

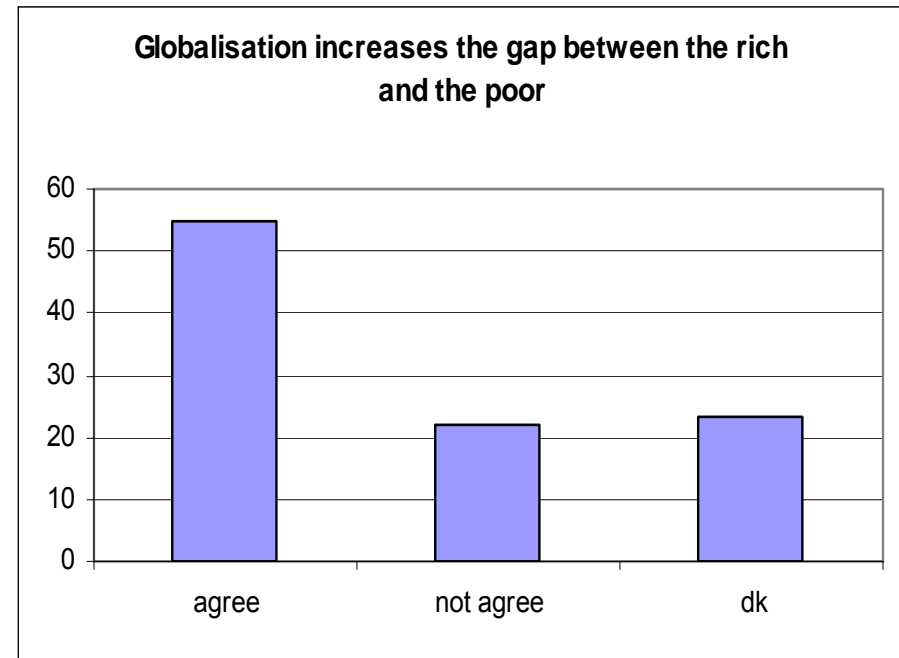
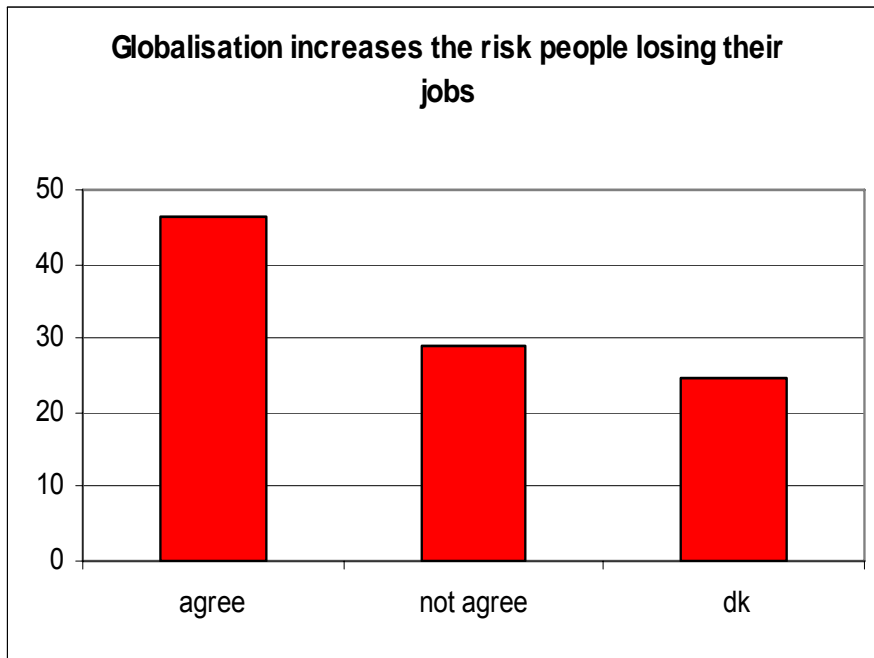
Globalisation and Welfare Policy

Stockholm, SNS, October 4, 2006

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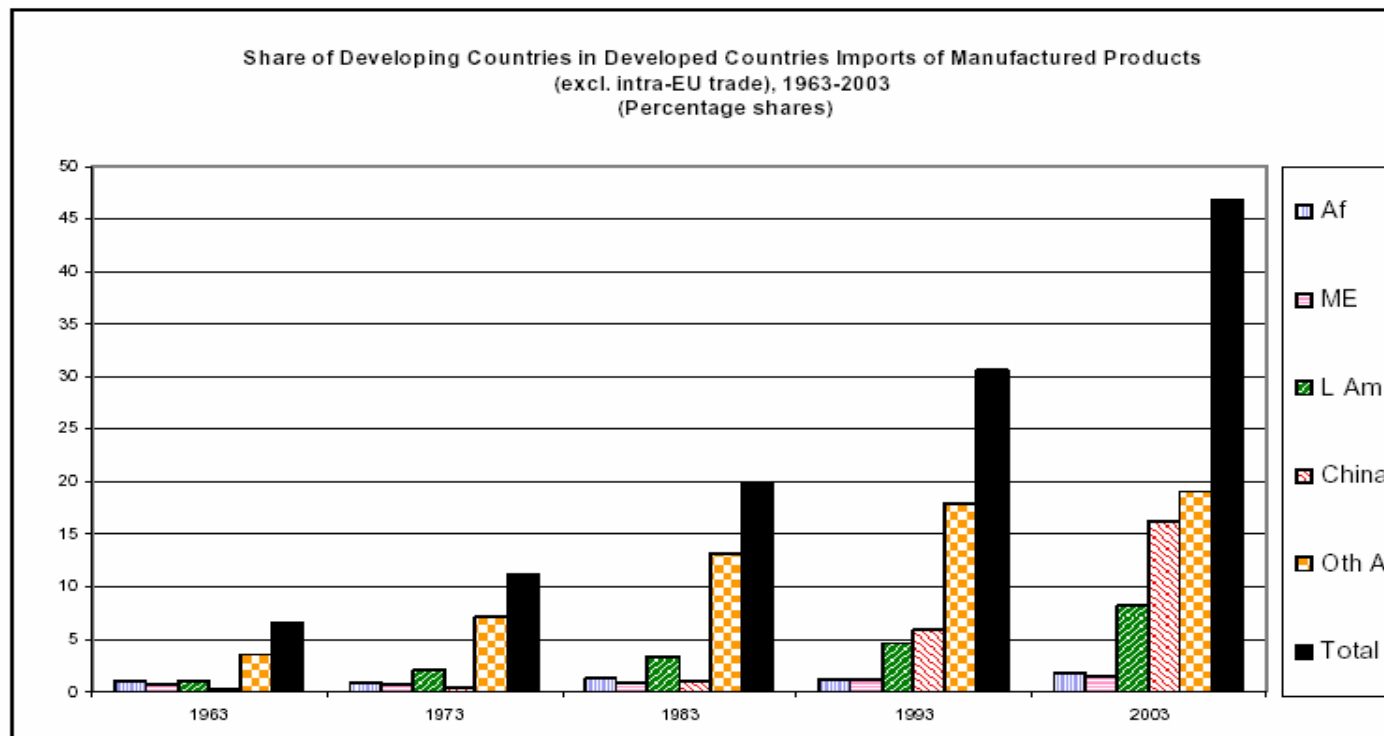
Concerns about effects of globalisation on labour markets and redistributive institutions



