sought to standardise reciprocity rates and expenditure to allow for a cross national comparison: we expressed the case load as a percentage of the population 15-64; and *total* expenditure in the same currency US \$ at 2000 prices in purchasing power parity.

The standardisation for population may have affected our results. In Figure 4 we have plotted for the UK the absolute case load and the expenditure trends according to the OECD (Socx) and Eurostat (ESSPROS). For the OECD data we plotted separately total spending on unemployment benefit schemes (the variable used in Figure 3), as well as cash benefits for unemployment benefit schemes, spending on active labour market policies (ALP), 'other' social expenditure (a category that includes spending on social assistance) and social spending on housing (as this might include some of the supplements the UK unemployed are entitled to). For the Eurostat data (that only back as far 1990) we plotted cash benefits in ESSPROS 'unemployment function' and total spending in its 'social inclusion function'. Now the time series of expenditure on cash benefits more closely follows the trend of the case load and towards the end of the period some of the decline in spending on unemployment seems to be compensated by increased spending on active labour market policies and housing (which is in line with the changing nature of unemployment support in the UK where more emphasis is laid on various earmarked supplements rather than an insurance type of earnings related basic benefit).

Figure 4. OECD and ESSPROS Expenditure



If one examines the expenditure trends, it is striking that spending in Belgium continued to rise without showing any of the cyclical patterns exhibited by the case load development. This suggests that either benefits became more generous, (which is not very likely), or the spending category is far broader than our case load category and the increased spending did not benefit the cases documented in the graph but other out of work transfers to beneficiaries who officially are not considered to be unemployed. There are two schemes that might have contributed to the spending boom: early retirement (which may account to the increases during the first half of the period) and the career break schemes that started to take off during the second half of the period. The most important early retirement schemes are financed by the unemployment insurance system, and so are the career break benefits. If one plots the case load of these three schemes to

the OECD aggregate spending data, the inconsistency would largely disappear. On other words, the discrepancy between the spending and case load lines in Belgium suggests a risk reconfiguration, though not as understood by Clasen and Clegg: in the case of Belgium, there is not so much a trend towards a single out of work benefit fro the working age population with the same behavioural requirements (activation), but more the use of unemployment benefits as an umbrella for a variety of out of work benefits with quite different behavioural requirements.

Finally the Netherlands shows the least changes, except that unemployment benefit recipiency rate gradually declined during the 1990s, which is not surprising in view of the alleged 'miracle' the Dutch labour market experienced during this period. But as the expenditure line closely follows the case load line, there seems to have few changes in generosity, and less risk reconfiguration (or developments in different fields might have cancelled each other out).

