
UNEMPLOYMENT BENEFITS IN BULGARIA AND THEIR POTENTIAL FOR PREVENTION OF POVERTY

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Abstract: Prevention of poverty and social exclusion is a process directly related to public incentives for vulnerable groups aiming to achieve a decent and independent life. Labour income is one of the main prerequisites for overcoming the problem. However, a large number of the working population is economically inactive and do not even look for forms of employment. Low education levels, the lack of working habits and the limited demand for skilled labour are objective factors for this. The characteristics of the tax and social security system as well as the state policy with regard to income and the labour market towards vulnerable groups also affect the desire to work and employment opportunities.

Keywords: poverty, unemployment, Bulgaria, benefits, social protection.

JEL: D31, E60, E24, I38, J64, J65, J68.

Unemployment is an objectively emerging situation for a person or group of individuals causing adverse effects – loss of income and deterioration of social status. Its high rates are an expression of incomplete and inefficient use of labour resources and represent a serious social problem. For most people, job loss means lower income, poverty, and personal drama with multiple negative consequences. Unemployment leads to a reduction in aggregate production, household consumption contraction, loss of human capital, and deterioration of the social climate and public health. Therefore, control over and reduction of unemployment are some of the most important economic objectives pursued by government policies.

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Benefits paid to the unemployed provide income for jobless individuals as well as opportunities to bear the burden of risk collectively. At the same time, their generosity can affect both the incentives to find and start work and the duration of the unemployment period. The article studies the cases 'for' or 'against' this form of social protection and examines how successful it is in Bulgaria. It covers the period from 2005 to 2017 and tries to analyze the situation before, during and after the economic crisis.

The *research problem* of the study is unemployment benefits. The *research area* is their impact as a form of social protection for the unemployed. The article *aims* to study the extent to which unemployment benefits play the role of a social safety net and, on this basis, to offer suggestions for their optimization.

Debate on unemployment benefits in economic literature

Unemployment benefits are an example of short-term government intervention affecting the working population outside the labour market. In the context of *social security*, this intervention includes protection against disruption or loss of income during the period of incapacity (the International Labor Organization, 2010) and prevention of poverty. At the same time, according to some authors (Scheve, Slaughter, 2004), *financial security* applies only to those who have the opportunity to work. Presented in that way, job insecurity and the right to benefits include considerations other than the possibility of losing your job (Anderson, Pontusson, 2007).

Positioning the risk of unemployment is important for potential unemployment compensation beneficiaries. According to some authors, it is a mediating factor in the relationship between risk group membership and attitudes towards the welfare state (Blomberg et al., 2012). Thus, instead of making assumptions about workers' security and insecurity, objective conditions of employment are taken into account. Individual security perceptions may vary, yet those who occupy an objectively secure position may also experience uncertainty.

However, employment insecurity is positively associated with the support for government redistribution of resources and collective social security. Workers' attitudes towards unemployment benefits in society depend on the level of job insecurity. Employees with unstable employment and those occupying non-permanent positions are more likely to support social protection schemes and unemployment benefits (Anderson, Pontusson, 2007, Burgoon, Dekker, 2010, Margalit, 2014, Marx, 2014) than the workers who do not expect labour imbalances. Therefore, it can be assumed that potential ben-

eficiaries of the public social system are interested in two main factors: the level of employment protection and the generosity of unemployment benefits. Public unemployment insurance can motivate subjectively secure and insecure workers in different ways thus polarizing or uniting the support for these benefits.

The fact that workers occupying insecure positions are more motivated to support public unemployment benefits while the rest are less subject to such agreements reflects the polarization of preferences and the conflicts of interest between the two groups (Paskov, Koster, 2014, p. 368). This dispute is a proven fact in literature, although it is not fully recognized that unemployment benefits are adequate to the economic cycle and provide adequate prevention of poverty.

Numerous analyses focus on how social security beneficiaries respond to the increase in benefits. Back in the 1980s, it was suggested that the factors playing a key role in explaining the duration of unemployment and its rate at a state level are the alternative cost of rest time, job search intensity and wage costs. It was concluded that the effect the extension of benefits has on the duration of unemployment is ambiguous (Mortensen, 1977).

