

Theory and Practice of the Welfare State in Europe

Sessions 08 and 09

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Course web page

www.ips.uw.edu.pl/rszarf/welfare-state/

Employment Policy and its Problems

LABOUR MARKET SYSTEM

Household Economy

Inactivity

Black Work

Transitional

Employment
and
Unemployment

Labour Markets

and Informal Sector

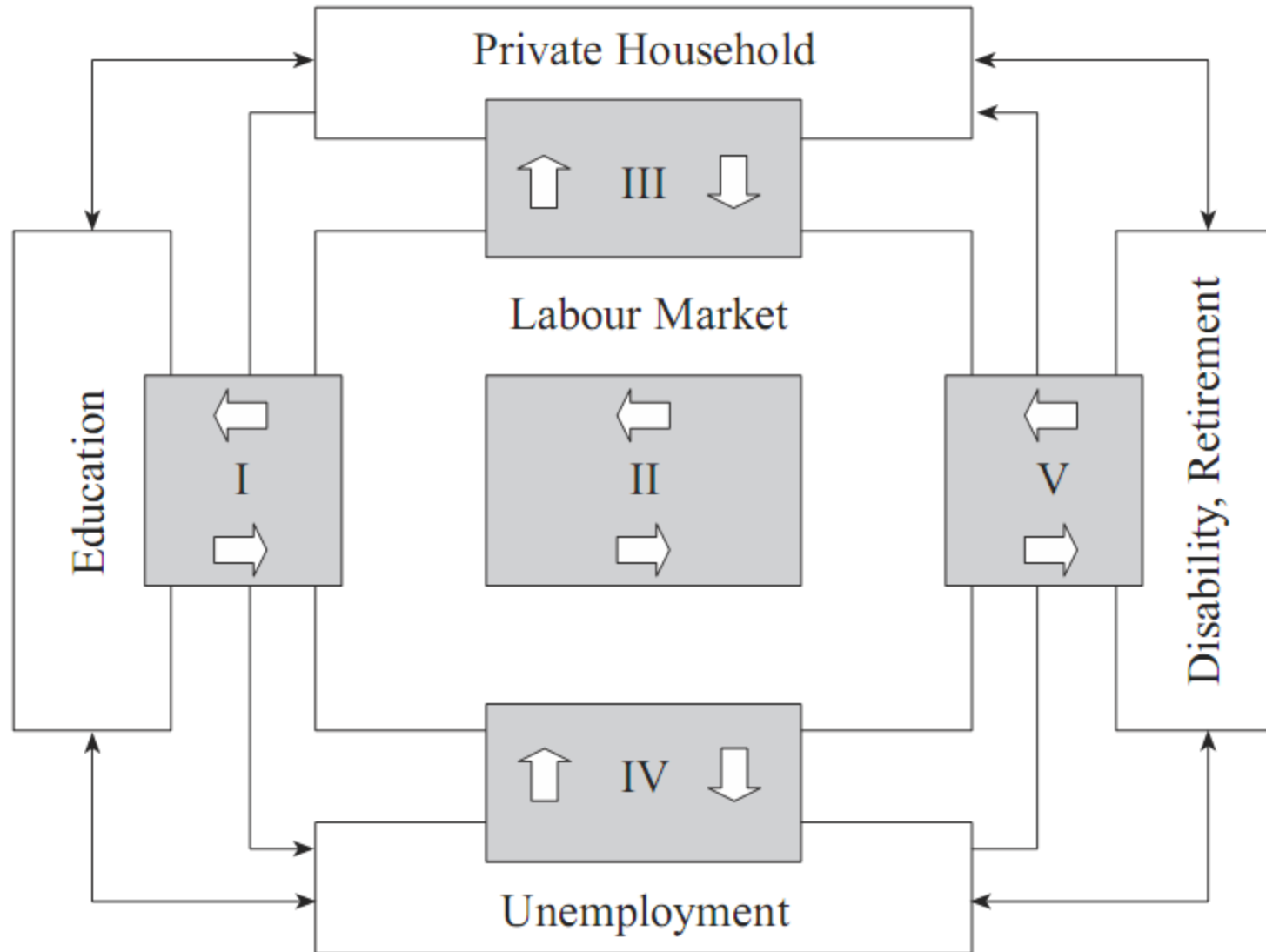
Leisure Time Activities

**General
Education and
Vocational
Training**

**Taxes and
Social
Security
Contributions**

Industrial Relations and Employment Protection

Transitional Labour Markets Framework



Employment, its Forms and Context

