

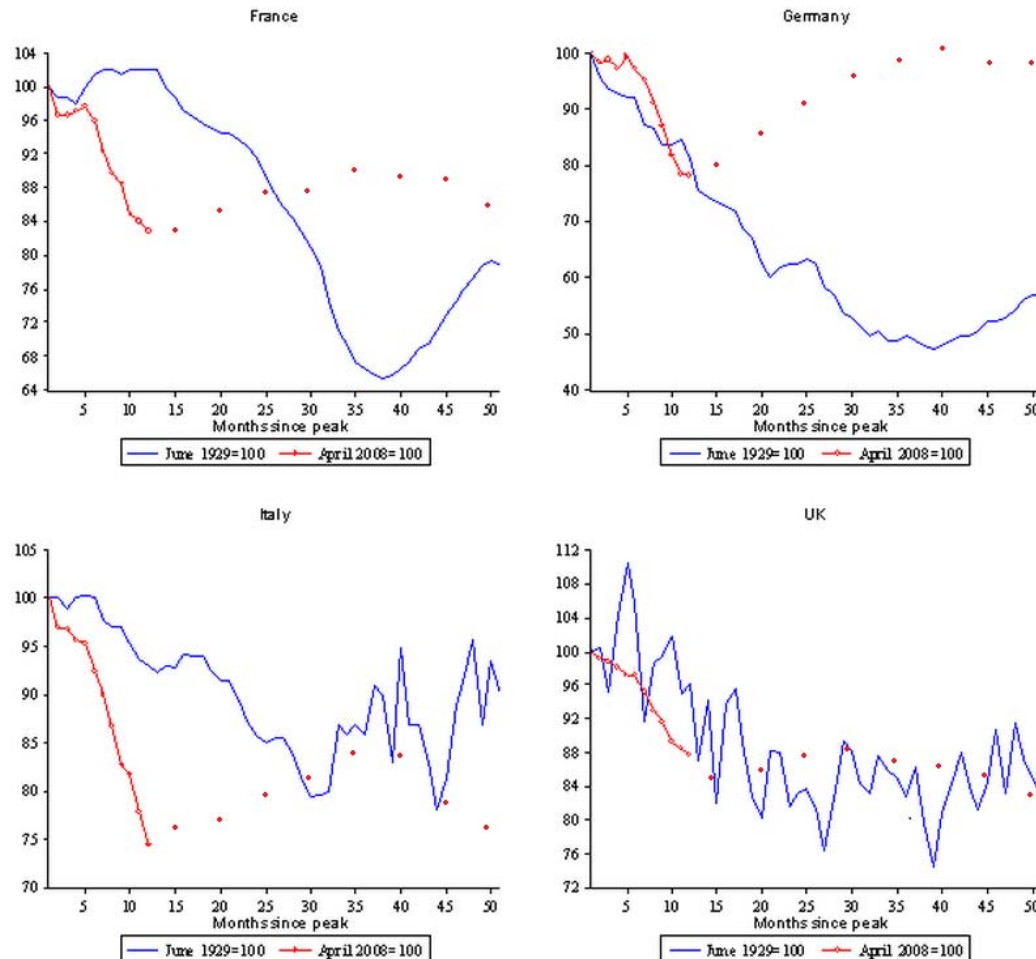
# A welfare union?

*Conference, BEI Luxembourg-Kirchberg  
10 December 2014*

Tito Boeri, Università Bocconi

# The stress test

## Great Depression and Great Recession



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Fonte: Eichengreen e O'Rourke