At the same time, other researchers find a positive relationship between the duration of unemployment and the higher level of benefits. A potential stimulating effect of unemployment insurance, thoroughly analyzed in literature, is that their level may reduce the intensity of job search by unemployed workers since the financial urgency to find work is reduced. The model implies that the incentive effect works in a way that unemployment insurance is more harmful to job search incentives (Mitman, Rabinovich, 2014). This argues the increase in generosity of benefits when unemployment is high, contrary to the idea discussed above. A study for Sweden draws the hypothesis suggesting that the more generous benefits result in a longer period of unemployment and even a higher unemployment rate (Carling et al., 1996). According to data for Austria, the increase in benefits causes a significant increase in state unemployment rate (Lavile et al., 2006).

A third group of studies indicates that job search varies depending on the overall unemployment rate. The generosity effect in the standard model² results from the assumption that the unemployed look for less suitable job vacancies when unemployment rate is high. This suggests that the deterrent effect of benefits³ is small when unemployment is high and big when unem-

² The standard model appeals to lower generosity of benefits in case of high unemployment rate.

³ Although the days when unemployment benefits are received are not equivalent to the duration and the equivalence of the working days, public benefits for this insured social risk have a deterrent effect. It finds expression in the conscious participation of beneficiaries in the passive labour market policies. As a result, the public mechanism should coordinate its measures to limit the long-term and/ or frequent beneficiaries of this state incentive.

ployment rate is low (Andersen, Svarer, 2010). Attempts have been made to analyze business cycle dependencies. The unemployment insurance scheme in Germany extends the duration of benefits for older unemployed workers. A study, using this special feature to analyze how the extension of benefits affects the duration of unemployment periods, determines that motivating long-term effects are consistent throughout the different business cycles (Schmieder et al., 2012). Whether the result will be the same if extension of benefits is applied to all unemployed, however, is unknown.

Standpoint of the scientific field on unemployment benefits in the poverty risk prevention

Risks of unemployment and poverty are two of the major challenges faced by current global economy. The first one results in reduced purchasing power among the working population. This, in turn, leads to the risk of poverty and an increase in the debt burden for vulnerable people. It is important, therefore, to define them in order to facilitate the methods for their prevention.

The XXI century began with major changes and they inevitably affected the indicators under consideration. Globalization transforms trade, investment and technology. It also creates an economic interdependence and vulnerability to economic shocks and downturns among the population. If fair public policies do not exist, countries may experience an increasing burden of unemployment and poverty risks. In order to be adopted more smoothly, the new wave of globalization requires better government. This suggests that its benefits are shared by everyone, rather than by a small group of people. Expectations are that poverty reduction will increase demand and productivity globally. Thus, reducing unemployment and social exclusion cannot only alleviate human suffering but can also play a key role in maintaining stable economic growth and well-functioning markets (Ortiz, 2007, p. 7).

At the same time, the labour market is still recovering within the EU. Phrases such as high levels of poverty, social exclusion, unemployment, income inequality and low average wages are common. According to some authors (Mojsoska-Blazevski, N., M., Petreski, D., Petreska, 2013, p.9) 'traditional' social assistance and insurance measures can only be effective if they are purposefully distributed. In all other cases, they create obstacles to active job searching and starting work.

To evaluate the effect of benefits, some authors are reviewing the results of the Lisbon Agenda for growth, employment and social inclusion. They draw a balance with a view to the Europe 2020 Strategy's goal to help 20 million people live beyond the poverty line. "The question arises why, de-

spite the increase in average incomes and employment, poverty rates have not decreased but stagnated or even increased” (Cantillon, 2011, p.432). In her study, Bea Cantillon draws the following conclusions: the increase in employment has affected only part of the unemployed households; the protection of income at the time of termination of employment for the working-age population has become less adequate for vulnerable groups of people; social policies and, more generally, social redistribution cover most of the poor and vulnerable individuals. These observations are indicative of the Lisbon Strategy’s ambiguity.

