

# Introduction to the Welfare State

Labour Market Policy

[rszarf.ips.uw.edu.pl/welfare-state](https://rszarf.ips.uw.edu.pl/welfare-state)

# LABOUR MARKET SYSTEM

**Household Economy**

Inactivity

Black Work

Transitional

Employment  
and  
Unemployment

Labour Markets

and Informal Sector

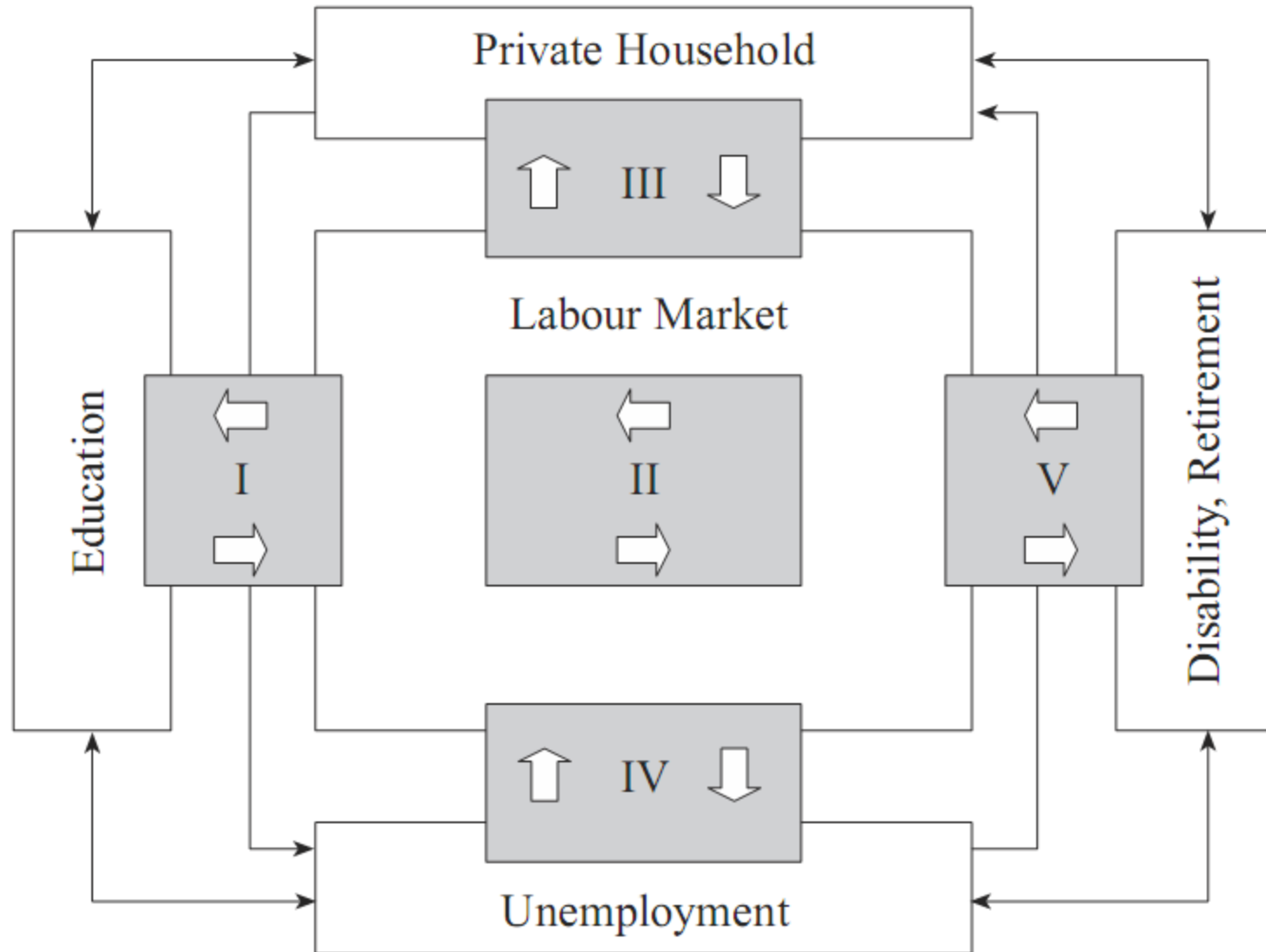
Leisure Time Activities

**General  
Education and  
Vocational  
Training**

**Taxes and  
Social  
Security  
Contributions**

**Industrial Relations and Employment Protection**

# Transitional Labour Markets Framework



# Employment, its Forms and Context

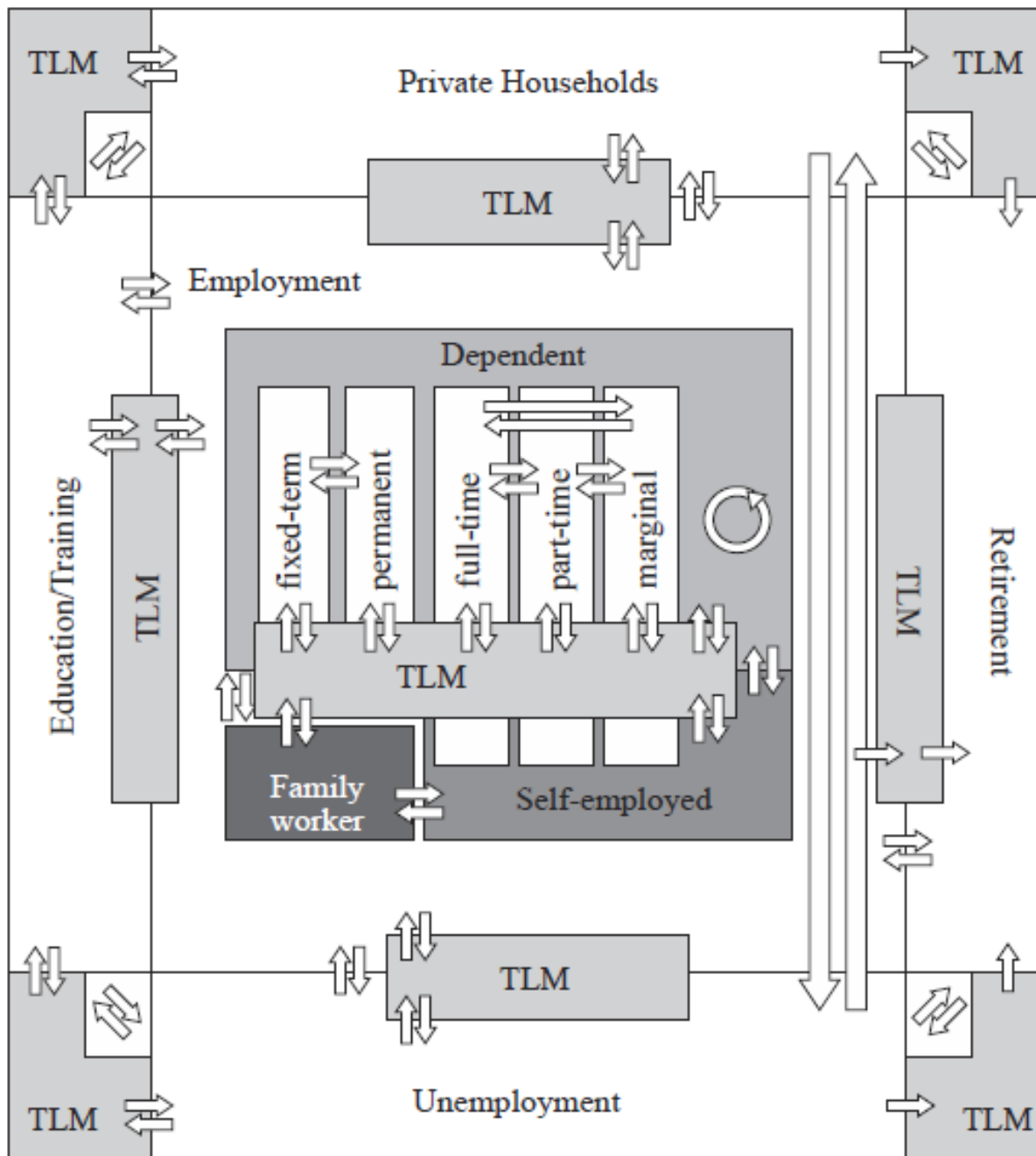
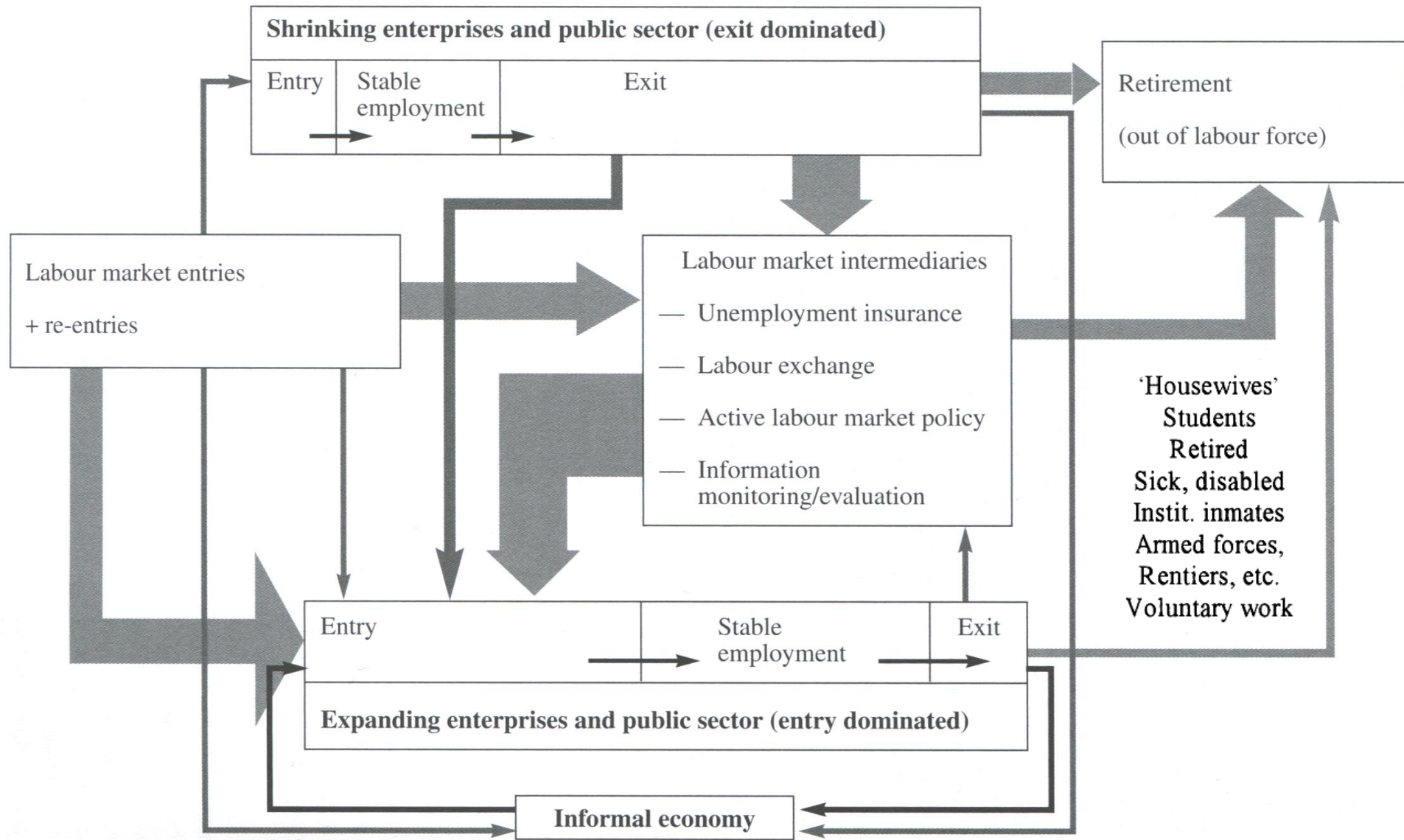