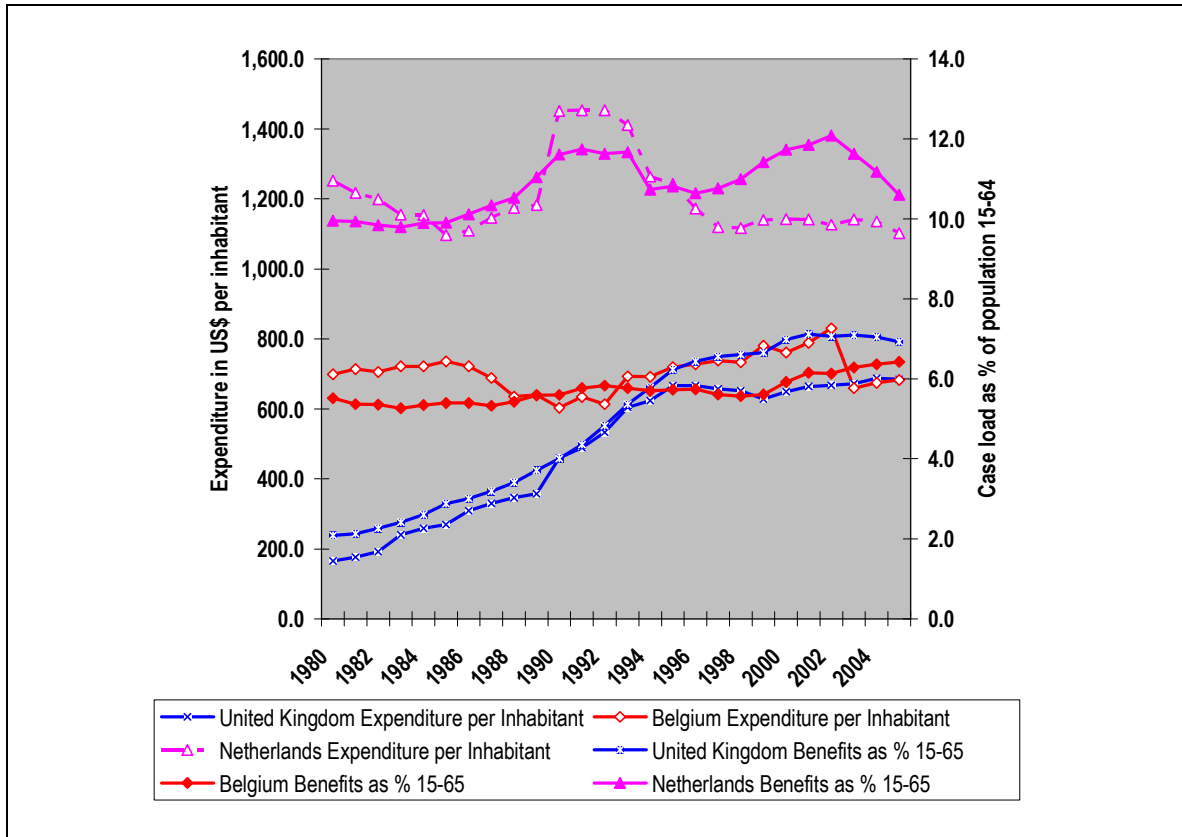
### **From unemployment benefits to out-of-work benefits for the working age population**

For a cross national analysis, an exclusive focus on unemployment benefits can be deceptive if one is interested in assessing the benefit dependency of the working age population. As we have already pointed out, countries may differ substantially in terms of how they administratively configure the risk of unemployment. In particular those unemployed who are hard to reintegrate into the labour market are often referred to a variety of other out-of-work benefit programs, which entail different behavioural requirements from their beneficiaries. The most often used alternative exit routes are work incapacity and early retirement. In absence of a long-term insurance type of benefit, hard to employ persons may also end up in social assistance schemes. What complicates

things is that in some countries the separation between these three out of work statuses is or has become blurred. As we have already argued, in Belgium early retirement and sabbatical leave systems are part of the unemployment insurance system (and hence form a considerable part of this ESSPROS expenditure category). In Germany, the HartzIV reforms have merged long-term unemployment benefit with other social assistance benefits.

