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Unemployment protection reforms in Southern European countries between 2004 and 2016 and the trade-off between efficiency and equity

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Efficiency and equity are the two core objectives of unemployment protection schemes. Substantial academic production has focused on theoretically discussing the adverse effects of unemployment benefits as well as their empirical validation. However, the evaluations made of unemployment protection reforms, implemented in every European country, have not as a rule been based on these two state intervention objectives. Hence, this constitutes the main purpose of this article. To this end, we subjected the reform measures undertaken in four southern European countries between 2004 and 2016 to analysis. Three different profiles were identified: the Italian reforms improved both efficiency and equity; Portugal and Spain returned an opposite profile while in Greece, an improvement in efficiency was counterbalanced by a negative impact on equity.

*Key words***:** *unemployment benefits, efficiency, equity, reforms, Southern countries*

JEL codes: D60, H5

I. Introduction

Several authors argue that efficiency constitutes the core objective of unemployment protection schemes (Snower 1995; Barr 2012; Pestieu 2013). There is general consensus around how asymmetric information in private markets causes two serious consequences: adverse selection and moral hazard. Both serve to explain so-called incomplete markets in that neither all social risks nor all people receive private insurance coverage.

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Furthermore, unemployment – as a social risk – has remained uninsurable in private markets (Barr 2012: 135).

The state acts in two complementary ways to solve the adverse selection and moral hazard issues: membership of public schemes should be mandatory (and therefore covering both low and high risks) and unemployment benefits are only to be granted in cases of involuntary unemployment.

Unemployment insurance (UI) - one of the two components of unemployment protection schemes – seeks to obtain the efficiency objective. UI is generally an earnings-related benefit payable to unemployed people who meet a certain qualifying period, with limited durations and expenditure financed by social contributions paid in by employees and by employers (Stovicek and Turrini 2002; Esser et al. 2013). UI also contributes to the second unemployment protection scheme objective. Based on the risk sharing principle, this redistributes from employed people (who pay the social contributions) to unemployed people (who receive the benefits) (Barr 2012). However, unemployment assistance (UA) - the second component of unemployment protection schemes – represents the best instrument for preventing or alleviating unemployment-related poverty (Stovicek and Turrini 2002; Pestieu 2013). This is means-tested, granted in the form of flat-rate amounts and complements the UI after beneficiaries have exhausted their rights to benefit or alternatively provides economic support to unemployed persons who fail to meet the qualifying period required by UI (Salgado and Figari 2014). Based on the solidarity principle, this expenditure is financed by tax revenues.

Substantial academic work has focused on the adverse effects of unemployment benefits on labour markets. According to this theoretical body of research – job-search theory and efficiency-wage theory – generous unemployment protection, in terms of income replacement and duration, may contribute to raising the unemployment rate

(Snower 1995; Jin and Lenain 2015). Unemployment protection "brings distortions in the choices of beneficiaries" (Pestieu 2013: 94) through three ways: i) unemployment benefits discourage searching for jobs whenever an unemployed person, on finding a job, loses the right to unemployment protection, the well-known `unemployment trap` (Snower 1995; Venn 2012; Stovicek and Turrini 2012); ii) the benefits may contribute to increasing the duration of job searches, and thus also increasing the length of time spent unemployed (Snower 1995; Venn 2012); and iii) unemployment protection may raise the wage at which unemployed people accept a job, i.e. the reservation wage (Venn 2012; Jin and Lenain 2015). Despite these theoretical predictions, the actual empirical evidence is neither strong nor mixed (Spezia 2000; Barr 2012; Howell and Rehm 2009; OECD 2011; Elsby et al. 2008).

Comparisons between unemployment protection systems and the reforms enacted since 2000 in European Union member states have attracted the attention of many researchers (Arcanjo 2012; Turrini et al. 2015; Stănescu 2015; Stovicek and Turrini 2015; Ozkan 2014; Pfeifer 2010; Chung and Thewissen 2011). The studies diverge across their methodological options, that is, in terms of the number of countries studied, the time horizons, the choice of one or both components of the protection schemes and also in the parameters subject to analysis. However, no study has sought to relate system characteristics and/or their reforms to the objectives of state intervention.

