9

Towards Employment Insurance?

Günther Schmid

9.1 Introduction

The question mark in the title has been deliberately chosen. Of course, employment cannot be insured: full employment, that is, work for all to earn decent living wages has to be ensured through prudent monetary, financial, and economic policy, supported by labour market policy smoothing the efficient allocation of labour. However, we have to find an answer to the increasing risks of volatile income due to changing working times and varying limitations of employability over the life course. Unemployment is only an extreme case of these risks.

Over the life course we are confronted with various transition risks that endanger a full individual labour income: transitions from school to work become more and more critical, reflected in increasing youth unemployment, and skills—once acquired—do not hold for the whole life; transitions of changing working times in enterprises have to be managed; transitions from old to new technologies require risky restructurings that many firms cannot shoulder alone; starting a family with children is a far-ranging transition during any working life, which severely limits an individual's labour market capacities; obligations to care for ill or frail relatives from time to time require a smart transition management; the same holds true for people's increasing wishes for variable leisure times, especially in their mature years.

How to deal with those risks? Can we include them in existing unemployment insurance (UI) as already partly realized during the last decades, for instance in the form of part-time work or training allowances? Or can we get rid of these complications of coordinating work and life once and for all through an unconditional basic income for everybody? In the following I will argue for the first option, and I will suggest—despite the fuzzy terminology—to envisage a system of employment insurance because unemployment is only one of the serious labour income risks in the modern labour market. Thinking in terms of life-course risks has the additional advantage of keeping an eye on the links between various social insurance schemes, in particular on the link between employment and old age insurance.

The argument will be introduced by elaborating on the increasing variety of labour market risks (Section 9.2); considerable emphasis is then put on theoretical arguments for the inclusion of risks beyond unemployment into the social security system (Section 9.3); the third step delivers good practices or opportunities for including new risks into an extended system of UI (Section 9.4); the chapter concludes by re-emphasizing two essential elements for the paradigmatic shift towards employment insurance: making transitions pay and making the market fit for workers (Section 9.5).

9.2 Increasing Labour-Market Risks through Labour-Market Flexibilization

The flexibilization of the labour market goes on, and with this the increase of related labour market risks. In the second half of the twentieth century the regular working time was forty hours combining the eight-hour day with the five-day week. Moreover, unlimited or open employment relationships were the rule and men earning a living for the whole family were the role model. The fight for the thirty-five-hour week, for instance by the IG Metall trade union in Germany during the 1980s, was only an intermezzo. The average working time for full-time workers is back to a level of at least forty-one hours per week; however, this employment relationship is not the norm anymore.

Overtime is still the classic instrument for flexible working time; however, we observe an increasing share of unpaid overtime and for many modern employment relationships the borderlines between homework and labour market work become fuzzier. 'Irregular' working times like *shift-work, night-work, Saturday and Sunday work* are the rule for at least a quarter of employees. The increase of *part-time work* is almost endemic: in Germany, each second woman works less than thirty-two hours a week, and this trend is even spreading among men: one in ten men works part-time in Germany. *Temporary work*, either in the form of temp-agency work or fixed-term works contracts, is on the rise, especially among youths: about 40 per cent have a time-limited contract. *Own-account workers* make up an increasing share of the self-employed, many of them working up to eighty hours a week.

Thus, the delimitation of working time over the life course is on the rise in almost all developed countries. Yet the differences are huge and depend on the size of labour force participation (especially of women) and the kind of labour market institutions. There is strong evidence that 'flexible' jobs correlate with employment protection (Schmid 2011: 193). An international comparative perspective also shows that the share of involuntary part-time drops with the height of part-time work: involuntary part-time is far below 10 per cent in the two countries with the highest part-time rates (Switzerland and the Netherlands); in countries with low part-time rates like Bulgaria, Romania, and in the Mediterranean area the share of involuntary part-time is far beyond 50 per cent (Berkhout, Heyma, and Prins 2013). Furthermore, EU member states with high economic growth rates and elevated gross domestic product per capita display a high share of risky flexible employment relationships. Although this does not justify a causal reference, it suggests that risky flexible employment relationships might be a precondition for dynamic and prosperous economies (Schmid 2011).