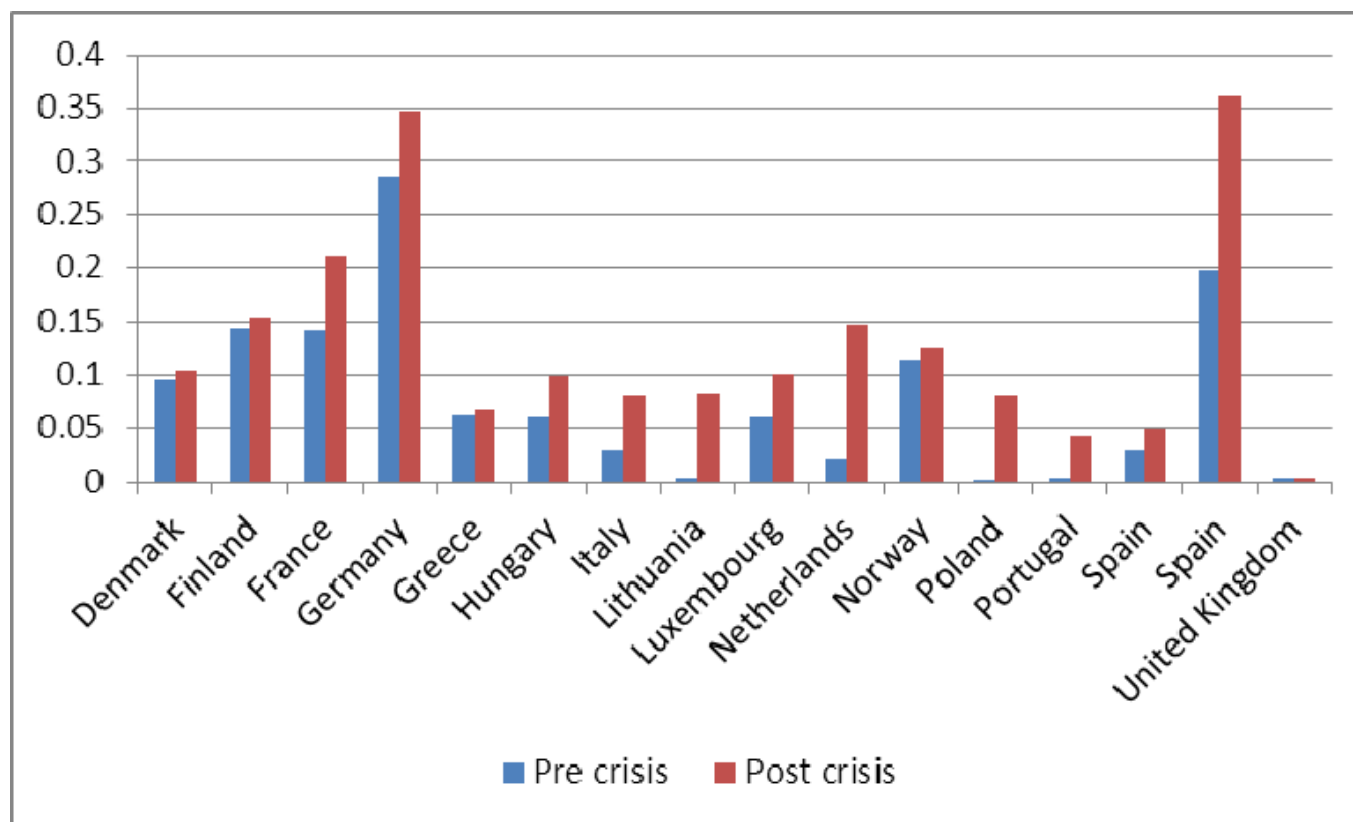


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2014

# Homelessness in the EU

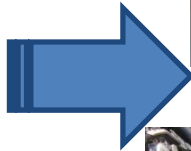
(% population)

