



**WZB**

Wissenschaftszentrum Berlin  
für Sozialforschung

# Sustainable Inclusive Growth: Is it Possible?

Günther Schmid

Contribution to the 2<sup>nd</sup> Annual Conference “The Social Consequences of the Crisis in Europe and Greece: Politics and Policies for Solidarity and Growth”, Hellenic Foundation for European and Foreign Policy (ELIAMEP), Athens, December 16, 2014

[www.guentherschmid.eu](http://www.guentherschmid.eu)

# 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

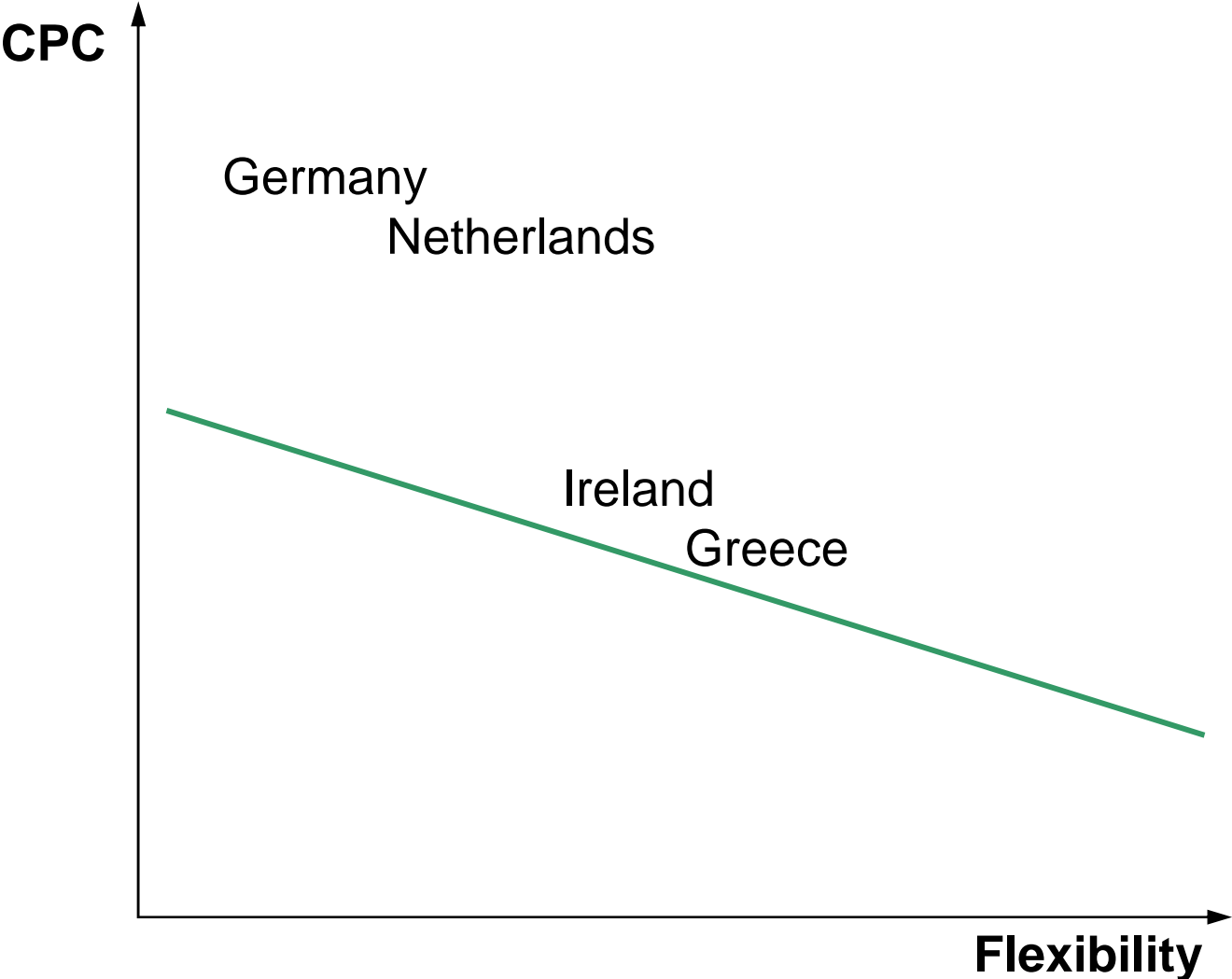
## What has been achieved related to inclusive growth? - 1