Therefore, unemployment benefits can also be considered as automatic stabilizers. Some authors (Blagoycheva, 2014) describe their manifestation as a contribution towards smoothing the aggregate shocks on the labour market. It is important to note that these regulators have only a short-term effect, and they cannot be relied on in the long run. They can lead to unsustainable levels of government spending and taxation in the event of lasting supply shocks. The term ‘automatic stabilizer’ implies elements embedded in the design of the fiscal system, which automatically cause a budget deficit during a recession (due to reduced employment) and budget surpluses during an inflationary boom (due to low unemployment) without changing the economic policy (Ivanov, Marinov, 1992, p.11). Surpluses lead to an improvement in the budget position, but the effects of the recession reflect in a fiscal deficit. Therefore, it is crucial that automatic stabilizers act so that public finances are able to absorb these changes.

However, embedded automatic stabilizers can only mitigate recessionary or inflationary shocks, i.e. they cannot eliminate them. The effectiveness of their effect depends to a large extent on how widespread is the system of social transfers, unemployment benefits and the extent to which state intervention in social and health insurance is strong. Equally important are the number of floors in the income tax scale and the tax rates. Alternatively, the greater state intervention in the economy, the stronger influence of the embedded stabilizers.

An important precondition for well-functioning automatic counter-cyclical stabilizers is the pursuit of a reasonable fiscal policy that ensures consolidation under conditions of economic growth to create absorption capacity in bad times. This requires the public sector to provide a buffer to mitigate the effects of fluctuations in the economic cycle for particular private individuals.

Unemployment benefits in Bulgaria

The formation of mechanisms and the policy of distributing unemployment benefits is a major challenge for any modern state institution in the light of the intentions to reduce poverty. Bulgaria makes no exception being a full member of the EU and in view of the forthcoming entry into the euro area. In this context, it is appropriate to assess to what extent unemployment benefits in the country act as automatic stabilizers.

In the context of the global financial and economic crisis, the combination of high relative percentage of uninsured persons and low-income replacement rates of some groups strengthens the social effects of the rising unemployment in Bulgaria. At the same time, they lead to a reduction in security and contribute to the overall risk perception among the working population. Hence, a further reduction in aggregate demand deepens the crisis.

A problem remains with the inability to give an account of the actual number of the unemployed accurately, as some of them are not registered with employment services as active jobseekers. As stated in the Joint Employment Report of 2017, there are still large variations in the number of registered individuals within Member States. This imbalance depends on various factors, such as the capacity of public employment services, the quality of the services offered, the sanction mechanisms, and the obligations related to unemployment benefits and other income support schemes.

Back in 2010, some authors (Terziev, 2010) highlighted the problem that while the European Union supported the annual leave entitlement as a human right, Bulgaria revived the idea that it could be initiated by employers. Although the country is part of a single whole, there is a contrast between two socio-economic schools – the European and the Bulgarian. A typical example is the days of involuntary unpaid annual leave⁴ in the public sector. On the one hand, the probable causes are the accumulated unused days of paid annual leave in the public sector and the fact that they are provisioned, i.e. the money paid are cleared from the budget. On the other hand, there is a shortage of fiscal resources due to the ambition to save state funds. This is an anti-crisis

⁴ According to the Labour Code (LC): § 3e. (New - SG 58/2010, in force as of 30.07.2010) (1) Up to 31st of December 2010, when work volume is reduced, employers may grant unpaid leave of up to 60 working days during the calendar year to employees without their consent, provided that during the unpaid leave, employment measures funded by the Republican budget and/or the Human Resources Development Operational Programme are taken, and part-time work hours are previously introduced under Art.138a, para.1 and §3b, para.1. During this period, employment measures funded by the Republican budget and/or the Human Resources Development Operational Programme should also be taken.

measure and, when imposed, it is necessary to cover the prerequisites⁵ promulgated, adopted and presented in the Labor Code cumulatively. It is important to note that law in the field of labour relations defines the days of involuntary unpaid leave or reduced working time as a period of contributory service taken into account when calculating the duration and the amount of the unemployment benefits paid to employees in the public and/or private sector. Nevertheless, uncertainty and insecurity of the macroeconomic environment are intensifying. As a result, this leads to risks for both potential unemployed and the social security system as a whole.