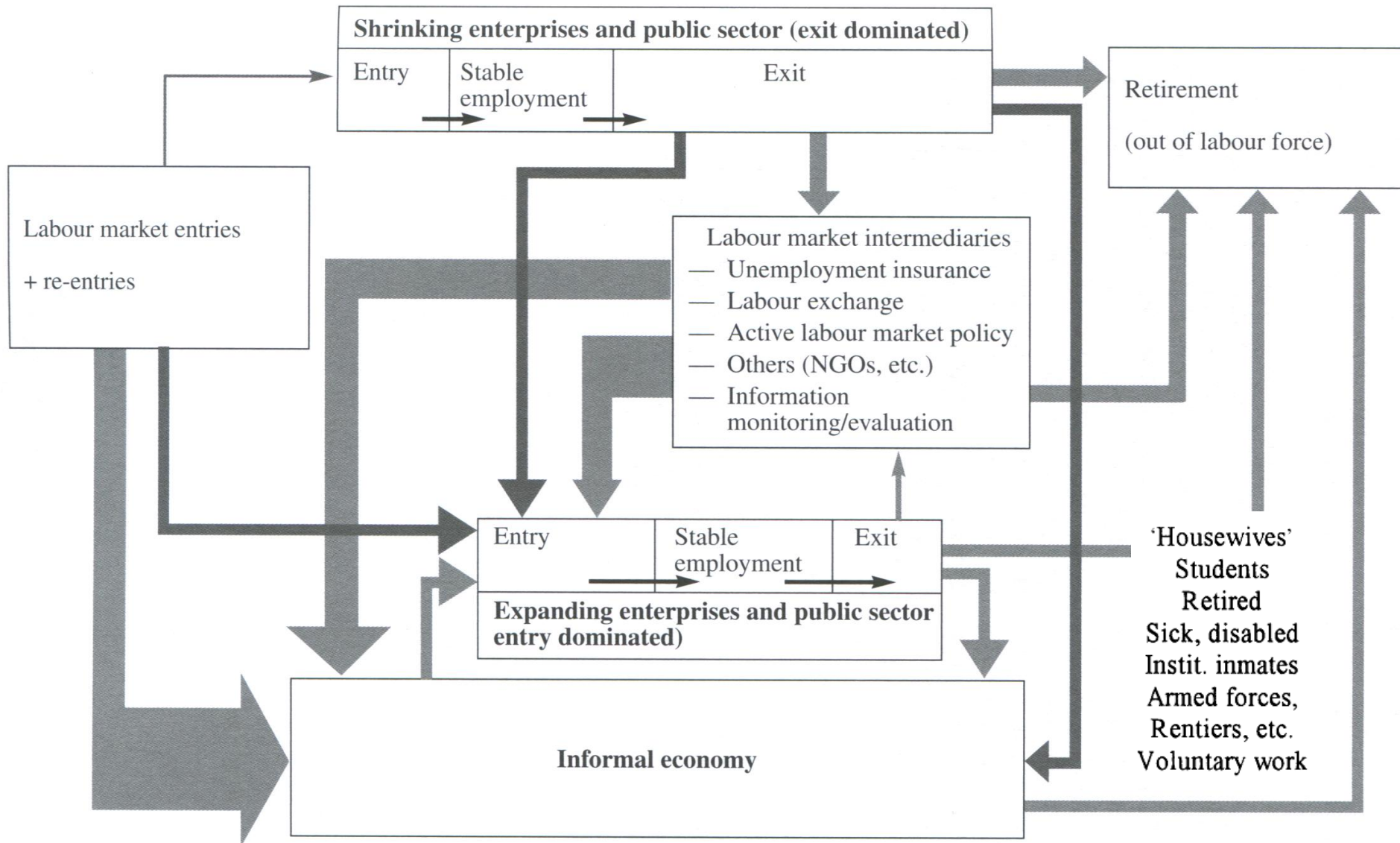
Figure shows the segments of the employment system and the possible flows, or labour market transitions between these segments

TLM –  
transitional  
labour markets

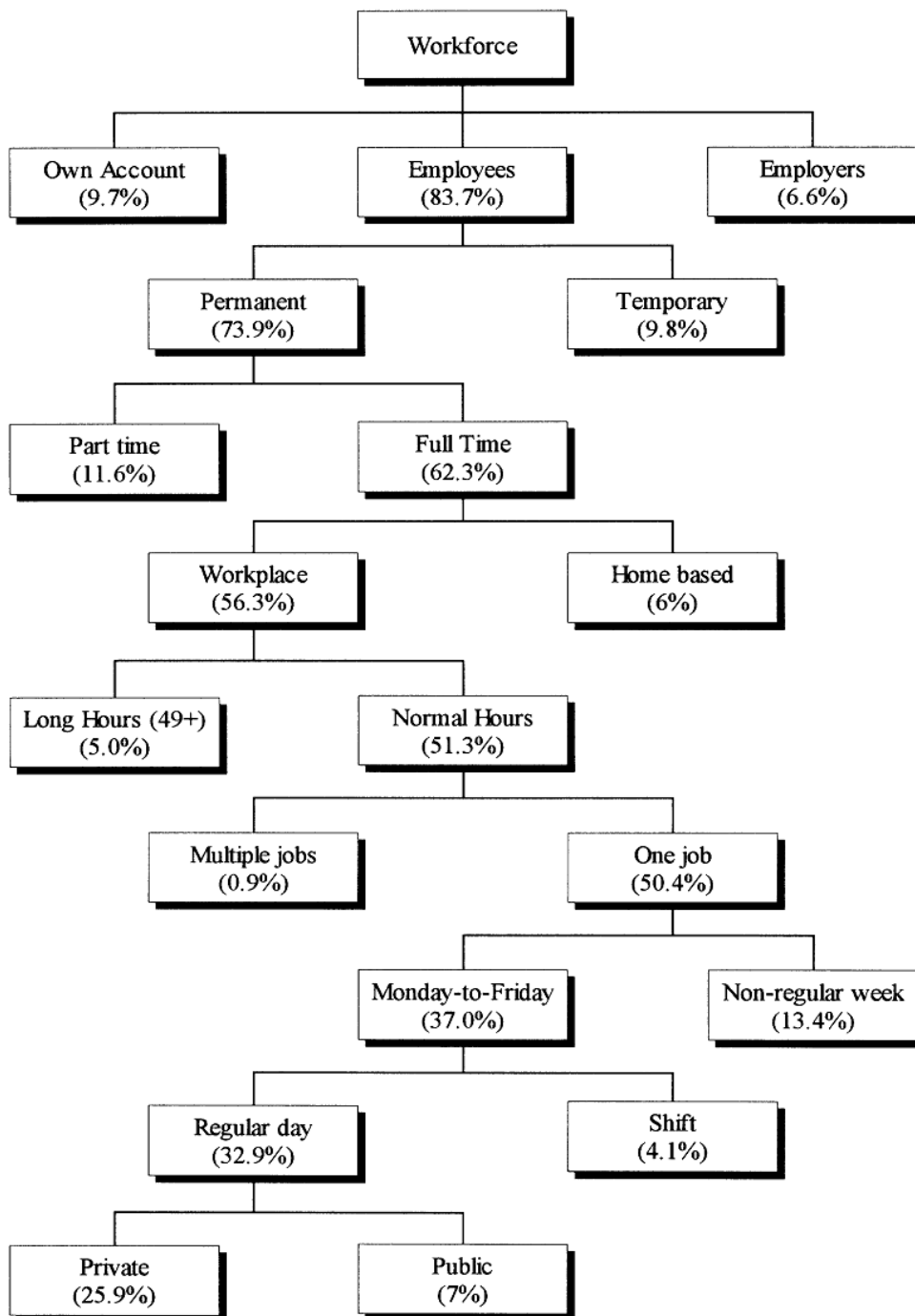
# Labour market flows in developed countries



