Economic Security Series: Part 2 Unemployment Insurance

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Summary: The world of work has become more unstable and disruptive. Jobs have become less secure. The current system of unemployment payments is inadequate to the risk that workers now face. Moreover, as we begin to restructure our economy in response to the climate crisis, the level of disruption will only increase. We need to change our system. We cannot protect every job and, in many cases, we wouldn't want to. We need to shift economic activity away from areas that harm the environment towards areas that will build sustainable prosperity. That means we need to move toward a system of Unemployment Insurance linked to people's earnings in order to preserve living standards. While the Republic of Ireland has announced some steps in this direction, much more progress is needed. For Northern Ireland, the task is even greater.

Why do we need Unemployment Insurance?

Almost all advanced economies have some form of state assistance provided to workers who lose their jobs. Such state programmes range considerably in how that support is provided. It can be provided as a flat payment available to all, it can be tied to what the workers previous earnings were, or it can be linked to other employment schemes or indeed provided with no further obligations. There are many reasons a person might lose their job. In many instances, the workers bears no responsibility for such an outcome. It could simply be that the industry in which they work experiences a downturn or there was a poor financial performance in the firm where they are employed. In such circumstances, we must ask ourselves, how do the supports we provide perform for those workers? Would we ourselves be comfortable receiving such a level of support in similar circumstances?

We also now live in a much more disruptive global economy where businesses and whole industries cannot be guaranteed to survive in the longer term. Add into this world the challenges that we face in tackling the climate crisis, and it becomes clear that losing a job is something that may become a much more common feature of our labour market in the coming years. How will we adjust our public policy in response to such disruption? In order to answer this question, it is worth looking at how our economies responded to a more recent labour market disruption, the Covid-19 pandemic.

The parallels between the Covid-19 pandemic and the climate crisis are almost unavoidable. In both cases workers are being asked to surrender their jobs in order to achieve a better for society as a whole. The industries that they worked in may have been profitable, but the activity that they engaged in was harmful to society. The main difference is that in the case of the pandemic, it was expected that most workers would return to their jobs once the restrictions ended. It is also the case that governments around the world have committed to the creation of new jobs to make up for any losses sustained in implementing climate reforms. In both cases, government policy removes a job, but is ultimately committed to returning affected workers to employment.

What happened in the pandemic was that governments decided that where their actions were intentionally responsible for the loss of employment, the state owed a greater financial responsibility to the affected worker (see Mac Flynn, 2021). If a government owes this greater responsibility to those unemployed by a pandemic, it surely owes the same to those who will become unemployed due to government action on the climate crisis.

In granting greater financial assistance to workers affected by the pandemic, the aim of policy is clearly to maintain living standards for the duration of the period of unemployment. This is done to ensure that once employment resumes, that worker can continue their life in much the same way as they did before. This begs the questions as to why workers made unemployed by the direct actions of government are more deserving of financial support than those who lose work due to other structural changes in the economy or a change of direction in the business cycle. Why would this not be the goal of all government policy interventions for people who become unemployed?

This InBrief will look at the current unemployment programmes that operate in both the Republic of Ireland and Northern Ireland (as part of the UK system). It will compare outcomes with other advanced economies, many of who operate earnings linked systems. Finally, it will make the case for both the UK and Ireland to prioritise unemployment insurance as key to a dynamic and agile economy capable of managing the significant change that will be necessary over the coming years.

What support is currently available to those that lose their job?

In Ireland in 2024 the highest rate of Job Seekers Allowance was €232 per week. This applied to all those who previously earned more than €300 per week. Anyone earning under €300 is either under 20 years of age or not working full-time as the Irish minimum wage is €12.70 per hour. For part-time workers then there are 3 graduated rates of payments between €232 and €104 per week. In the United Kingdom the standard rate of Job Seeker's Allowance is £84.80 (€99) per week with a lower rate of £67.20 (€78) applying to those aged 18-24.

The Unemployment 'benefits' schemes that operate in the UK and Ireland need to be put into context with the long-standing unemployment 'insurance' schemes across Europe. Unemployment insurance schemes tend to be individual to the person receiving the payment and are usually a function of previous earnings. On the other hand, unemployment benefits tend to be fixed payments that a person qualifies for. Unemployment benefits can be linked to previous earnings or work history, but they can also be a universal entitlement with no variation in payment.