Indicator	Country	2005/06	2012	Delta % / Pps
<b>GDP/Capita</b> (Euro, PPP)	EU17	25,787	27,548	<b>6.8 %</b>
	EU27	23,691	25,578	<b>8.0</b>
	<b>Germany</b>	27,314	31,195 →	<b>14.2</b>
	<b>Greece</b>	21,793	19,058 →	<b>- 12.5</b>
<b>Employment Rate</b> (20-64)	EU17	67.9	68.0	<b>0.1 Pps</b>
	EU28	67.9	68.4	<b>0.5</b>
	<b>Germany</b>	69.4	76.7 →	<b>7.3</b>
	<b>Greece</b>	64.6	55.3 →	<b>- 9.3</b>
<b>Unemployment Rate</b> (15-64)	EU17	9.2	11.4	<b>2.2 Pps</b>
	EU28	9.1	10.5	<b>1.4</b>
	<b>Germany</b>	11.3	5.5	<b>- 5.8</b>
	<b>Greece</b>	≈ 9.9	≈ 24.2	<b>14.3</b>
<b>Youth Unemployment Rate</b> (15-24)	EU17	18.3	23.1	<b>4.8 Pps</b>
	EU28	18.9	21,4	<b>4.1</b>
	<b>Germany</b>	15.6	8,6 →	<b>- 7.5</b>
	<b>Greece</b>	≈ 15.0	≈ 55,0 →	<b>≈ 40.0</b>

## What has been achieved related to inclusive growth? - 2

Indicator	Country	2005	2012	Delta (Pps)
<b>Poverty Risk</b> (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
<b>Material Deprivation</b> (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
<b>Income Inequality</b> (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
<b>Wage Gap</b> (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.

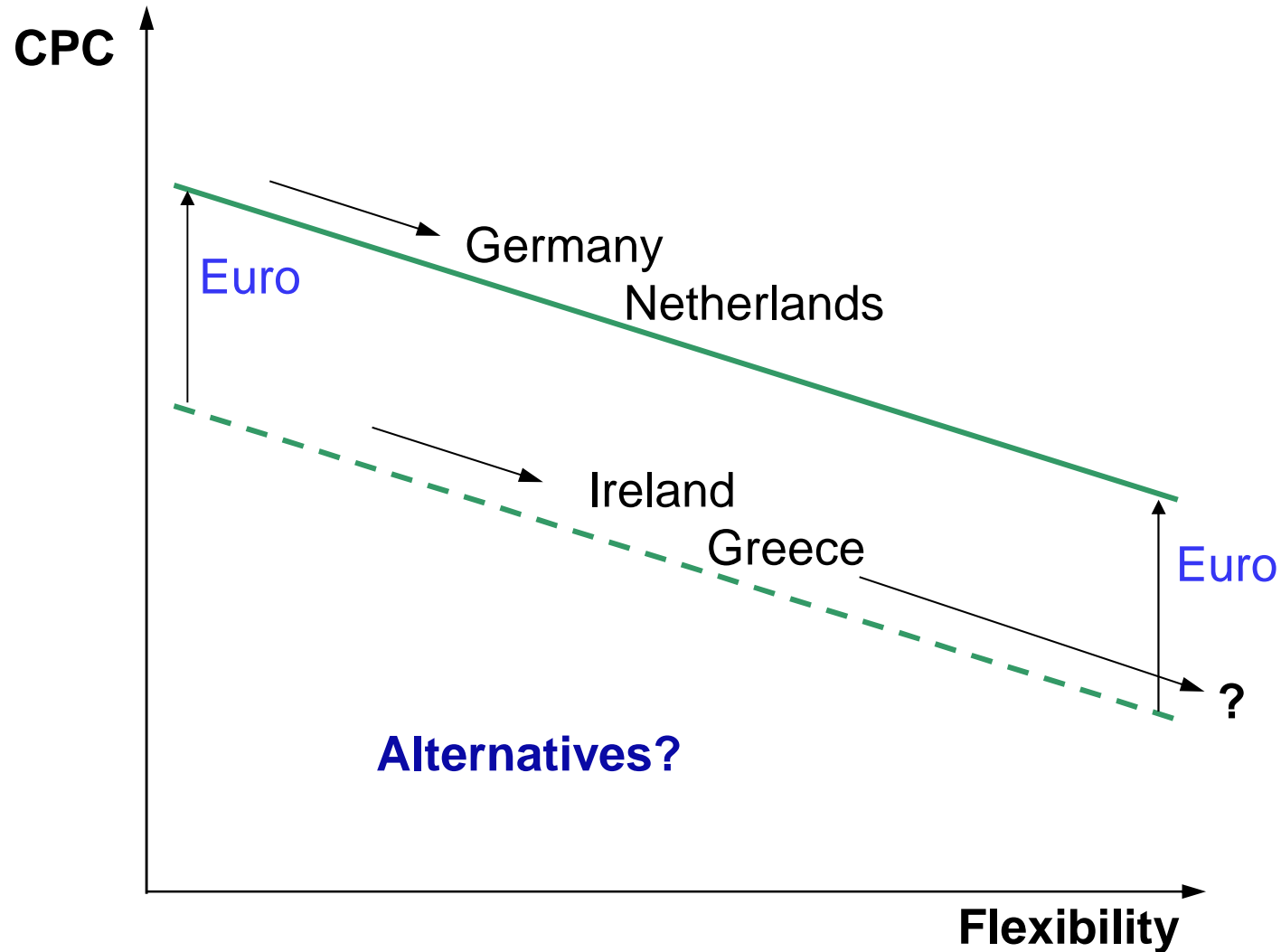
## 2. Contracts (time-regulation)