f R  
D B



# Stereotypes

## homeless = clochard



**Are we sure?**

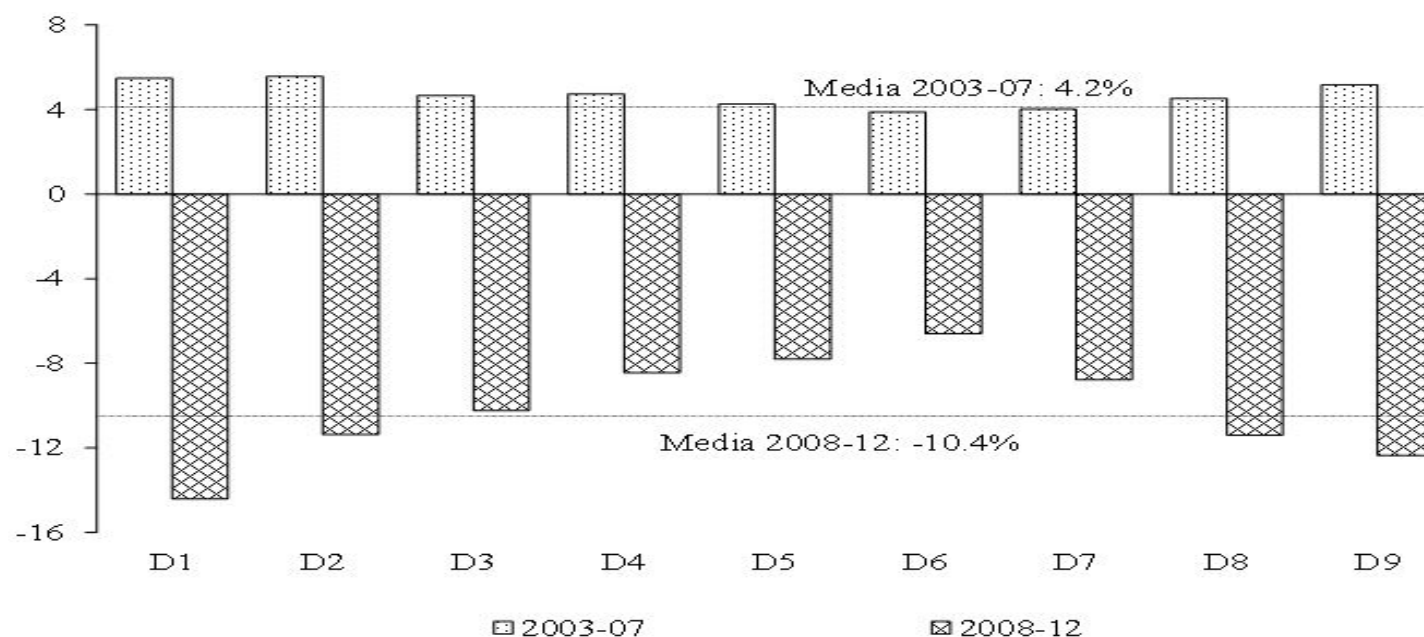
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# Functions of the Welfare State

1. Reduce poverty (more than inequalities per se)
2. Protect against uninsurable market risk
3. Promote labour force participation

# Inequality and poverty are not the same thing: Italy after 2007

|      | Gini  | Absolute Poverty rate<br>(Anchored to 60% of median income in 2006) |
|------|-------|---|
| 2006 | 33.7% | 19.9%   |
| 2012 | 34.0% | 27.0%   |