The present article thus aims to analyse the reforms of unemployment protection schemes (insurance and assistance) for the period between 2004 and 2016 in Southern European countries (Greece, Italy, Portugal and Spain). The legislative changes concerning eligibility (the main conditions and qualifying periods) and generosity (replacement rates, reference earnings, flat-rate amounts, and the duration of payment). The study correspondingly contains two main objectives: firstly, to identify the profile of the reforms carried out in the four countries and, secondly, to relate them to their performance in terms of efficiency, equity and potential adverse effects.

The structure of the article is thus as follows. The following section presents a brief normative and positive discussion of the reform profile. Section 2 presents the main characteristics of the four systems in the base year (2004) before identifying the legislative changes introduced between 2005 and 2016 as well as the profile of the reforms in each country before section 3 sets out the conclusions.

II. Efficiency and equity and the policy reform profiles

According to Snower (1995), the objectives of efficiency and equity and the potential adverse effects provide the grounds for any evaluation of unemployment protection reforms.

The theoretical hypothesis relating to the generosity of unemployment schemes, mainly their high replacement rates and unlimited duration, lies at the heart of the potential effects on incentives to take up jobs. However, any empirical analysis crucially needs to distinguish between the two components of unemployment protection (UI and UA) and their most recent designs (Spezia 2000; Venn 2012). Firstly, access to UI benefits requires a certain qualifying period while for UA benefits economic need establishes the basic eligibility criteria; whenever unemployed people are eligible for one of these benefits, “on-going eligibility may depend on compliance with job-search-related requirements with sanctions for non-compliance” (Venn 2012:7). Secondly, the hypothesis of unlimited duration does not apply to any component. Furthermore, these criteria together contribute to reducing benefit dependence. Finally, this expect the unemployment trap is severely minimized in unemployment schemes with low income replacement rates (UI) and low flat-rate amounts (UA).

Although the empirical evidence remains controversial, "governments in the wider EU have increasingly looked more holistically at the benefits structure to encourage labour force participation" (Barr 2012: 148). However, measures aimed at minimizing work disincentives should be weighed against their own negative impacts on the standards of living of all beneficiaries and, consequently, on worse job matching levels. According to Howell and Rehm (2009), the design of reforms does not always pay sufficient attention to this trade-off. Recognizing the importance of this double effect, Layard et al. (1991) propose that generous unemployment benefits (amounts) should be granted for limited periods.

The design and reforms of unemployment protection are particularly relevant over the course of the business cycle. Empirical analysis of the experiences of European countries reveals some trends. Even through unemployment protection usually gets improved (coverage, level or duration, always coupled with more activation measures) during economic downturns (OECD 2011; Boeri and Jimeno 2016), the nature and scope of the reform measures also depend on the respective governmental (Turrini et al. 2015). As soon as the effects of economic recession begin easing, measures tightening the eligibility and/or reducing generosity become more frequent. However, the first type of measure may lead to weaker protection for workers in precarious employment, mainly young people and women (Grimshaw et al. 1997). In doing so, states do not ensure due protection to the full scope of unemployed people and thus fail in the insurance objective.

III. Unemployment protection reforms in Southern European countries

A. Methodological options

The first methodological option stems from the selection of case studies: Greece, Italy, Portugal and Spain. A variety of factors determined this choice. Fist, and despite the divergence among researchers on their classifications of the respective welfare state regimes, the four countries are representative of the conservative regime (Arcanjo 2011). Second, these southern European countries have from 2004 onwards experienced some shared negative developments in terms of their economic and financial frameworks: all countries, with the exception of the Italy, recorded very high overall and youth unemployment rates, above the EU-28 average (Boeri and Jimeno 2016); Spain (from 2008 onwards), Greece, Italy and Portugal (since 2001) recorded very high public deficits; all of them registered a very unfavourable group in public debt levels (Portugal and Spain after 2010). Finally, in varying degrees, they also shared the negative impacts arising out of the global crisis of 2008. While both Greece (from 2010 onwards) and Portugal (between 2011 and 2014) signed a Memorandum of Understanding with the Troika (EC, BCE and IMF), serious banking sector difficulties afflicted Italy and Spain with both governments ending up requesting external financial assistance (Rubery 2015; Pavolini et. al. 2015).

