Introduction to the Welfare State

Labour Market Policy

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
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

Schmid, *The Dynamics of Full Employment*, 2002, s. 280
Labour market flows in developed countries

Shrinking enterprises and public sector (exit dominated)

Labour market entries + re-entries

Entry

Stable employment

Exit

Labour market intermediaries
- Unemployment insurance
- Labour exchange
- Active labour market policy
- Information monitoring/evaluation

Retirement
(out of labour force)

Expanding enterprises and public sector (entry dominated)

Informal economy

‘Housewives’
Students
Retired
Sick, disabled
Instit. inmates
Armed forces,
Rentiers, etc.
Voluntary work

Labour market flows in developing countries

Shrinking enterprises and public sector (exit dominated)

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| Labour market intermediaries |
| Unemployment insurance |
| Labour exchange |
| Active labour market policy |
| Others (NGOs, etc.) |
| Information monitoring/evaluation |

Expanding enterprises and public sector entry dominated

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Informal economy

Labour market entries + re-entries

Retirement (out of labour force)

‘Housewives’
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Armed forces,
Rentiers, etc.
Voluntary work

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

Guy Standing, Global Labour Flexibility: Seeking Distributive Justice, 1999
The firm’s employment function

- The Firm
  - Hive off units
  - Contract labour
    - Subcontract
    - Direct labour
      - Casual labour
      - Regular workers
        - Family/unpaid labour
  - Agency labour
  - Homewokers
    - Teleworkers
      - Core/Non-core

- Employment contract
  - Trainee
    - Informal
    - Probation
    - Individual contract
      - Group contract
  - Apprentice

- Duration, Terms, Coverage

Guy Standing, Global Labour Flexibility: Seeking Distributive Justice, 1999
From labour surplus to labour market marginalisation

- Employment
  - Bumped into lower wage job
    - Unpaid at work
  - Lay off
  - Involuntary part-time
  - Early retirement
    - Casualized, Temporary, Short-term
      - Redundancy
        - Severance pay
  - Quit
    - Unemployed
      - Active
        - Not Seeking Benefits
      - Passive
        - Seeking Benefits
          - Registration
            - Unemployment benefits regime

Guy Standing, Global Labour Flexibility: Seeking Distributive Justice, 1999
Figure 3: Household wage earner models in Europe (%)

- **Both partners work full time**
- **Male breadwinner**
- **Female breadwinner**
- **Modified male breadwinner**
- **Both partners work part time**
- **Modified female breadwinner**

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*Fifth European Working Conditions Survey: Overview, Eurofound, 2012*

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).

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

- Involuntary dismissal, not on-the-spot?
- Lost ≥ 5 hours work a week or at least 50% for jobs below 10 hours a week?
- Available for work?
- Insured for UI?

Yes

- Work record of 26 out of previous 36 weeks?
- Work record of 4 out of previous 5 years?

Yes

Unemployment Insurance Benefits (WW):
- Duration: between 3 and 38 months depending on the work record
- Replacement rate: 75 per cent of previous wages (maximized) in first 2 months, 70 per cent in remaining months

No

- Work record of 26 out of previous 39 weeks?

Yes

Unemployment Insurance Benefits (WW):
- Duration: 3 months
- Replacement rate: 75 per cent of previous wages (maximized) in first 2 months, 70 per cent in last month.

No

Passing the means-test?

Yes

Social Assistance (WWB):
- Duration: in principle unlimited
- Replacement rate: flat-rate depending on individual’s age and living situation

No

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

**Centre for Work and Income (CWI):**
- Registration of unemployment
- Determination of ‘type’ of unemployed worker
- Preparation dossier for social security benefits
- Support unemployed in finding a job

**Administration Unemployment Insurance (UWV):**
- Collection of contributions until 2005
- Judgement of unemployment benefit claim
- Supervision search activity of the unemployed
- Payment of unemployment benefit
- Reintegration unemployed workers

**Municipal Social Service:**
- Judgement of unemployment benefit claim
- Payment of unemployment benefits
- Reintegration unemployed workers

**Transfer of dossier on unemployed workers**

**Private reintegration companies**

**Supervision of administration**

**Tax office**

**Collection of contributions, since 2006**

**Reintegration**

**Inspectio of work and income**

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

Federal government administration
- RSZ
  - collection of contributions
  - RVA and its 30 RWB
- registration unemployed
- judgement of benefit claim
- assessment search activity
- sanctioning of unemployed

Federal employment protection legislation

Regional and community government administration
- VDAB, BGDA-ORBEM FOREM, ADG
  - job placement
  - job creation programmes
  - reintegration unemployed

Private employment exchanges
Private reintegration enterprises

Job placement
Reintegration

Municipal government administration
- PWA
  - service voucher system
  - job creation programmes

Private service job providers
- non-profit organizations
- for profit enterprises
- temporary employment agencies