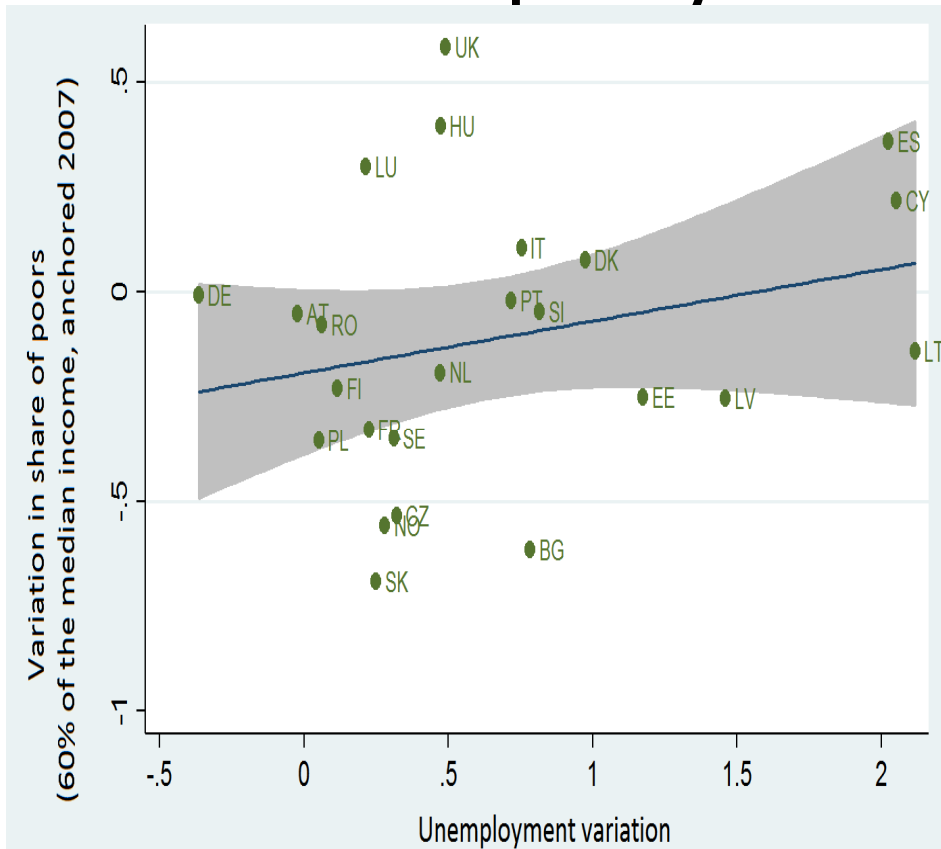
# Outline

- Some facts about the shock: output fall, poverty and unemployment
- The social policy response. Did they cover the most needy?
- What can be done to avoid the loss of a generation?