Eurobarometer, 2001

Globalisation in the product market

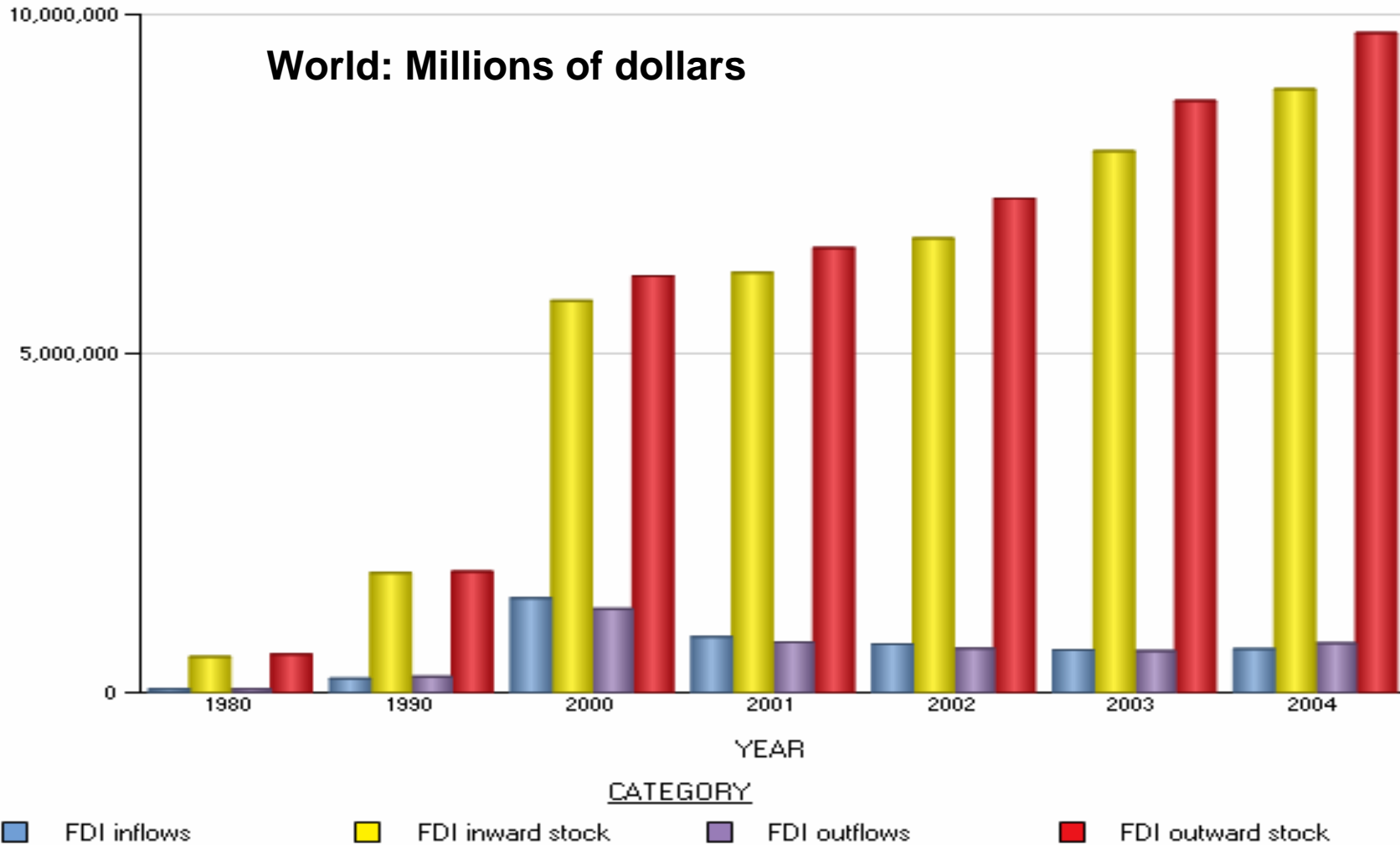
Figure 1



Note. From left to right: Africa, Middle East, Latin America, China, Other Asia and Total.