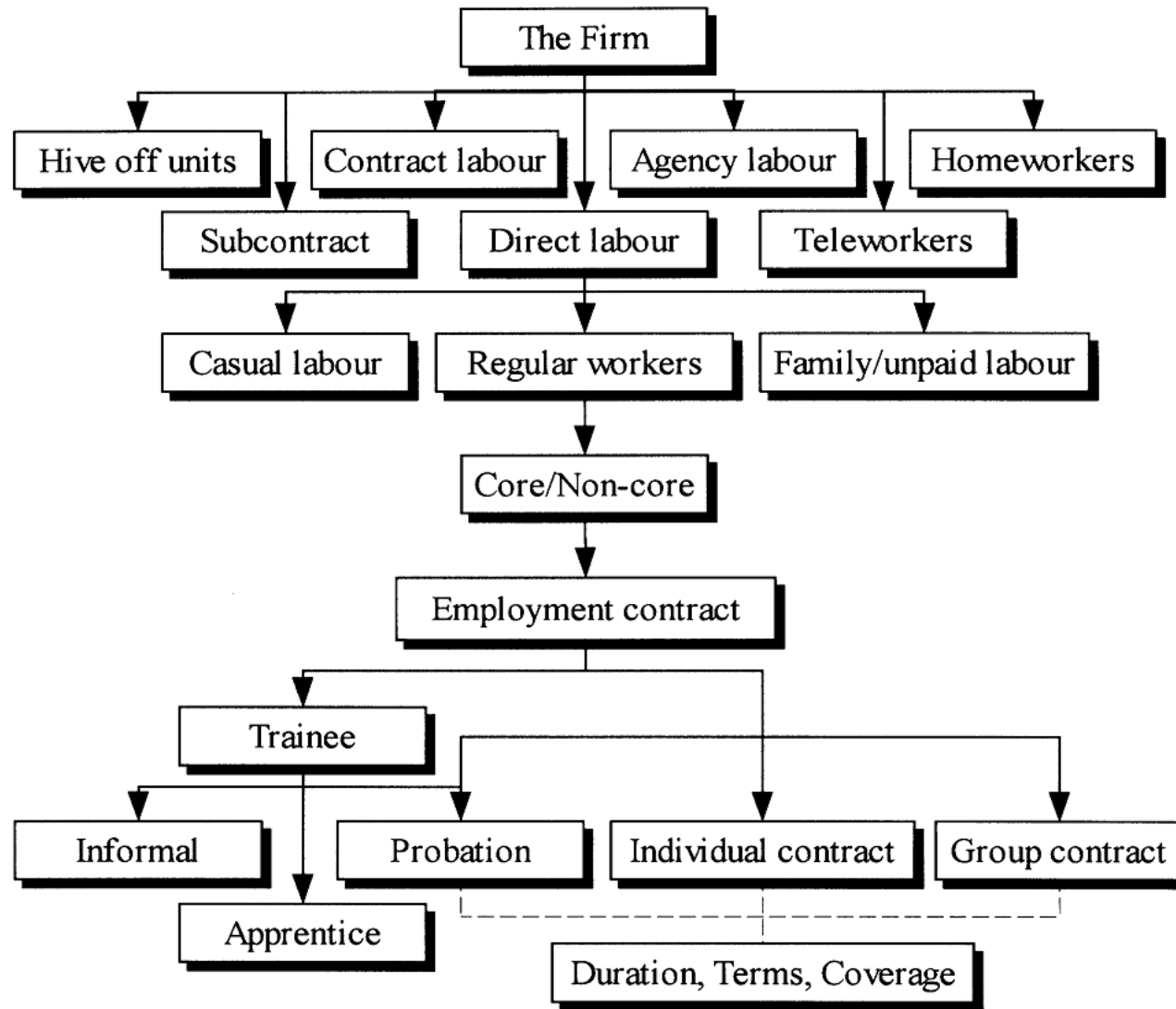
# Labour market flows in developing countries