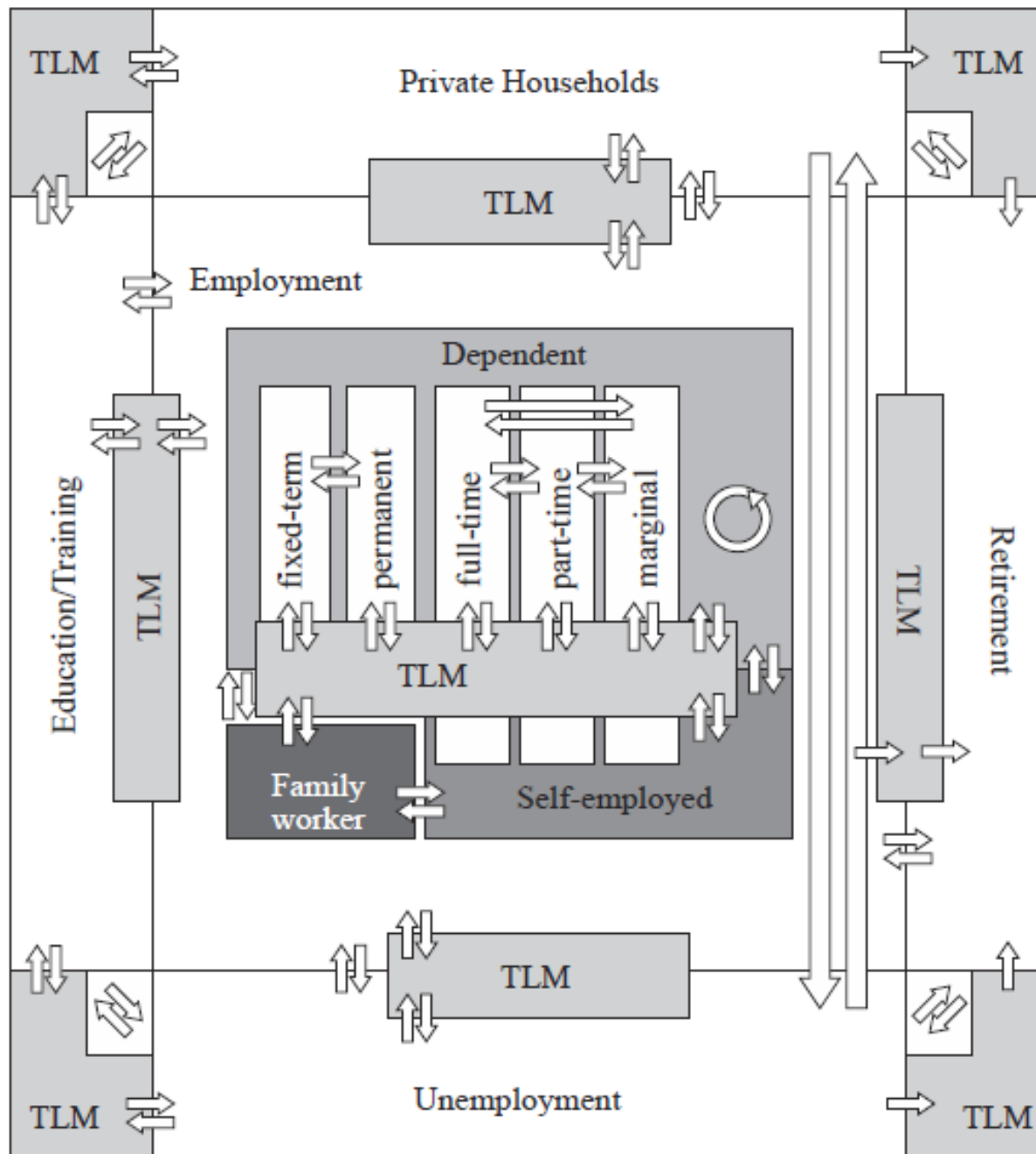


Figure shows the segments of the employment system and the possible flows, or labour market transitions, between these segments

TLM –
transitional
labour markets

Unemployment

- 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

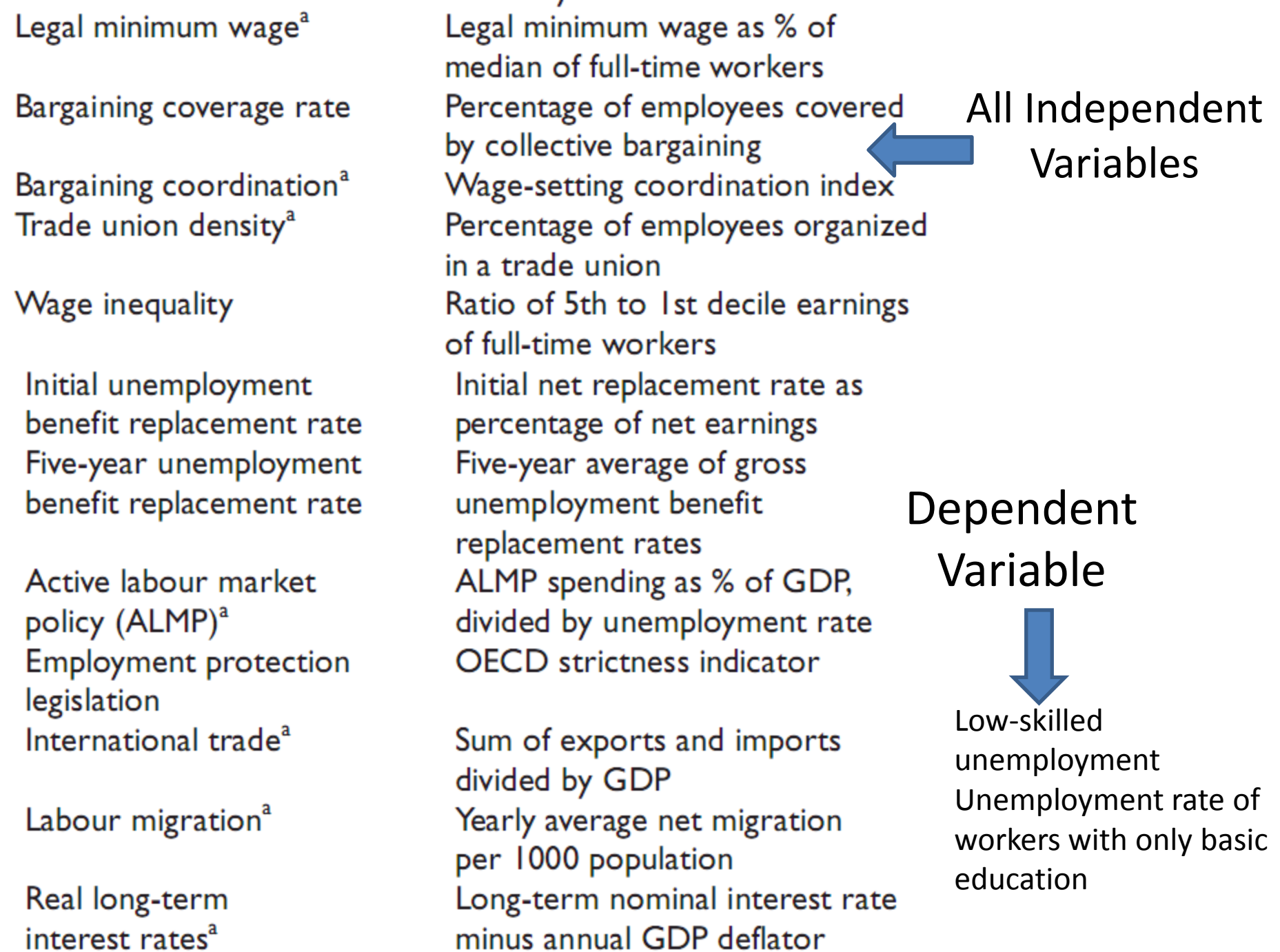
- *Is it easy to hire and fire employees?*
 - If the answer is yes we have low or no employment protection
 - If employer should consult all fire decisions with labour unions and/or public employment agency we have very strict employment protection and dismissal regulation
- *How employment protection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

