

Labour Market Policy

1. Minimum Wages

- Why do we need minimum wage?
 - Economic **equality** & financial well-being of low-wage workers: reduce in-work poverty (making work pay); overall income inequality in society (spillover to other mid/low wage groups)
 - Other social outcomes: low-wage work leads to extremely long work hours; prevents exploitation by employers; better health by improving job satisfaction; reduce gender-pay gap as low-wage workers concentrated among women; better recognition of low-paid but 'essential' jobs (cleaners, care workers...)
 - But also, **efficiency** argument: labour markets are by nature imperfect (far from the 'ideal', perfectly competitive labour market)
 - Employers have relatively large bargaining power (or 'monopsony' power): small number of employers relative to workers; limited mobility of workers; information & resource gap
 - Introducing minimum wage can rather improve market efficiency (closer to 'perfect market' equilibrium in economics)
- Main concern: introducing or raising minimum wage may lead to rise in unemployment & job loss (or reducing other fringe benefits)
 - Minimum wage can rather harm low-skilled workers by improving welfare of medium-skilled workers?
 - Card & Krueger (1994): surveyed low-wage enterprises in NJ & PA, and compared employment between the two states (only NJ raised minimum wage in 1991-1992)
 - Minimum wage increase resulted in a rise in employment!
 - Seattle minimum wage experiment (Jardim et al. 2017): 9.47 USD to 11 USD in 2015 & 13 USD in 2016
 - Increased hourly wage by 3% but reduced work hours by 9% → overall decrease in income among low-wage workers

- Overall review: Minimum wage affects employment not as much as concerned, but too fast increase can result in job loss
- Reasonable level of increase would benefit low-wage workers & reduce inequality
- Politics of minimum wage: why have there been minimum wage drives recently in (neo-)liberal welfare states?
 - Social & economic problems: low-wage work & in-work poverty are serious issues (vs Europe), weak collective bargaining institutions
 - Politics: left party's surrender to workfare ideal (New Labour, Clinton Admin); right-wing's compromise (austerity & fiscal constraints; pre-distributive policy; economic evidence favourable to NMW)
 - UK: introduced by New Labour since 1999, advocated by George Osborne in Conservative-LibDem coalition
 - High minimum wages in the Blue states (CA); recent Biden package (\$15 federal MW initiative, though not successful)

2. Unemployment Insurance & Benefits

- Replacement income for workers during unemployment
- Designs of unemployment benefits: social assistance (means-tested & flat-rate, without or with modest contributions), social insurance (contributory & earnings-related)
 - Two-tiered system (Germany & Finland): Mix of insurance & social assistance for those not eligible for insurance
 - Administration: national policy (in most advanced economies)
 - Ghent system: State provides regulatory framework, implementation and administration led by trade unions & employer's associations → incentives to join trade unions (Nordic countries)
- Impact: income protection, mental health, skills maintenance, poverty reduction, redistribution (from the employed to the unemployed)
 - But larger & longer unemployment? Long-term effect ambiguous

- Effect depends much on 'details': replacement rates; duration (6 months – 2 years); eligibility & benefit sanctions (Work first vs human capital approach); interactions with active labour market policies; labour market dualization (Biegert, 2017)
- Why should unemployment insurance be provided compulsorily by public?
 - Negative externality of unemployment: human capital, social trust, crime, public health...
 - Private firms cannot offer 'social insurance': adverse selection & affected by the business cycle

3. Employment Protection Legislation (EPL)

- Ensuring job security: restrictions on hiring & firing process: legal charge or compensation to fired workers (severance pay)
- Impact: creates bargaining powers (also related to imperfect markets)
 - EPL can be a proxy for trade union powers
 - Impact on employment: restriction on firing but reluctance to hiring
 - Creates dualization: insider-outsider division of protection (different EPL index for standard & non-standard contracts)
 - More incentive for employers to hire flexible workers

4. Active Labour Market Policies (ALMPs)

- Politics: from passive to active social policies, overcoming left-right divide
 - From de-commodification to recommodification (enabling state)
 - Consistent with "third way" & social investment: making work pay, human capital approach, productive welfare
- Types of ALMPs: training & lifelong education, subsidised employment, job creation, public employment services, activation measures
 - Working tax credits: similar but different target groups (low-paid work)
 - Subsidized employment: mainly for older workers & disabled

- Activation measures: combined with unemployment benefits for benefit sanction (UK work-first approach), low-quality training is required for moral reasons (you cannot get benefit for free!)
- Scandinavian case considered as best practice for public training & employment services, liberal (on-the-job training), corporatist (vocational training in early career, but less developed as lifelong training)
- Impact: better matching by acquiring skills (but also promoting job-search behaviour), improving labour productivity, preventing human capital depreciation during unemployment, social integration
 - But evidence on unemployment mixed (short & long-term)
 - short term effect vague due to 'not so stressful unemployment'
 - long term: reduce unemployment by increasing productivity, human capital development

5. UK Labour Market Policy

- Pre-War era: 1911 first compulsory unemployment insurance
- Postwar-1960s: major development of unemployment benefits & employment protections, union movement
- Thatcher era: increased conditionality of unemployment benefits, lower generosity, weakening EPL & workers' rights (e.g., anti-strike laws)
- New Labour: "making work pay", introduction of minimum wages, working tax credits, strengthening activation policies (welfare-to-work)
- Conservative-liberal coalition: unemployment assistance (jobseeker allowance) integrated to universal credit system, further benefit sanctions
- COVID-19: furlough scheme – crisis management by retaining existing employment relationships, successfully absorbed the labour market shock