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Sustainable Inclusive Growth: Is it Possible?

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Inclusion: A narrative instead of a definition

Despite German 'Job Wunder'

- several lost elections at the Länder level due to
- neglected equity-efficiency trade-off

The lesson, among others, introduction of NMW

10 years ago, this would have been impossible. A national minimum wage is an inclusive benchmark: It forces the government to be aware of differences in competitiveness and to do something for those for whom the benchmark is not accessible. In other words: To make a national minimum wage sustainable, economic and social policy has to care for solidarity measures either to compensate the losers of such a benchmark or, preferably, to level the playing field and to develop the capacities of prospective losers to jump over the benchmark

Euro-introduction in 1998

- neither satisfactory compensation
- nor satisfactory levelling of playing field

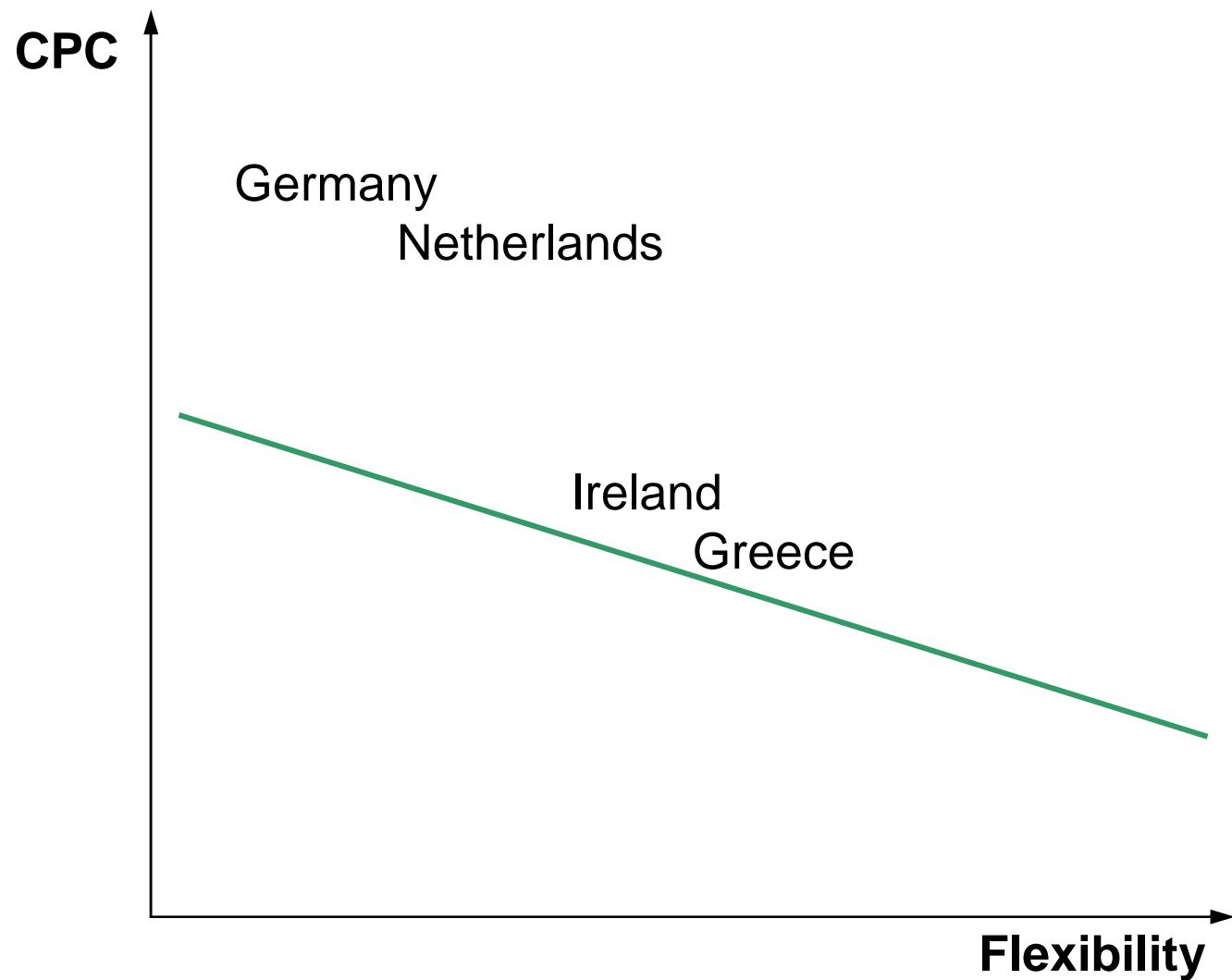
What has been achieved related to inclusive growth? - 1

