

How can jobs be better designed to integrate disadvantaged people and provide with opportunities for career progression?

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Decent wages, decent work: how can we improve job quality in Europe?

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Introduction

Within the very short time I have, I will start with some preliminaries. Next, I will make a number of claims followed by a too brief argumentation.

Preliminaries

1. I will focus my brief intervention on people who reside in Europe and whose skill is not much valuable in firms. A substantial part of them have a low education level, but the polarization of jobs also affects more educated people whose routine jobs are disappearing. Despite the obvious shortcomings of this expression, I will designate this population by the shortcut “the low-skilled”.¹
2. The size of this group can be reduced by improvements in the educational system, especially if the investment is concentrated early in life. Further education during adulthood is desirable as well. However, because of the race between education and technology, it is wise to assume that the low-skilled group will not disappear in the future.
3. The fact that machines are replacing jobs can be seen every day. In history many radical innovations have appeared and led some commentators to announce “the end of labour”. They were wrong. Some argue that “this time, it’s different”.² I am doubtful. I recognize that adequate job creation becomes even more challenging than yesterday but won’t assume that we have to prepare a post-employment era.
4. For many low-skilled people a job is not valuable *per se* whatever the working conditions are. A job is a wage but it also gives nowadays access to some social insurance. Uncertainty is pervasive on the labour market³. Diversifying human capital skills is typically very difficult. Private insurance against human capital risks is moreover very limited. A decent job should provide some insurance against negative

¹ Their position in society can be worsened if they are in addition lone parents or immigrants, for instance.

² Because innovations would be more “radical” than previously, because of the high employment-reducing potential of some of them (machine learning and the like).

³ See e.g. Venn (2011), *Earnings volatility and its consequences for households*, OECD Social, Employment and Migration Working Papers, 125; Cappellari L. and S. Jenkins (2014), Earnings and labour market volatility in Britain, with a transatlantic comparison, *Labour Economics*, 30, 201-211.

random shocks. Non-monetary amenities are also important. One should however be aware of the heterogeneity of views about what characterizes a “good job”.

5. I will take for granted that we will remain in open economies with powerful capitalists. Among the desirable limits to this power, let me simply mention the need for a better enforcement of rules concerning the posting of workers in the EU.
6. In response to the huge climatic challenges, the burden of changing behaviour should not bare much on the shoulder of the low-skilled. The needed reforms should be designed so as to create more job opportunities for the low-skilled. As an example, I think at the development of short circuits and various other alternatives in food production systems.
7. Due to the time constraint, I only address labour issues. The struggle for housing and health care should however not be overlooked.

My ethical standpoint should be clarified. I take (non-dispendious and heterogeneous) workers’ preferences as given; in particular their risk aversion and the taste for job amenities are taken into account. I am looking for reforms that better meet the preferences of the so-called “low-skilled”.

Claims

In some countries, in line with the phenomenon of polarization, low paid jobs and alternative work arrangements (that is temporary help agency jobs, on-call jobs, short-term contracts and independent contractors) have become very important.⁴ Several countries like Germany have reformed their labour market so as to spur the development of alternative work arrangements. So, a first response to the low-skill employment challenge would be to follow this route. However, are such arrangements a stepping stone to better jobs? The answers “yes” and “no” turn out to be wrong. My own reading of the literature is that the right answer is instead that “*for some*, the stepping-stone effect is at work but it is hard to predict when and for whom it is so”. There is nevertheless some evidence that a short-duration or part-time employment experience can under certain conditions have a stepping-stone effect for the long-term unemployed (a sub group where the low-skilled are over-represented).⁵ However, there is also evidence that when these alternative work arrangements have been promoted they have to some extent displaced more standard jobs.⁶ So here comes my first claim: The route that consists in encouraging the development of alternative work arrangements is paved with many pitfalls and, as such, provides at best a partial answer to the problems faced by the low skilled.

As I have already stressed, life on the labour market is full of uncertainty and insurance against random shocks is very limited. Hence, workers not only want jobs; they also hope to be better insured against these shocks. Flexicurity cannot be the answer to this legitimate desire because flexicurity aims at making transitions more secure not at making jobs more secure. The latter objective can be achieved through a strong employment protection. The

⁴ According to Katz and Krueger in the US, 94% of the net employment growth occurred in such alternative work arrangements (NBER 22667).