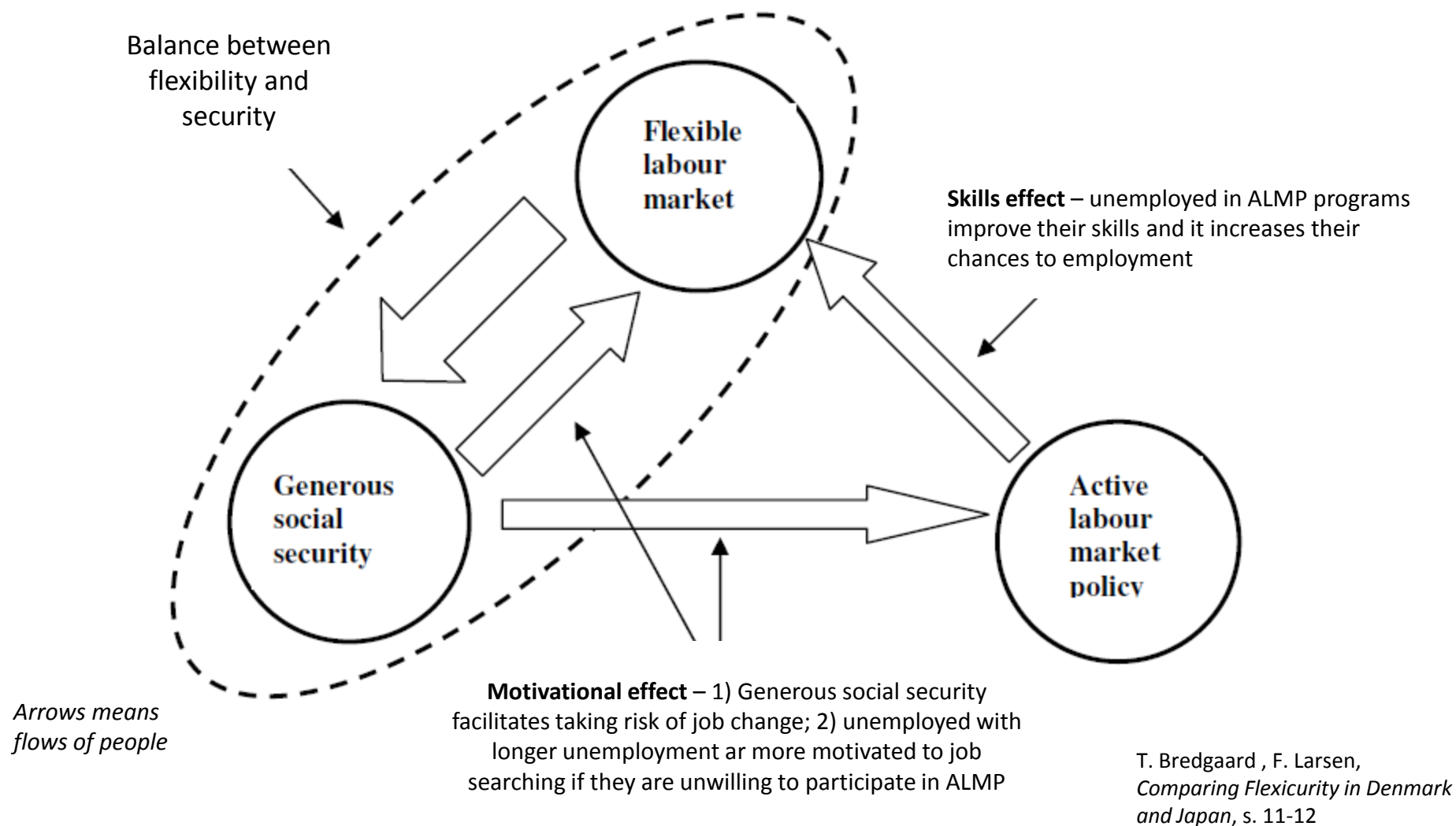
- *What if strict employment protection is, however obstacle to employment growth and unemployment decline?*
- Then in addition to wise monetary policy we need flexible labour market and ALMP with unemployment benefits from insurance and assistance accordingly adjusted
- **Flexibility and security =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

Types of Flexibility and Security

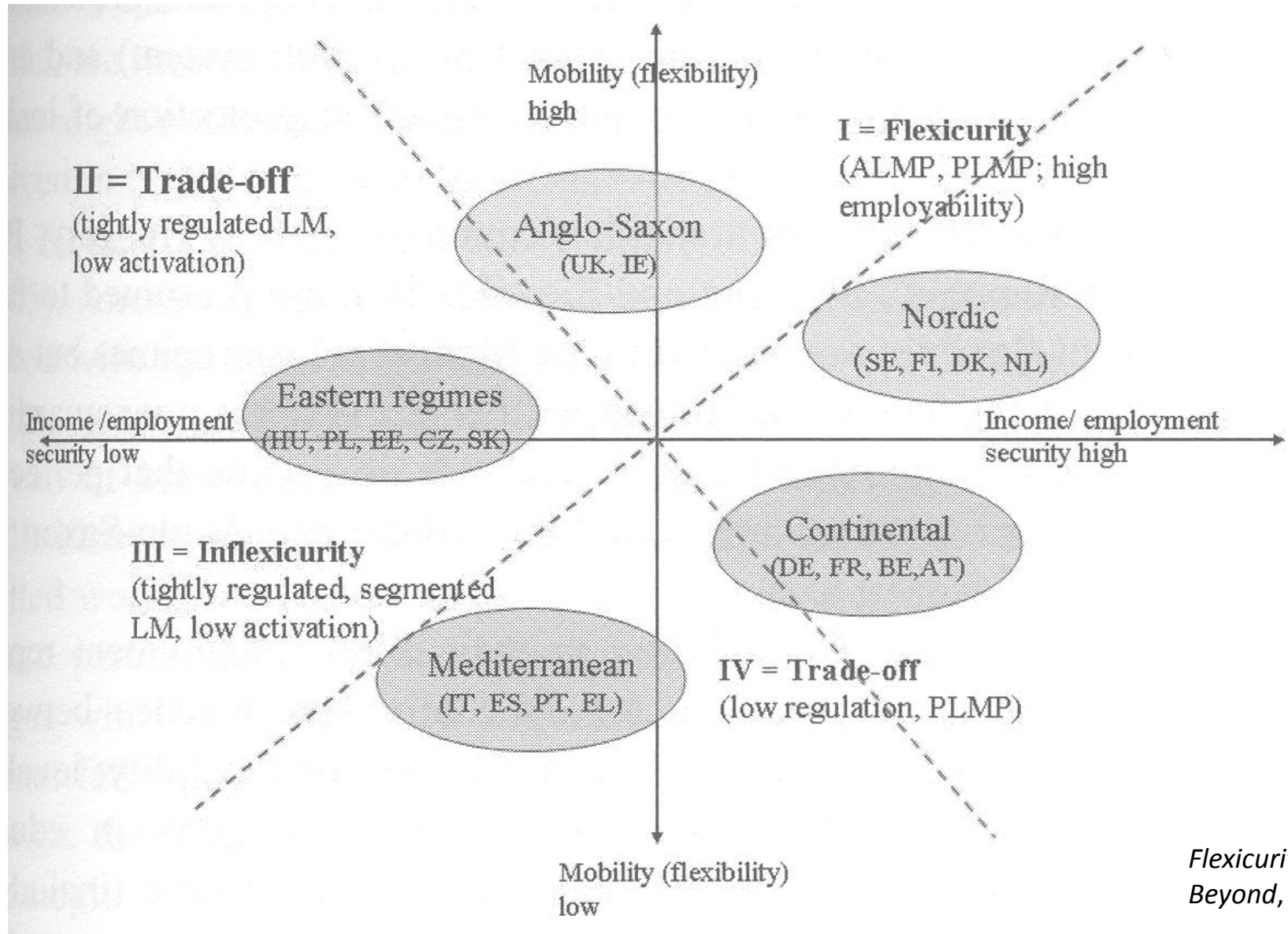
<i>Types of flexibility</i>	
External numerical flexibility	Adjustment of employment volume by way of an exchange with the external labour market; involving lay-offs, temporary work, fixed term contracts.
Internal numerical flexibility	The temporal adjustment of the amount of work within the firm, involving 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