Indicator	Country	2005/06	2012	Delta % / Pps
GDP/Capita (Euro, PPP)	EU17	25,787	27,548	6.8 %
	EU27	23,691	25,578	8.0
	Germany	27,314	31,195	→ 14.2
	Greece	21,793	19,058	→ - 12.5
Employment Rate (20-64)	EU17	67.9	68.0	0.1 Pps
	EU28	67.9	68.4	0.5
	Germany	69.4	76.7	→ 7.3
	Greece	64.6	55.3	→ - 9.3
Unemploy- ment Rate (15-64)	EU17	9.2	11.4	2.2 Pps
	EU28	9.1	10.5	1.4
	Germany	11.3	5.5	- 5.8
	Greece	≈ 9.9	≈ 24.2	14.3
Youth Unemp- loyment Rate (15-24)	EU17	18.3	23.1	4.8 Pps
	EU28	18.9	21.4	4.1
	Germany	15.6	8.6	→ - 7.5
	Greece	≈ 15.0	≈ 55.0	→ ≈ 40.0

What has been achieved related to inclusive growth? - 2

Indicator	Country	2005	2012	Delta (Pps)
Poverty Risk (Percentage Population <60% Median)	EU17	15.2	17.0	→ 1.8 Pps
	EU27	16.4	16.9	0.5
	Germany	12.2	16.1	→ 3.9
	Greece	19.6	23.1	3.5
Material Deprivation (Percentage Population)	EU17	5.6	7.5	→ 2.1 Pps
	EU27	10.7	9.9	- 0.8
	Germany	4.6	4.9	0.3
	Greece	12.8	19.5	6.7
Income Inequality (Upper / Lower Quintil)	EU17	4.6	5.0	→ 0.4
	EU27	5.0	5.1	0.1
	Germany	3.8	4.3	0.5
	Greece	5.8	6.6	0.8
Wage Gap (Difference F-Wage to M-Wage Fulltime Median)	EU17	n.a.	n.a.	n.a.
	EU27	n.a.	n.a.	n.a.
	Germany	≈ 22.0	≈ 20.8	- 1.2 Pps
	Greece	≈ 16.7	≈ 9.5	- 7.2

The Trade-off between Comparable Productive Capacity (CPC) and Flexibility before the EU-Monetary Union



Comparative Productive Capacity (CPC)

1. Natural Resources

- Raw materials: oil, coal, minerals, fertile ground etc.
- Landscape: attractive for tourists, recreation etc.

2. Financial and Human Resources

- Accumulated productive capital, private assets, credit worthiness, inbuilt stabilisers etc.
- Skilled workforce, 'social capital' etc.

3. A supportive infrastructure

- Traffic, transport, energy nets etc.
- ICT, esp. Broadband nets etc.

4. Institutional Resources

- Democracy: free elections, right to strike, co-determination etc.
- Reliable rules of law; effective tax system; efficient administration etc.

Flexibility

1. Prices (object-regulation)

- Capital: re- or devaluation; interest rates; taxes etc.
- Labour: nominal and real wages (pay-roll taxes, inflation) etc.