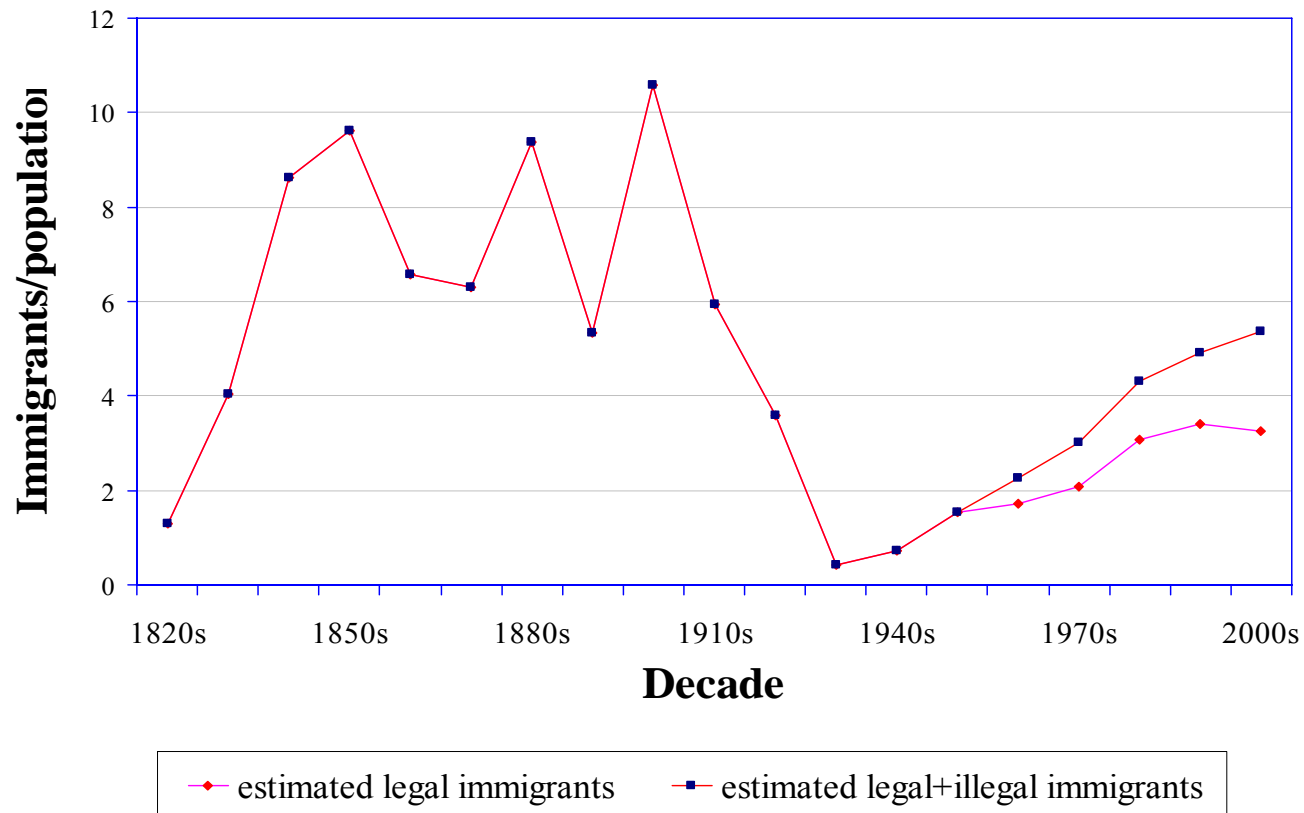
Source: own computation based on WTO data.

Globalisation in capital markets



Source: Unctad

Globalisation in labour markets



The payslip of Mr. Guan Guoji

- Hourly gross wage: 0,50 euros
- 200 hours per month
- Gross wage: 108,14
- Taxes and contributions: 10,32
- Meals: 13.9
- Net wage: 83,92

Department / 部门:	生产部	Hourly gross (RMB) / 时薪:	¥4.79
Employee name / 员工姓名:	甘国际	Reference period / 月份:	2005年9月
Start date / 入职日期:	2005-1-24		

Type / 项目	Nr. / 数量	Base / 基数	Subtotal / 小计	Detail / 类型
Normal / 正常			¥998.00	+
Extension work / 超时工作	4	¥7.185	¥28.74	+
Rest day work / 休息日工作		¥9.58	¥0.00	+
Holiday work / 节假日工作			¥0.00	+
Premiums 1 / 节假日津贴			¥0.00	+
Premiums 2 / 其它津贴			¥0.00	+
Penalties or Dect / 处罚或扣减			¥0.00	-
		Gross / 总额:	¥1,026.74	

Type / 项目	Calc. / 基数	Rate / 费率	Subtotal / 小计	
Base social insurance / 基本社会保险			¥98.00	-
Taxes / 税	¥0.00	0.00%	¥0.00	-
Meals / 餐费	44	¥3.00	¥132.00	-
		Net / 净额:	¥796.74	

Receiver's signature / 签收人签名

甘国际

Roadmap

- Theory. Effects of globalisation via
 - product market competition – capital market integration (main drivers)
 - labor market competition – immigration
- In which direction are social policies actually evolving?
- Interactions between social policy and immigration policies

Model providing rationale for institutions and generating outcomes:

Institutions are motivated by policy objectives (social/protection/...) under market imperfections $w_d = Al^{-\eta}$, $w_s = l^\epsilon$

competitive (wedge-free) equilibrium: $w_s = w_d = A^{\frac{\epsilon}{\epsilon+\eta}}$, $l = (A)^{\frac{1}{\epsilon+\eta}}$,

but if attach weight $1-\beta$ to worker welfare or collective bargaining takes place and $1-\beta$ is the bargaining power of workers, labor cost markup factor

$$\mu \equiv \left(1 - \beta \frac{\eta + \epsilon}{1 + \epsilon}\right) \frac{1}{1 - \eta}$$

THIS OPTIMAL WEDGE IS LOWER THE LARGER THE WAGE ELASTICITY OF LABOR DEMAND AND SUPPLY

Social / labour market institutions as different ways to implement wedge

- minimum/collective wages extended via excess coverage
- tax wedges and transfers/subsidies, (non-employment/ unemployment/ family benefits) or
- quantity regulations, e.g., EPL, migration quotas, working hours restrictions.

Effects of globalisation

For given objective (“ β ”),

labor demand (supply? longer-term) becomes more elastic (η increases)