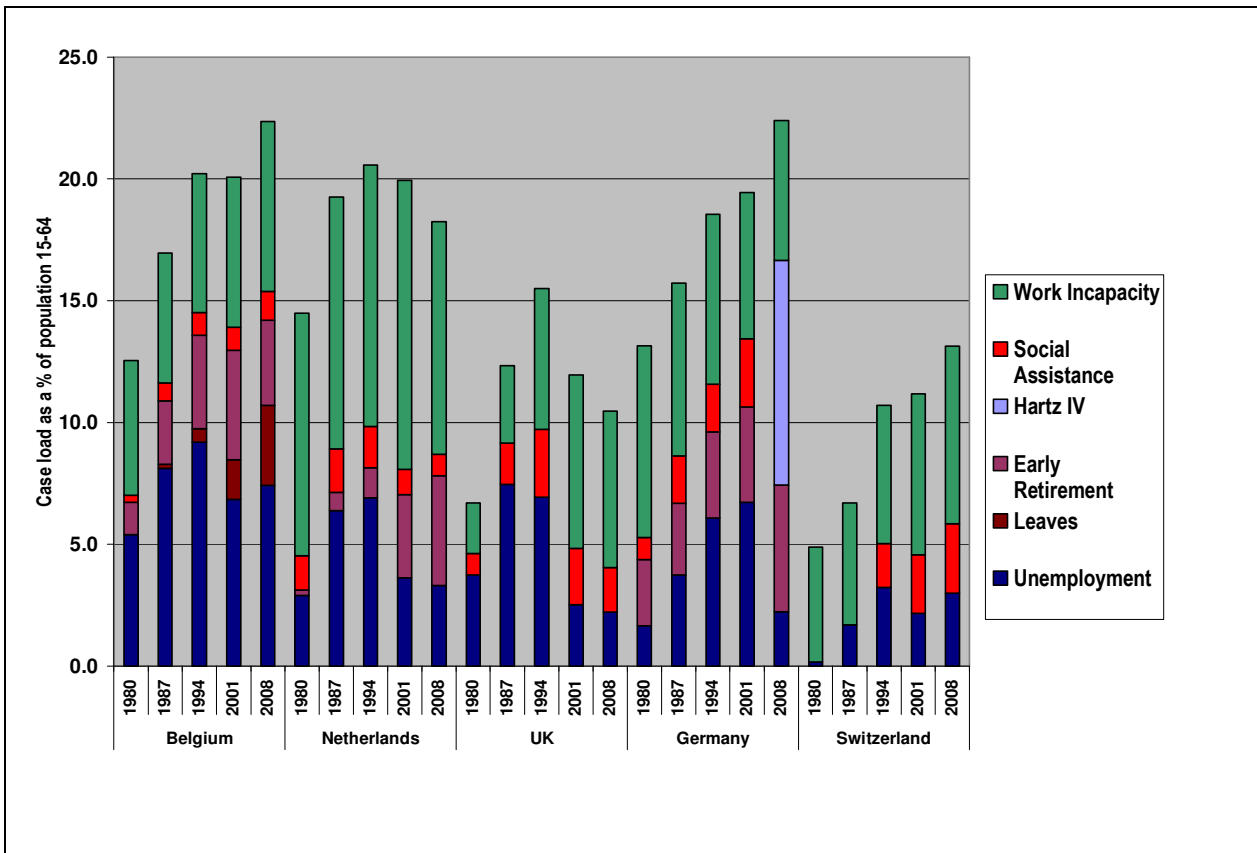
The category of work incapacity appears to be less marred by discrepancies between the development of case loads and totals spending on benefits. In Figure 5 we have plotted those two trends in a way similar as we did in Figure 3 for unemployment. The two sets of lines exhibit a similar trend for each of our three countries, but cross-nationally the trends are very different: in the Netherlands, work incapacity beneficiary numbers followed a cyclical development reminiscent of the case load of unemployment insurance, in the UK there has been a steady rise in case loads, whereas in Belgium the case load is stable at a comparatively low level.

Figure 5 The case load and total expenditure on cash benefits of work incapacity benefit schemes between 1980 and 2008 in Belgium, the Netherlands and the UK



In Figure 6 we give an overview of the evolution during the past two decades of the case load (as measured as a proportion of the population between 15 and 64) of different out of work benefits in five countries.

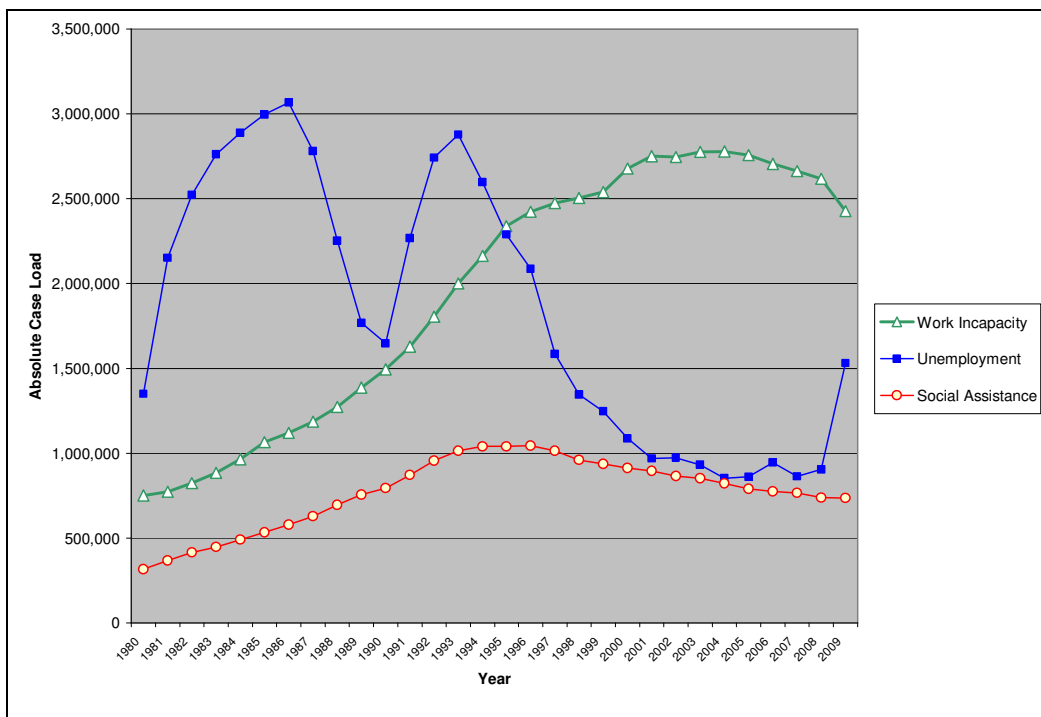
Figure 6 Changes in the case load mix in 5 countries between 1980 and 2008