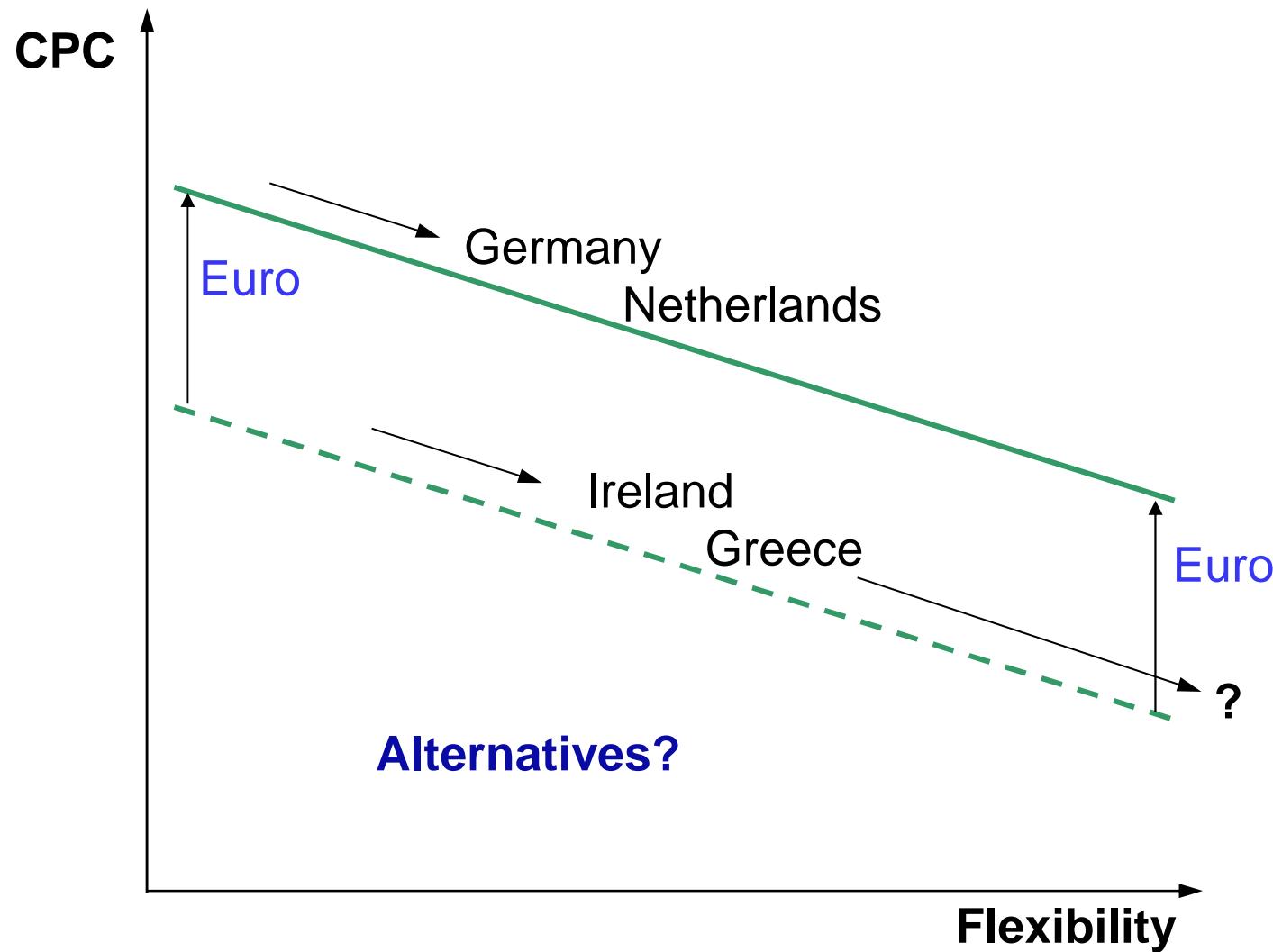
2. Contracts (time-regulation)

- Capital law: e.g., patent right, property right etc.
- Labour law: e.g., dismissal law, variability in working time etc.