Distribution of employment,  
by work status, an example:  
Canada 1995

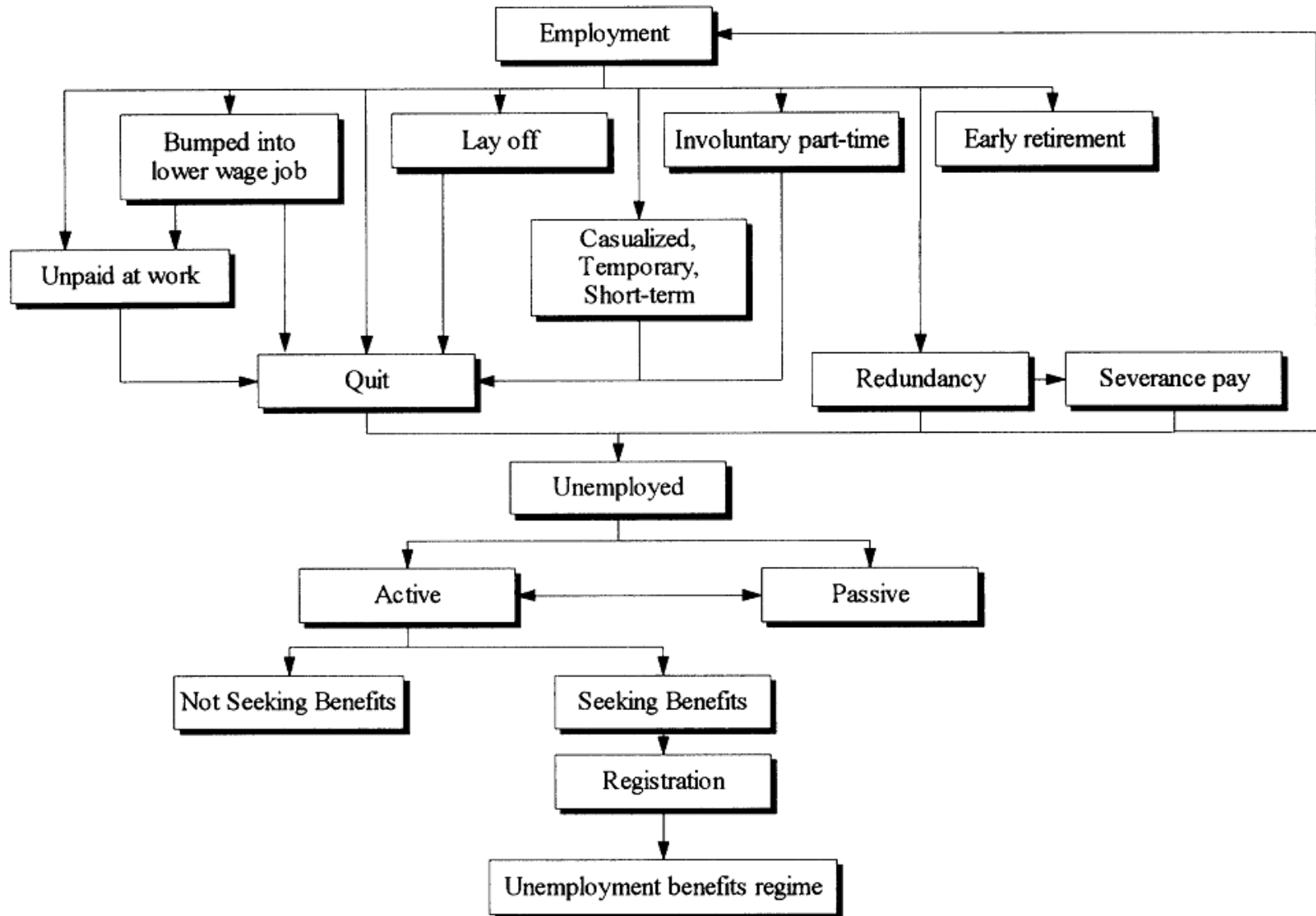


# The firm's employment function



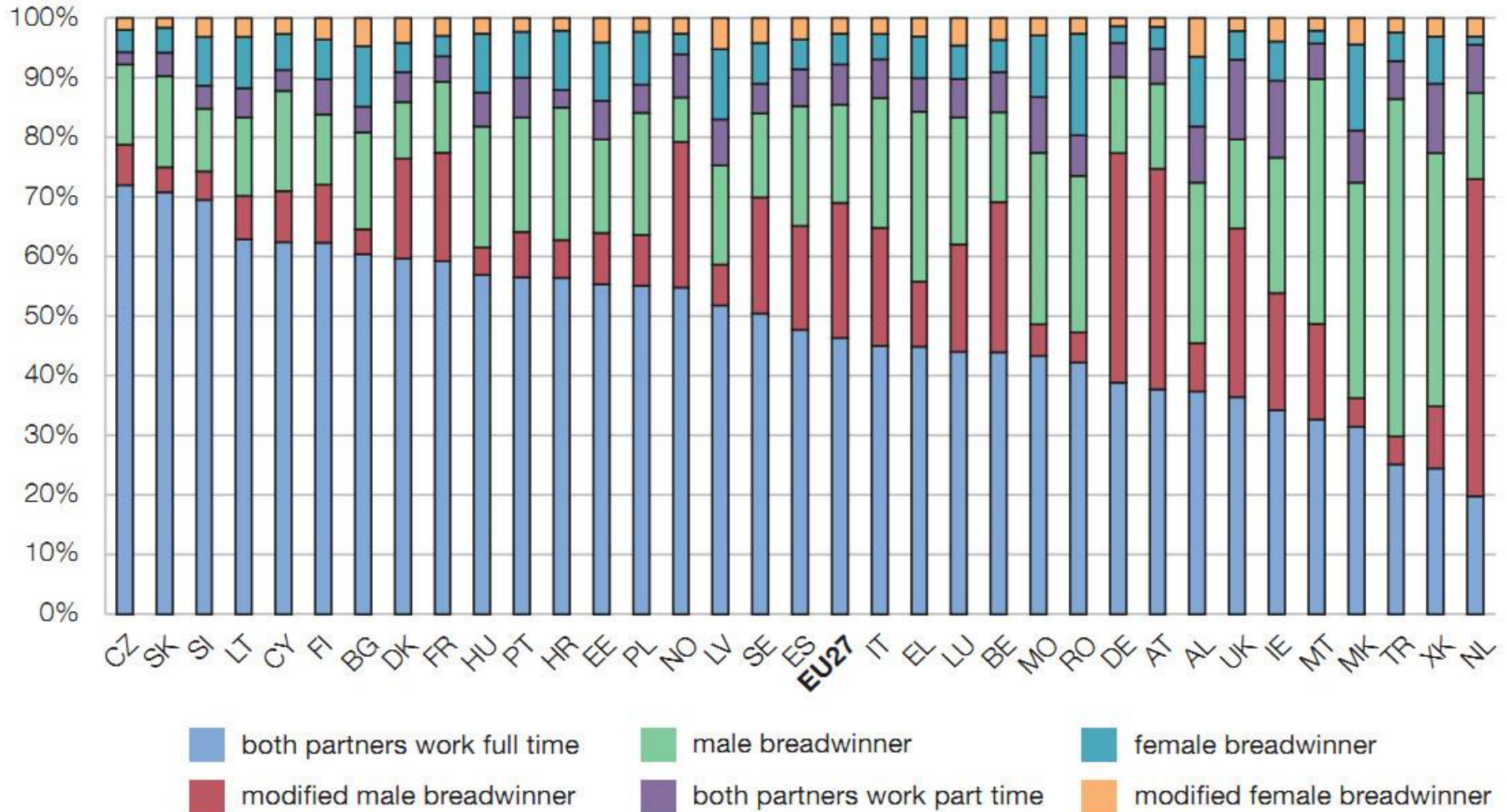


# From labour surplus to labour market marginalisation

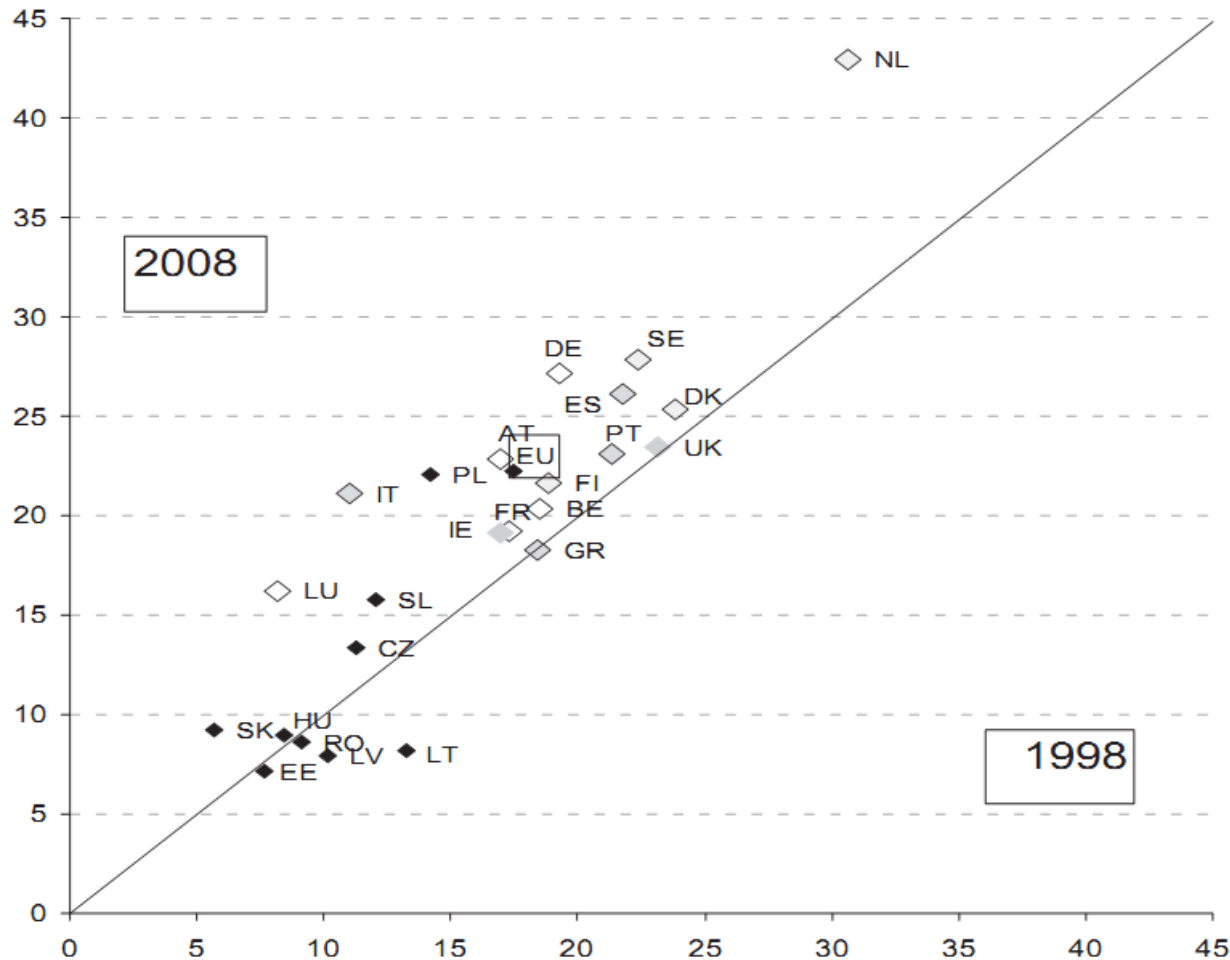


# Household members and work

**Figure 3:** Household wage earner models in Europe (%)



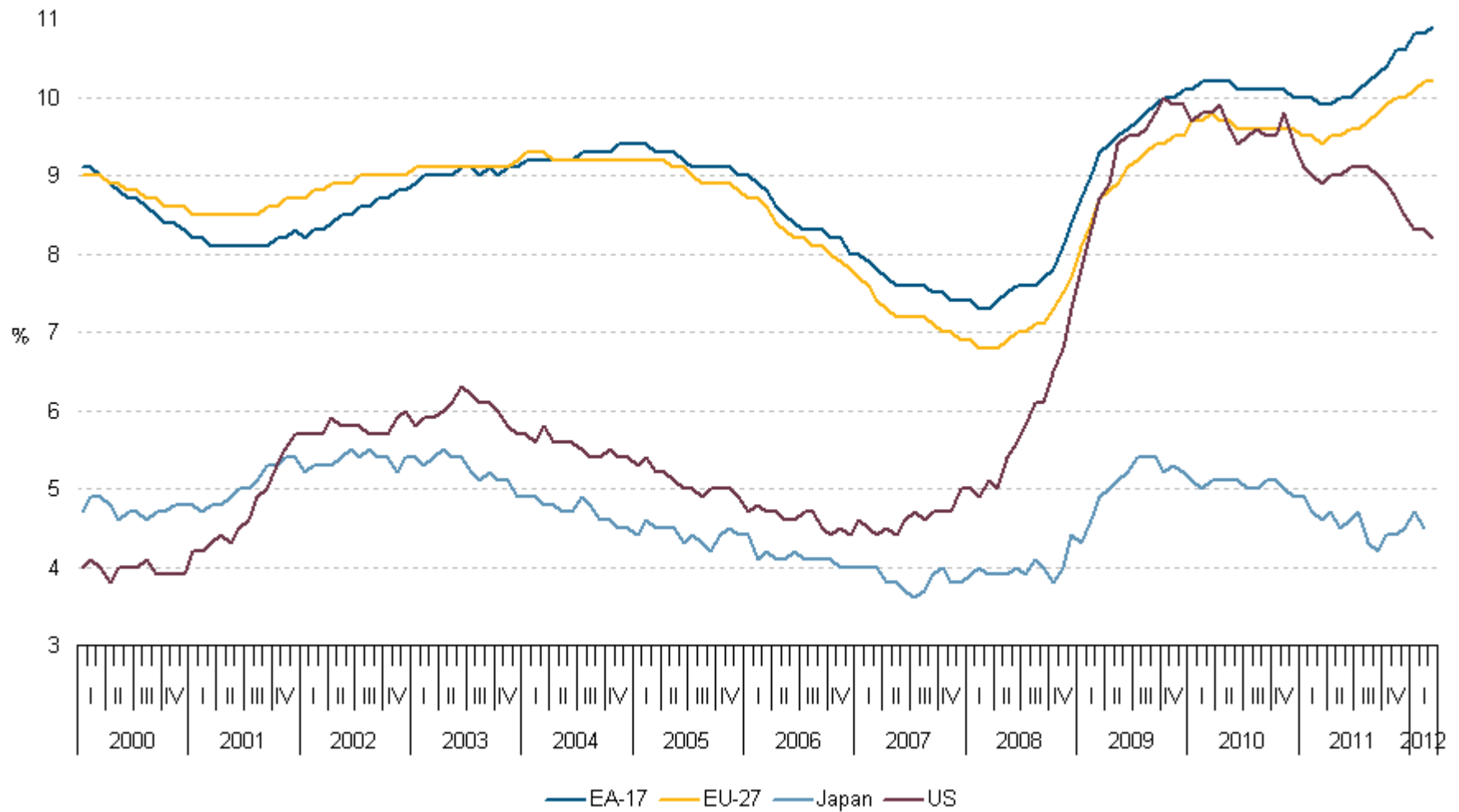
## Aggregate non-standard employment rates in Europe, 1998 and 2008