What conclusion can be drawn from this stylized evidence? Companies obviously need greater flexibility—internal, external, numerical, or functional: the volatility of orders increases; new technologies have to be introduced; individual client preferences have to be accommodated; the work organization has to be made adaptable and linked to international networks. Workers need increasingly more time for family work, for care requirements of elderly relatives, for preparing vocational upgrading or change, for the increasing wealth of cultural events. The board of the largest—and still male-dominated—trade union in Germany, IG Metall, was surprised by the results of a representative survey: four out of five members wish to have temporarily the opportunity to reduce their working time to attend to their children or frail relatives (IG Metall Vorstand 2014). Moreover, young adults are more and more challenged to gain work experience with different employers. The risks related to such flexible employment relationships are alarming: declining real wages with little social protection, higher risk of unemployment, or extremely volatile income.

9.3 Why Should these New Social Risks Be Covered by Social Insurance?

Why should transition risks during the life course beyond involuntary unemployment be covered by social insurance? Currently we seem to experience the opposite: in almost all European member states insurance related benefits decline, even for the unemployed (Clasen and Clegg 2011). On the other hand, the 'German job miracle'—for instance—is to some extent the result of a successful inclusion, namely the coverage of declining income due to short-time work in recessions through the UI system (Schmid 2015: 84–6). Some countries also started to include training assistance covered by UI in labour market policies not only for the unemployed, but also for the re-employed to make their jobs more sustainable. Furthermore, activation measures for lone parents, for example, proved only effective so long as their support also covered childcare issues. Finally, so far all countries have failed to successfully 'activate' people with health problems or disability (Martin 2014: 27–8). The main reason for this failure is that conventional activation measures do not tackle the lack of capabilities related to the employment of these target groups—for instance, the required adjustment of workplaces to the work capacities of these people. In such cases, the activation slogan has to be reversed: rather than making workers fit for the market, the market has to be made fit for the workers (Gazier 2007). In other words: rather than requiring the individual to be 'adaptable' to changing market conditions, the new employment contract requires that employment practices be adapted to the circumstances of the individual (Deakin and Supiot 2009: 28).

From the perspective of social insurance theory (e.g. Barr 2001; Schmid 2008: 213–31, 2015), several reasons are apparent for an inclusion of risks into an extended UI system, which means not just providing basic income security through means-tested flat-rate payments, but status-related replacements of acquired wage income:

- First, individual and wage-related benefits can be calculated much easier and fairer than means-tested flat-rate benefits for which all household-related income streams have to be assessed. The German Hartz-IV system can be taken as an example of how complicated and costly means-tested procedures can be.
- Second, due to the property right established through wage-related and targeted insurance contributions, social insurance benefits are better protected against discretionary political decisions than benefits relying on general and not targeted taxes.
- Third, the incentive for social insurance benefits to work is stronger than for means-tested and (usually) flat-rate benefits, not least due to the entitlement effect because only formal and regular employment relationships ensure this re-entitlement.
- Fourth, the macroeconomic stabilization impact of wage-related replacements is higher than of means-tested and usually lower benefits.
- Fifth and so far neglected, positive externalities have to be considered, for example reducing deadweight losses from loan default, expanding access to credit (Hsu, Matsa, and Melzer 2014) and reducing cut-throat competition between workers in depressed labour markets (Lalive, Landais, and Zweimüller 2013).
- Sixth, research even shows that jobless people covered by UI remain healthier and more self-confident than jobless people without UI or only means-tested benefits (Schmid, 2008: 140–3).