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

## 3. Mobility (spatial regulation)

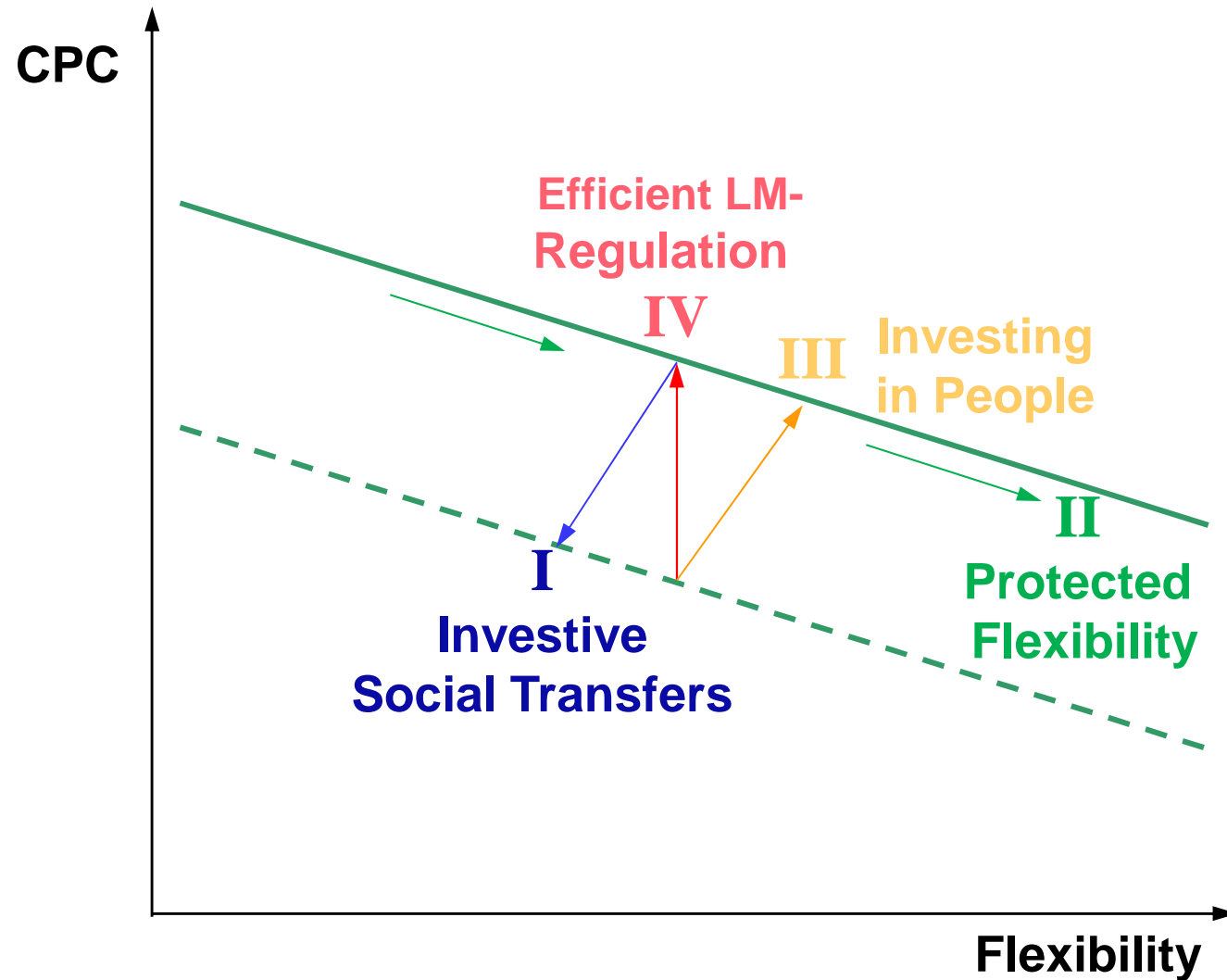
- Capital: import and export, in- and outsourcing etc.
- Labour: immigration, emigration, short and long distance commuting etc.