Golden Triangle of Flexicurity



Flexibility and Security Dimensions



*Flexicurity and
Beyond, 2007*

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

Social Insurance Policy

Social Security and Social Assistance

Charter of Fundamental Rights of European Union Article 34 **Social Security and Social Assistance**

1. The Union recognises and respects the entitlement to social security benefits and social services providing protection in cases such as maternity, illness, industrial accidents, dependency or old age, and in the case of loss of employment, in accordance with the rules laid down by Community law and national laws and practices.
2. Everyone residing and moving legally within the European Union is entitled to social security benefits and social advantages in accordance with Community law and national laws and practices.
3. In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources, in accordance with the rules laid down by Community law and national laws and practices.

Two slightly different ways of saying about the same area

Social protection is **social security**
and social assistance

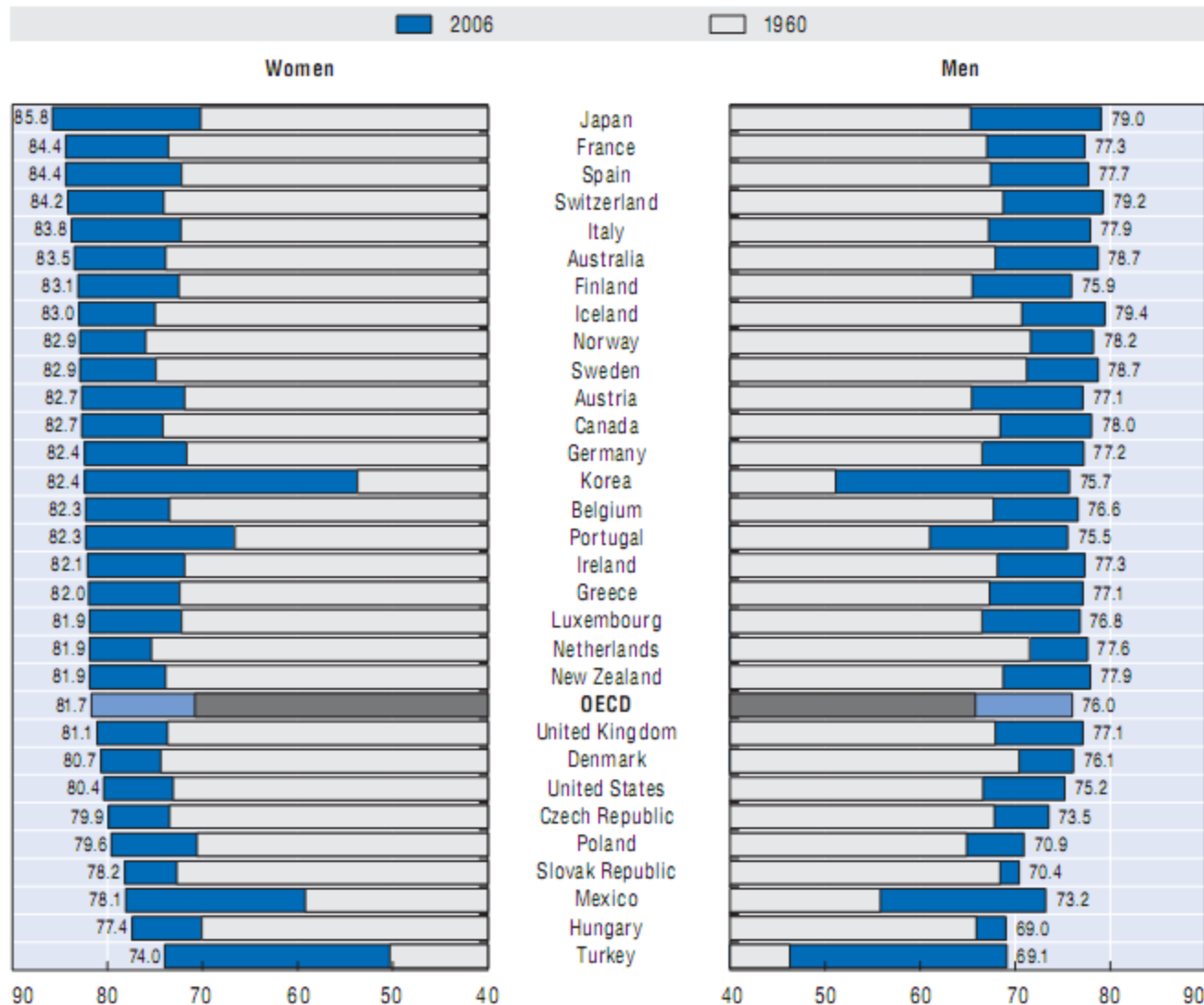
OR

Social security is **social insurance** and
social assistance

Different Types of Social Insurance Schemes

- Obligatory contributions to insurance funds and the right to
 - **Retirement pensions**
 - Disability pensions
 - Sickness benefits
 - Injury benefits
 - Unemployment benefits
 - Maternity benefits
 - *Other risks and compensation benefits*