Hence, another important thing for the country's population is whether the public sector, alongside the dynamically changing economic situation, is able to provide the necessary income support to the unemployed and to protect them from poverty. Figure 1 shows the dynamics of unemployment benefits in Bulgaria in the years of economic growth and in the post-crisis period.

In the pre-crisis period from 2005 to 2007, the number of unemployed persons entitled to compensation decreased from 77.7 thousand to 65.1 thousand. At the same time, the average monthly amount of the benefit gradually increases from 97.31 (2005) to 206.90 BGN (2017). During the period from 2005 to 2013, there was a 3.49-fold increase in the total amount of the benefits. In view of the fact that the variation of the indicators mentioned in Figure 1 is relatively close, the presence of automatic stabilizers can be assumed.

Inversely, average monthly compensation increased after 2008. In 2011, it was 257.80 BGN or 33.85% higher than in 2010.⁶ In 2014, despite the continued increase in both the total amount of funds granted and the average amount of benefits, the number of persons entitled to unemployment benefits decreased.

The highest growth rate of registered unemployed persons entitled to unemployment benefits was reported in 2010 compared to the previous 2009. It amounted to 13.06%. This trend continued in 2012, but at a slower pace.

⁵ The prerequisites are as follows: a) employers have already used the possibility of introducing part-time work hours under art.138a, para1 of the Labour Code /employees have to sign an order/;

b) employers must have already used the possibility of introducing part-time work hours under §3b, para.1 of the Labour Code /an order has to be signed by employees/;

c) during the unpaid leave it is necessary to take employment measures funded by the Republican budget and/or the Human Resources Development Operational Programme (i.e. employees must participate in the process – for example they have to take part in a qualification training course).

⁶ The significant increase in the unemployment benefit amount is due to the changes in legislation introduced as of 1 July 2010. They abolish the limitation on the maximum unemployment benefit setting it to 60% of the person's insurance income before losing their jobs.

The growth rate amounted to 10.41% compared to 2011. Between 2013 and 2017, there was a trend towards a reduction in the number of persons eligible to unemployment benefits entitlement. This indicates that in 2017 unemployment rate in Bulgaria was lower as compared to the previous nine years. Data in Figure 1 show that its values were close to those reported in the years of economic growth.

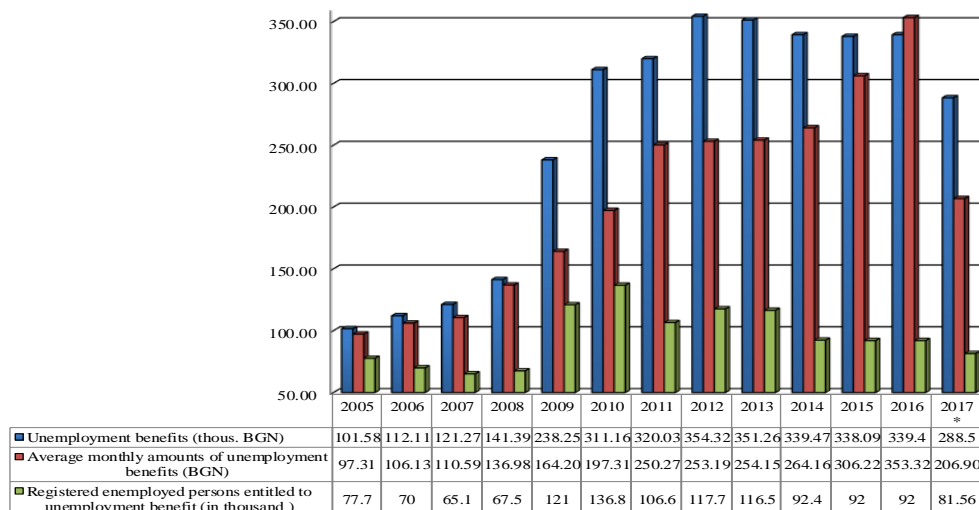


Figure 1. Dynamics of unemployment benefits and registered persons entitled to public financial assistance