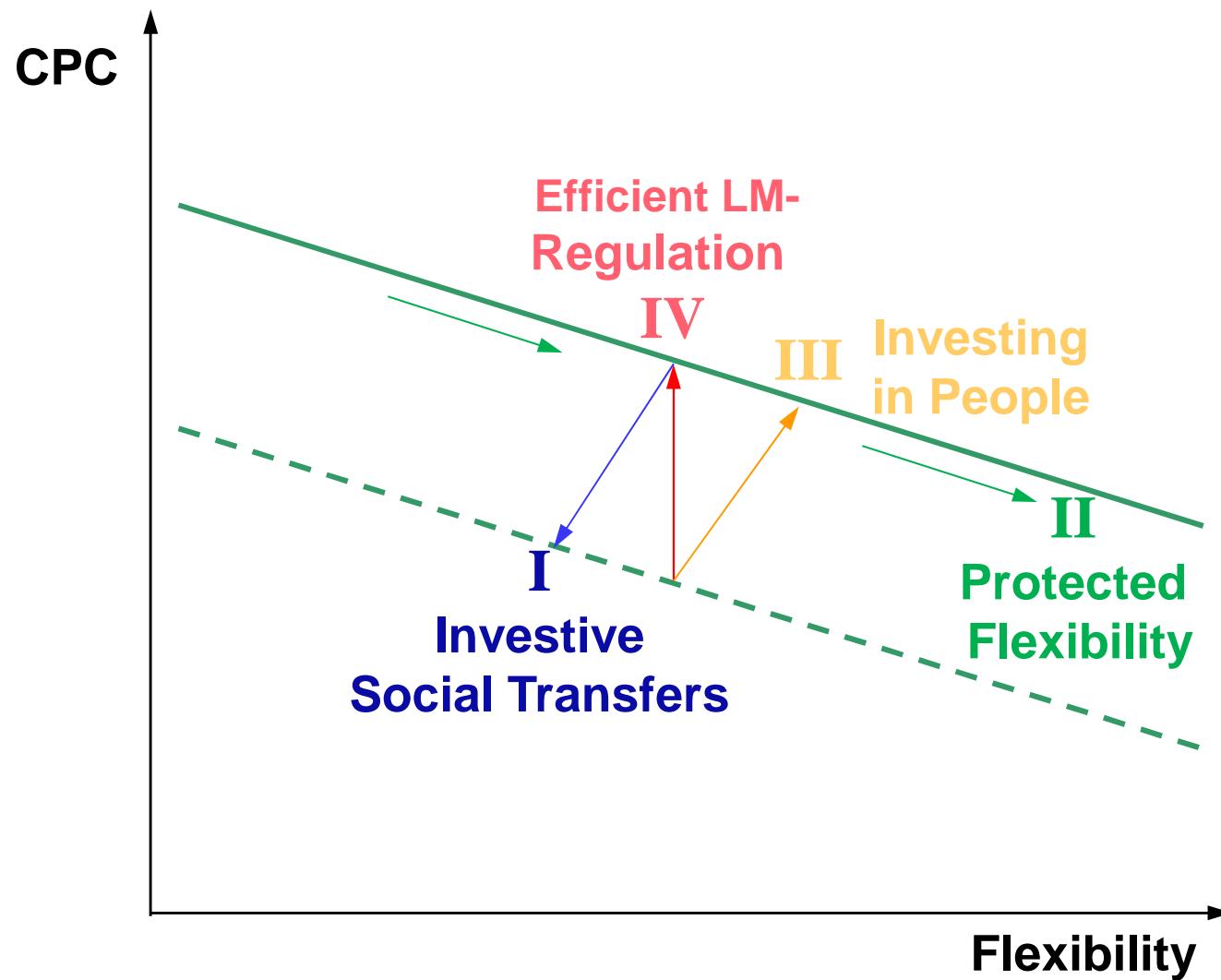
3. Mobility (spatial regulation)

- Capital: import and export, in- and outsourcing etc.
- Labour: immigration, emigration, short and long distance commuting etc.

The Impact of the Eurozone on the trade-off between comparable productive capacities (CPC) and flexibility



Strategies to cope with sharpened trade-off between comparable productive capacities (CPC) and flexibility



I. Investive social transfers - 1

1. Redirect ESF towards institutional capacity building, esp. MS's UI-systems and Labour Market Services

- Ensure a more visible and persuasive prove of ESF-added value
- Ensure better framing: the EU-2020 strategy should make much clearer that
 - short-term UBs are not “passive” but “active” investments into productive job search and supporting structural change
 - UI is not only a powerful institutional device for fair risk sharing by compensating losers ex post and raising contributions of winners ex ante
 - but also a powerful institutional device for an automatic stabiliser
 - labour market information, training and targeted employment subsidies effectively reduce long-term unemployment
- Re-target ESF resources towards LM-Services and Social Dialogue capacities
- Relaunch OMC and instruments like SPPM + aggressive marketing of OMC as effective instrument for deepening the EU without affecting MS sovereignty

I. Investive social transfers - 2

2. Establish a European (Un-) Employment Insurance

- Not a uniform, a federal system of UI (US-model) ensuring a genuine EU fiscal capacity, minimum standards, national sovereignty in determining the rules
- Social insurance principles have advantages compared to means-testing:
 - > insurance related benefits can be calculated much easier and fairer
 - > are better protected against discretionary political decisions
 - > work incentives are stronger due the entitlement effect
 - > stronger stabilisation impact due to higher benefits and coverage
 - > jobless people covered by decent UI remain healthier and self-confident
- EU-UI/EI requires change of EU treaties, but consider establishing in short-term and experimental fund for providing
 - > credits to MS whose U exceeds a threshold; co-financed extended benefits
 - > conditional transfers for training or youth guarantee and for aggressive wage-cost subsidies in favour for LTU (functional equivalent to devaluation, *Kaldor*)

II. Protected flexibility

To complement increasing demands for flexibility on the product market side and increasing demands for life-course flexibility (transition opportunities) on the supply side of the labour market

1. EU-2020: more emphasis on internal flexibility

- Ensuring mutual human and social capital investments
- Restricted spatial mobility of multi-employees households

