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The impact of new patterns of work on welfare regimes [1]

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1. The key challenges to the long-term sustainability of social protection systems in Europe

More than ten million new jobs were created in the European Union over the last three years. This welcome boom in the labour market was unprecedented since the very early nineties and must be attributed to the steady economic growth and more employment-friendly policies adopted in most EU Member States. However, a very significant share of these new jobs will not offer those who took them up (mainly young people and middle-aged women) the same kind of protection that more established workers already benefit in most Western European societies. The systems of social protection have been slow in adapting themselves to the new realities of the labour market, and this may have the effect of creating or reinforcing dualist elements in our societies. This paper addresses the main challenges that new work patterns

present for the adequacy and sustainability of social protection systems in Europe. However such challenges should be assessed in a wider context encompassing the new realities in demography, the world economy and the society at large.

Three mega-trends seem to be particularly relevant in shaping the current debate about the modernisation of social protection systems in Europe. The first

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has to do with demographic changes. It is well known how, as a result of increased life expectancy and reduced fertility rates, the population in Europe is getting older. In addition, the "baby-boom" generation (i.e. those born in the period after World War II) has created a demographic bulge that will persist until 2040. As a result, and according to the latest demographic estimates by the European Commission [3], the old-age dependency ratio (defined as the ratio of the number of people aged 65 or older to the number of people aged from 20 to 64) should double between 2000 and 2050, from 27% to just over 53%.

It is also well known that the needs of such an ageing society will have to be met through significantly increased funding, in order to match the expectations and acquired rights of future retired persons. In accordance with preliminary estimates made recently by the EU Economic Policy Committee, the financial impact of ageing in terms of increased public spending on pensions would vary between 3 and 5% of GDP for most Member States, but for Portugal and Spain the increase would be even greater (6 and 8 % respectively).

The anticipation of such significant rise in public spending has led most governments to implement reforms of the pension systems in order to cut costs over the long term or to increase the role of pension funds as compared to PAYG schemes.

However, the most effective approach to deal with the impact of ageing is, in the view of the European Commission and other international organisations like the ILO and the OECD, a sizeable increase in the employment rate, requiring vigorous policy efforts to ensure a longer attachment of older people to the labour market, increased participation of women and a significant curb of the structural unemployment rate.

The public finance problems are compounded by the foreseeable impact of ageing on the costs of healthcare and care of the elderly, where more funding will

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[3] Published in the progress report on pensions sustainability submitted in December 2000 to the European Council of Nice.

be needed in order to match the increasing needs for assistance of dependent people, and the growing cost of medicine and specialised treatment.

A second important factor to consider in the shaping of future social protection is globalisation. The need to ensure a favourable fiscal environment for investment will act as a powerful constraint to governments and enterprises, and will inhibit, particularly the former, from adopting measures to face the challenge of ageing which would undermine their competitive position in the world market place. Increased taxation to fund new social needs is therefore unwarranted, and in those countries where the tax burden is highest, there have been moves to reduce labour taxes and contributions (as in the Netherlands) or at least to set ceilings for future contributions (as in the recent German pension reform). Unless alternative models of taxation (more broadly based on capital and the environment than prsently) are agreed by the international community, the rules of the Growth and Stability pact in the EU will continue to impose a restrictive public expenditure policy approach to the emerging social needs.

While demographic ageing and global competition raise the question of the affordability of high standards of social security in Europe, more individualised life styles and growing awareness of gender equality raise the questions of their fairness and effectiveness.

The influence of individualisation on social protection systems is perceived in multiple dimensions. One of the most relevant is the declining size of households, as younger generations tend to lead an independent life sooner, and working-age men and women are less and less able to provide assistance to their elders. As a result, the role of family support tends to decline, and social assistance is called for rescue. Particularly acute in this connection is the situation of young lone mothers, unable to cater for their subsistence, and of elderly dependent people in need of costly permanent health care.

Another equally relevant dimension of individualisation is the growing number of family break-ups, which poses problems for traditional schemes of social protection, to the extent that divorced women are often left with inadequate pension entitlements due to poor contributory careers. To deal with this problem, pension systems in various countries have introduced "pension-splitting", a scheme that has existed in Germany for many years. Also the increasing importance of unmarried couples puts in question protection schemes based on the notion of dependency, such as survivors' pensions and in general all means-tested social benefits.