The second methodological option relates to choosing the indicators for identifying the direction of the unemployment protection reforms carried out over the 2004-2016 period. The analysis focuses on the legislative changes covering eligibility (main conditions and qualifying period) and entitlement/generosity (earning and gross rates in UI, the amounts of UA benefits and payment durations) also for the period between 2004 and 2016. We therefore exclude the benefits and other measures designed to promote labour market integration. This made recourse to three sources: the Mutual Information System on Social Protection in the Member States of the European Union (MISSOC), the LABREF – Labour Market Reforms Database run by the European Commission and the International Social Security Association's Social Security Database.

B. Unemployment protection in 2004 in the four countries

Unemployment protection in the European countries is organized according to several models. Most countries offer unemployment insurance (UI), which is usually mandatory, and unemployment assistance (UA). In the UI, membership is commonly mandatory, in keeping with "the contributory principle, which is a means of avoiding adverse selection" (Arcanjo 2012: 8). However, in some countries, UA is not available and where social welfare may provide a minimum level of income but unrelated to the employment status. Furthermore, the specific provisions for UI and UA benefits reveals a great level of diversity across European countries (Stănescu 2015; Salgado and Figari 2014; Esser et al. 2013; Stovicek and Turrini 2012).

The four selected countries represent this diversity. In 2004, two countries (Portugal and Spain) operated a dual system: with an insurance scheme (with eligibility depending on the period of contribution and with earnings-related benefits) and an assistance scheme (means-tested and flat-rate benefits). In both countries, UA is granted either to the unemployed who have exhausted their entitlement to UI or to those with a shortfall in contributions and in economic need. The two other countries (Greece and Italy) offered no unemployment assistance scheme.[2]

Over this period, Italy carried out two reforms (2012 and 2015) to unemployment benefits. Firstly, the former Ordinary Unemployment Benefit was replaced by two new insurance benefits: Social Insurance for Employment (ASpl) and the Mini-ASpl. In 2015, the new Social Insurance Provision for Employment (NASpl) replaced the two previous benefits and also introduced an experimental means-tested benefit (ASDI). Both reforms aimed at increasing the scope of coverage.

[2] Greece provided two special benefits (means-tested and lump-sum) integrated into social assistance.

C. The legislatives changes introduced during 2004-2016

Over the 2004-2016 period, 29 main legislative changes were identified: Greece (2008, 2011, 2013, and 2014); Italy (2006, 2008, 2012 and 2015); Portugal (2006, 2007, 2010, 2012 and 2015); and Spain (2006, 2007, and 2012).[3] Below, we proceed to analyse the changes in the parameters and rules in the four selected countries.

Main conditions: the four UI schemes required similar eligibility conditions for receipt of unemployment benefits: involuntary unemployment, registration at the employment office, capacity and availability to work, and alongside the obligation to actively seek employment. In addition to these conditions, access to the Portuguese and Spanish UA schemes depended on a means-test: set at 75% and 80% of the minimum wage, respectively.

Over the period, some important changes need identification. In Spain, the terms of searching for a job were tightened (for both schemes) in 2012. The Portuguese UI scheme adopted a restrictive definition of suitable or convenient job in 2010: during the first year of unemployment, beneficiaries are to accept any job offer provided that the wage (gross) equals the amount received in benefit plus 10 per cent. In 2013, the Greek scheme introduced a new rule: a limit of 450 days of UI benefits over the previous four calendar years; unemployed people would have no access to benefits if they met this total; in 2014, this limit was reduced to 400 days.

