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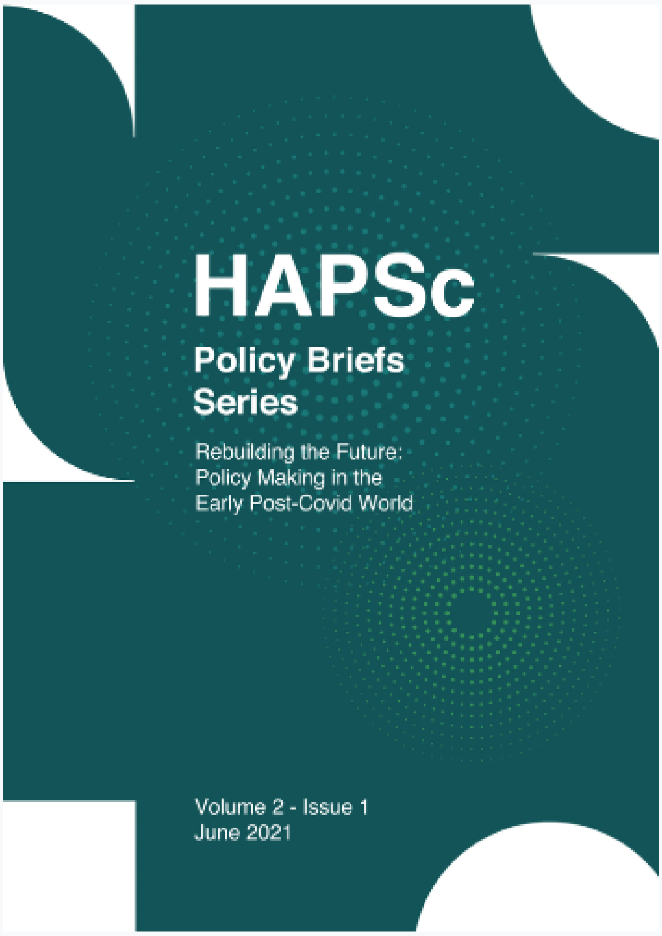

Labor Market Deregulation & In-Work Poverty: Considerations on the Future of Social Policy

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Labor Market Deregulation & In-Work Poverty: Considerations on the Future of Social Policy[1]

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Abstract

Over the past few decades, labor market deregulation has dominated the policymaking agenda. These practices entailed, among others, easing the regulatory framework for employment protection, weakening collective bargaining institutions and promoting non-standard forms of employment as a means to achieve the desired degree of flexibility. Meanwhile, conventional analyses failed to investigate the correlation between deregulation and in-work poverty. In fact, poverty was examined exclusively as a consequence of unemployment, thus obscuring its multidimensional nature. This policy brief aims to present the core arguments for and against deregulation, as well as to provide a literature review on the relation between deregulation and in-work poverty. Finally, some remarks are made on the urgent need for change in the orientation of policymaking in a post-covid era.

Keywords: Labor market deregulation; flexibility; in-work poverty; part-time employment; temporal contracts; non-standard employment; social policy; social protection; welfare state.

Introduction

The promotion of labor market deregulation is one of the greatest fields of conflict in economics and social sciences. Since 1980, deregulation measures are being promoted systematically. Typical examples of that are the Thatcher and Reagan administrations in UK and USA respectively, through a direct attack on the labor market institutions (Tourtouri et al., 2018). These proposals are not limited to western economies. International organizations such as the World Bank, which is actively engaged in establishing development programs for developing economies, fully aligns with the deregulation agenda. Furthermore, developmental aid is complemented by the provision of conditions for structural reforms. Conditionalities are usually strict and include, among others, the commitment to budgetary discipline and monetary restraint to combat inflation and wage moderation to foster the competitiveness of the economies (United Nations, 2009). Adopting this kind of measures was accelerated in the aftermath of the financial crisis of 2007-08, especially in Southern Europe, in response to what was viewed as a structural and fiscal crisis (Tourtouri et al., 2018).

As is evident, within the framework of conventional analysis, labor market deregulation coupled with low levels of inflation and budgetary balance is an essential condition for economic growth.