To a large extent, individualisation is linked to the increased assertion of women's rights at work and in the household. Most social security schemes were initially set up on the basis of the male breadwinner model. As an increasing number of women joined the labour market, ideas about gender roles have evolved and social protection systems are being reviewed in order to ensure that equal treatment is granted to women and men and that inequalities arising out of the labour market are compensated. Measures to eliminate direct gender discrimination include, *inter alia*, the introduction of widowers' pensions and a common pensionable age. But more important than direct discrimination is the impact on social security entitlements of interrupted careers, shorter contribution records and lower pay, which often characterise women's employment patterns, due to their unpaid caring activity. Measures to equalize outcomes are called for, which include special pension credits for pensions with caring responsibilities, paid parental leave, childcare services and child benefits.

2. Emerging work patterns and the problems they raise for social protection

The concept of emerging work patterns is by no means consolidated, with the implication that it has different meanings depending on the context in which it is used. "Emerging Patterns of Work" are often referred to in opposition to the traditional pattern of a paid, full-time, stable work, that one associates to the so-called "fordist" mode of production. But an embracing definition is lacking and one tends to quite diverse realities covered by the same concept. Three broad categories of work may be distinguished, which in one way or another can be seen as relatively new or "emerging":

1. More flexible types of work, fast developing mainly in the business service sectors subject to stronger competitive pressure and/or responding by means of a more customer-oriented approach. Temporary, agency and part-time work, as well as new forms of self-employment linked to sub-contracting allow businesses to respond more flexibly to rapidly changing conditions with a considerable saving on fixed costs. While providing opportunities for new entrants into the labour market, such jobs may lead to precarious and low-quality employment. However, they are not really new. What is new is the perspective that they may become dominant in the labour market.

2. Types of work that respond to new collective needs insufficiently fulfilled by the market, in areas such as the environment, culture, education, childcare, care for the elderly, and urban security. Normally requiring low to average skills, these types of work are often contracted by NGOs and local authorities, and, while precarious, they may represent an useful gate of access into the main labour market, particularly for disadvantaged job-seekers. Such types of work, which tend to be as precarious as those in the first group, are normally developed with public support: "socially useful work" in Italy, "secondary labour market" in Germany, "*nouveaux gîsements d'emploi*" in France, "local employment initiatives" in Portugal.

3. Voluntary work, normally not giving right to payment. While this type of work cannot be considered as employment, its value has been recognised as an alternative for social integration of persons strongly discouraged or suffering some kind of permanent handicap.

While the data on the last two categories are very imprecise and certainly not comparable across countries, the dimension of the first one is well measured.

Over the last five years there has been a constant rise in the proportion of workers taking part-time or temporary jobs, which now account for near 29% of total employment in the EU. Part-time jobs accounted for 64% of net job creation between 1994 and 1999. A disproportionate share of part-time jobs has gone to women, who still account for 80% of all those working part-time. However, the number of men has also risen, and more than half of the net additional jobs created for men were part-time. As regards temporary jobs, they accounted for 57% of the net increase over the last 5 years, and the relative growth in temporary working has been significantly higher among men than women.

Young people are by far the main source of supply for these types of jobs. They are spread across high and low level qualifications, and are largely prevalent in service sectors, where they respond to greater flexibility needs, in particular in the most dynamic sub-sectors – computing, business and travel, but also in so-called "communal services" (health and education, recreational and cultural activities) and in a wide range of personal services. In all these activities employment growth in the EU has exceeded 5% a year, recently.

While many of the new jobs in the business sector are well remunerated and allow often multiple job taking by the same individual or household, the majority of jobs corresponding to "emerging work patterns" are poorly paid and highly precarious. By postponing the effective integration of young people, or by causing a precarious attachment to the labour market, such new forms of employment may not create sufficient provisions for social security coverage of a significant share of today's work force. There is therefore the risk that new forms of poverty and social exclusion may develop as a result of gaps in social protection.

The emergence of new work patterns is also associated to the growing informalisation of labour markets. While the informal economy can be found in almost all sectors and occupations, it is concentrated in small and very small enterprises, and responds to the same flexibility needs that are responsible for the emergence of new types of employment.

Informal economy workers, the large majority of which are women, have little or no security of income or employment. A brief period of incapacity can leave the worker or his/her household in a situation of deprivation. This problem is compounded by the fact that informalisation of labour markets tends to be more widespread in those countries (especially in Southern Europe) whose protection systems are based on contributory principles, and lack adequate universal coverage.