the 'aggregate' non-standard employment rate measures the number of people in part-time, fixed-term and own self-employment as percent of the working-age population (15–65) by controlling for possible overlaps (e.g., part-time work might be related with fixed-term contracts as well as with open-ended contracts; own self-employment might be part-time as well as full-time).

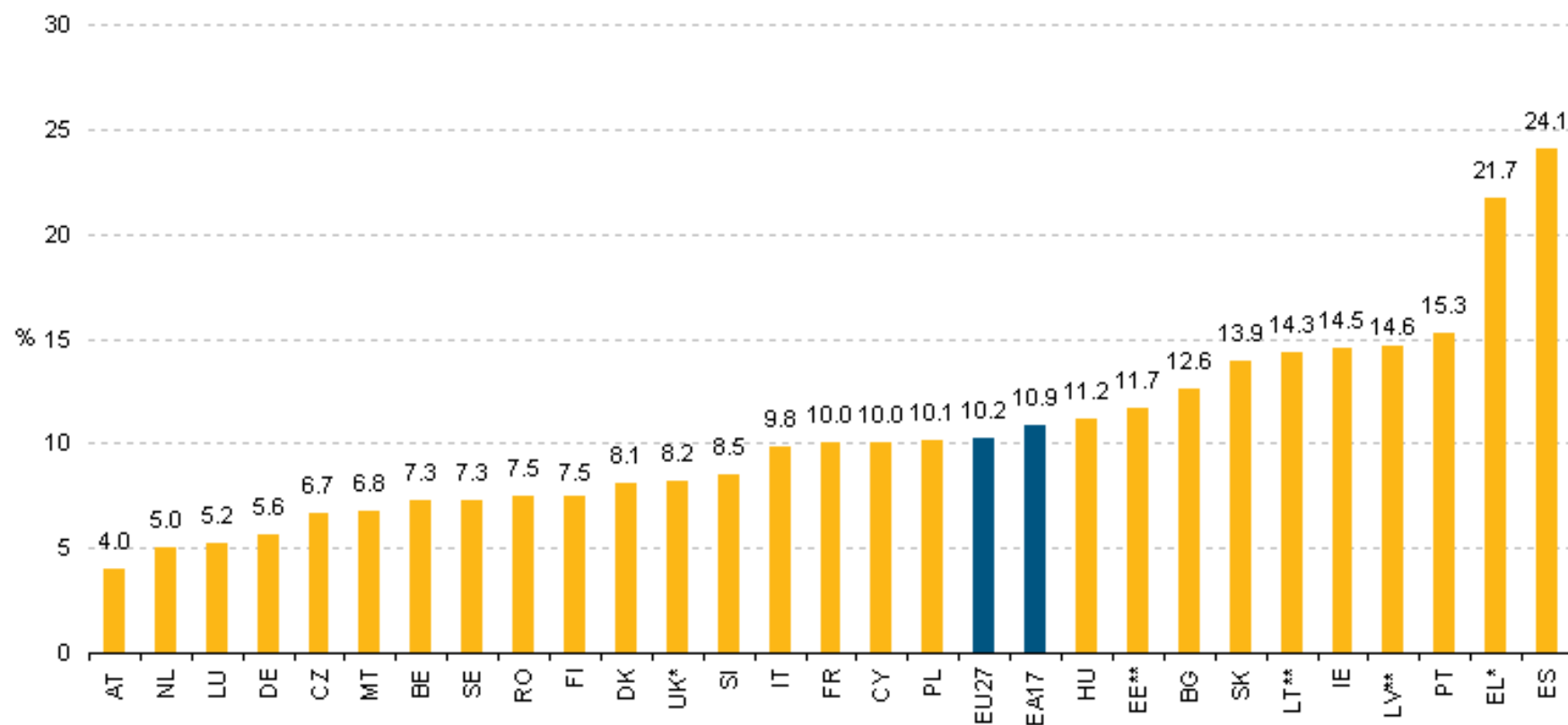
G. Schmid, Transitional labour markets and flexicurity, R. Rogowski et al. eds.  
*Transforming European Employment Policy*, 2011