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Meanwhile, the prevailing view equates social exclusion and poverty with exclusion from the labor market, hence, poverty is exclusively examined in the light of unemployment. Consequently, ignoring the multidimensional nature of social exclusion has led to the underestimation of the robust correlation between deregulation and in-work poverty in the public debate and the academic literature (Ioannidis et al., 2012). As a matter of fact, the pandemic can only deteriorate the existing problem, while at the same time, it is highly possible for the debate to return to claims in support of deregulation and further fiscal adjustment to revitalize the economy in the post-covid era. Keeping this in mind, this policy brief seeks to present the main arguments in favor of deregulation as well as the criticisms that they have received. Additionally, some ideas drawn from the academic literature, on the correlation of in-work poverty and labor market deregulation will be presented. Lastly, the discussion will result in general considerations regarding social and economic policymaking in the future.

The rationale for deregulation

The rise of arguments promoting deregulation in the labor market can be traced back to the stagflation crisis in the 1970s. During that period, the unemployment rates were high and persistent, along with accelerating inflation pressures, both in Europe and in the USA. Mainstream economic thinking perceived the perseverance of high unemployment rates as a product of the demand-side management of the economy, the excessively generous welfare state, as well as a result of strict employment protection and the central role of trade unions in the determination of wages during the post-war period (Baccaro & Rei, 2007). A report from OECD in the 1990s, titled “The OECD Jobs Study”, unveil the core arguments in favor of deregulation, while it must be noted that this report came to be a landmark for the Washington Consensus (Freeman, 2005). Specifically, it is claimed that “Economic growth will play a part in reducing unemployment. But beyond the cyclical component of unemployment is a structural element that persists even into recovery “(OECD, 1994).

According to that point of view, a wage higher than the level set by the equilibrium in the labor market is considered to cause unemployment, since employers under these circumstances would proceed to hire a smaller number of employees. The debate concerning the minimum wage conforms to the same logic. As stated by Blanchard, Chief Economist of the IMF at the time, a minimum wage that reaches 30-40% of the median wage is sufficient to maintain aggregate demand and reduce poverty rates. However, he claims that, in reality, minimum wages tend to surpass the proposed ceiling, undermining employment prospects (Blanchard et al., 2013). Consequently, workers’ ability to collectively bargain higher wages and resist reductions of the minimum wage must be weakened, to achieve the appropriate degree of flexibility. The same justification holds for the need to curtail employment protection. Excessive regulation, for instance through setting an upper ceiling in collective dismissals, can protect employees but simultaneously it can pose restrictions on new hirings (OECD, 1994). Hence, easing the regulatory framework of employment is considered necessary whilst flexibility can be put forward through concluding part-time and/or temporal contracts (Ioannidis et al., 2012).

Regarding welfare, it is argued that unemployment benefits are a disincentive to active job searching. The emphasis of policymaking should not be placed in passive labor market measures, such as unemployment benefits, but in what is called active labor market policies, constantly improving human capital. To sum it up, it is said that flexibilization and welfare retrenchment can promote growth, thus creating jobs. As a result, potentially negative effects on poverty caused by the implementation of such reforms will be counterbalanced through the diffusion of benefits to the economy as a whole (trickle-down) (United Nations, 2009).

Testing the rationale: Deregulation and in-work poverty

The mainstream view has faced a lot of criticism, first and foremost about its empirical foundation. Specifically, the main hypothesis, according to which unemployment is a result of rigidities in the labor market, and thus, that deregulation will reduce unemployment, has been questioned by several studies (Baccaro & Rei, 2007; Aleksynska, 2014; Dosi et al., 2016). Even if it is accepted that deregulation does lead to the reduction of unemployment, that could be seen as misleading, since the reduction will be at the expense of the quality and earnings of the jobs created, while income compression will eventually lead to a lack of aggregate demand, thus reducing growth and challenging the “trickle-down” rationale (Dosi et al., 2016). Lastly, it must be noted that the lack of empirical foundations in the main arguments in favor of deregulation, eventually led to a shift on the part of international organizations, in the 2000s. The World Bank published a report in 2003 titled “Economies Perform Better in Coordinated Labor Markets” while an OECD study in 2004 supports that different institutional arrangements can result in the same outcome, thus questioning the view that deregulation can be a “one size fits all” solution (Freeman, 2005). Interestingly, at the onset of the crisis of 2007-08, the narrative of international institutions shifts again in favor of deregulation, indicating inconsistencies between theory and practice (Dosi et al., 2016).