Key: R – Revised data on registered unemployed persons in 2011

* – Preliminary data

Source: Statistical bulletins of NSSI (for the respective years) for registered unemployed persons entitled to monetary compensation and Eurostat data

At first sight, results support the idea that the increase in generosity of benefits not always leads to an increase in the number of people willing to receive them. In fact, the situation is not exactly the same as beneficiaries of the insurance system represent only a small part of the unemployed (Figure 2). The rest are young people who are not insured or are new to the labour market and do not have the labour service needed to be entitled to benefits. Long-term unemployed for whom the period of receiving income support from the system has already ended also represent a large group.

By the early 2008, there was a gradual convergence in the number of persons receiving benefits and those not entitled to compensation. Logically, during the crisis and the period of recovery after it (2010-2014), there was a significant difference between the two indicators due to considerable job cuts. Since 2013, the total number of registered unemployed persons has started to

decline and the number of employed individuals has risen. The proportion of persons in the two categories equals, with a higher percentage of those not entitled to unemployment benefits (NSI, 2018).

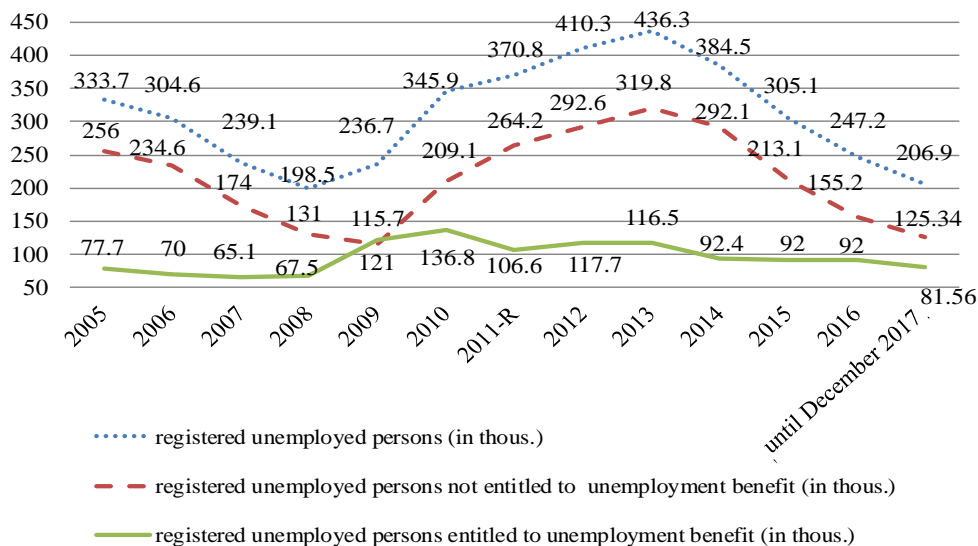


Figure 2. Beneficiaries of unemployment benefits in Bulgaria before and after the crisis

Key: R – Revised data

Source: Statistical bulletins of NSSI and main results for NSI workforce monitoring.

However, when assessing the appropriateness of unemployment benefits paid, it is also necessary to estimate the financial burden they impose on society. Quite logically, the level of the cost of unemployment benefits depends on the number of unemployed persons entitled to benefit, the legislative changes during the period studied, and the average monthly amounts of the monetary benefits paid. Table 1 summarizes the information on the allocation of funds for the 2005-2017 period.

The amount of 91,147.20 BGN paid for monetary unemployment benefits in 2005 increased to 394,100 BGN in 2017, or 4.32 times. Conditionally, this 13-year period can be divided into two sub-periods following the trend established in accordance with the unemployment rate.