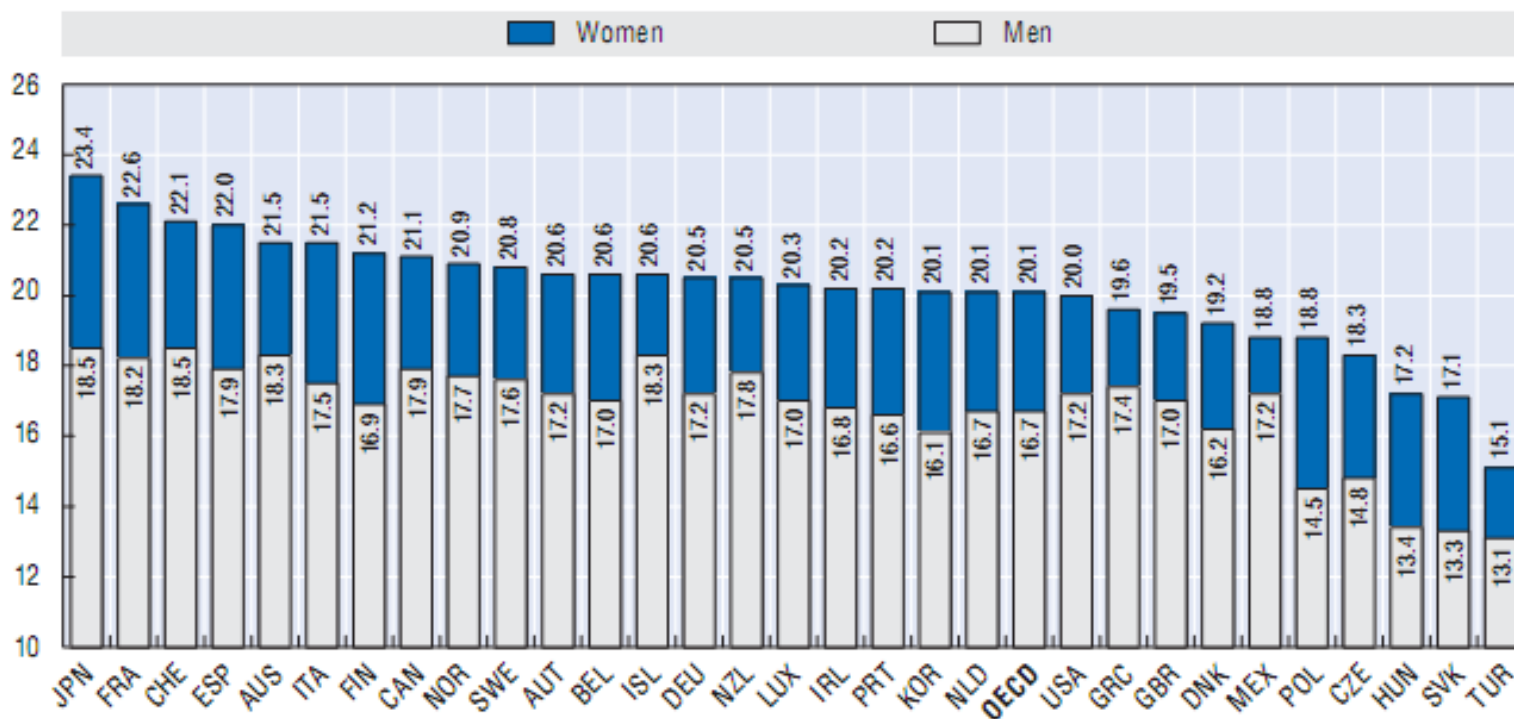
Why Reform Pensions Systems?



Life expectancy
at birth

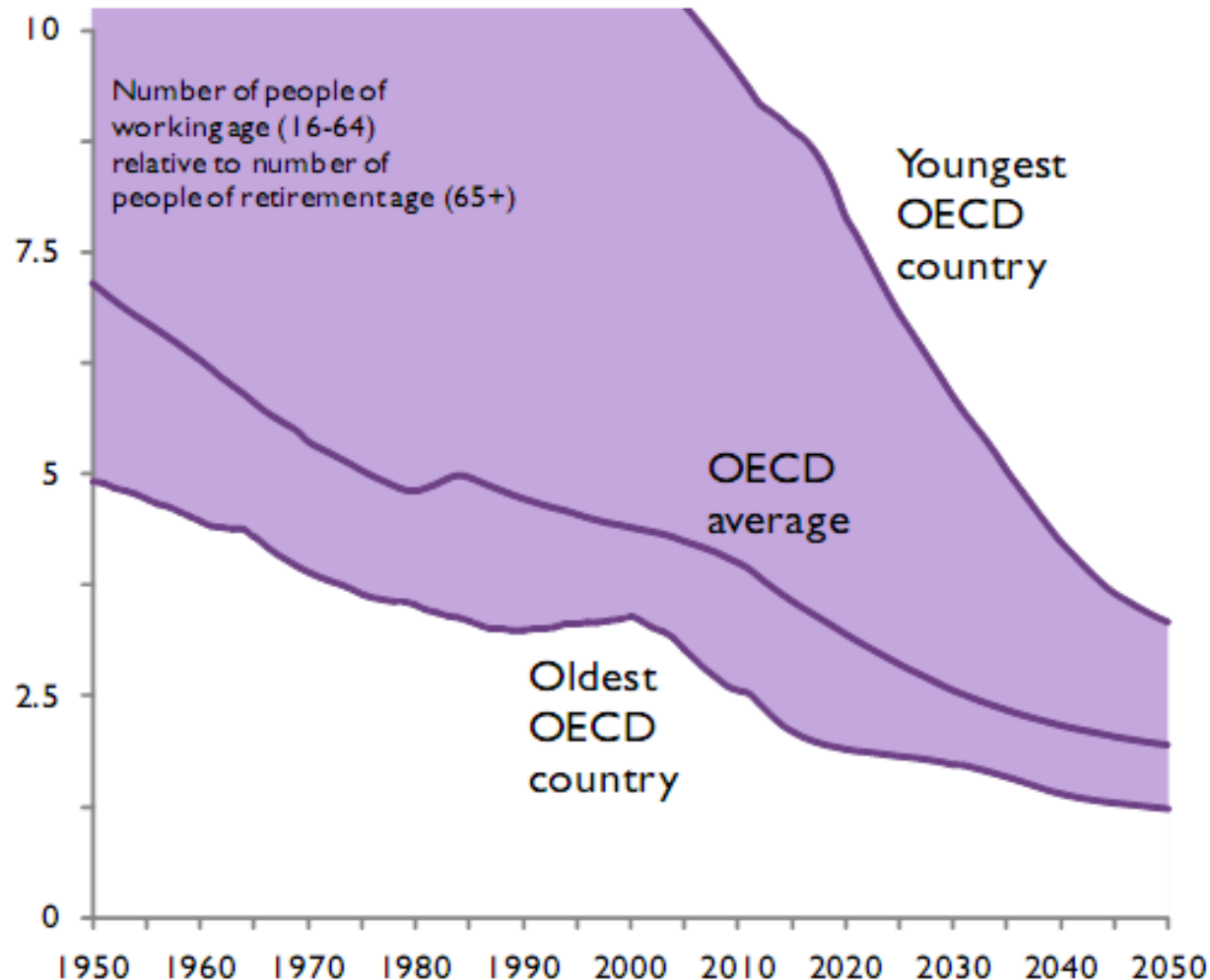
Why Reform Pensions Systems?

Life expectancy at 65 in years, men and women, 2006



Why Reform Pensions Systems?