2. Extension of UI towards employment insurance, e.g.

- Short-time work allowance as model for fair work-sharing → **balance sheet**
- Negotiated flexibility, e.g., collective agreements for working-time accounts, wage corridors, training and demographic funds + state ensured portability
- Income and employment security in transitions:
 - > continuous education and training (e.g. training vouchers)
 - > care leaves or sabbaticals
 - > social protection standards in flexible jobs, e.g. ensuring return to full-time job after part-time or care leave
 - > wage insurance related to restricted or reduced earnings capacities, e.g. [...]
 - > relaunch OMC enhanced through differentiated framework directives

III. Investing in people

Would increase competitive productive capacities and simultaneously raise the capacity of protected flexibility

1. More emphasis on dual, less on academic education

- Strong social inclusion impact (lower youth unemployment)
- High opportunity costs of not investing in people, e.g. NEET 162 b€=1.3% GDP

2. Preventing rising skill deficits and inequality

- Reducing 30 % points gap in ER between low- and high skilled at EU-28 level
- Balanced mix of elementary, middle and high skills required
- PIAAC hints to drastic deficits in key competences, especially among LTU

3. Strengthen links between ED-LM-PM over life course

- Making transitions pay for horizontal / vertical mobility to induce mobility chains
- Uplifting skills for adults, including elderly: knowledge intensive goods need knowledgeable people
- Relaunch OMC in favour of social inclusion indicators, e.g., upward mobility and work-place adjustment for disabled or elderly

IV. Efficient (European) LM-regulation

Comparable productive capacities could be raised by better utilising existing capacities through reducing inefficient flexibility and standard regulations elated to transferable skills and wages formation

1. Restricting excessive use of fixed-term contracts

- Proved to be inefficient (hampering innovation and productivity), unfair (shifting risks to disadvantaged), unsocial (preventing family and life-course planning)
- Possibly through risk internalisation, new standard employment relationship

2. Cross-country acknowledgment of acquired qualification

- plus quality standards, thereby stimulating regional mobility and
- preventing skill deficits and informal or illegal work in care economy

3. European-wide regulation of minimum-wage formation

- not by levels but by standards, e.g., in relation to average/median wages
- and by processes (joint monitoring of social partner possibly leading to revitalisation of Social Dialogue), thereby
- stimulating investments in high quality work, preventing wage dumping

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The US-Unemployment Insurance System

	Regular UB	Emergency UB	Extended UB (EB)
Administration	States	Federal State	Federal and States
Financing	Federal (0.6%) ¹ <u>and</u> States (variable) ⁷	General Federal Means	Federal 50% States 50%
Entitlement	Unemployed (U) ² variable coverage	U in States with defined higher U	U in States with high or increasing IUR ³
Duration	mostly 26 weeks	Up to 53 add. weeks	mostly 20 weeks
Size	relative to wage, ⁶ stark variations ⁴	like regular UB	like regular UB
Conditions	active job search	ditto	ditto
Automatic	yes	no ⁵	partial (see above)

A Possible EU-Employment Insurance

	Regular UB ¹	Emergency UB ¹	Extended UB ¹
Administration	EU-Member States	EU +MS	EU + MS
Financing	EIS (0.2%) ² + MS (variable)	EIS ³	EIS 50% MS 50%
Entitlement	Unemployed (U) variable coverage ⁴	U in MS with defined higher U ⁵	U in MS with high or increasing IUR ⁶
Duration	Minmax = 52 weeks	Up to 52 ad. weeks ⁷	Up to 26 weeks
Size	relative to wage, MS variations ⁸	like regular UB	like regular UB
Conditions	active job search	active search and activation ⁹	active search and activation ⁹
Automatic	yes	no	partial

Risk sharing balance of German Short-time work allowance

	Advantages	Problematic
Workers	<ul style="list-style-type: none"> - Job security - Labour market security, in particular maintaining skills - Income security (80-90%) - Social network security 	<ul style="list-style-type: none"> - Low incentive learning new skills - Low incentive for mobility - No legal entitlement to training and education
Employers	<ul style="list-style-type: none"> - Maintaining skilled/cooperative workers (opportunity costs up to 32,000 Euro) - High flexibility in form of: <ul style="list-style-type: none"> > speedy adj.; strategic waiting; reversible > task specific personal adjustment 	<ul style="list-style-type: none"> - High remaining fix-costs (24%-46% depending on subsidies) - Low activation incentive - No right to instructions
Society (State)	<ul style="list-style-type: none"> - Reduced unemployment > 1,4 million less (2009) - Maintaining PP and + Psyche - High flexibility in form of high discretion for insurance principals + trust 	<ul style="list-style-type: none"> - Disadvantaging ,outsiders‘ - Slowing down structural change - High costs requiring high social contributions; debt financing, e.g. 5 billion for a wreck-bonus