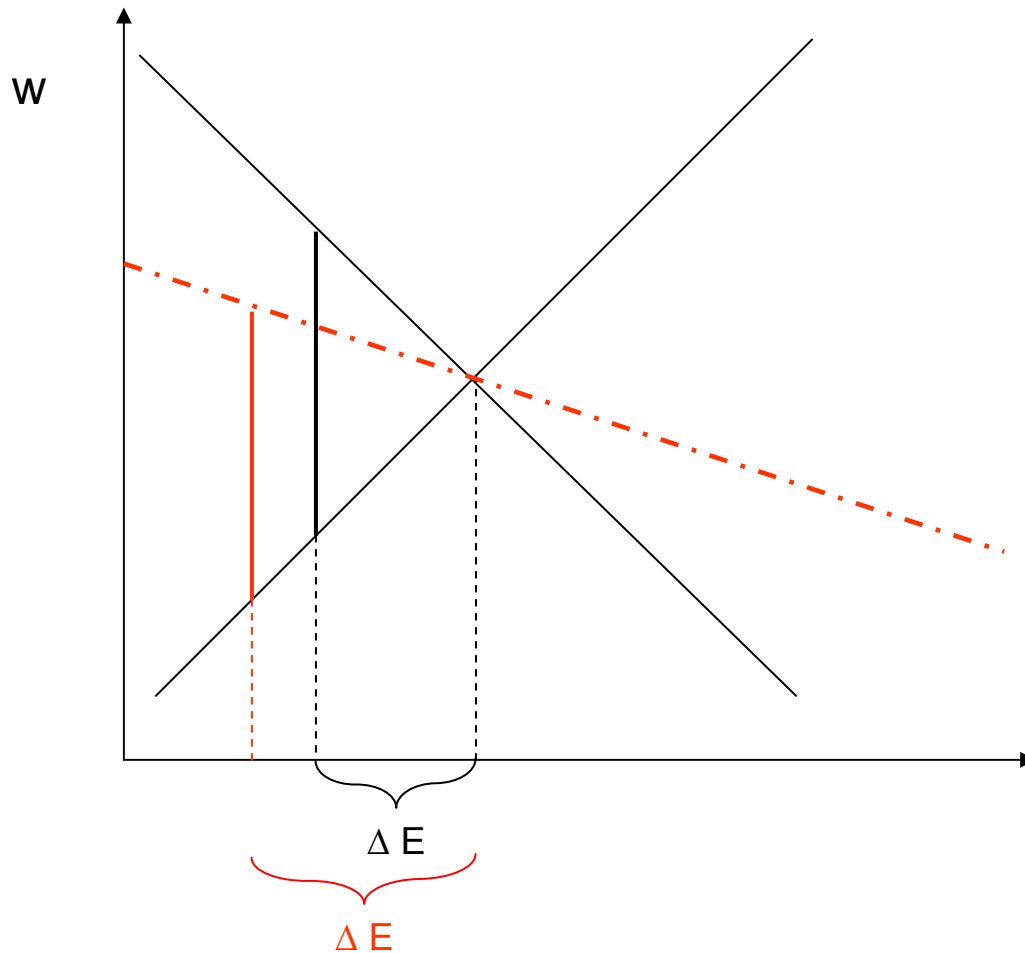
- (employment) side effects stronger,
- **smaller markup** optimal

$$w = A^{\frac{\varepsilon}{\varepsilon + \eta}}$$

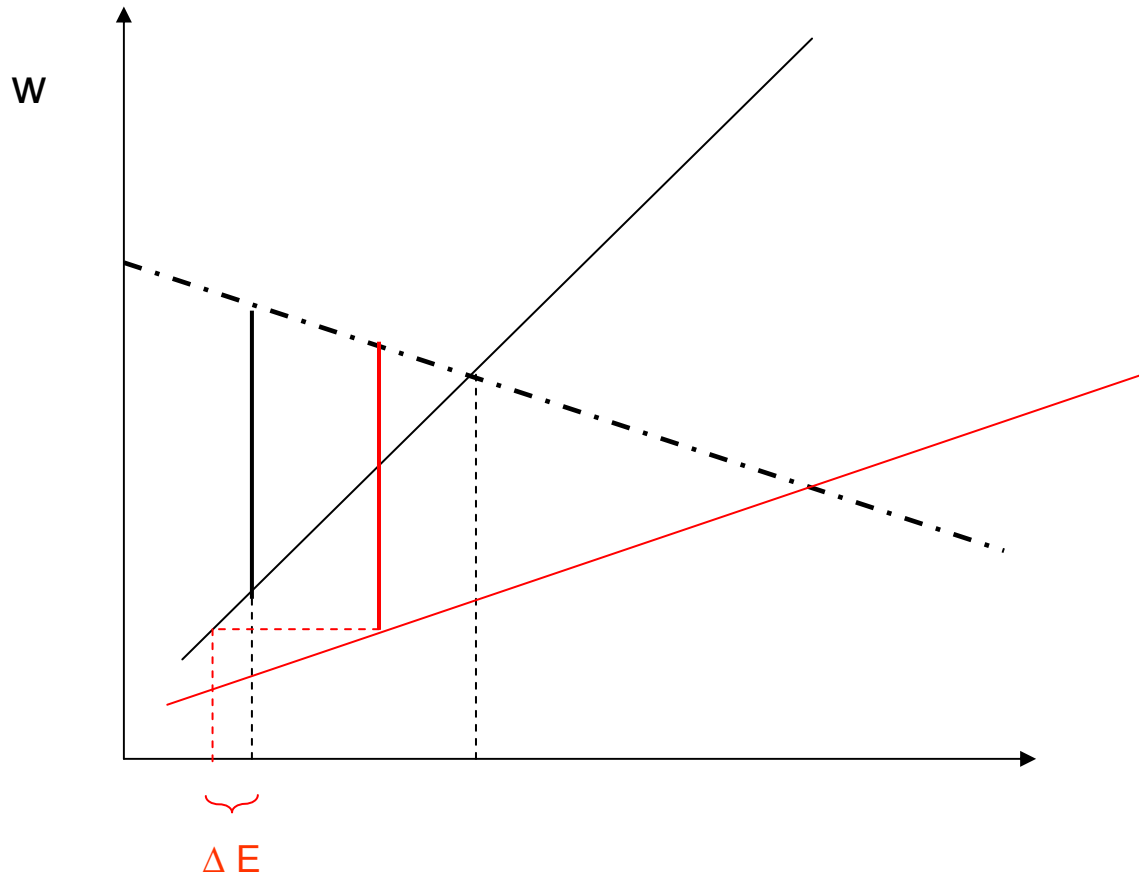
Need of reforms

- To avoid negative effects on employment, reforms should lower the mark-up (alternatively this can be done via collective bargaining)
- This effect can be partly counterbalanced by increased in efficiency: $A_1 > A_0$
- At unchanged markup, employment losses

Globalisation increases the employment costs of redistributive institutions



And immigration?



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Reforms of social policy

UNPOPULAR				
		Reforms per year		
		1987-1995	1996-2002	Δ 1987-2002
EPL	Emu	2	5	3
	Non-Emu	0	1	1
	Δ			2
NEB	Emu	3	12	9
	Non-Emu	1	3	2
	Δ			7
Pension	Emu	4	1	-3
	Non-Emu	1	1	0
	Δ			-3

Source: FRDB Social Reforms Database, available at www.frd.org

Note: Reform is unpopular if increase flexibility (EPL), reduces unemployment benefits duration or amount (NEB), cuts generosity (PENSION).