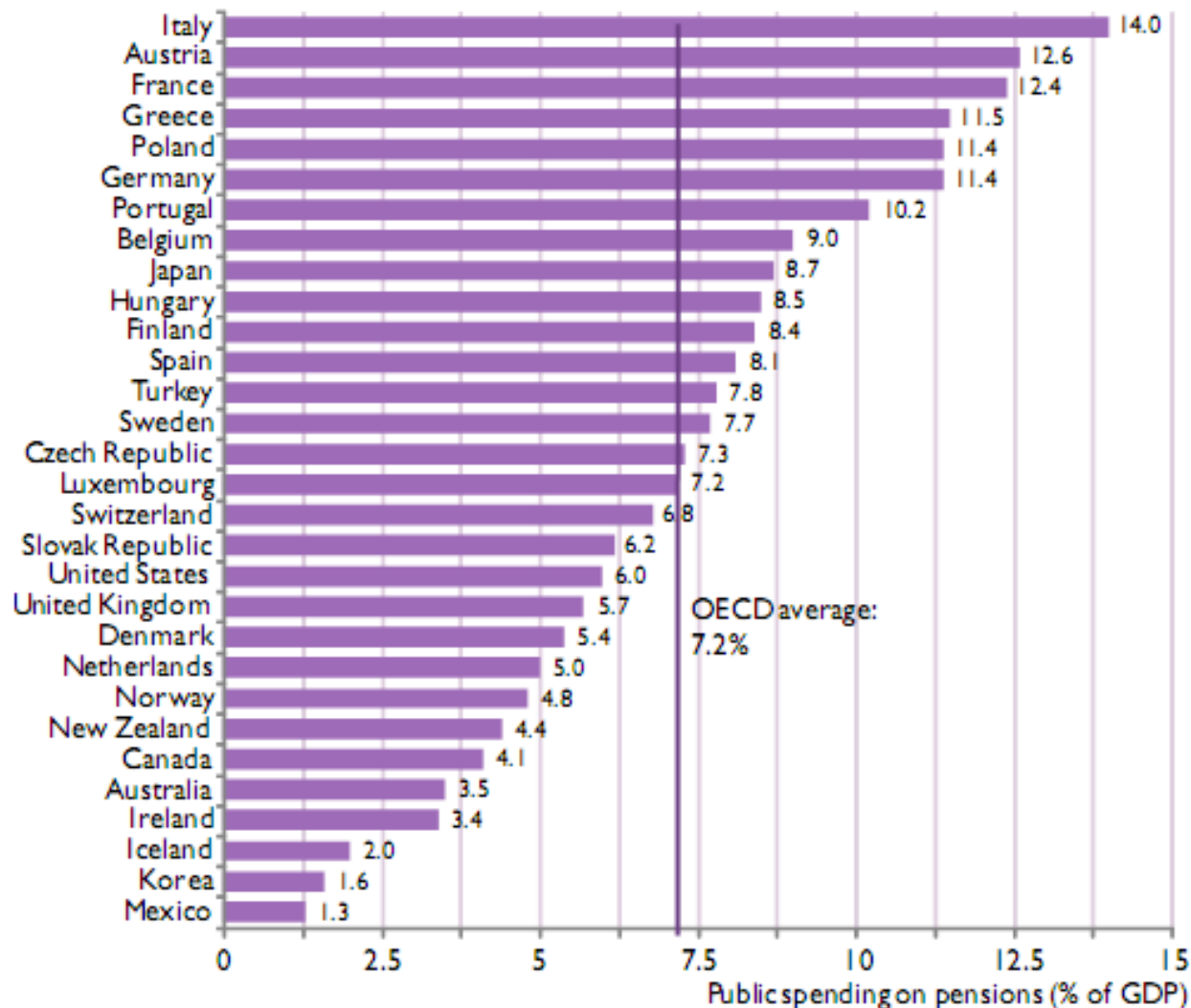
5 A century of population ageing



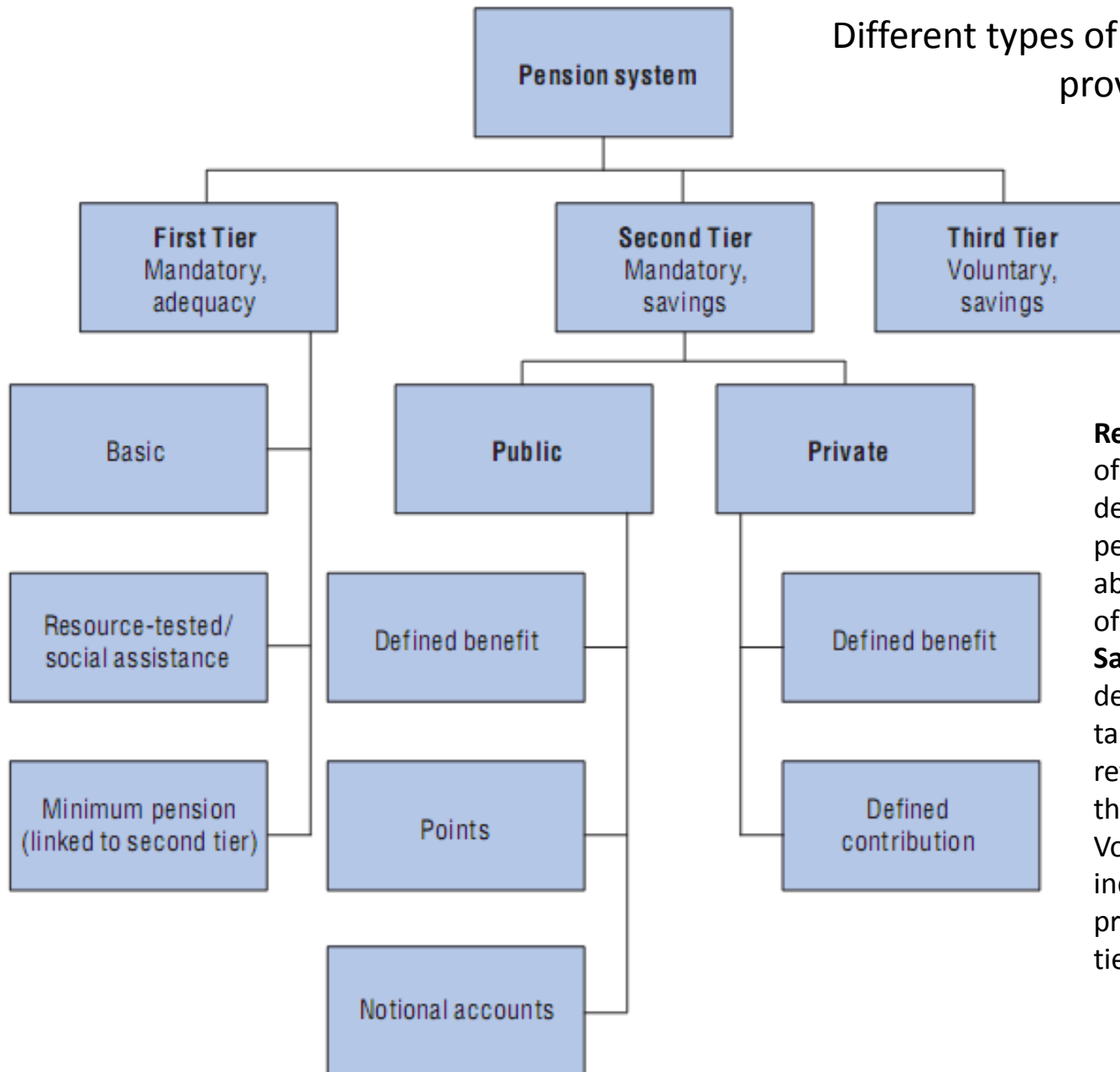
*OECD Pensions at
Glance 2009*

Why Reform Pensions Systems?