In order to improve comparability, we use the categorisation explained above, which means that it does not matter out of which branch of a national social security system early retirement is financed, or whether incapacity benefits result in a particular country under sickness, disability or social assistance schemes (as long as they are granted on a medical basis – that can include psychological and social problems of the beneficiary). Striking about Figure 6 is, first of all, the much lower proportion of out-of-work benefit case loads in each of the countries in 1980 and the subsequent growth from different starting points. Furthermore, a cursory analysis of the mix in those five countries suggests some degree of substitution between low unemployment case loads and comparatively high work incapacity case loads. Such a ‘communicating vessels’ principle, also becomes evident if one looks at the mix on a country-by-country basis. Figure 6

clearly indicates that the case load of unemployment benefits in the UK was halved on a long term basis, but that at the same time the number of work incapacity benefits almost tripled. Such a dramatic increase in work incapacity cases is not an inevitable consequence of post-industrialisation and the disappearance of smoke stag industries but might suggest a broadening of entitlement criteria so as to include post-industrial forms of work incapacity.

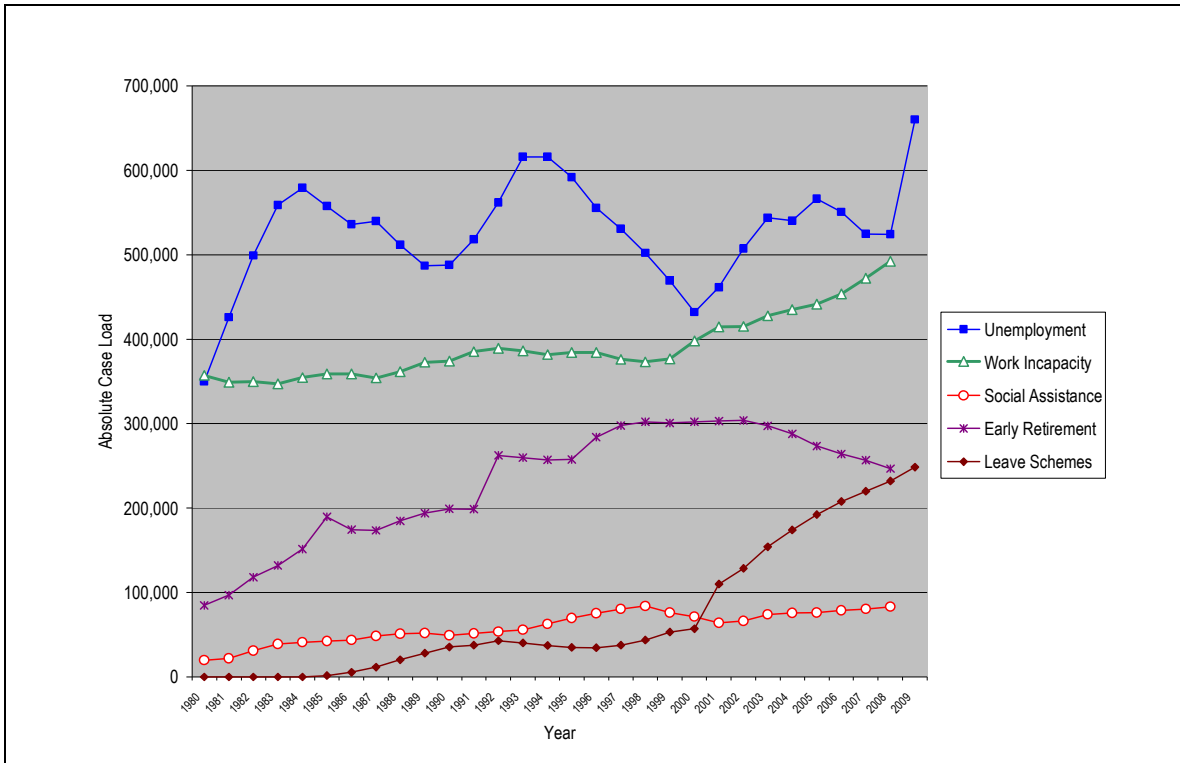
*Figure 7 Changes in the case load mix in the United Kingdom 1980-2008*