Self-employment does not seem to be increasing quantitatively, but there is an important change in its pattern. While declining in agriculture and retail trade, self-employment is increasing in services, particularly those related to the outsourcing of activities by enterprises.

A recent report prepared by a group of experts for the European Commission [4] identified insufficient social security coverage as one of the main obstacles to the creation of very small business. In general, EU countries offer less social protection to the self-employed than to employees. As a result, new entrepreneurs are exposed to a non-hedged risk when moving from a situation of relative predictability and income stability to one of uncertainty about whether the new business will provide them with enough to live on. The inadaptation of traditional social security schemes to this new reality has led some [5] to propose an intermediate legal status for the self-employed between employee and employer. In practice, this solution involves a minimal level of social protection funded through lower contribution rates, as in the Italian case of the "para-subordinate" contracts.

3. New work patterns and unemployment protection schemes

Unemployment protection schemes were conceived to respond to an essentially temporary situation, in which the worker (normally the sole breadwinner in the

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[4] "Obstacles to the creation of very small businesses in the European Union", DG EMPL, 1999.
[5] Cf. Supiot report "Transformations du travail et devenir du droit du travail en Europe", June 1998.

family) lost his job and needed income support while he was looking for a new job. Therefore unemployment protection schemes were based on the mandatory insurance principle. Such schemes functioned well while unemployment had essentially a cyclical and frictional character. Since the beginning of the eighties, unemployment acquired a structural character, and the jobless situation ceased to be a temporary risk to become a much more permanent situation for a sizeable share of the active population, unable to cope with the new skill demands.

As a result, unemployment benefit schemes have become more and more inadequate and lost their original role, to become mechanisms for income replacement for registered jobless people, over extended periods of time. On the other hand, due to stringent eligibility conditions and the growing informalisation of the economy, unemployment benefit schemes leave uncovered a significant share of the work force.

This latter aspect is well illustrated in the case of self-employed persons.

In most EU countries, self-employed professional activity does not entitle workers to unemployment benefits in the event they file for bankruptcy (the exception being Scandinavian countries and the Netherlands). Therefore, a change in professional status does not only carry more risks, but also can result in the loss of social security rights, and therefore create a serious gap in social protection.

Many Member States already grant temporarily unemployment benefits as an incentive for unemployed people to set their own business. However, allowing the self-employment periods to count toward eligibility for unemployment benefits is a further step that few Member States seem ready to take for fear of the high failure rate of new business, as well as difficulties in estimating the base for the contribution rate[6]. In addition, many of these workers are unable to contribute a high percentage of their incomes to financing social security benefits and unwilling to do so when these benefits do not meet their most immediate needs (e.g. health care).

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[6] Eligibility of previously self-employed persons for unemployment benefits has been recognised by the ILO Convention no. 168 (1988).

Traditional unemployment protection schemes have been reviewed extensively in all Member States. Two major directions of reform can be distinguished:

- Increasing dissociation between insurance and solidarity principles: at the margin of the mainframe unemployment scheme, where the benefit is attributed as a right for a limited period of time, it has emerged a multitude of passive income support schemes (usually means-tested) for supporting long-term unemployed and discouraged people, who stand very few chances of getting back to work. Such schemes do not correspond to any right the beneficiary has earned as a result of the insurance principle, but just as assistance.

- Increasing use of active labour market policies in order to improve the skills and the motivation of unemployed people and therefore facilitate their re-integration into employment. While EU governments still spend more in passive than in active schemes, these represent a growing share of labour market expenditure: from 34% in 1996 to 38% in 1999.

This growing trend toward activation has been interpreted differently across Member States. In the UK, activation has been inspired by the "workfare" approach, very popular in the US, according to which the unemployment benefit has a counterpart in the obligation of the unemployed to accept a training or job offer even if that means living at a lower standard than previously. In Scandinavian countries, the "right and duty" principle can be considered as a variant of the "workfare" approach, but with much more generous benefit levels and the use of work tests to move beneficiaries into jobs. In most continental countries, activation has meant the replacement of the unemployment benefit by employment subsidies paid to the employer in order to encourage him to recruit jobless people with less chances on the labour market.

"Emerging Patterns of Work" are concerned by this on-going review of unemployment protection schemes, in two respects.

First, unemployment is to a large extent generated by the precariousness and uncertainty implied in the new types of employment. Fixed-term employment and self-employment lack the high level of employment protection that are characteristic of open-ended contracts in the majority of EU countries.