The means-tested criteria were tightened for both the UA schemes. First, in 2010 (Portugal) and then in 2012 (Spain), the concept of income became more comprehensive,

[3] Some temporary and/or specific benefits are excluded from our analysis. This is the case with the Spanish Unemployment Assistance Program for long-term employed (temporary) workers; in the Italian system, three benefits were also excluded: a special benefit paid out to construction workers, the mobility allowance paid to industrial workers and a temporary benefit for atypical workers; two special social assistance benefits were also excluded in Greece (for details see: MISSOC).

including all sources as well the value of any disposable assets. Second, in 2007, a major change was introduced to the Portuguese UA scheme: the benchmark of the national minimum wage (403 euros) was substituted by the Social Support Index (397.86 euros, both 2007 figures), a total then frozen between 2009 and 2013. These two measures both had a negative effect on the amounts paid out in benefits and thus, restricting generosity.

Qualifying period: in 2004, the working requirements for the UI schemes in all four countries, were expressed by a minimum record of paid employment (200 days in Greece, 360 days in Italy and Spain and 540 days in Portugal) alongside a relevant period of work (six years in Portugal and two years in the other countries). In order to evaluate the effects of these legislative changes, and following Arcanjo (2011) and Clasen *et al.* (2001), we calculated the ratio between the two factors. Correspondingly ranking the countries as follows: Spain (0.17), Greece (0.29), Italy (0.50) and Portugal (0.75). In the same year, both UA schemes required different qualifying periods: six months of work during the last twelve months (Portugal); three months or six months of employment contributions, with or without family responsibilities, respectively (Spain).

These criteria, which are also central to unemployment coverage, have changed in all UI schemes, with the exception of Spain. In Portugal, the qualifying period became less stringent requiring 450 days of work, in 2007, and 360 days of work in 2012; consequently, the ratio experienced a successive reduction from 0.625 to 0.50. In the Italian system, the changes headed in a similar direction: in the Min-Aspi (2012) the ratio dropped to 0.25 (three months during the last twelve months); with the qualifying period also becoming less stringent in the case of the NASpl (2015) in requiring only three months in the last four years (with a ratio equal to 0.06).

Amounts of benefits: first, we analyse the (gross) rates of insurance benefit replacement (Table 1) as well as the earnings reference.

Table 1. Replacement rates (UI)

	Greece	Italy	Portugal	Spain
2004	50% and 40% for white-collar and manual workers, respectively.	40%.	65%.	70% for the first six months (M); afterward 60%.
2006		**50%** for the first 6M, **40%** for the next 3M, and **30%** for the 10th M.		
2008	**55%** of the Minimum Wage**.**	**60%** for the first 6M, **50%** for the next 2M (all persons) and **40%** for the following **4M** (only persons aged 50 or over).		
2012		**75%** for the first 6M, **60%** for the next 6M and 4**5%** after 12M.	65% for the first 6M; afterwards **55%.** (a)	70% for the first 6M; **afterwards 50%.**
2015		75% for the first 6M; afterwards, the rate **decreases by 3% each month.**		

Notes: (a) The amount increases specifically when both spouses (and both persons living in *de facto* relationships) draw unemployment benefit and have dependent children.
Sources: LABREF; MISSOC.

In 2004, a rates system was in effect in two countries: in Greece, where the rates varied according to the occupational classification, while in the Spanish scheme, the length of unemployment provided the determining factor (better for the short-term unemployed). Once again, the two Iberian countries were more generous. The generosity of the protection measured by the net rate of replacement depends on the income. In same year, unemployment benefits were not subject to taxation in any of these countries while only in Spain did UI benefits fall subject to social contributions, which made the net rate less generous. This picture remained unchanged throughout the period, with the exception of Portugal. Portuguese UI benefits were subject to a special and temporary (in 2013 and 2014) social security surcharge.[4]

Over the period, we may observe three types of change. Firstly, in Italy and in Portugal (2012), the fixed scale was abandoned and the income replacement level became dependent on the duration of unemployment. Secondly, in all those countries (in Italy from 2006 onwards), the rates changes clearly penalized the long-term unemployed and older unemployed people. Finally, in 2008**,** Greece also adopted a fixed scale which became linked to the minimum wage.