# 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 related 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

# Selected Literature

- Bekker, S. (2013), The EU's Stricter Economic Governance: A Step Towards More Binding Coordination of Social Policies?, WZB Discussion Paper SP IV 2013 -501, <http://bibliothek.wzb.eu/pdf/2010/iv10-501.pdf>
- Kaldor, N. (1936), Wage Subsidies as a Remedy for Unemployment, in: Journal of Political Economy, 44 (6), 721-742
- Natali, D. (ed.)(2014), Social Developments in the European Union 2013 – Fifteenth Annual Report, Brussels: European Trade Union Institute (ETUI) and European Social Observatory (OSE)
- Schmid G. (2008), Full Employment in Europe – Managing Labour Market Transitions and Risks, Cheltenham, UK und Northampton, MA, USA, Edward Elgar
- Schmid , G. (2012), New Skills and Jobs in Europe. Pathways Towards Full Employment, Report for the European Commission (Directorate General for Research and Innovation), [http://ec.europa.eu/research/social-sciences/pdf/new-skills-and-jobs-in-europe\\_en.pdf](http://ec.europa.eu/research/social-sciences/pdf/new-skills-and-jobs-in-europe_en.pdf)
- Schmid, G. (2013), Sharing Risks of Labour Market Transitions: Towards a System of Employment Insurance, in: British Journal of Industrial Relations, early view: [http://www.guentherschmid.eu/pdf/Sharing\\_Risks\\_BJIR-2013.pdf](http://www.guentherschmid.eu/pdf/Sharing_Risks_BJIR-2013.pdf)
- Schmid, G. (2014), Inclusive Growth: What Future for the European Social Model? Bonn, IZA Policy Paper No. 82, <http://ftp.iza.org/pp82.pdf>
- Vandenbroucke , F. and B. Varnhercke, J. Morley (2014), A European Social Union: Key Questions to Answer, in: D. Natali (ed.), Social Developments in the European Union 2013 – Fifteenth Annual Report, Brussels: European Trade Union Institute (ETUI) and European Social Observatory (OSE), 85-113

# The US-Unemployment Insurance System

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



# A Possible EU-Employment Insurance

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

# Risk sharing balance of German Short-time work allowance

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