Nearly all EU countries operate some form of unemployment insurance with varying degrees of coverage and a wide variation in terms of the proportion of previous earnings provided. In some countries, unemployment insurance stands separate to other unemployment benefits and in other cases, unemployment insurance interacts with unemployment benefits. In Sweden unemployment insurance stands alone. The inkomstbortfallsförsäkring (income-related benefit) provides 80% of pre-unemployment earnings for 200 days, falling to 70% for the following 100 days. Both rates are subject to maximum awards. At the other end of the scale, Estonia pays 50% of previous earnings for the first 100 days followed by 40% thereafter. In Finland unemployment allowance and insurance interact. There is a basic unemployment allowance of between €33-38 per day. The earnings-related unemployment allowance then pays 45% of the difference between the basic allowance and what the pre-unemployment earnings of the recipient were. This rate falls to 20% for very high earners.

The only other countries in the European Union beyond Ireland and the UK not to offer earnings-linked payments were Greece, Poland, Malta and Romania. These countries, along with the UK and Ireland, operate flat rate unemployment benefits with degrees of variation. Malta is the only EU country to operate a flat rate scheme with no relationship to previous labour market status. Within the other flat rate schemes there are linkages to previous earnings and employment, but they do not proportionately determine the level of payment.

How do Ireland and the UK measure up?

In order to measure these schemes against each other, we calculate how much of previous earnings each scheme provides after a certain number of months of unemployment. As Table 1 shows, while Ireland provides the third lowest replacement rate of any OECD country, the UK provides the lowest and by some margin.

The Irish government has announced plans to introduce a greater earnings link to the current Jobseekers Benefit, for those who have made employment based social insurance contributions for at least 5 years. The scheme will offer 60% of previous earning to a maximum of €450 for the first 3 months, dropping to 55% of earnings to a maximum of €375 for the next 3 months, followed by a further 3 months of 50% up to €300. The regular

Jobseekers Benefits would then apply. While this reform is undoubtedly an improvement on the existing scheme and establishes an earnings-benefit link, as Table 1 shows, it would only move Ireland from the bottom of the table to just slightly below the OECD average.

Table 1 Net replacement rate in unemployment by OECD country 2023

Country	Duration of Unemployment		
	2 Months	5 Months	8 Months
Luxembourg	87	87	87
Croatia	81	41	41
Lithuania	80	68	57
Spain	78	78	66
Latvia	77	39	35
Bulgaria	77	77	77
Iceland	76	61	61
Italy	72	72	69
Sweden	72	72	70
Switzerland	72	72	72
Korea	70	70	70
Slovenia	69	67	67
Netherlands	68	64	64
Norway	67	67	67
Estonia	66	45	45
France	66	66	66
Czechia	65	45	0
Hungary	65	0	0
Slovak Republic	64	64	0
OECD - Total	62	55	50
Germany	60	60	60
Finland	58	58	58
Austria	55	55	55
Türkiye	53	53	53
Greece	47	47	47
New Zealand	42	42	42
Poland	40	31	31
Romania	38	38	38
Ireland	33	33	33
Malta	32	32	0
United Kingdom	17	17	16

Source: OECD (2024)Why we need earnings linked Unemployment Insurance

There are many benefits of an earnings linked unemployment insurance system that go beyond the individual household impacts. Unemployment insurance provides stability to an economy and it also allows people to take risks in moving into new industries or setting up new businesses.

Unemployment insurance gives households the reassurance that in the event of losing a job, they will not experience a sudden drop in available income that they must prepare for. Households can manage their finances over the longer term without having to make adjustments to their current spending in case something happens to their job. Having unemployment insurance therefore avoids individuals having to make their own savings pot to deal with unemployment. This is one of the benefits of any type of insurance whether it be for cars, travel or indeed life itself. Insurance covers contingencies that could happen but might not happen. If everyone makes allowance for the fact that they might become unemployed, you have a situation where every household is saving money for an event that is only likely to affect a small minority. Unemployment insurance therefore enables a sharing of risk whereby all workers pay a fraction of the cost of providing the cover that ends up paying out to those unfortunate enough to experience unemployment.

With unemployment insurance we can remove much of the danger from switching jobs and this can have a significantly positive effect by pushing people towards newer and better jobs. Jobs in newer areas of economic activity may not seem as secure and workers may be unsure about moving to such jobs, irrespective of higher potential salaries. This is crucial when we consider the kind of shift in jobs that will be necessary to tackle climate change. Many of these jobs will be with new firms and the jobs themselves may be unknown to most people. Unemployment insurance removes this risk and enables workers to take a risk on one of these new jobs. More broadly unemployment insurance can encourage entrepreneurship, as starting a business or expanding a business requires taking a significant risk with an individual income.

Conclusion

We live in a more disruptive world and people losing jobs and changing jobs is going to become a more common feature of our economy. We cannot protect every job and, in many cases, we wouldn’t want to. We need to shift economic activity away from areas that harm the environment towards areas that will build sustainable prosperity. We need to move from supporting jobs to supporting workers and building a robust system of earnings linked unemployment insurance is key to that challenge.