Concerning the time period for calculating average earnings, the four countries displayed great diversity in 2004: three months (Italy), six months (Spain), twelve months (Portugal) and 24 months (Greece). Over the period, we identified only one change: in Greece, the UI benefit annual amount became linked to changes in the minimum wage (hereafter MW) (2008); this measure reduced the level of benefits from the outset and later impacted harder following the 22% reduction in the MW salary in 2012 and its freezing up to the end of the period studied.

In 2004, the level of assistance benefit received (UA) depended on the MW: 75% in Spain and up to 80% and 100% (without or with dependents, respectively) in Portugal. Two changes took place in Spain: in 2006, the rate rose to 80%; in 2007, the MW was replaced by the Multiplier Public Income Index (in this year, these reported values of 665.70 euros and 499.20 euros, respectively). In the same year, the MW was also replaced by the already mentioned IAS.

[4] Some exceptions were established, specifically the case of either spouse (or both persons living in de facto relationships) drawing unemployment benefits and having dependent children).

Duration of payments: Table 2 presents the situation in 2004 for the UI scheme as well as the changes implemented over the period studied.

Table 2. Duration of payments (UI)

	Greece	Italy	Portugal	Spain
2004	From 5 months (M) to 12M, according to social insurance payments	6 M; 9 M for people aged over 50 years	From 12 M to 30 M, according to age	From 4 M to 24 M, according to social insurance payments
2006		7M; 10M for people aged over 50	From 9M to 30M, according to age and social insurance payments	
2008		8M; 12M for people aged over 50		
2012		10M; 12M (aged between 50 and 54); 16M (aged over 55)	From 5M to 18M, according to age and social insurance payments	
2015		Equal to half the amount of social insurance payments during the last 48M	From 9M to 30M, according to age and social insurance payments	

Sources: LABREF; MISSOC.

In 2004, all the countries operated a variable duration but with different determining factors: age (Italy and Portugal); the previous working record (Greece and Spain). In terms of the maximum duration, the two Iberian countries were the more generous. In the Portuguese scheme, the duration became dependent on both the two factors (2006) while in Greece age was replaced by the social insurance payments (2015).

Over the period, the duration changed in two countries. In Italy, the duration rose successively over the period with the same trend observed in Portugal, with the exception of the rules in force between 2012 and 2014, i.e. under the financial assistance program.

In 2004, the Spanish UA duration normally stood at six months. In Portugal, meanwhile, the UA spanned either the same period as UI or half of the period whenever assistance benefit was granted following the time-expiry UI eligibility. There were no changes during the period.

D. The profile of reforms over the period

Based on Table 3, we may identify the profile of reforms carried out in the four countries.

Table 3. The direction of changes by country and year

	GR	IT	PT	SP
Main Conditions	+R (2013, 2014)		+R (2010) UA: +R (2010)	+R (2012) UA: +R (2012)
Qualifying Period		-R (2012, 2015)	-R (2007, 2012)	
Rates	-G (2008)	+G (2006, 2008, 2012) -G (2015)	-G (2012)	UA: +G (2006) -G (2012)
Reference Earnings or Index (UA)	-G (2008, 2011)		UA: -G (2007)	UA: -G (2007)
Duration		+G (2006, 2008, 2012, 2015)	-G (2006, 2012) +G (2015)	

Key: R= Restrictive; G=Generous; more (+); less (-)

Source: Produced by the author based on LABREF and MISSOC.

Measures designed to tighten and restrict access (the four-year rule) and reduce the level of generosity (by changes to the rates as well as adopting the MW as the benefit calculation benchmark) were implemented in Greece. Despite the reduction of unemployment expenditure potentially having been the key public policy objective, those measures worsened both the efficiency and the equity of the UI scheme while also minimizing working disincentives. 2008 marked year economic activity deteriorated and the correspondingly increasing fiscal deficits may explain the political choices made.