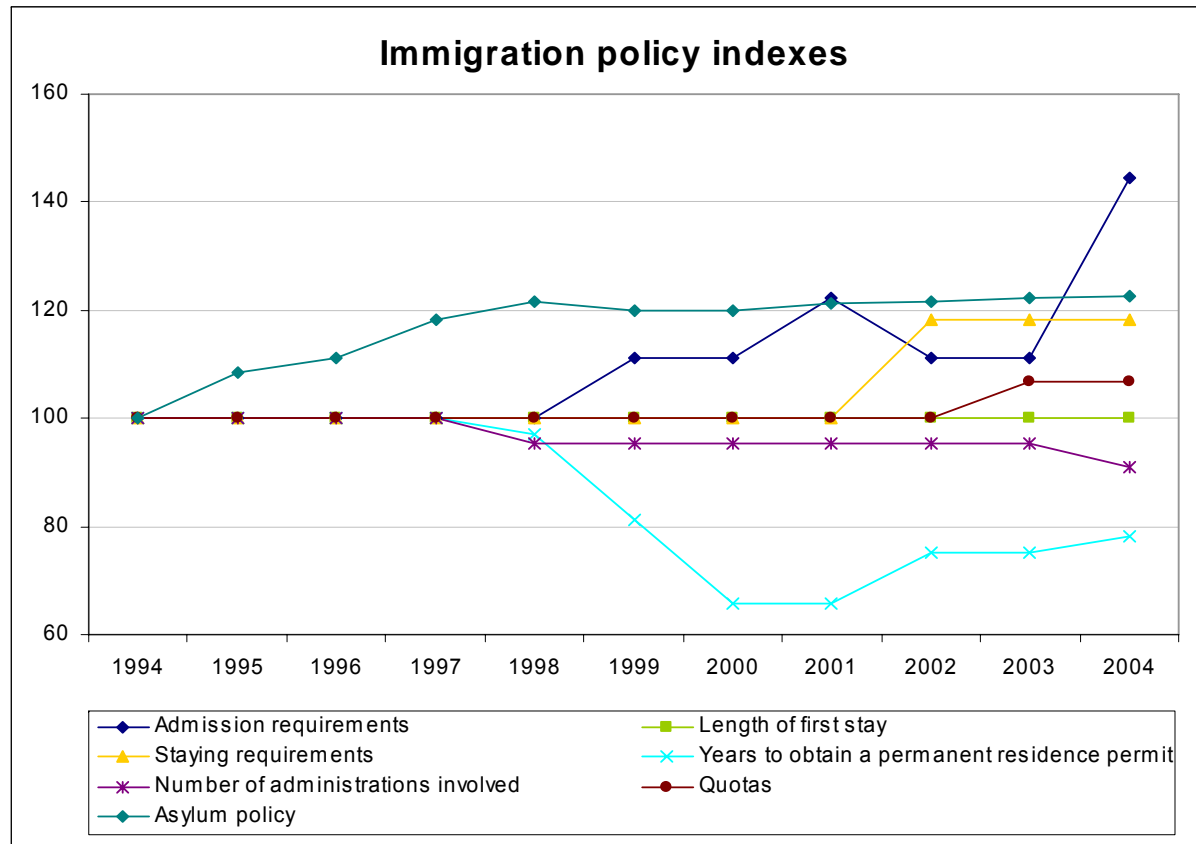
Reforms of social policy

POPULAR				
		Reforms per year		
		1987-1995	1996-2002	Δ 1987-2002
EPL	Emu	1	4	3
	Non-Emu	0	1	1
	Δ			2
NEB	Emu	2	3	1
	Non-Emu	0	1	1
	Δ			0
Pension	Emu	2	3	1
	Non-Emu	0	1	1
	Δ			0

Source: FRDB Social Reforms Database, available at www.frdb.org

Note: Reform is unpopular if increase flexibility (EPL), reduces unemployment benefits duration or amount (NEB), cuts generosity (PENSION).