Second, emerging patterns of work pose a new challenge as they often fail to provide the eligibility conditions that are required under the prevailing rules of access. A jobless person with an insufficient contribution history may be considered ineligible for benefit, and be left without any chances of training and/or a very limited income support.

4. New work patterns and retirement pensions

"The Emerging Patterns of Work" may create an increasing duality in labour markets: well paid, highly qualified jobs coexist increasingly with low-productivity, precarious jobs. The current trends favour the consolidation of such duality. As many EU Member States aim at increasing the employment rate, in order to make pension systems financially sustainable in the long term, there may be an increased emphasis on the quantitative aspect of employment, with a negative trade-off on the quality of new jobs created. This trend is visible in policies to fight unemployment which promote low productivity jobs in communal and personal services, as well as in policies seeking to provide an alternative to early retirement in the form of part-time jobs for aged workers.

Unless the existing elements of intra-generational solidarity are enhanced, statutory pension schemes based on contribution careers will tend to reinforce such inequalities. They have reacted to such a challenge by extending gradually and on a case-by-case base the coverage of mandatory pensions to workers with weak labour market involvement (as was recently the case with Germany). However, the extra cost entailed by such extensions in the future will add to the demographic pressure on "pay-as-you-go" systems.

Pension systems based on universal rights, granting minimal pensions for ensuring decent living standards for all, seem better suited for facing this challenge. The issue is whether such a model can survive in economic and social structures characterised by lower average productivity levels and weaker collective preference for social cohesion values.

5. Diversity and convergence within the European social model – the outlook for strengthened co-operation in the EU

The so-called European social model is in fact an agglomerate of national subsystems with their own distinctive features as well as similarities. It is usual to distinguish between four major sub-models:

- An "anglo-saxon" model of a liberal type, characterised by minimal universal benefits, usually means-tested, which aims at creating work incentives and leaves a wide scope for private insurance schemes;

- A "scandinavian" model, inspired by social-democratic principles, which shares with the previous one the universal nature of benefits, but these are however set at much higher levels aiming at promoting a high level of social cohesion;

- A "bismarckian" model, of a corporatist type, which relates benefits to contributions based on employment status and is structured by productive branches.

- A Southern European model, fundamentally inspired by the "bismarckian" principles, but overall less generous, and including an important element of non-institutional family support.

The European integration process has moved progressively from a purely free-market oriented approach toward a more structured and "regulated" approach where the social dimension has gained increasing importance. The Amsterdam Treaty has inserted in Article 2 the goal of promoting a high level of employment and social protection, in recognition of these key two foundations of a European social model. The new tile VIII is devoted to employment, which is considered as a question of common concern, and defines a strengthened policy co-ordination process based on common guidelines, national action plans, regular monitoring and individual recommendations to Member States.

The new title IX in the Amsterdam Treaty recognises a new role for the Community in the field of social protection, to support and complete the action of Member States, thereby opening the possibility of adopting directives setting minimal standards, through social dialogue. The social partners have effectively explored this possibility and reached agreement on three important domains all related to work conditions (parental leave, part-time work and fixed-term contracts).

Article 137 in the same title IX opens the way for another type of initiative that has been described as "open method of co-ordination". The Lisbon Summit of March 2000 has recognised the merits of such a method, already tested in the macro-economic and employment areas, to promote the convergence of Member States towards common goals, while preserving the responsibilities of national governments in designing and implementing policies in the social area. As defined in Lisbon, the open method of co-ordination involves:

— Fixing guidelines for the EU combined with specific timetables for achieving their goals;

— Establishing indicators and benchmarks as a means of comparing best practice;

— Translating the EU guidelines into national/regional policies;

— Periodic monitoring, evaluation and peer review.

The European Council of Nice, in December 2000, has agreed to implement this new method in the area of the policies against poverty and social exclusion. Currently, the possibility of extending the method to the area of pension reform is being examined.

The renewed interest developed in the EU for co-operation in the social area responds to the common challenges that all Member States have to tackle, as is the case with emerging work patterns, independently of the model underpinning their social protection systems. It also responds to a growing awareness of the imbalance between economic and social dimensions of EU policy.

Inevitably, and also as a result of the co-operation mechanisms in place (common indicators, benchmarking, identification and exchange of good practice) the differences between different models of social protection will tend to become more blurred, and the EU social model more homogeneous. To the extent that this convergence contributes to more effective and participated policies, this is a welcome development.