4 Public pension spending 2005



Different types of retirement-income provision



Redistributive components of pension systems are designed to ensure that pensioners achieve some absolute, minimum standard of living.

Savings components are designed to achieve some target standard of living in retirement compared with that when working. Voluntary provision, be it individual or employer-provided, makes up a third tier.

Some Explanations

- **Defined Benefit** - the retirement income depends on the number of years of contribution during the length of the working life and on the individual earnings
- **Defined Contribution** - contributions flow into an individual account. The accumulation of contributions and investment returns is usually converted into a pension-income stream at retirement
- **Notional accounts** – similar to DC but both the incoming contributions and the interest charged to them exist only on the books of the managing institution

	First tier			Second tier	
	Universal coverage, redistributive			Mandatory, savings	
	Public			Public	Private
	Resource-tested	Basic	Minimum	Type	
Australia	✓				DC
Austria				DB	
Belgium	✓		✓	DB	
Canada	✓	✓		DB	
Czech Republic		✓	✓	DB	
Denmark	✓	✓			DC
Finland			✓	DB	
France			✓	DB + points	
Germany				Points	
Greece			✓	DB	
Hungary				DB	DC
Iceland	✓	✓			DB
Ireland		✓			
Italy				NDC	
Japan		✓		DB	
Korea		✓		DB	
Luxembourg		✓	✓	DB	
Mexico		✓	✓		DC
Netherlands		✓			DB
New Zealand		✓			
Norway		✓	✓	Points	DC
Poland			✓	NDC	DC
Portugal			✓	DB	
Slovak Republic			✓	Points	DC
Spain			✓	DB	
Sweden	Higher to poorer	Flat rate for all	Minimum pension when pension income is below certain point	NDC	DC

Typology of Pensions Reform

- **Parametric reforms** have maintained unchanged the pay-as-you-go (PAYG - DB) but made substantial changes to their underlying rules – such as those on the accrual of pension entitlements, the age at which benefits can be received, and the contribution periods required.
- **Systemic reforms** i.e. moving away from the PAYG defined-benefit (DB) structure and adopting new defined-contribution (DC) type schemes.
 - World-Bank inspired multi-pillar reforms that set up systems of personal accounts (e.g. Slovak Republic, Estonia and Hungary)
 - non-financial defined contribution (NDC) systems (e.g. Sweden, Italy, Poland and Latvia)

Parametric Reforms

Retirement Age	Contribution Rate	Contribution Requirement	Benefit Indexation	Pension Formula
Austria	Czech Rep.	Austria	Austria	Austria
Belgium	Denmark	Belgium	Germany	Belgium
Cyprus	Finland	Czech Rep.	Greece	Czech Rep.
Czech Rep.	Germany	Denmark	Hungary	Finland
Denmark	Hungary	Finland	Spain	France
Estonia	Ireland	France	Slovak Rep.	Greece
Finland	Italy	Germany		Hungary
Germany	Latvia	Ireland		Italy
Greece	Lithuania	Italy	<i>move away from uprating of current pensions in line with earnings to price uprating</i>	France
Hungary	Malta	Slovak Rep.		Luxembourg
Italy	Netherlands	Slovenia		Portugal
Latvia	Portugal	Spain		Slovak Rep.
Lithuania	Slovak Rep.	<i>Increasing number of contribution years, scaling back of the early retirement schemes</i>		Slovenia
Portugal	U.K.			Spain
Slovak Rep.				U.K.
U.K.				<i>changing the pensionable salary period – lengthening it over the last and best years</i>

Reforms and Pensions Generosity

	2004	2025	2050	Decline in generosity
Belgium	17.7	17.6	16.4	-7%
Czech Rep	15.7	13.0	14.1	-10%
Denmark	20.2	19.3	19.2	-5%
Germany	18.5	15.6	13.3	-28%
Estonia	10.5	8.0	5.3	-50%
Spain	17.2	19.0	17.1	-1%
France	24.4	21.1	18.9	-23%
Ireland	14.3	16.6	15.7	---
Italy	20.0	18.8	14.0	-30%
Cyprus	25.6	25.5	30.8	---
Latvia	11.4	9.1	7.2	-37%
Lithuania	7.7	8.6	7.5	-3%
Luxembourg	23.5	26.4	28.0	---
Hungary	13.4	15.5	16.2	---
Malta	18.4	17.2	10.3	-44%
Netherlands	19.5	18.2	18.1	-7%
Austria	21.8	19.9	15.2	-30%
Poland	25.0	18.4	10.7	-57%
Portugal	18.6	17.2	15.4	-17%
Slovenia	18.9	17.4	17.3	-8%
Slovak Rep	13.0	12.0	8.8	-32%
Finland	19.8	18.8	18.0	-9%
Sweden	21.3	16.9	15.9	-25%
EU25*	21.7	19.8	17.0	-22%

Ratio of average
public pension
relative to output
per worker

Reforms and Pensions Generosity

	2004	2025	2050	Decline in take-up
Belgium	140	141	137	-2%
Czech Rep	185	141	127	-31%
Denmark	156	140	124	-21%
Germany	160	140	124	-23%
Estonia	173	146	130	-25%
Spain	119	115	100	-16%
France	132	122	115	-13%
Ireland	135	127	117	-13%
Italy	140	124	111	-30%
Cyprus	102	113	115	---
Latvia	160	139	125	-22%
Lithuania	241	222	182	-25%
Luxembourg	201	209	235	---
Hungary	196	159	138	-30%
Malta	116	108	103	-11%
Netherlands	147	125	119	-19%
Austria	185	148	117	-37%
Poland	155	108	97	-37%
Portugal	173	183	169	-2%
Slovenia	175	149	132	-25%
Slovak Rep	195	159	135	-31%
Finland	158	129	122	-23%
Sweden	138	135	135	-2%
EU25*	149	133	122	-18%