Trends towards stricter immigration policies

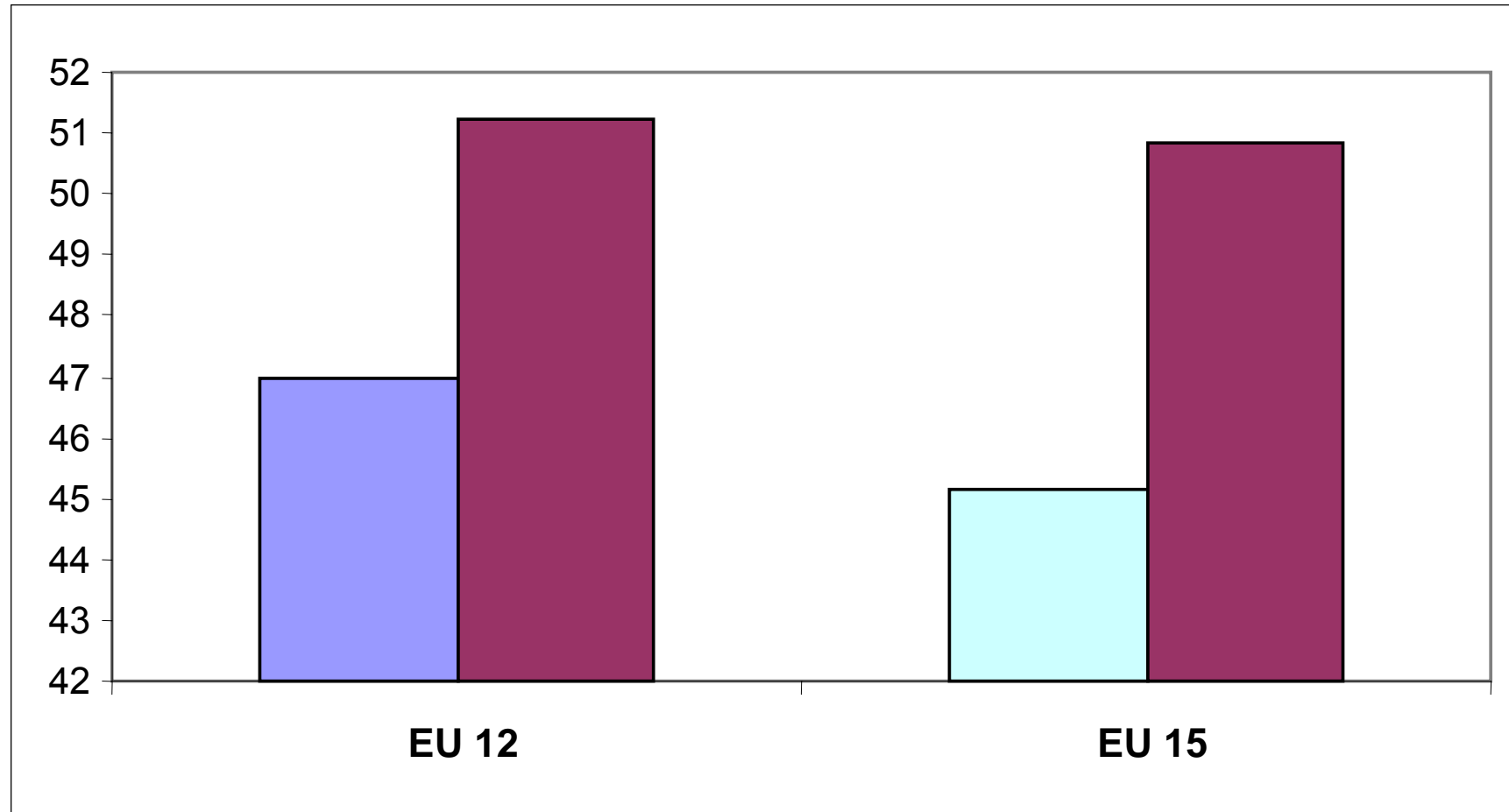


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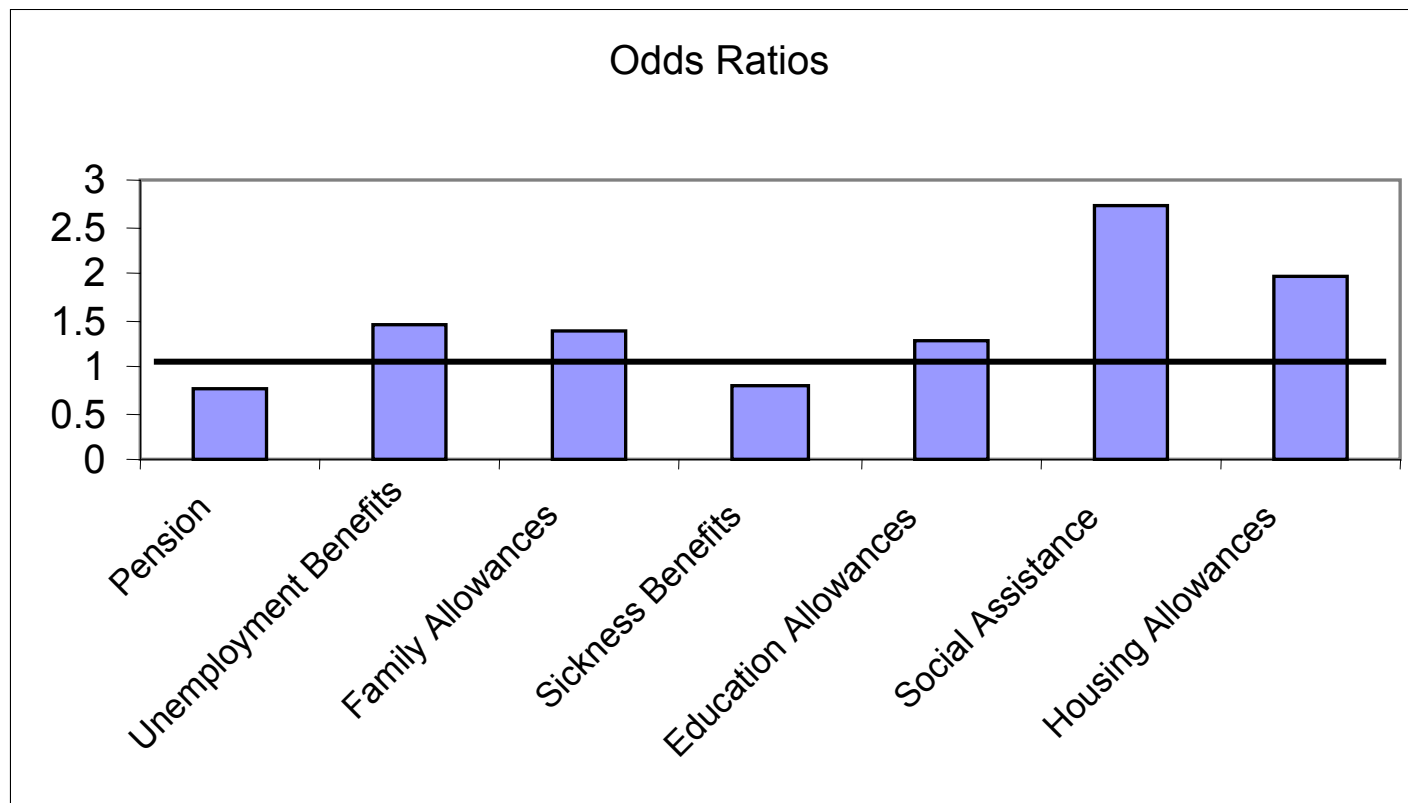
Growing Concerns

% of respondents stating that
“minority groups exploit the system of social welfare”



Source: EU 12 , *Eurobarometer 1994, 2000*; EU15, *Eurobarometer 1997, 2000*.

Migrants are over-represented among beneficiaries of several transfers...



f R

D B

..but not abusing, just using
 a) Contributory part (UB,PENS)

	DE	DK	NL	BE	FR	UK	IR	IT	GR	SP	PT	AT	FI
Nr children	-		--		-	---				---	-		
Low education			+++					++	++		+	+	
High education				--									
HH high income	---	---			---	---	---	--		--			---
HH low income	+++				++	++		++	---	+	---		++
Partner employed	---	---	---	---	---	---		---	---	---	---	---	---
MIGRANT NON EU													