## Unemployment rates Europe vs US and Japan 2000-2012



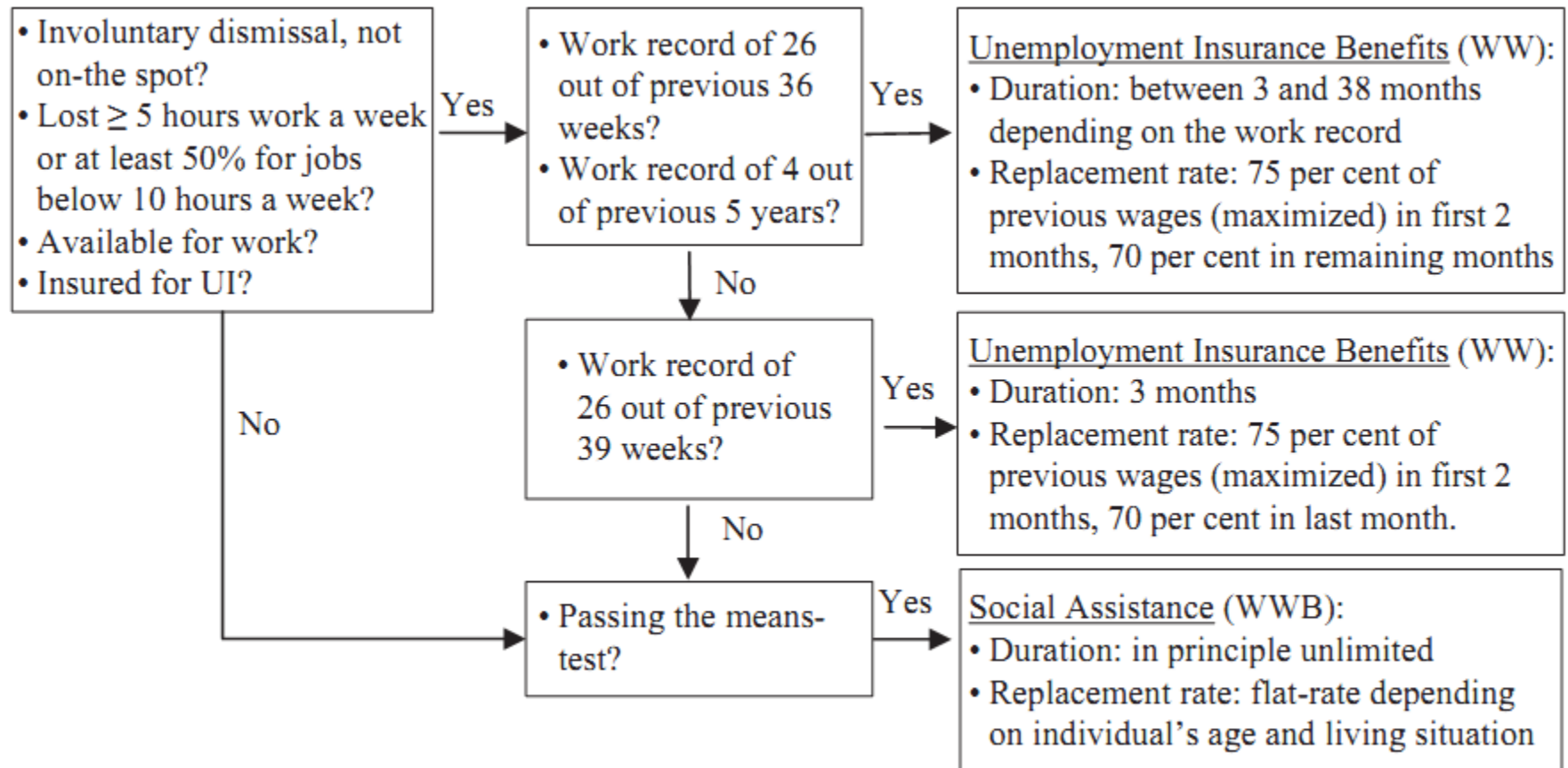
EA – Euro area countries

# Unemployment rates in EU, march 2012

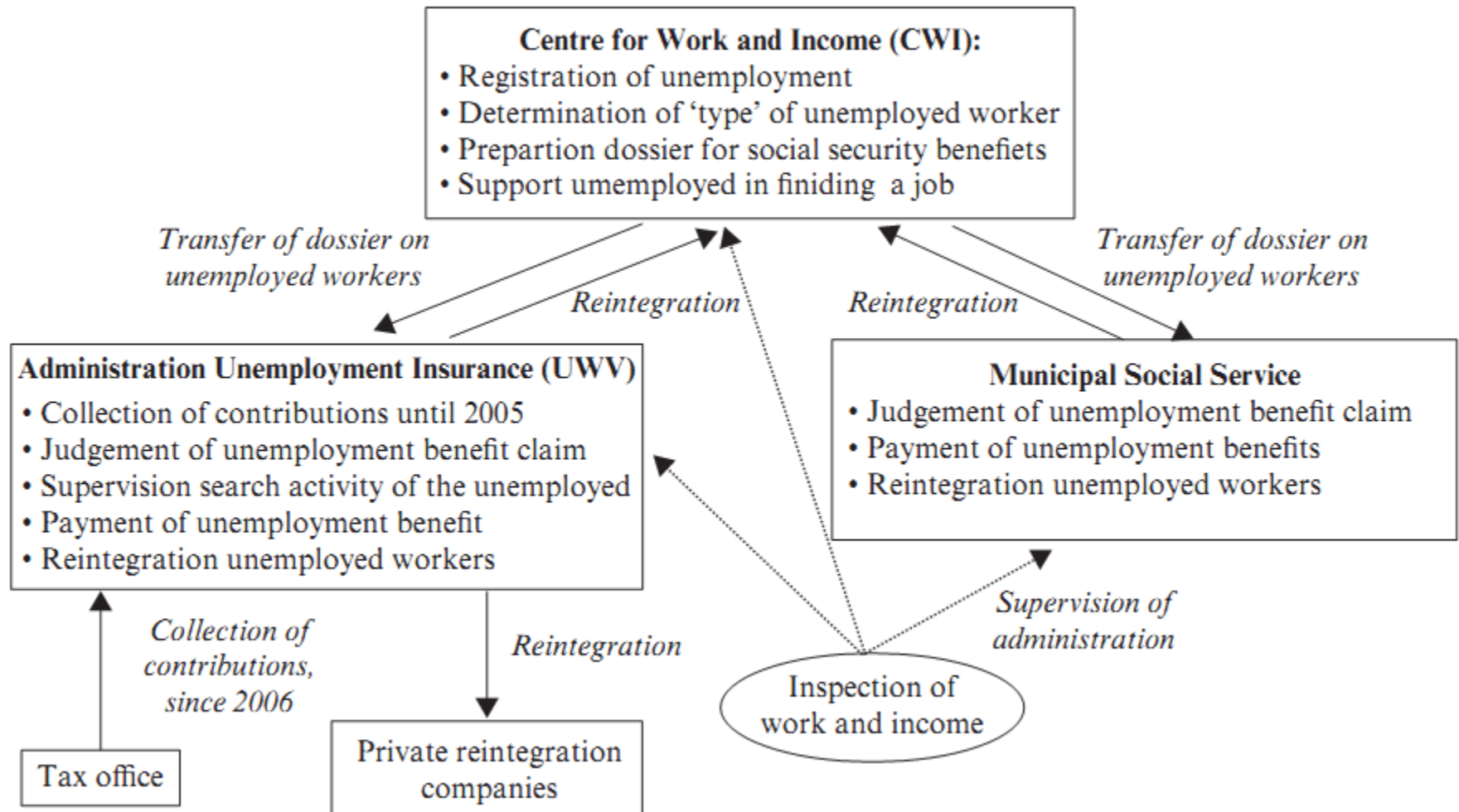


\* January 2011    \*\* Q4 2011

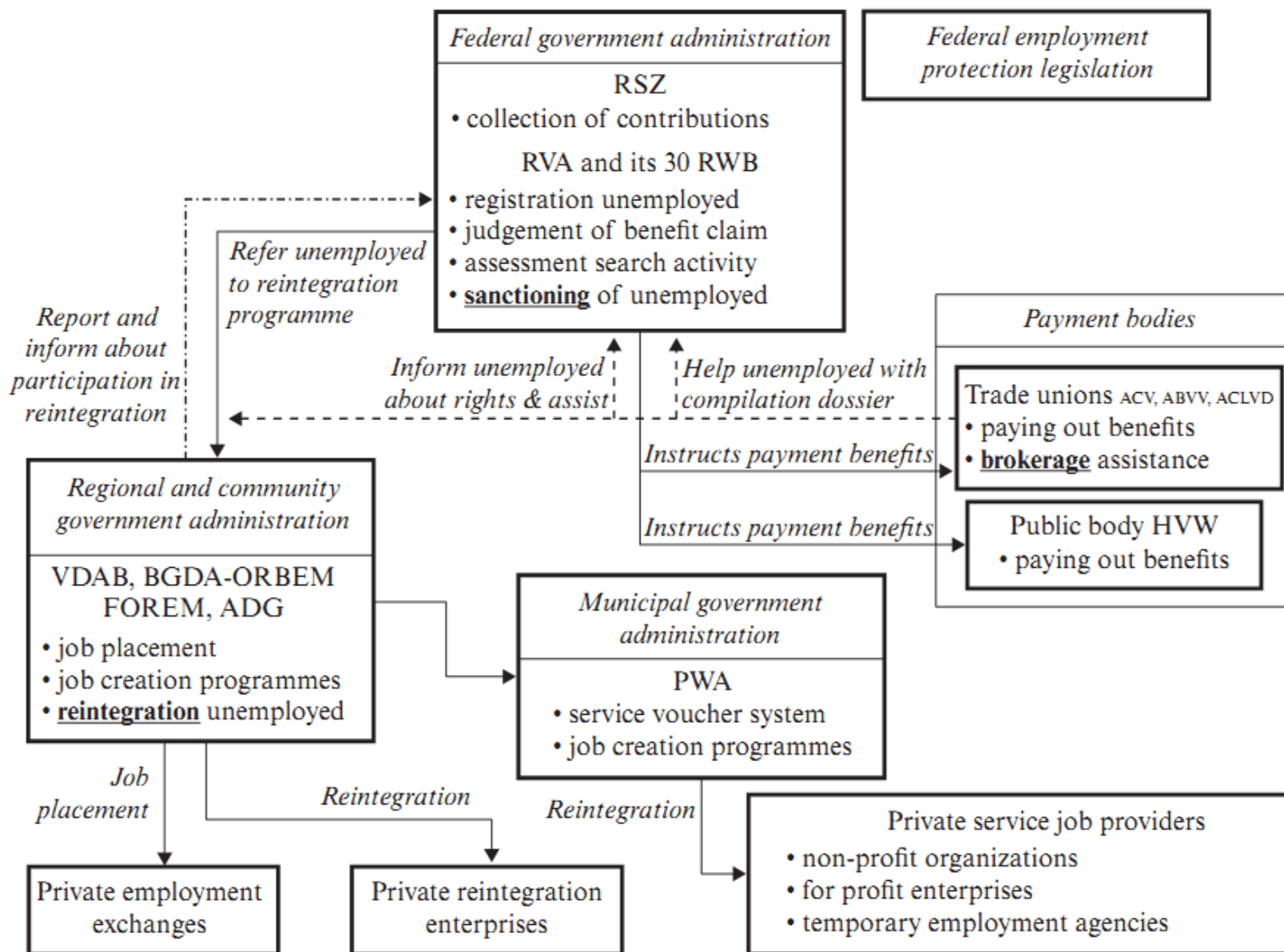
# The unemployment benefit system, Netherlands in 2006 as an example



# The division of labour in the Dutch chain of work and income



# The division of labour in the Belgian chain of work and income





# Unemployment and Skill

- Problem of unemployment
  - High skilled workers
  - Low skilled workers
- *Which are more affected by unemployment?*
- Why the answer points on low-skilled?
  - wage-setting institutions
  - employment regulation
  - globalization
  - monetary policy

# Wage Setting Institutions

- Minimum wage
  - Statutory
  - Collective bargaining
    - Coordinated between different sectors and levels of economy or without coordination
    - Centralised or decentralised
- *How minimum wage affects unemployment and why? What affects minimum wage, in what direction and why?*

# Social Transfers

- Unemployment insurance benefits
  - More or less generous, usually in relation to previous wage
- Unemployment assistance benefits
  - Less generous than unemployment insurance, usually means-tested and for long-term unemployed
- *How social benefits for unemployed affect unemployment and why? What affects social wage for unemployed, in what direction and why?*

# Active Labour Market Policy

- **Employment services and individual case management** increase the efficiency of the job search process
- **Training programmes** improve unemployed workers' competencies and – often combined with **hiring subsidies** – make them more attractive to prospective employers
- **Job-search monitoring** makes the unemployed more willing to accept jobs and thus lowers their reservation wage