Payment bodies
- Trade unions ACV, ABVV, ACLVD
  - paying out benefits
- brokerage assistance
- Public body HVW
  - paying out benefits

Inform unemployed about rights & assist
Help unemployed with compilation dossier
Instructs payment benefits
Instructs payment benefits
Report and inform about participation in reintegration programme
Refer unemployed to reintegration programme

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
  – Statuatory
  – 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 then 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 dissmisal 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?
<table>
<thead>
<tr>
<th>All Independent Variables</th>
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<tbody>
<tr>
<td>Legal minimum wage(^a)</td>
</tr>
<tr>
<td>Bargaining coverage rate</td>
</tr>
<tr>
<td>Bargaining coordination(^a)</td>
</tr>
<tr>
<td>Trade union density(^a)</td>
</tr>
<tr>
<td>Wage inequality</td>
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<tr>
<td>Initial unemployment</td>
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<tr>
<td>benefit replacement rate</td>
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<tr>
<td>Five-year unemployment</td>
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<tr>
<td>benefit replacement rate</td>
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<tr>
<td>Active labour market</td>
</tr>
<tr>
<td>policy (ALMP)(^a)</td>
</tr>
<tr>
<td>Employment protection</td>
</tr>
<tr>
<td>legislation</td>
</tr>
<tr>
<td>International trade(^a)</td>
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<tr>
<td>Labour migration(^a)</td>
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<tr>
<td>Real long-term interest</td>
</tr>
<tr>
<td>rates(^a)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Dependent Variable</th>
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<tbody>
<tr>
<td>Low-skilled</td>
</tr>
<tr>
<td>unemployment</td>
</tr>
<tr>
<td>Unemployment rate</td>
</tr>
<tr>
<td>of workers</td>
</tr>
<tr>
<td>with only basic</td>
</tr>
<tr>
<td>education</td>
</tr>
</tbody>
</table>
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**
<table>
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<th>Types of flexibility</th>
<th>Description</th>
</tr>
</thead>
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<tr>
<td>External numerical flexibility</td>
<td>Adjustment of employment volume by way of an exchange with the external labour market; involving lay-offs, temporary work, fixed term contracts.</td>
</tr>
<tr>
<td>Internal numerical flexibility</td>
<td>The temporal adjustment of the amount of work within the firm, involving practices as atypical working hours and time account schemes.</td>
</tr>
<tr>
<td>Functional flexibility</td>
<td>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.</td>
</tr>
<tr>
<td>Financial flexibility</td>
<td>The variation in base and additional pay according to the individual or firm performance.</td>
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<tr>
<td>Job security</td>
<td>Security deriving from employment protection legislation, etc., limiting the employer’s possibility to dismiss at will.</td>
</tr>
<tr>
<td>Employment security</td>
<td>Adequate employment opportunities through high levels of employability ensured by e.g. training and education.</td>
</tr>
<tr>
<td>Income security</td>
<td>The protection of adequate and stable levels of income.</td>
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<tr>
<td>Combination security</td>
<td>The security of a worker of being able to combine his or her job with other responsibilities or commitments than paid work.</td>
</tr>
</tbody>
</table>
The flexibility–security nexus

<table>
<thead>
<tr>
<th>Flexibility</th>
<th>Job security</th>
<th>Employment security</th>
<th>Income security</th>
<th>Option security</th>
</tr>
</thead>
<tbody>
<tr>
<td>External numerical</td>
<td>to</td>
<td>to / vt / vs</td>
<td>to / vt / vs</td>
<td>to</td>
</tr>
<tr>
<td>Internal numerical</td>
<td>vt</td>
<td>vt</td>
<td>(to) / vt</td>
<td>to / vt</td>
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<tr>
<td>Internal functional</td>
<td>vt</td>
<td>vt</td>
<td>to / vt</td>
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*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

Balance between flexibility and security

**Motivational effect** – 1) Generous social security facilitates taking risk of job change; 2) unemployed with longer unemployment are more motivated to job searching if they are unwilling to participate in ALMP

**Skills effect** – unemployed in ALMP programs improve their skills and it increases their chances to employment

T. Bredgaard, F. Larsen, *Comparing Flexicurity in Denmark and Japan*, p. 11-12
Flexibility and Security Dimensions

II = Trade-off
(tightly regulated LM, low activation)

III = Inflexicurity
(tightly regulated, segmented LM, low activation)

IV = Trade-off
(low regulation, PLMP)

Anglo-Saxon (UK, IE)

Nordic (SE, FI, DK, NL)

Eastern regimes (HU, PL, EE, CZ, SK)

Continental (DE, FR, BE, AT)

Mediterranean (IT, ES, PT, EL)

Mobility (flexibility)
high

Income/employment security low

Income/employment security high

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

Overall framework for the analysis of the labour market