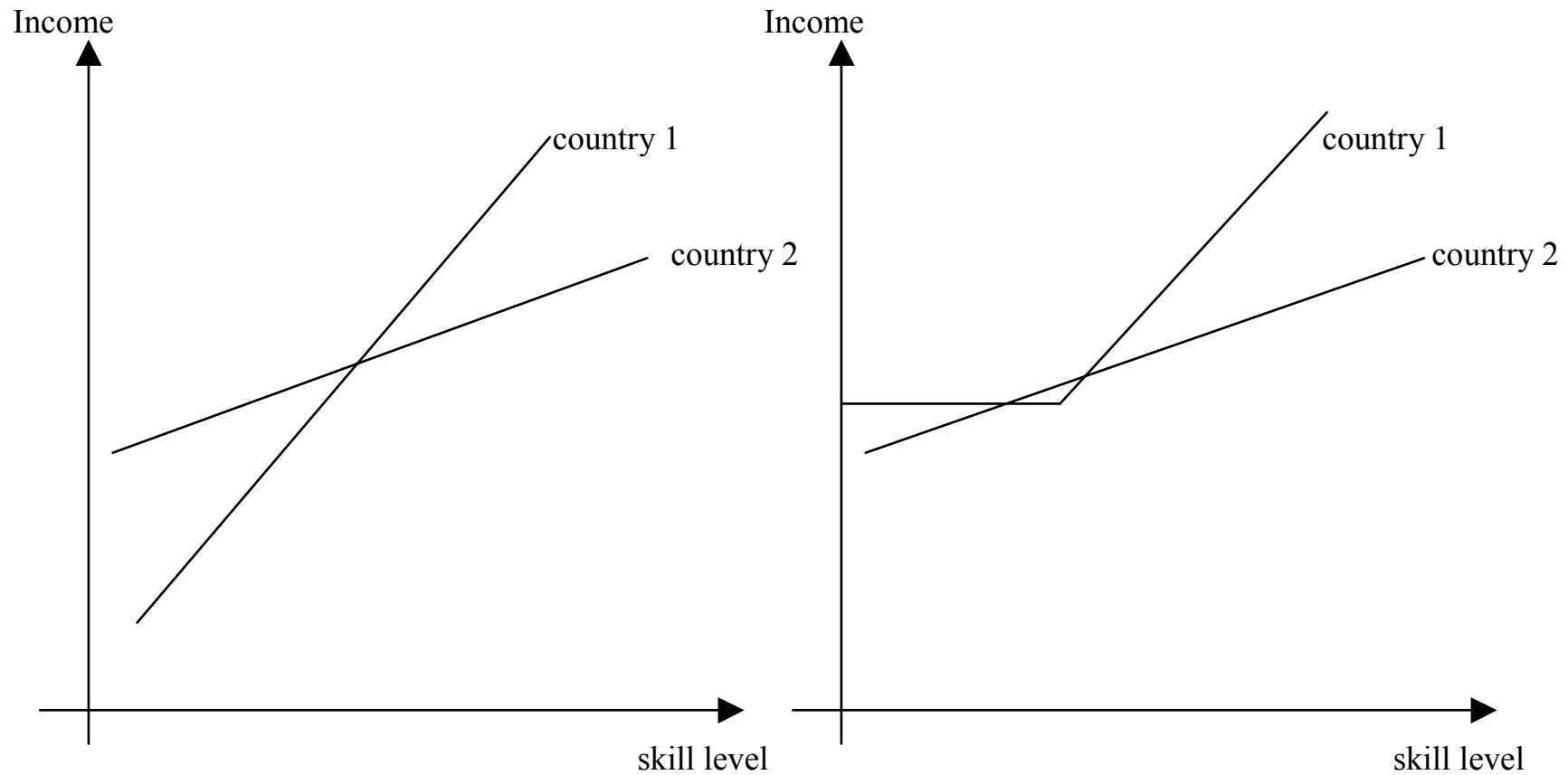
b) Non-contributory part (SA)

	DE	DK	NL	BE	FR	UK	IR	IT	GR	SP	PT	AT	FI
Gender			++			-			--				
Age	+++	+++	+++	+++		+++	+++				+++	+++	
Nr children	+++		+++	+++	+++	+++	+++	+++		+++	+++	+++	+++
High education	+++		---			--			--				
Low education			---						++	-			
HH high income	---	---	---	---	---	---	---	---			---	---	---
HH low income	+++	++			+++	+++	-			++	--	---	
Partner employed	+			+++	-	-					+	+	
MIGRANT NON EU						-							

Perceived “race to the bottom”

- Countries with richest welfare states may end up attracting more migrants of the type likely to receive welfare payments.
- Governments may be induced to cut down on welfare to avoid attracting this type of migrants.
- Not evidence that this is occurring, but perceived as a potential risk

Drivers of the race to the bottom in welfare provision



skilled migrants go to country 1
unskilled migrants go to country 2

safety net in country 1:
also the unskilled go to country 1

Policy options

3 possible ways out:

1. Closing the welfare door to migrants
2. Selecting migrants: introducing a point system
3. Harmonising minimum guaranteed income schemes: a EU-wide safety net

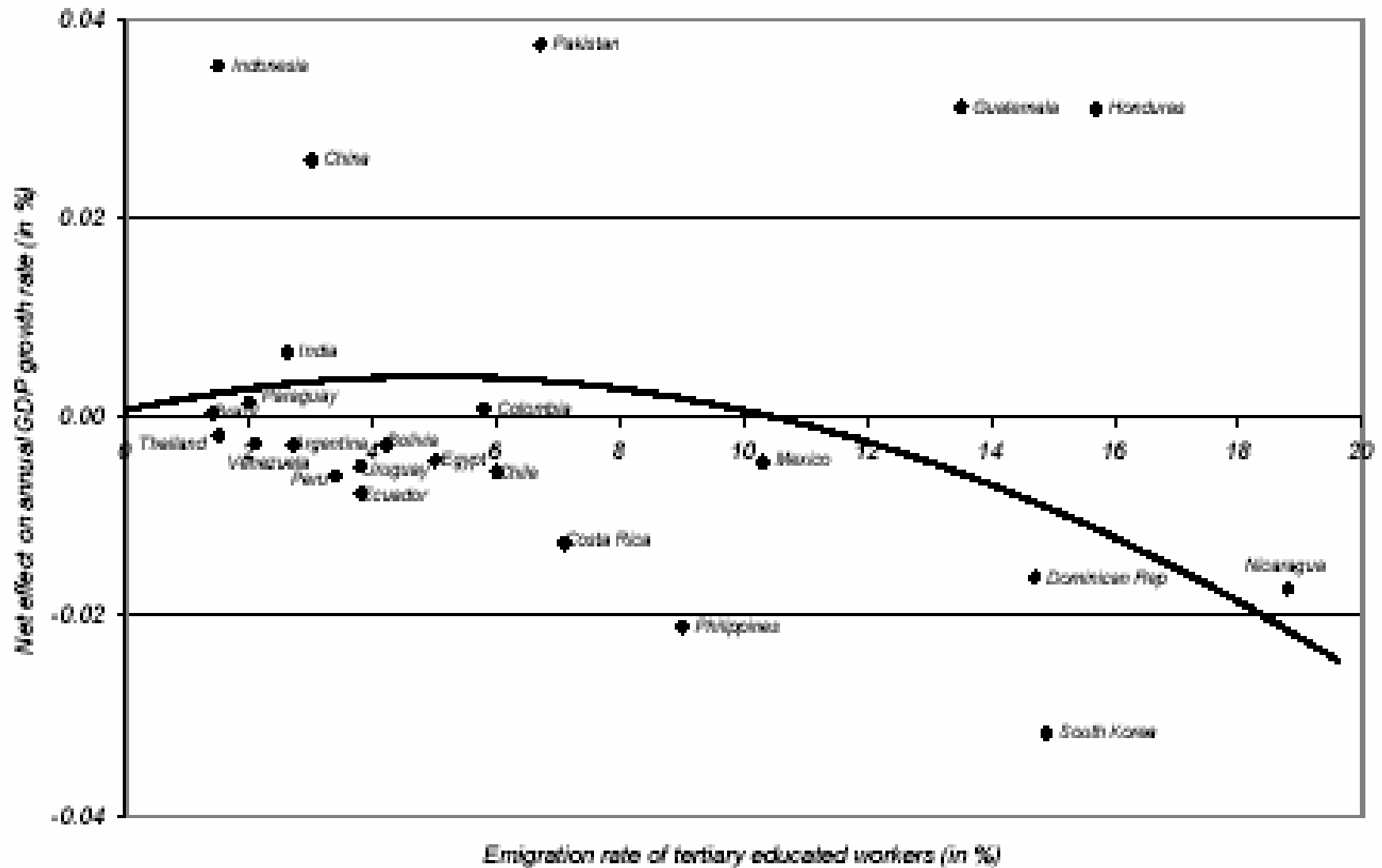
Closing the welfare door?