A further general argument in favour of the insurance principle has to be added: any insurance induces potentially two behavioural responses: opportunism and trust. On the one hand, people tend to consider the insurance as a business deal—an investment for which they want something back, with a considerable value added and as soon as possible; in the opportunistic case they even tend to exploit the deal by inducing themselves the risky event either through careless conduct or fraud; this is the well-known *moral hazard* conjured in particular by mainstream economists. It is evident that such opportunistic behaviour requires control, in the case of unemployment insurance an effective public and/or private employment service.

However, often neglected, is the other possible behavioural response, that is, the willingness to consciously take the risk under the assumption of fair redistribution if the opportunities (chances) related to risk-taking do not succeed but fail; in other words (calculated) risk-taking on the basis of trust into security by solidarity. So, the other side of the coin is *innovative hazard*: if people can trust solidarity, they are more willing to take risks, for instance, the risk to invest in firm specific human capital (which reduces other job opportunities in the labour market), or the risk of investing into further training or even retraining (with unknown as well as uncertain returns), or the risk of voluntarily changing jobs (often connected with lower wages and unknown career opportunities). So, an extension of UI into a system of employment insurance has to be seen as a potential investment into more calculated risk-taking among a majority of workers (Sinn 1996; Bird 2001).

Against this argument, mainstream economists still tend to underestimate or even reject the investive function of (un)employment-related insurance. It is, however, a great mistake to view unemployment benefits as only a 'passive' transfer. Properly designed wage replacements are not only a fair compensation for people who become unemployed through no fault of their own but are also an 'active' investment in their productive job search. Evaluation studies—even from the Organisation for Economic Co-operation and Development (OECD)—demonstrate that unemployed with generous wage replacements in the first six to nine months find more productive jobs (higher wages) than the unemployed not covered by UI or covered only by means-tested benefits (Acemoglu and Shimer 2000; Gangl 2003). More importantly, these jobs are more sustainable and thus mitigate revolving-door effects, that is, leaving the benefit system and returning soon or entering another benefit system such as health or disability insurance (e.g. Tatsimaros 2006).

In contrast to the potential of an extended system of UI we observe diminishing returns of 'passive' as well as 'active' labour market policies. The last recession (2008/9) in particular reduced the stabilization impact of social policy in general and UI in particular (Clasen and Clegg 2011; European Commission 2013c). Most alarming, however, is the result of some recent comparative studies which clearly indicate the discouraging effects of recent labour market reforms on the innovative side of risk-taking: European labour markets did not become more dynamic despite deregulation, liberalization, or unprotected flexibilization. Related to Germany, for instance, it has been discovered that overall labour turnover declined from 8 to 6.5 per cent after the Hartz reforms despite the 'German job miracle' and that job tenure increased despite an increase in 'flexible' employment. The German labour market has become less efficient in reallocating workers as a result of intimidating labour market reforms that stifled risk-taking labour market behaviour (Giannelli, Jaenichen, and Rothe 2013; Knuth 2013). Moreover, the disciplining workfare policies in the majority of European welfare states did not only reduce transfer payments and thereby the stabilization impact of effective (consumer) demand but also diminished the dampening impact of activation policies on wage inequality (Rueda 2015). A vicious circle has been put in motion: wages at the top level increased due to decreasing competition among medium and high skilled workers, and wages at the low end or at the entry level decreased due to higher competition among low skilled or less experienced workers; lowering wages at the entry level again discourages labour mobility, which reduces labour market dynamics, and so on.

9.4 Which New Risks should Be Included in an Extended (Un)Employment Insurance?

Which life-course risks beyond unemployment should be included in an extended system of UI? Looking back to the brief overview of new social risks, it is in particular the spread of *part-time work* which entails not only high labour market risks (low wages, low probability of upward careers) but also the risks of low social protection in old age. Because part-time employment is mainly a female phenomenon, these risks are carried predominantly by women in an unjustified way. The main reason for part-time work is the reconciliation of family and occupation, especially during the rush hour of the life course between the ages of 30 and 50 years. In the meantime, however, part-time became economically suboptimal: the 'human capital' of women, which increased tremendously during the last decades, remains underutilized.