Academic interest in in-work poverty began in the onset of the 20th century, deploying a variety of measures. These measures share a common definition of working poor as employed people living in a household (the unit of analysis) with income below a certain poverty line (Lohmann, 2018). For instance, ILO uses the international poverty threshold of 1,9$, which is a measure of absolute poverty, while Eurostat defines working poor as those who live in a household whose income stands below 60% of the national equivalent median income, which is a measure of relative poverty. The relationship between deregulation and in-work poverty has been central to several academic contributions. Some scholars examine the causes and distribution of in-work poverty in country-specific studies, as in the case of Greece (Ioannidis et al, 2012). Others examine cross-country data trying to identify comparable trends, for example at the EU level (Dafermos & Papatheodorou, 2012; Marx & Nolan, 2012). These studies find that the incidence of in-work poverty is highly associated with part-time and/or temporal contracts, while it is significantly lower in full-time jobs. Similar conclusions can be derived from analyzing data on the work intensity of the household because insufficient working time is correlated with higher in-work poverty rates. Other contributions attempt to associate in-work poverty with labor market institutions, while it is also common to distinguish among different types of welfare regimes[3]. Thus, some findings show that decentralized wage-setting is linked with significant wage inequalities and that in-work poverty is much lower in more generous welfare states, as in the Scandinavian case (Lohmann & Marx, 2008; Dafermos & Papatheodorou, 2012). Furthermore, non-standard forms of employment are systematically under-secured. For instance, a study on the risk of not being entitled to unemployment benefits (as in the case of low hours worked and thus low social contributions paid), suggests that the social protection of non-standard employment is considerably low (Matsaganis et al., 2016).

The Washington Consensus failed to produce the desired outcomes. In developing countries, fiscal and monetary contraction, coupled with flexibilization of the labor market, didn't create new employment opportunities, even where economic growth was achieved -the so-called "jobless growth" (United Nations, 2009). Generally, structural reforms in labor markets not only tend to create insecure and low-paid jobs but also result in underemployment. In fact, according to Eurostat (2021), involuntary part-time in 2019 – a year before the pandemic outbreak- was 29.8% of the total part-time employment in the EU-27, while in the European South, it was much higher (54.4% in Spain, 65.8% in Italy and 66.4% in Greece)[4]. These trends indicate the incidence of underemployment, as well as that part-time employment, is in many cases a choice made by employers (Ioannidis et al., 2012).

[3] The most prominent distinction (attributed to Esping-Andersen) is among social-democratic, liberal and conservative welfare regimes, while usually a South-European regime is included.

[4] Involuntary part-time employment (% of total part-time employment) refers to those who seek a full-time job but can't find one. Data on involuntary part-time work are based on the Labour Force Survey and are available on https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_eppgai&lang=en (Accessed: 11/05/2021).

Conclusions - Avoiding mistakes of the past

The current pandemic poses serious concerns about the future of work and social policy. Globally, workers have faced health threats and economic stress, especially those under-secured. It should also be noted, that "work from home" schemes, which grew during the lockdowns (and that for some "are here to stay") are linked with much lower social protection, whilst at the same time auditing compliance with existing regulation is a difficult task (ILO, 2021). Several measures have been considered to combat this problem, such as tax credits and in-work benefit schemes, used as an income support measure, as well as establishing a sufficient minimum wage (Marx & Nolan, 2012). An interesting suggestion would be the possibility of coupling income support measures with a "job guarantee" program provided by the state. These programs can have a two-fold use, as they reduce unemployment and simultaneously can set a desired and effective minimum wage (Anastasakis, 2020).

However, the aim of this policy brief is not to provide an extensive list of specific measures. Besides, such an attempt would require a detailed analysis of a country's institutional arrangements. Instead, this analysis aims to present some general considerations for the future of social policy. Failing to identify the social groups in danger, signals that any policy to reduce poverty will be fragmentary and hence ineffective (Dafermos & Papatheodorou, 2012). While the empirical foundations of deregulation policies are flawed, mainstream wisdom tends to equate deregulation with institutional quality (Aleksynska, 2014). However, as argued, the incidence of in-work poverty is highly related to non-standard forms of employment and the weakening of labor market institutions overall. Efforts to reconstruct economies in the post-covid era should be centered on the need for decent employment opportunities and avoiding mistakes of the past. The pandemic made clear the importance of the welfare state (Tzagarakis et al., 2020). Reviving the austerity discourse, due to high public debts, could reduce substantially the discretional use of social policy. There is an actual need to form a coherent framework of policy measures, with the extension of social security in types of employment that are currently under-secured, and not return to the rationale of welfare retrenchment.

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