# Employment Protection

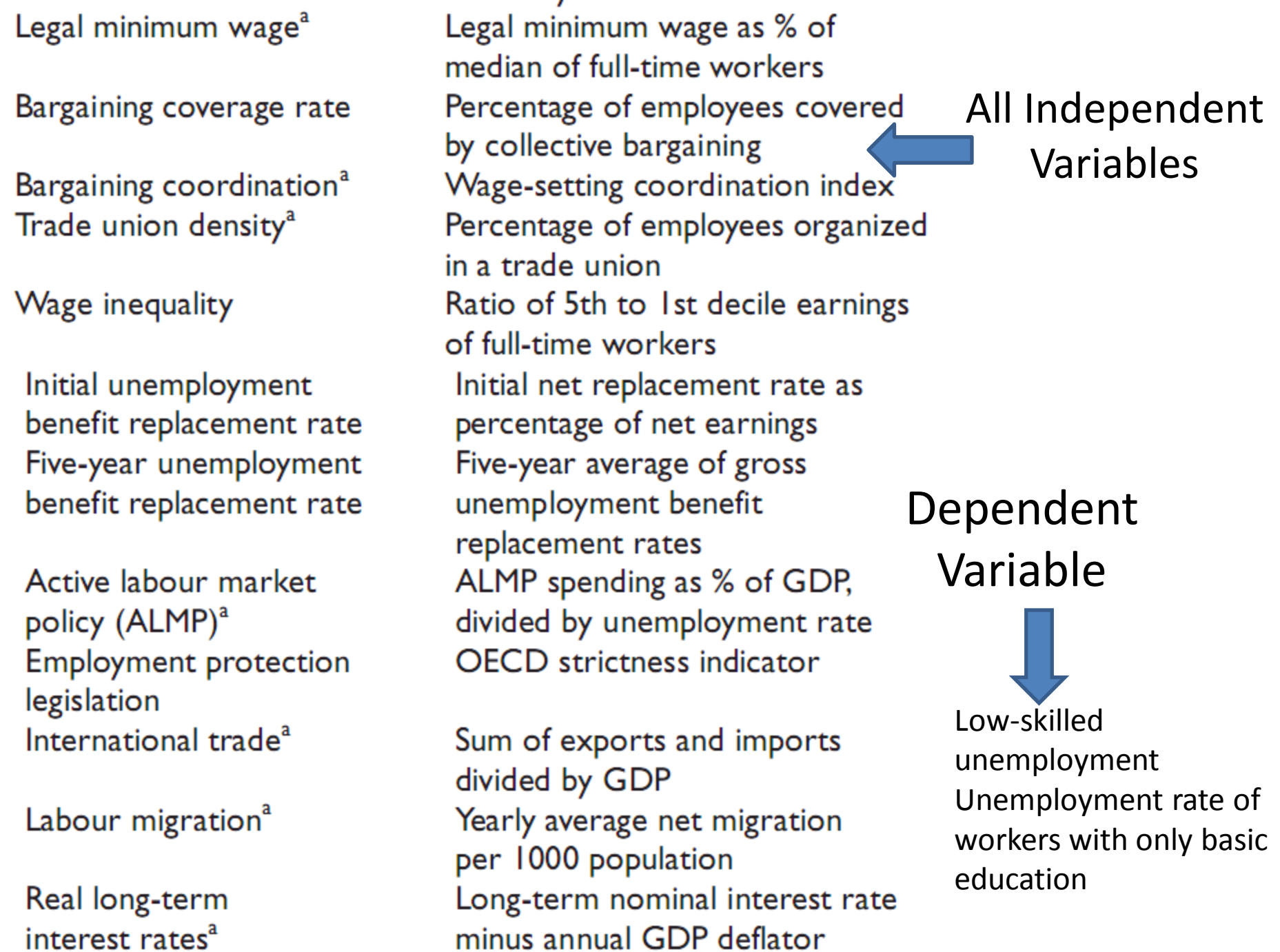
- *Is it easy to hire and fire employees?*
  - If the answer is yes we have low or no employment protection
  - If employer should consult all fire decisions with labour unions and/or public employment agency we have very strict employment protection and dismissal regulation
- *How employment protection affects unemployment and why?*

# Globalization

- Low skilled in rich countries employment prospects and low skilled workers in emerging economies
- low-skilled native employment prospects and low-skilled immigrant influx
- *How internationalization of trade and higher immigration affects unemployment and why?*

# Monetary Policy

- Long lasting recessions and low-skilled workers employment prospects in comparison to high-skilled
- Real interest rates management by central banks and depth and duration of recessions
- *How central banks behavior affects economic downturns and why? What we can do about it?*





# The gap in unemployment rates between low- and high-skilled

- Average gap was 2.2
  - 3.7 in Germany
  - 3.2 in Austria and Belgium
  - 3.2 in the USA
  - 2.7 in Ireland
  - 2.4 in the UK and Australia.
  - 1.5 or less in the Scandinavian and the Mediterranean countries

# What is not supported by evidence

- The data provide **no support** for the hypotheses that
  - strict employment protection goes along with higher unemployment of low-skilled
  - low-skilled unemployment is linked to the level of legal minimum wages
  - higher wage inequality is associated with less unemployment among low-skilled workers
  - generosity of unemployment benefits is linked to the low-skilled unemployment

# What is supported by evidence?

- The data **provide support** for the hypothesis that
  - investment in ALMP seems to pay off in form of lower unemployment of low-skilled workers
  - high real interest rates over an extended period are associated with significantly higher unemployment rates of low-skilled workers

# Overall Conclusion

- ALMPs (efficient job-placement services, adequate training programs and strict job-search controls) and the adjusted to it unemployment benefit system seems to contribute to enabling people to move from welfare to work
  - reforms simultaneously aimed at giving the unemployed better job-search assistance and at tightening the conditions that apply to receiving benefits (Netherlands and Denmark)
- Monetary policy should be used to support aggregate demand to shorten recessions

# Slightly Different Story

- *What if strict employment protection is, however obstacle to employment growth and unemployment decline?*
- Then in addition to wise monetary policy we need flexible labour market and ALMP with unemployment benefits from insurance and assistance accordingly adjusted
- **Flexibility and security = FLEXICURITY**

## Types of Flexibility and Security on the labour market

<i>Types of flexibility</i>	
External numerical flexibility	Adjustment of employment volume by way of an exchange with the external labour market; involving lay-offs, temporary work, fixed term contracts.
Internal numerical flexibility	The temporal adjustment of the amount of work within the firm, involving practices as atypical working hours and time account schemes.
Functional flexibility	Organising flexibility within the firm by means of training, multi-tasking and job-rotation, based on the ability of employees to perform various tasks and activities.
Financial flexibility	The variation in base and additional pay according to the individual or firm performance.
<i>Types of security</i>	
Job security	Security deriving from employment protection legislation, etc., limiting the employer's possibility to dismiss at will.
Employment security	Adequate employment opportunities through high levels of employability ensured by e.g. training and education.
Income security	The protection of adequate and stable levels of income.
Combination security	The security of a worker of being able to combine his or her job with other responsibilities or commitments than paid work.

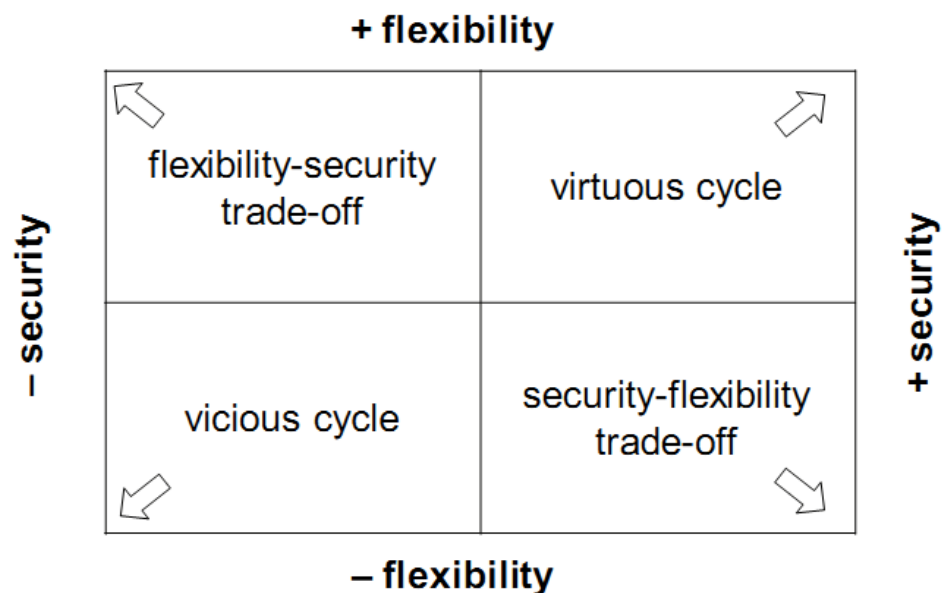
*Flexicurity and Beyond, 2007*

# The flexibility–security nexus

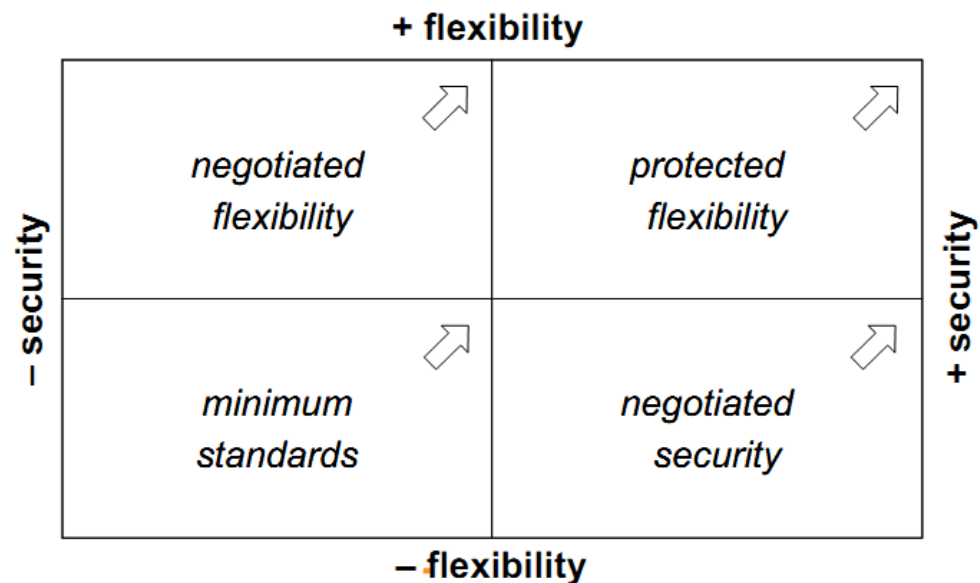
<b>Flexibility</b>	<b>Security</b>			
	Job security	Employment security	Income security	Option security
External numerical	to	to / vt / vs	to / vt / vs	to
Internal numerical	vt	vt	(to) / vt	to / vt
Internal functional	vt	vt	to / vt	(to) / vt
External functional	vt	to / vt / vs	to / vt	to / vt

*Note:* to = trade-off; vt = virtuous cycle; vs = vicious cycle.