So far, most developed welfare states in Europe have reacted with some kind of wage-related parental leave allowances, partly compensated for either by health insurance, by special parental leave insurance (Sweden), general taxes (Germany) or subsidized individual saving accounts (Netherlands). Most of these systems still provide few incentives to equally share the parental risks between women and men. An average weekly working time of thirty-two hours for both parental partners during the family phase would be a solution.

One possible way to support such an option during the life course would be the inclusion of this risk of reduced employment capacity in a way analogue to short-time work covered by UI: the income loss induced by reduced working time could be compensated for by part-time unemployment benefits. Such an insurance benefit would also be helpful with care for frail elderly relatives which, for example in Germany, in three-quarters of cases is still provided within the family and again predominantly by women.

Temporary work, either in the form of temp-agency work or fixed-term contracts also contains high risks in terms of low wages and high probability of becoming unemployed. On the other hand, such employment relationships contribute to the required higher flexibility of the economy both on the demand side as well as on the supply side Most established UI systems have not yet been adapted to this new world of labour, as long-term employment relationships are still the underlying norm. In Germany, for instance, twelve months of regular employment within the last two years are required before entitlement to UI benefits. Many temp-agency workers or workers in fixed-term contracts do not jump over this benchmark when they become unemployed although they contributed to the UI-system. An extension of the two-year benchmark or reduction of the required length of the employment relationship would help. Furthermore, contributions to the UI system could be made contingent to the risks they are covering (following the principle of internalizing the risks), and the same holds true for wages and contributions to other wage-related social security systems (health and old age insurance).

The growing number of *own-account workers* among the self-employed is another source of social risks not yet properly covered by devices of collective risk management. Therefore, many take shelter in individual strategies of risk management, for instance through combining dependent wage work with risky self-employment. Part-time own-account work is in particular widespread among women, but unfortunately little information is available about the flows between inactivity, self-employment, dependent-employment, or a combination of all. An exception is a Swedish study which shows that most people enter self-employment by engaging first in combinatory work. Three 'transitional motivations' might explain this astonishing pattern: first, supplemented utility maximization, which means attaining psychological utility from self-employment by retaining at the same time economic security from dependent wage work (balancing flexibility and security on an individual level); second, providing a hedge against the potential risk of unemployment; third, reducing uncertainty associated with entry into self-employment or exit from self-employment (Schmid 2011: 196–7). Although little is known about the long-term consequences of these individual risk management strategies, anecdotal evidence clearly indicates that they often do not secure sustainable employment careers and in particular not the social protection in old age.

We also don't know how many more people would take this risk if a stronger social safety net would be available. What we know for sure is that unemployment is an important driver to take the risk, which however is not the best motivation ensuring a competitive and sustainable start-up.

A system of employment insurance could support or complement individual risk strategies related to self-employment in various ways. First, through virtual unemployment benefits, that is, by maintaining entitlements to UI-benefits until it is clear whether the start-up was successful or not; second, by including self-employed and own-account workers into the employment insurance system through mandatory contributions that might, at the beginning, be subsidized and should be made flexible, that is, conditional to the volatile income streams inherent in such forms of employment; third, through capitalization of UI benefit entitlements to compensate to some extent for the lack of capital at the beginning of start-ups; fourth, through professional counselling services provided by the public employment service. Finally, a universal (or citizenship-based) basic income security in old age as provided, for instance, in the Netherlands, Sweden, and Switzerland would effectively complement the collective element of managing these risks related to self-employment and own-account work.

