Non-employment and the welfare state: the UK and Germany compared

- J Clasen, J. Davidson, H. Ganssmann, A. Mauer
- Research question: (how) do welfare state programmes influence transitions between employment and (different states of) non-employment?
- Unintended consequences of welfare reform
- focus: labour market detachment of men (inactivity)
population

working-age population

Econom. active

employed

unemployed

family work

education

early retired

sick disabled

something else

inflation

non-employed

Inactivity 25-49 years UK

Inactivity 25-49 years GER

Inactivity 50-64 years UK

Inactivity 50-64 years GER

Percent

92 94 96 98 2000
### Labour market participation of low skilled men aged 25-64, percentages

<table>
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<tbody>
<tr>
<td>Employment/</td>
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<td>population ratio</td>
<td>UK</td>
<td>61.0</td>
<td>61.7</td>
<td>59.1</td>
<td>60.0</td>
<td>60.9</td>
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<td></td>
<td>GER</td>
<td>67.9</td>
<td>63.9</td>
<td>61.1</td>
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<td>64.7</td>
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<td>Labour force</td>
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<td>participation rate</td>
<td>UK</td>
<td>75.1</td>
<td>72.7</td>
<td>68.5</td>
<td>68.0</td>
<td>67.2</td>
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<tr>
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<td>GER</td>
<td>79.7</td>
<td>76.0</td>
<td>74.5</td>
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<td>76.6</td>
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<tr>
<td></td>
<td>UK</td>
<td>18.8</td>
<td>15.1</td>
<td>13.7</td>
<td>11.6</td>
<td>9.4</td>
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<tr>
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<td>14.8</td>
<td>15.8</td>
<td>18.1</td>
<td>15.3</td>
<td>15.6</td>
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<tr>
<td>Inactivity rate</td>
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<td></td>
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<tr>
<td></td>
<td>UK</td>
<td>24.9</td>
<td>27.3</td>
<td>31.5</td>
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<td>20.3</td>
<td>24.0</td>
<td>25.5</td>
<td>24.5</td>
<td>23.4</td>
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*: Less than upper secondary education.


### Number of claims and average duration of claims for Invalidity/Incapacity benefit

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<tr>
<th>Year</th>
<th>Number of Claims (thousands)</th>
<th>Average Duration (weeks)</th>
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<tbody>
<tr>
<td>1990</td>
<td>1,085.8</td>
<td>4.01</td>
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<td>1992</td>
<td>1,372.1</td>
<td>3.96</td>
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<td>1994</td>
<td>1,544.4</td>
<td>4.71</td>
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<td>1996</td>
<td>1,672.5</td>
<td>4.92</td>
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<td>1998</td>
<td>1,551.6</td>
<td>5.24</td>
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<td>2000</td>
<td>1,391.5</td>
<td>5.64</td>
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<td>2002</td>
<td>1,468.0</td>
<td>5.90</td>
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UK Number (thousands) of Incapacity Benefit male claimants by diagnosis group

Diseases of the musculoskeletal system
Diseases of the circulatory system
Mental and behavioural disorders

Source: DWP, internal data.

UK Male Incapacity Benefit claimants by age groups

Source: DWP, internal data.
Influences on labour market transitions

- Skill, health, age
- Business cycle
- Local/regional labour market conditions
- Employment history (type of job, duration, unemployment spells)
- Household (partner has a job?)
- (changes in) benefit system

Major welfare state changes in the UK

- 1995 Incapacity for Work Act
  - From Invalidity to Incapacity benefit
  - Stricter work (medical) test
  - Less generous and benefit taxable
  - Higher rate starts later (after 12 months; previously 6)

  - Hypothesis: fewer transitions into long-term sickness (or inactivity in general), perhaps: from employment to unemployment first (and then sickness?); re-routed path to inactivity?
Major welfare state reform legislation UK

- Jobseeker Allowance (JSA) in 1996
  - shorter unemployment insurance period (6 months)
  - Stricter (availability for) work test
  - Jobseekers contract
  - Interaction with occupational pension

- Hypothesis: fewer flows from employment to unemployment; redundant workers (especially those with occupational pension) might move into inactivity rather than unemployment

Data

- BHPS and GSOEP (employment history files; event history; discrete time hazard models)
- 1991-2001
- Time related dummies for IWA, JSA; business cycles
Co-variates

- Educational attainment
- Ethnic background (non-white)
- Household situation
- Individual employment history
- Dummies to control for seam effects, time dependence and over-sampled regions (BHPS)
- Two age groups (25-49; 50-64)

Summary tables for estimates of transitions: from employment into non-e generally, and different states of non-employment (unemployment, long-term-sickness, retired/something else)

See handouts
Results of micro-data hazard models

- **Younger age group**

  - Effect of economic recovery (after 93):
    - 1 – as expected
    - 2 – but more transitions from unemployment to inactivity

  - Effect of IWA:
    - 3 – from inactivity into employment more likely

  - Effect of JSA:
    - 4A – fewer moves from employment to unemployment
    - 4B – no effect on moves out of un/non-employment into employment
    - 4C – positive effect on moves from employment into inactivity

- **Older age group**

  - Effect of economic recovery (after 93)
    - 1A – reduced transitions into unemployment

  - Effect of JSA
    - 1B – reduced transitions into unemployment
    - 2 – did not promote inactivity (in contrast to younger group)

  - Effect of IWA
    - 3A – fewer moves from employment to unemployment
    - 3B – and fewer moves from employment to inactivity
    - 3C – positive effect on moves from unemployment into inactivity
A little more detail on inactivity

- **Younger age group**
- **Effect of JSA**
  - 5- more transitions into something else (no such effects of economic recovery or IWA)
- >> the JSA promoted inactivity amongst prime-aged men out of work

- **Older workers**
- **Effect of IWA**
  - 6 – increased moves from unemployment into lt sickness
  - 7 – decreased moves from employment into lt sickness (changing pathways?)

General results

- Some comparative insights into transitions in and out of inactivity
- Some insights into the effect of welfare state legislation on moves in and out of employment and (various states of) non-employment
- Declining unemployment in the UK after 1993 due to labour market improvement, and stronger disincentives to become unemployed after losing a job
- JSA has contributed to labour market detachment of prime-aged men (but not older workers)
Problems with event history analysis as employed here

- Left censoring (covariate information only in ‘survey time’; overestimating employment durations)
- Truncation
- Time-dependence (model assumes independence of episode survival times)
- Unobserved heterogeneity