Table 1

Financial indicators for the allocation of financial resources under the Unemployment Fund for the period 2005 – 2017

Year	Total cost of compensation and unemployment benefits (thous. BGN)	Total revenues and transfers to the Unemployment Fund (thous. BGN)	Deficit (-) or surplus (+) (thous. BGN)	Number of persons entitled to unemployment benefit	Average monthly monetary benefit (BGN)
2005	91 147,2	304 154,9	213 007,70	78 052	97,31
2006	89 163,7	277 917,4	188 753,70	70 014	106,13
2007	86 352,7	326 369,2	240 016,50	65 072	110,59
2008	99 689,4	160 271,0	60 581,60	60 645	136,98
2009	238 487,0	168 968,0	- 69 519,00	121 034	164,2
2010	311 361,2	159 570,0	-151 791,20	131 500	197,31
2011	320 445,8	170 426,0	-150 019,80	106 804	250,27
2012	354 885,2	178 970,0	-175 915,20	115 327	253,19
2013	351 727,8	198 376,0	-153 351,80	107 312	254,15
2014	340 176,4	211 187,0	-128 989,40	92 249	264,16
2015	338 982,7	227 840,0	-111 142,70	91 979	306,22
2016	389 971,9	221 901,6	-168 070,30	92 114	353,22
2017	394 100 est.	529 600,0 est.	-135 500 est.	81 857*	206,90*

Key: est. – Reported data

: – Data not available

* – Preliminary data as of November 2017 inclusive

Source: NSSI and Eurostat

During the first sub-period (2005-2007), the cost of compensation and unemployment benefits decreased in each subsequent year, with a total decrease of 4794.5 BGN or 5.26%. The second sub-period (2009-2017) illustrates a reverse trend. In 2009, the reported expenditure increased by slightly more than twice as compared to 2008. From 99 689.40 BGN in 2008, the amount paid reached 238 487 BGN (2009). In the coming years until the end of 2012, there was a steady increase in the cost of unemployment benefits. The total increase amounted to 116,398.2 BGN or 48.81%. During three years of the analyzed period, the level of expenditure decreased slightly by 1% (in 2013 by 3 157.4 BGN less than in 2012 and in 2015 by 1 193.7 BGN as compared to 2014), and by 2% (in 2014 by 6 956.1 BGN less as compared to 2013). The amount of the average monthly monetary benefit has the most significant impact on the cost of monetary unemployment benefits. For the

entire thirteen-year period, it has grown almost 3.63 times – from 97, 31 BGN in 2005 to 353, 22 BGN in 2016. According to data, up to November 2017, the amount decreased by 70.72% as compared to the previous 2016.

Table 1 shows that since 2009 a budget deficit has been formed in the Unemployment Fund (Figure 3). The reasons for its formation are complex and bound to a significant extent by the economic crisis that occurred at that time. One of the reasons for this is the reduction in the number of jobs and the decrease in the wages of a large number of workers during the crisis, which results in less income from social security contributions. Another reason is the lack of a more drastic increase in the minimum insurance income. Finally – the increased mass of unemployed people in need of benefits. However, the Fund's deficit results in a hampered fiscal policy and the need for more substantial redistribution of the GDP realized in the country.