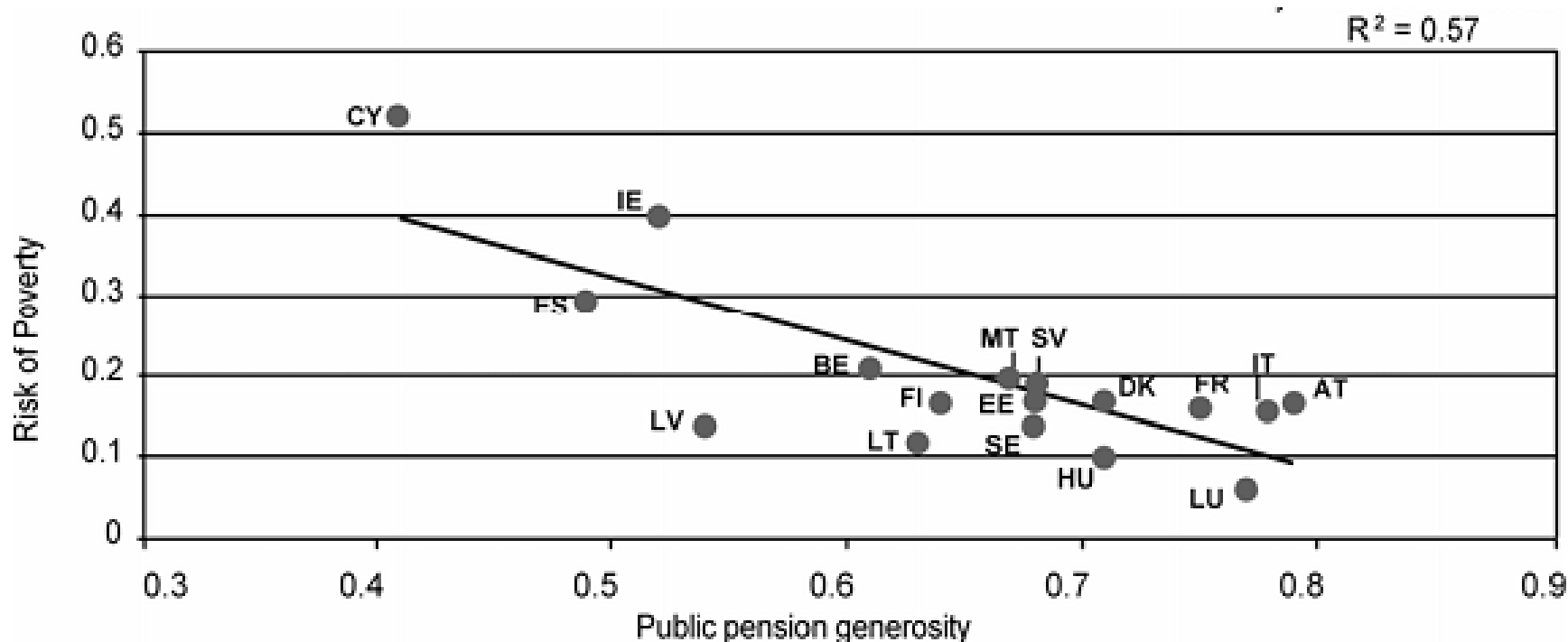
Take-up pensions by
under 65 years old
to 65+

Current Generosity

	Men	Women	Total
Belgium	0.62	0.61	0.61
Czech Republic	-	-	-
Denmark	0.74	0.71	0.71
Germany	-	-	-
Estonia	0.70	0.68	0.68
Greece	0.81	0.69	0.76
Spain	0.49	0.61	0.49
France	0.76	0.73	0.75
Ireland	0.52	0.57	0.52
Italy	0.82	0.71	0.78
Cyprus	0.41	0.41	0.41
Latvia	0.62	0.54	0.54
Lithuania	0.68	0.61	0.63
Luxembourg	0.75	0.83	0.77
Hungary	0.68	0.72	0.71
Malta	0.75	0.53	0.67
Netherlands	0.43	0.42	0.42
Austria	0.81	0.77	0.79
Poland	-	-	-
Portugal	0.70	0.67	0.68
Slovenia	0.74	0.61	0.68
Slovak Republic	-	-	-
Finland	0.67	0.63	0.64
Sweden	0.72	0.65	0.68
UK	-	-	-

Median individual pension income of retirees in relation to median earnings of employed persons aged 50-59, excluding private pensions and public social benefits other than pensions

Generosity and Risk of Poverty Rate



Total – for men and women

Hypothesis

- We anticipate decline in pensions generosity
- Given the relatively strong negative relationship found between the generosity of public pensions and the at-risk-of-poverty rates, the anticipated decline in generosity is expected to result in an increase in at-risk-of-poverty rates among the 65+

Projections of Poverty Rates for 65+

	Total			Men			Women		
	Now	2025	2050	Now	2025	2050	Now	2025	2050
Belgium	0,210	0,213	0,246	0,200	0,203	0,234	0,210	0,213	0,247
Denmark	0,170	0,195	0,198	0,160	0,185	0,187	0,180	0,206	0,209
Estonia	0,170	0,300	0,440	0,070	0,194	0,328	0,220	0,354	0,499
Spain	0,300	0,259	0,302	0,270	0,232	0,272	0,320	0,267	0,323
France	0,160	0,241	0,295	0,140	0,217	0,268	0,170	0,252	0,306
Ireland	0,400	0,333	0,359	0,340	0,278	0,302	0,450	0,374	0,404
Italy	0,160	0,197	0,347	0,130	0,167	0,313	0,180	0,215	0,356
Cyprus	0,520	0,521	0,453	0,480	0,481	0,418	0,550	0,551	0,481
Latvia	0,140	0,227	0,299	0,070	0,163	0,240	0,170	0,260	0,335
Lithuania	0,120	0,061	0,133	0,050	-0,009	0,063	0,150	0,091	0,163
Malta	0,200	0,235	0,436	0,190	0,226	0,436	0,200	0,229	0,393
Austria	0,170	0,225	0,361	0,130	0,183	0,313	0,200	0,256	0,393
Portugal	0,290	0,331	0,328	0,290	0,329	0,326	0,300	0,342	0,339
Slovenia	0,190	0,233	0,236	0,110	0,154	0,157	0,230	0,270	0,273
Finland	0,170	0,196	0,217	0,110	0,135	0,155	0,200	0,226	0,247
Sweden	0,140	0,252	0,278	0,090	0,201	0,226	0,180	0,291	0,316

These projections must be interpreted with caution. In particular, it must be stressed that they assume that the decline in state benefits is not compensated by individuals' behavioural responses to work longer or accrue greater income from private pensions

Three Main Issues

- To what extent individuals are aware of the impact of the changes that are happening in the pension system, and whether they are trying to accommodate these by increasing their savings and employment;
- In the absence of a positive behavioural change, will certain groups, particularly lower income earners with a worse state of health and less employable skills, be able to adjust their working lives to maintain their living standards in retirement;
- Will these reforms prove to be politically sustainable in the face of growing elderly electorates?