- US experience suggests that it is too difficult to enforce these restrictions
- Empirical evidence: less welfare reduces migration to rigid countries (by 1,5-3% for men, while migration of women *increases!*) with no effects on the skill composition
- Problems of assimilation
- Equity considerations

A point system?

- Skilled migration is consistent with redistributive institutions; it reduces income inequalities in the recipient.
- Simplification of migration policies (including asylum)
- Issues: enforcement; risk of “brain drain”, equity considerations.

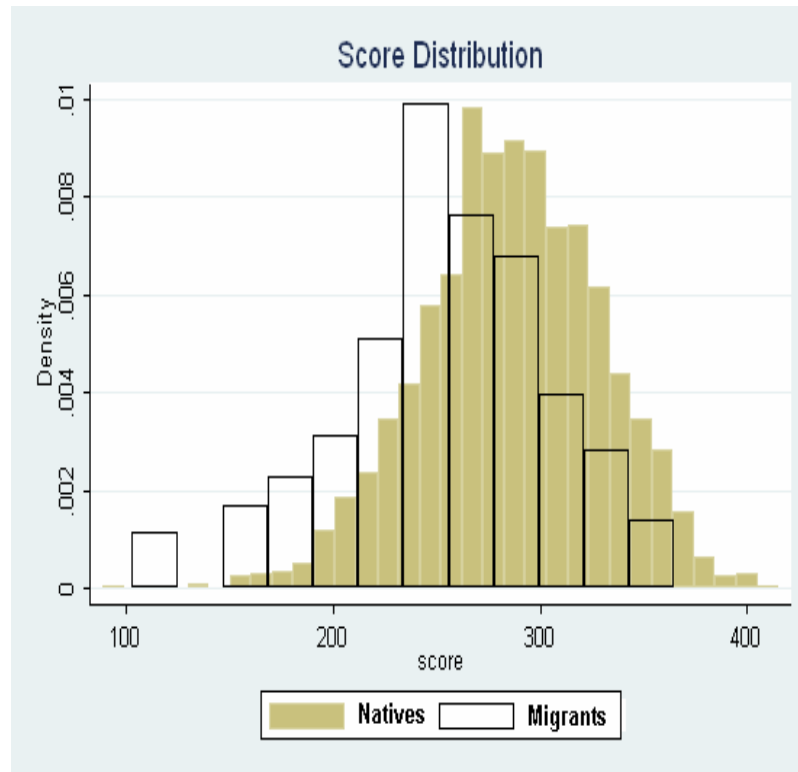
Brain drain may not be harmful to LDC growth



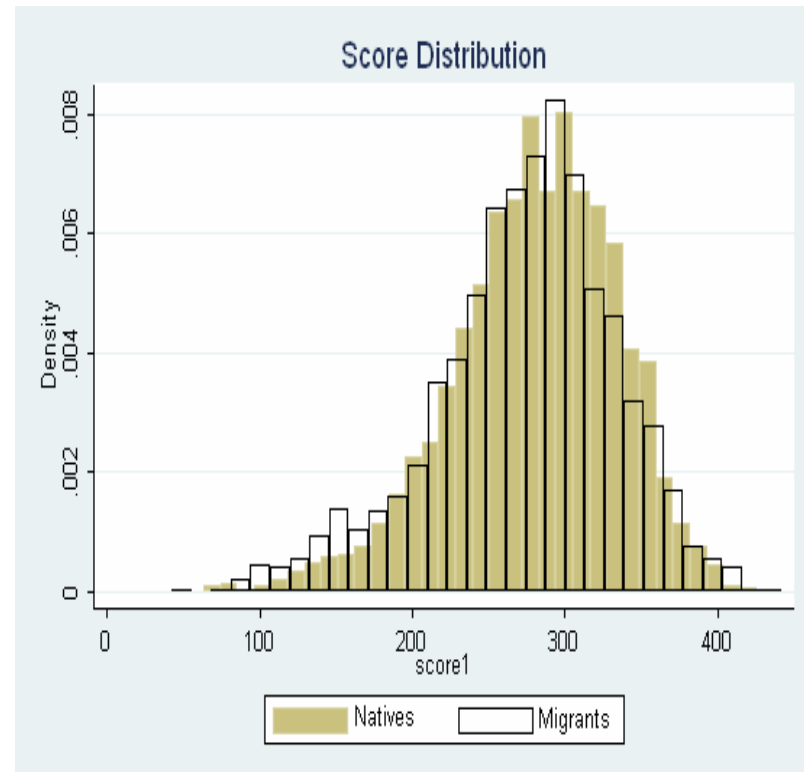
Source: Docquier – Rapport (2004)

Effective in selecting migrants (IALS scores)

Germany



New Zealand



A EU-wide safety net?

- EU-wide minimum welfare floor (Atkinson (1998)) preventing a “race to the bottom” in non-contributory transfers
- Important design features (need to harmonise in absolute levels, adjusted to PPP)
- Costs (not too large actually: MGI at 430 Euros for singles costs about 30 billion, ½ of the CAP)
- If provided as citizenship right, necessary to coordinate migration policies as well.

Final remarks

- Globalisation puts pressures on social policies
- Need to integrate more closely migration policies and social policies
- Some supra-national co-ordination (in terms of welfare minima and migration policies) may be required.