⁵ Clearly, these jobs should not stigmatize their employees in the eyes of potential future employers. Avoiding this is not always obvious.

⁶ For instance, Goldschmidt and Schmieder document the dramatic increase of *domestic* outsourcing in Germany since the 1990s (IZA DP 9124).

way employment protection is typically implemented has however several drawbacks. So, I do not advocate a reinforcement of employment protection.⁷ More job security has for me another meaning: It consists in *limiting* downward flexibility in earnings when there are negative shocks to labour demand. So, my second claim is that we need an earnings floor through enforced legal minimum wages or in-work benefits. Minimum wages *can* destroy job opportunities for the low-skilled and nevertheless be necessary to avoid unacceptable downward wage flexibility.⁸ In-work benefits should avoid those job destructions. However, they can easily be too complex and can eventually induce lower pre-tax wages.⁹

It is sometimes argued that (good) job opportunities will emerge naturally if one lets enough freedom to entrepreneurs and provides the right incentives to the workforce. What does this mean? It means in particular monitoring the behaviour of those who get a social allowance to be sure that they actively search for a job and are not too choosy when they get a job offer. It also means that “work should pay”.¹⁰ My third claim is that one cannot neglect these incentives on the supply side but they are not sufficient to guarantee enough job opportunities for the low-skilled. A “free-market” economy can be durably stuck in a situation of massive underemployment.¹¹ Getting out of there requires then a sufficiently strong collective action on the demand side.

I won't talk about macro policies and limit myself to some final reflections on how to boost the labour demand for the low skilled. I would like to mention two partial answers. First, the development of non-profit firms should be encouraged. Even if these firms have broader objectives, part of them can offer decent job opportunities for the low-skilled. This claim can be extended to the public sector. In non-profit and for-profit firms, the cost of labour is a matter of concern especially at the bottom of the skill distribution where labour demand is particularly sensitive to this cost. So, one still needs permanent reductions in employers' social security contributions targeted at the low end of the wage distribution. Those reductions need to be complemented by other reforms to keep the budget of the social security balanced. These targeted reductions on the cost of labour increase the progressivity of labour taxation (seen as a whole¹²) and should favour wage moderation.¹³ The latter has good and detrimental effects on which I can come back during the discussion.

⁷ Nor do I suggest that any form of “flexibilisation” of contracts is good. For instance, two-tier employment protection reforms (i.e. liberalizing the use of fixed-term contracts without affecting the stock of employed on open-ended contracts) tend to increase the turnover of workers and inequality. A deeper analysis can be found e.g. in Cockx B. and B. Van der Linden “Flexicurity in Belgium. A proposal based on economic principles”. *International Labour Review*, 2010, 149(3), 361-372.

⁸ There is a long-lasting debate about their induced effects on labour demand. When firms have monopsony power, having well-chosen minimum wage *can* be a free lunch. For, it *can* then sustain both wages and employment. However, when monopsony power is negligible (e.g. in segments where unions are strong), there is a trade-off: Binding minimum wages will destroy jobs for the low-skilled while offering insurance against negative shocks to those who keep their jobs. Instead of abolishing minimum wages, we need then to live with this trade-off. In sum, the downward wage flexibility required in downturns to restore an equilibrium between supply and demand on the low-skilled labour market is unacceptable from the point of view of insurance.

⁹ See e.g. “Do in-work benefits work for low-skilled workers?” <http://wol.iza.org/articles/do-in-work-benefits-work-for-low-skilled-workers/long>

¹⁰ Through in-work benefits, lower taxes on earnings at the low-end of the income distribution and the like.

¹¹ See the many papers of Prof. Jacques Drèze (CORE, Université catholique de Louvain).

¹² Namely, the so-called “tax wedge”.

¹³ See e.g. Lehmann E., C. Lucifora, S. Moriconi and B. Van der Linden (2016), “Beyond the Labour Income Tax Wedge: The Unemployment-Reducing Effect of Tax Progressivity”, *International Tax and Public Finance*, 23 (3), 454-489.