In Belgium on the other hand, the number of unemployment benefit claimants has remained high, but the case load of incapacity benefits has only seen a moderate increase (that still is hard to account for in an economy that, as the UK, completed the transition to a post-industrial economy already during the late 1970s early 1980s). The shock of that transition rather seems to have been accommodated by early retirement and only when the Belgian government started to close down that exit route, the number of work incapacity schemes beneficiaries started to go up. In addition from 2000 onwards there is a steep

increase in the case load of the sabbatical leave schemes, a labour supply reduction arrangement that more fits the cost disease problems of a service sector economy, than the labour shedding needs of a de-industrialising economy.

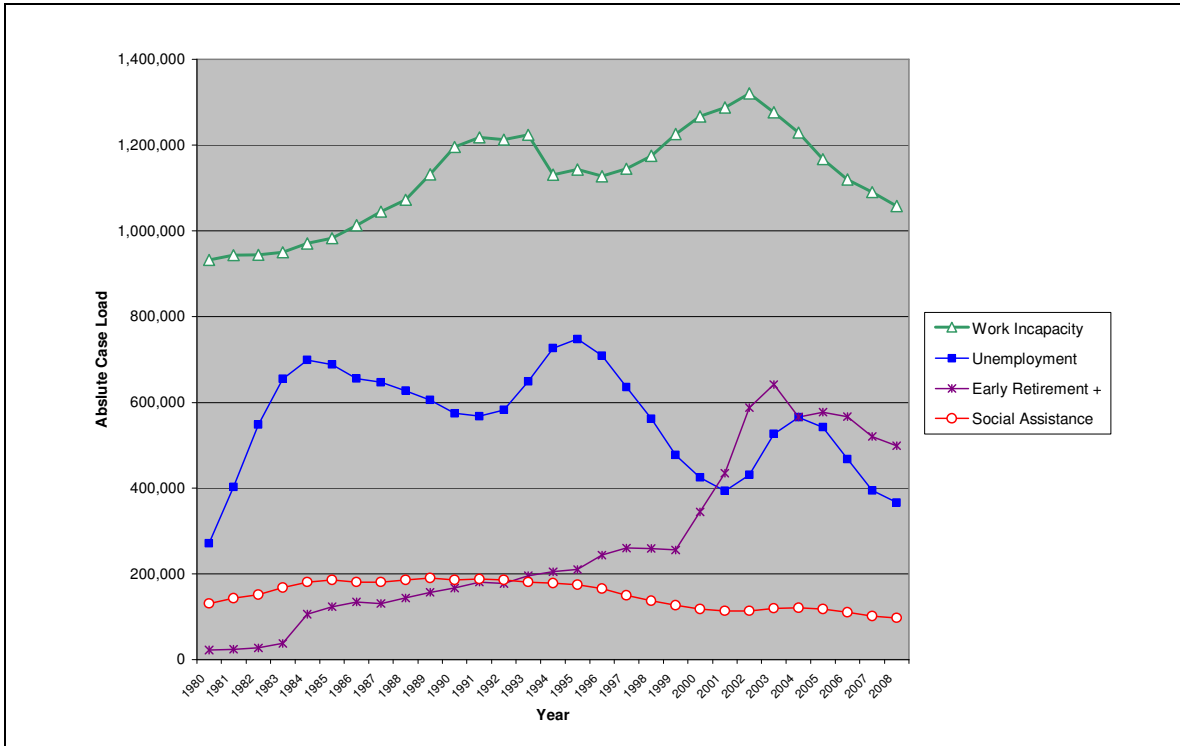
Figure 8 Changes in the case load mix in Belgium 1980-2008