Several changes were implemented to the Italian system over this period. Almost all of them improved access (by introducing a less stringent qualifying period) and increased the generosity (by changes to the rates and the duration). However, the positive changes implemented in 2015 were combined with less generosity (by a lower replacement rate for people unemployed over six months). Contrary to Greece, however, the Italian public authorities took measures to improve the efficiency and equity of the UI scheme despite the unfavourable fiscal environment prevailing.

Portugal registered the highest number of legislative changes. Eligibility for both schemes experienced two contrary effects over two different time periods: conditions became more restrictive (2010) against less stringent qualifying periods (between 2007 and 2012). With the exception of the period between 2012 and 2014, the benefit duration was increased. However, the generosity level received a negative impact (2012) due to both the reduction in the replacement rate for people unemployed over six months and the special contribution. Two measures tightened access (a means-tested condition) and lowered the generosity (with the introduction of IAS) of the UA scheme. The increase in the unemployment rate in 2006-2007, and consequently in public expenditure, may explain the measures taken: more unemployed people protected but over shorter periods of time. The fiscal position deteriorated sharply and the unemployment rate surged into double digits in 2010 (the year prior to financial assistance), which negatively affected the coverage of both schemes. During the financial assistance period, the public authorities sought to cover more unemployed people but at the cost of lower levels of generosity (level and duration). Thus, while the efficiency rate experienced an improvement, the measures impacted negatively on the equity of both schemes.

In turn, the Spanish system implemented measures aimed at tightening access to both schemes (more restrictive key eligibility conditions) and lowering the amount of UI benefits (a reduced rate for those unemployed over six months). Concerning the UA scheme, access was tightened (by changing the means-tested criteria) while two measures had the opposite impact on their generosity (the rate increase followed by the introduction of the Public Income Index). In general, the measures mainly derived from the turndown in the economic performance and consequently in the government's fiscal position and negatively affected their efficiency and equity (of both schemes).

A first conclusion arises from the direction taken by the reform measures implemented in the four countries over the period and their potential effects on efficiency and equity. We may identify three different profiles: the Italian reforms improved both efficiency and equity; Portugal and Spain returned the opposite profile; in Greece, an improvement in efficiency had as its counterbalance a negative impact on equity.

Another important issue surrounds the time spans which concentrated more measures aimed at both restraining access (and coverage) and reducing generosity.[5] In Portugal, Greece and Spain, the majority of the measures seeking to reduce the unemployment expenditure came into effect between 2010 and 2014, that is, during their financial assistance programs.

IV. Conclusions

Four conclusions emerge out of analysis of the reform measures implemented in Southern European countries during the period from 2004 to 2016. A first conclusion concerns the direction of the reform measures implemented in the four countries over the period and their potential effect on efficiency and equity. Three different profiles may be identified: the Italian reforms improved both efficiency and equity; Portugal and Spain returned an

[5] No legislative changes were identified in 2005, 2009, 2011 and 2016.

opposite profile; while in Greece an improvement in efficiency was offset by a negative impact on equity. Hence, the Portuguese and Spanish schemes not only became more inefficient in the sense of their greater failing of the objectives of such insurance schemes but were also less effective in terms of redistributing the UI (from employed people to unemployed people) and poverty alleviation under the UA framework.

A second conclusion relates to the potential disincentives for working. Although measures to reduce such adverse effects have been taken in all four countries, we are unable to state that this was the only determining factor behind the political options taken. Indeed, the economic environment and fiscal positions seem to have been decisive to the measures implemented in every country, with the exception of Italy. As already mentioned, in the other three countries, the majority of measures aimed at reducing expenditure on unemployment were enacted between 2010 and 2014, thus, under financial assistance programs.

Finally, it is important to link the reforms analysed with the economic cycle. Between 2009 and 2013, all the countries experienced strong and prolonged economic downturns. However, with the exception of Italy, unemployment protection did not improve in the three countries (Greece, Portugal and Spain), which is in line with other empirical results, hence, the fiscal position strongly influences both the nature and the direction of reforms.

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