Last but not least, the life-course risk of lacking or eroding skills and competences is a widening area of underdeveloped risk management. Remaining in our stylized fact-sheet framework, empirical evidence clearly shows that being low skilled implies having a high incidence and probability of being in and remaining stuck in a high-risk 'flexible' job: the low-skilled are correspondingly heavily underrepresented in insurance coverage (Schmid 2011: 179). It is also a well-established fact that St Martin's principle also holds true in continuous education and vocational training (Schmid 2015: 84–6). Many reasons explain this pattern and together build a structural blockade which is difficult to overcome: capital market restrictions, poaching or free-riding; mobility restrictions (especially for people with family obligations); the uncertainty of returns related to education and training investments both on the employer and employee side; and eventually information asymmetries.

This chapter is not the place to get through all these barriers (see Schmid 2015: 84–6). Space here allows only to argue on the plausibility level that including these risks into an extended UI system would help to manage these risks in a more efficient *and* equitable way. If we look on countries with high levels of continuous education and training, in particular for low-skilled and mature aged workers—Denmark, Sweden, and the Netherlands, in particular—we already find elements of social insurance inclusion: contributions of employers using temp-agency work into targeted training funds (the Netherlands), part-time training schemes, on-the-job training schemes, wage subsidies financed by the labour market training fund (Denmark), extension of UI-benefits conditional on participation in education or training programmes (Denmark), career transition agreements financed through collective funds and supported by the UI system (Sweden).

9.5 Conclusion

Many of the new labour market risks go beyond unemployment for which UI was once established. This development has been going on for a long time and, as a matter of fact, many countries have already adjusted to this situation by extending the spectrum of risks included into their social insurance—within or complementing their UI system. In this chapter I have argued that it is high time to go a step further. There is a need for a strategic shift from simply insuring unemployment towards a system of employment insurance that covers risks beyond unemployment, in particular risks related to critical transitions over the life course: transitions between full-time and part-time work, transitions between one occupation and another, transitions between care work and gainful employment, transitions between full work-capacities and partial work-capacities. Many of these transitions can or could be organized within stable employment relationships, thereby avoiding the exclusionary tendencies of non-standard employment. However, if it comes to breakdowns of this relationship either through external shocks, through mismanagement, or simply through individual misfortune or changing preferences, a broader set of income security than full-time unemployment benefits has to be provided.

This paradigmatic shift requires, first of all, a shift from stocks to flows (see Chapter 1, this volume). In other words, what is needed is a *career orientation* which strives for *making the most critical transitions pay* during the life course through securing the related income risks. One promising example is public support of lifelong learning, especially (but not exclusively) for the low-skilled. The benefit to society would be enhanced mobility, in particular in the form of mobility chains that open up new ports of entry for outsiders. Other examples related in particular to 'flexible' jobs like part-time, own-account work, and temporary jobs have been mentioned. Modern insurance theory not only hints at possible distorting effects of insurance through *moral hazard* but also to positive risk-taking innovations that can be a wellspring of economic dynamism and prosperity.

The second essential element for the required paradigmatic shift is to overcome inequalities and risk aversion through *capacity building*; for instance, through stepping stones (e.g. subsidized employment targeted to the specific life course risks, or conditional or virtual unemployment benefits); through enhancing general knowledge, competences, and skills over the life course; or through reasonable adjustment of workplaces, in other words: *through making the market fit for workers*. In this perspective, not only unemployment benefits but also any benefits maintaining and enhancing employability have to be considered as 'active' and not as 'passive' security. In other words: as an *investment* in the job search capacity of individuals, the matching capacity of the labour market, the employability of the 'labour force', the quality and productivity of work, and—last but not least—as an investment into the sovereignty of individuals over their life courses.

The Uses of Social Investment

Edited by
Anton Hemerijck

OXFORD
UNIVERSITY PRESS

OXFORD
UNIVERSITY PRESS
Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of
Oxford University Press in the UK and in certain other countries

First Edition published in 2017
Impression: 1

Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data
Data available

Library of Congress Control Number: 2016952212

ISBN 978-0-19-879048-8 (hbk.)
978-0-19-879049-5 (pbk.)

Printed and bound by
CPI Group (UK) Ltd, Croydon, CR0 4YY