## Combinations of flexibility and security

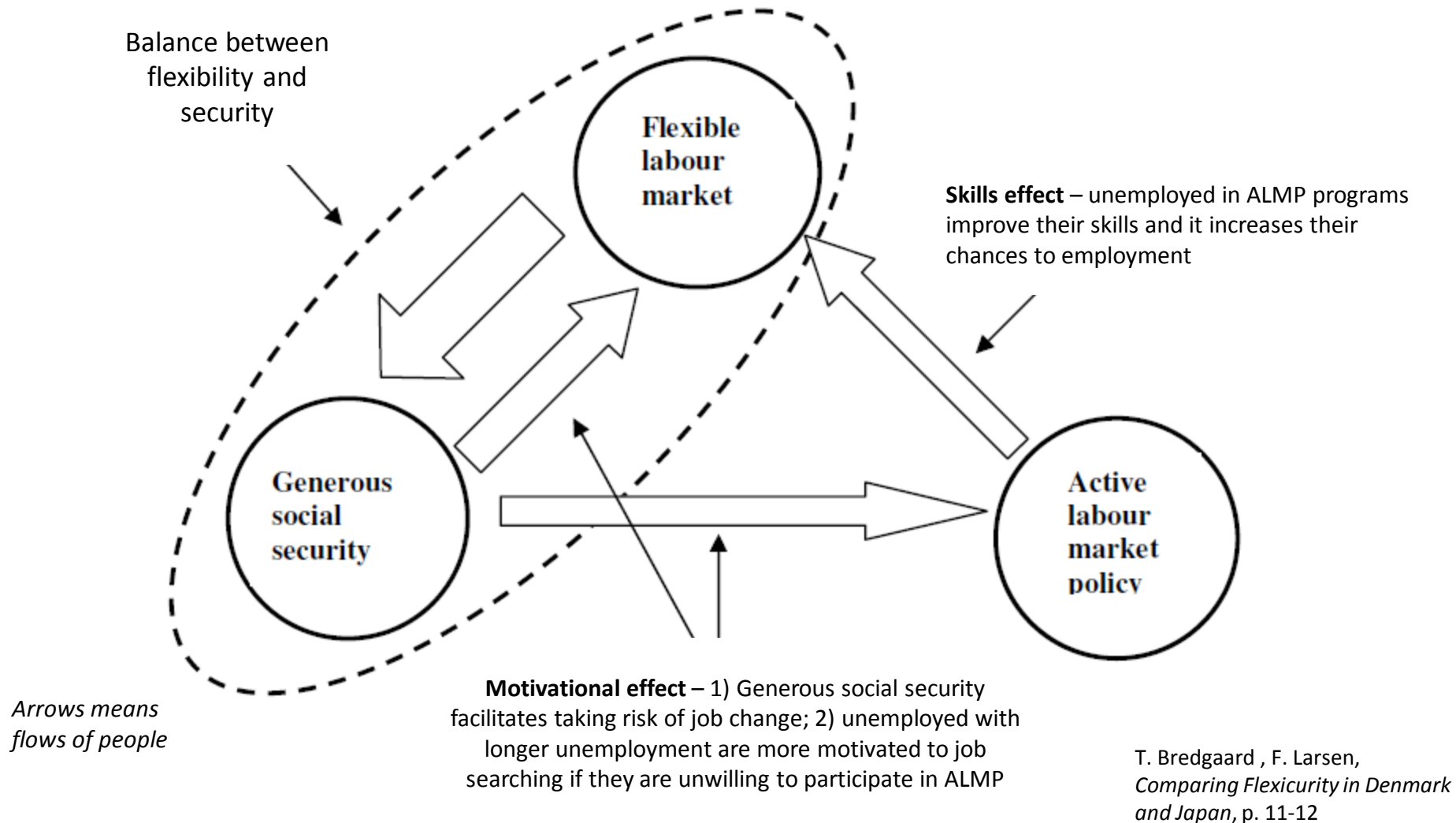


Strategies for managing the balance between flexibility and security

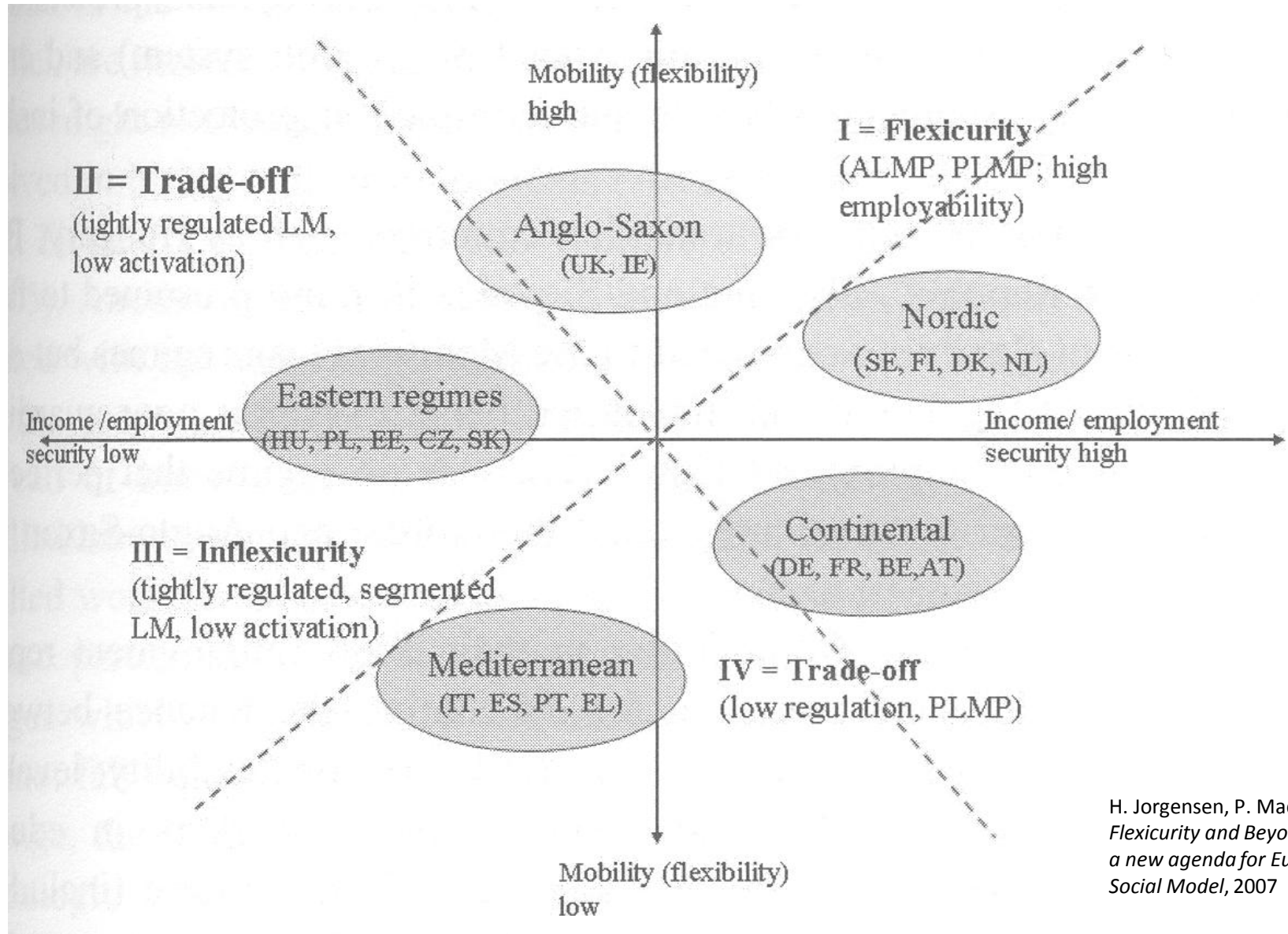




# Golden Triangle of Flexicurity



# Flexibility and Security Dimensions



H. Jorgensen, P. Madsen eds.,  
*Flexicurity and Beyond: Finding  
a new agenda for European  
Social Model*, 2007

ALMP=Active Labour Market Policy; PLMP=Passive Labour Market Policy;

Overall framework  
for the analysis of  
the labour market