The Netherlands in a way ‘pioneered’ the use of work incapacity benefits as the most important way of accommodating redundant workers during the era of the so-called Dutch ‘disease’ when the country’s labour market was plagued by an exceptionally degree of inactivity. As becomes evident in Figure 7, it was only towards the end of the period under study, that policy reforms started to lead to a reduction of the case load of these incapacity schemes. The steep rise in early retirement benefits during the 1990s forms a reason to cast doubt on the alleged Dutch employment ‘miracle’ of that decade when the case load of unemployment benefits saw a steady decline (though one must bear in mind the

discrepancies we discussed earlier between the case load and total spending figures).

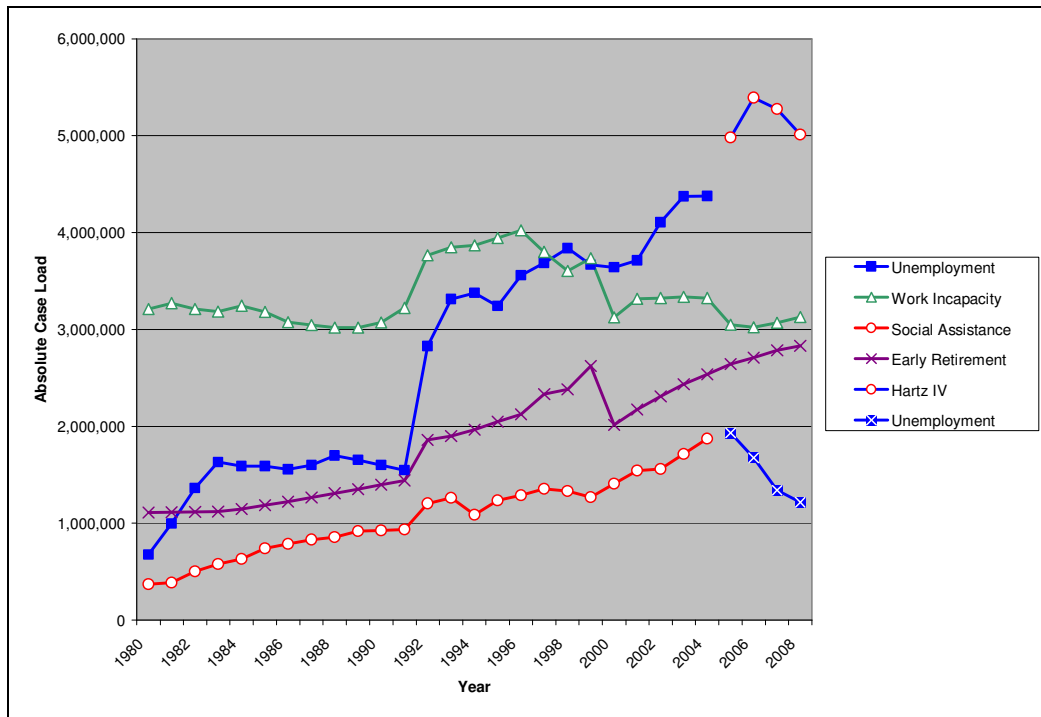
Figure 9 Changes in the case load mix in the Netherlands 1980-2008



In Germany work incapacity increased after the unification as the most important form of out of work benefits for the working age population. But as one can see in Figure 10, since the 1990s the country experienced a dramatic rise in the number of claimants of unemployment benefits. In addition, the case load of early retirement schemes and of social assistance claimants also increased at a steady pace. The merging in 2004 of long-term unemployment benefits and social assistance into the so-called *HartzIV* benefits initially did nothing to stop this trend, though towards the end of the period, both the remaining unemployment *insurance* scheme and the new *HartzIV* out of work benefit system for the working age population started to decline.