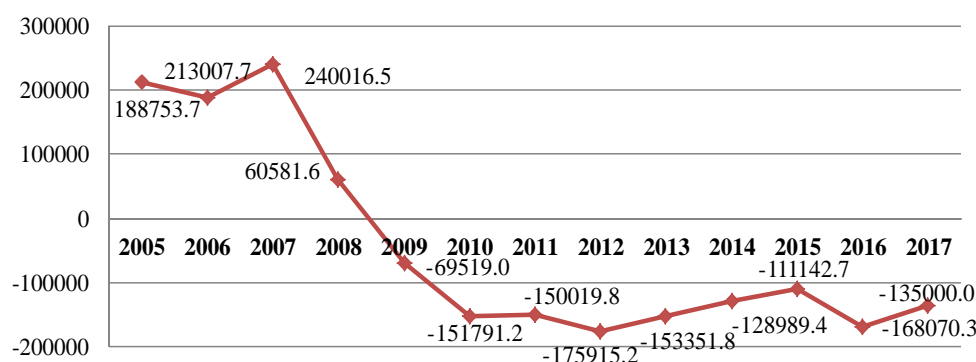


Figure 3. Unemployment Fund budget balance for the 2005-2017 period

In the period after 2012, there was an emerging trend of deficit reduction. However, despite the economic recovery in recent years and the rising employment rate, a new serious increase was reported in 2016. Table 1 shows that in 2016 the Fund revenues were by 168,070.30 BGN less than the expenses. The reason for the increased deficit can be the increased average unemployment benefit (from 306.22 BGN for 2015 to 353.32 BGN in 2016)⁷. This increase is in fact a counterbalance to the functioning of benefits as embedded budget stabilizers due to its formation in a period of economic recovery. A similar situation may slow down job search and lead to stronger reliance on social security support. This is an unfavorable situation for society causing greater redistribution of the realized GDP.

⁷ In Bulgaria, in view of the decreasing relative share of persons entitled to unemployment benefits among the working population as of November 2017 inclusive, the average amount of the benefit drops to 206.90 BGN.

Increasing budget deficits force public officials to consider options for reducing costs and/or increasing taxes. Many governments, including the Bulgarian, are forced to economize state resources by reducing the scope of their services. This includes a reduction in wages in the public sector through restrictive measures, such as involuntary unpaid annual leave or job cuts.

The final result is that recession seriously affects the quantity and quality of government services provided to citizens. Despite the good forecasts of analysts and the revival of the economy in recent years, Bulgaria's fiscal position is still not balanced. This will continue to keep the majority of the population trapped in unemployment, low incomes and risk of poverty.

Conclusion

Although EU countries have different social policies, they are all unanimous with regard to the need to provide protection and mediation in finding employment for people at working age. Generated security extends over both their professional and family lives. It becomes active under conditions of employment and after falling out of the labour market. It is possible to achieve this due to the benefits received since they allow people to meet increased costs with relative ease.

Based on the study, it can be concluded that the longer the period of incapacity is in combination with guaranteed financial benefits, the more individuals are discouraged for active job search and participation in the labour market. A similar situation makes it difficult to meet the objectives of a number of national and international documents aimed at increasing employment in the EU even after the global economic crisis.

Obviously, unemployment benefits in Bulgaria perform an important social function, substituting income and providing a minimum standard of living for those entitled to receive them. Thus, they provide a certain degree of protection against poverty. Benefits are also intended to be used as stabilizers. However, when performing that function, they have a weak effect, as their impact can only be spread out to a limited number of the unemployed.

Further reforms are needed to facilitate the substitution between income smoothing and incentives for job search. Unemployment architecture consists of a certain number of elements that could facilitate this substitution. These are, for example, the level and time profile of compensation replacement rates or the introduction of adequate activation policies aimed at expanding job search efforts. Further efforts are also needed to increase the flexibility of the labour market in order to neutralize the negative economic impacts in the long run.

Finding the optimal balance between the policies creating incentives for the unemployed, the economically inactive and the low-wage earners is one of the key challenges for ensuring sustainability and efficiency of the social system. At the same time, it is possible to create conditions for involving some of the most vulnerable social groups in long-term participation in the labour market.

Each of the above-mentioned options, as well as various combinations thereof, would help to remove unemployment traps and create incentives for workers to return to work faster. Otherwise, the Bulgarian economy (hence the tax and social security system) will continue to lose by the long-term unemployed who take advantage of the existing system and are in no hurry to get back to work.

The confidence that vocational education and training is a key factor for sustainable socio-economic development of the country is growing. Training of human resources with qualifications corresponding to the needs of the national economy requires new approaches in the field of vocational education and training. It is necessary to improve the education system and to modernize the base so that it can contribute to increasing employment and social integration. Well-developed public social policies act as a safety net contributing to fight against poverty and social exclusion, support active population in their efforts to return to work, encourage self-sufficiency, and provide adequate support for vulnerable people.

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