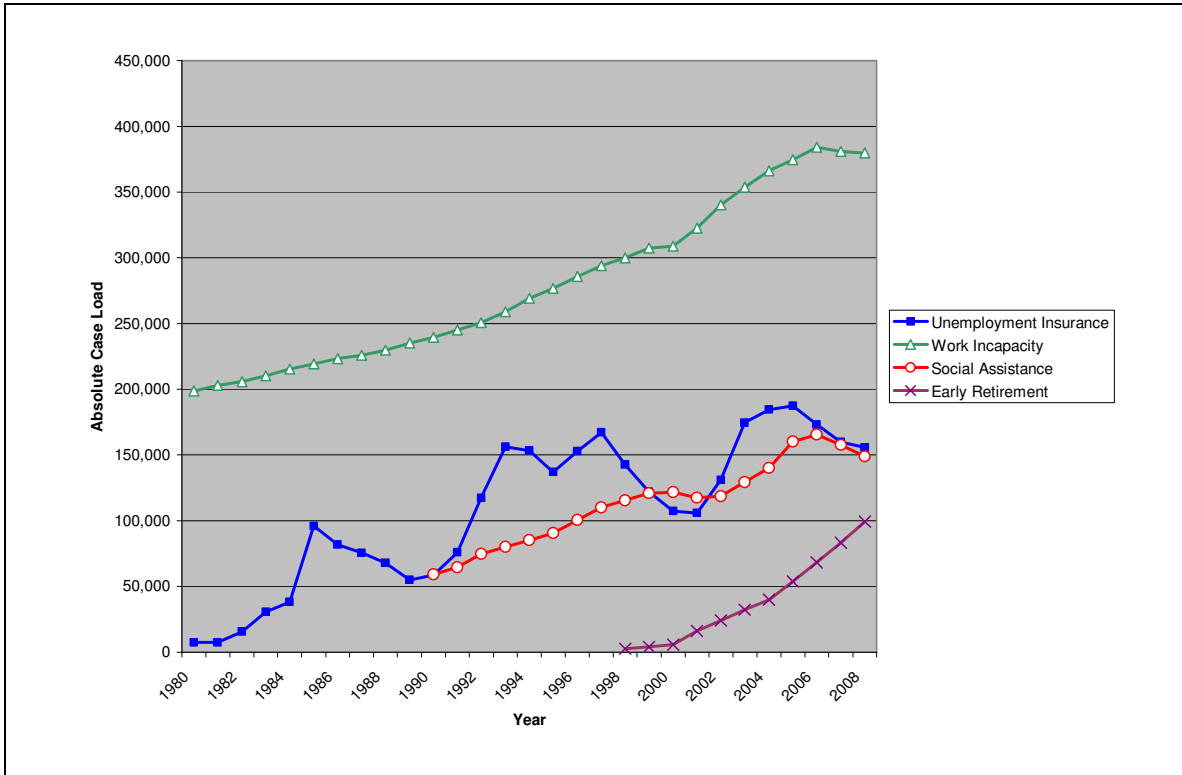
The official term for HartzIV is unemployment benefit II (ALGII) and the trend after 2005 suggests a steep rise in unemployment benefit case loads. However, it should be noted that there are many claimants of ALGII who are administratively categorised as being able to work but not unemployed (in fact, almost half of all; Bundesagentur, 2010). They include parents with children under the age of three, persons older than 58 and looking after relatives who have been in receipt of UBII for more than 12 months, participants in a labour market programmes and claimants who have a job and work for more than 15 hours per week. In other words, the introduction of ALGII redefined the administrative definition of 'ability to work' for benefit claimants which is not the same as 'unemployed'. Thus, ALGII is only nominally a form of unemployment assistance and de-facto a rather broad and encompassing benefit category, making it inappropriate to interpret the trend in benefit case loads in Germany after 2005 as indicative of a relative decline of the relevance of unemployment insurance (Clasen and Goerne, 2011). It also points to the need for caution when assessing beneficiary rates across countries, highlighting the need to take account of cross-national differences in the institutional and administrative construction of unemployment and other causes for the receipt of out-of-work benefits (Konle-Seidl, 2009).

Figure 10 Changes in the case load mix in Germany 1980-2008



In the beginning of our period under study, work in capacity benefits were in Switzerland the only nationwide out of work transfer scheme. Their steady increase and the rise of other out of work benefits support the characterisation of the country's welfare state as a latecomer catching up (Champion, 2011).

Figure 8 Changes in the case load mix in Switzerland 1980-2008



## Conclusion

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