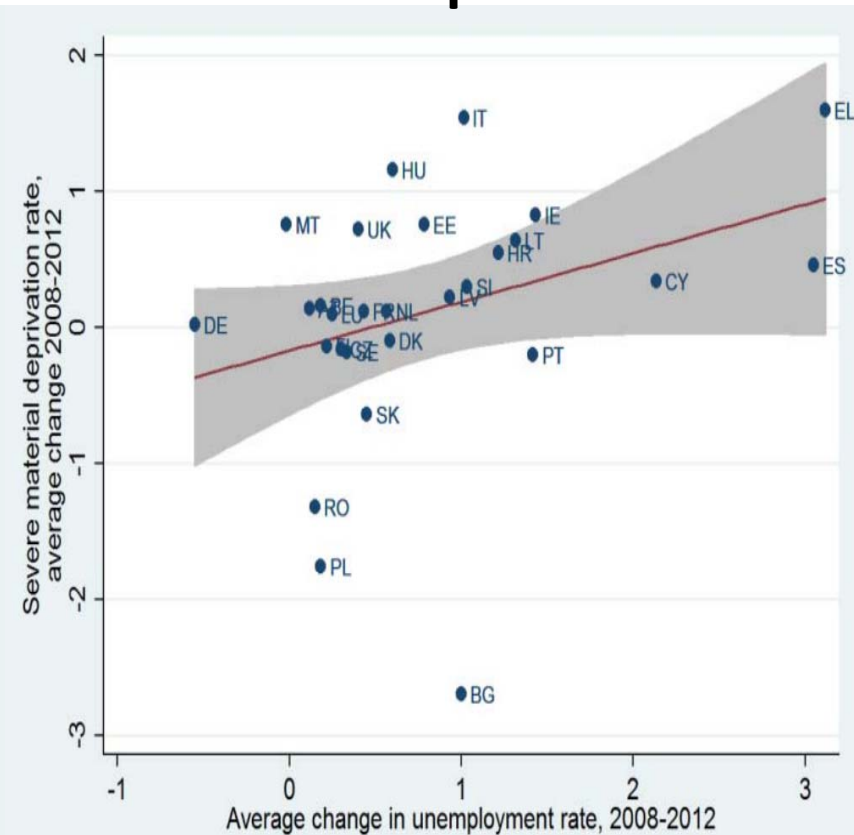


# Poverty and unemployment

«Absolute» poverty rate

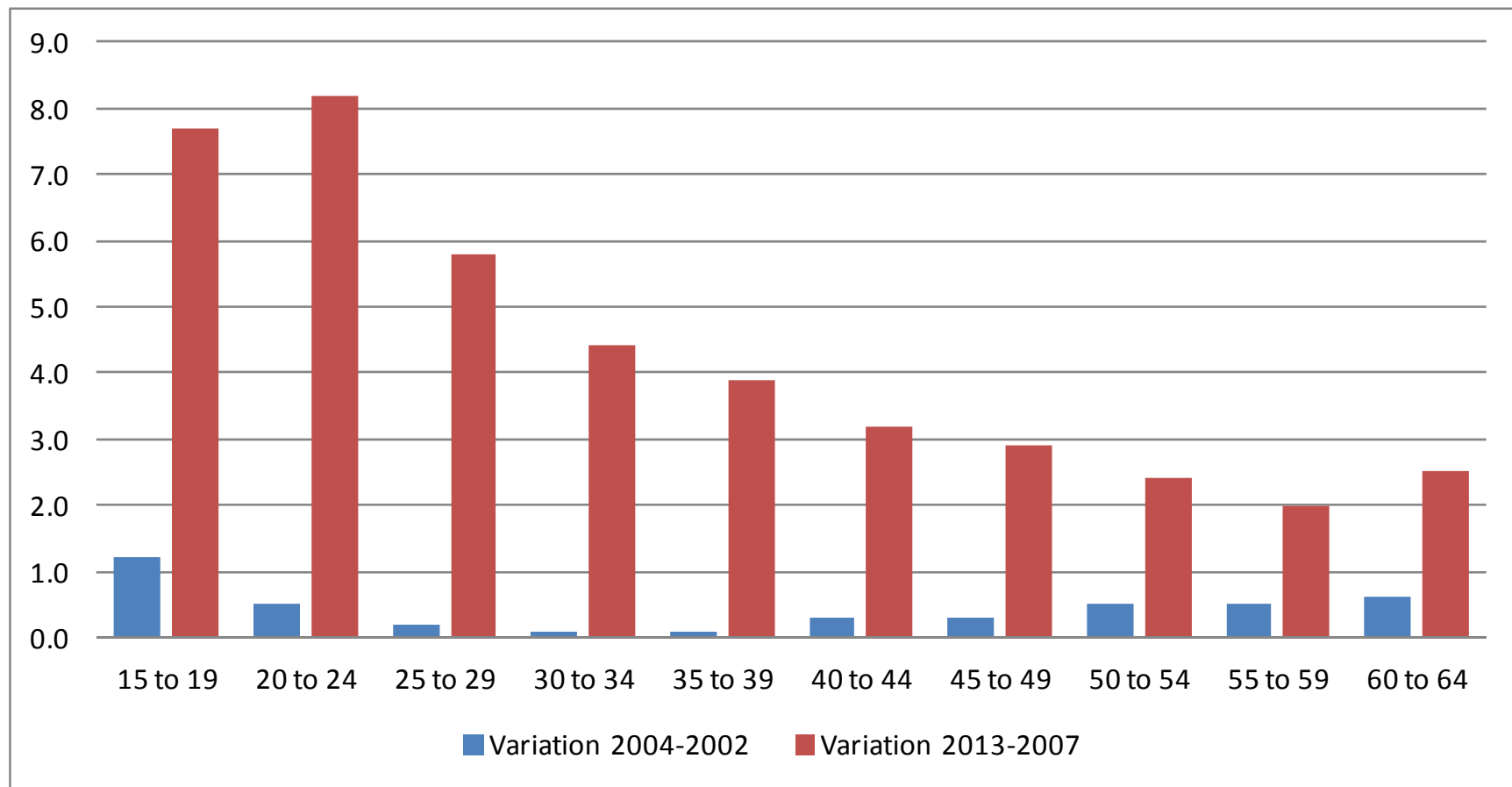


Material Deprivation

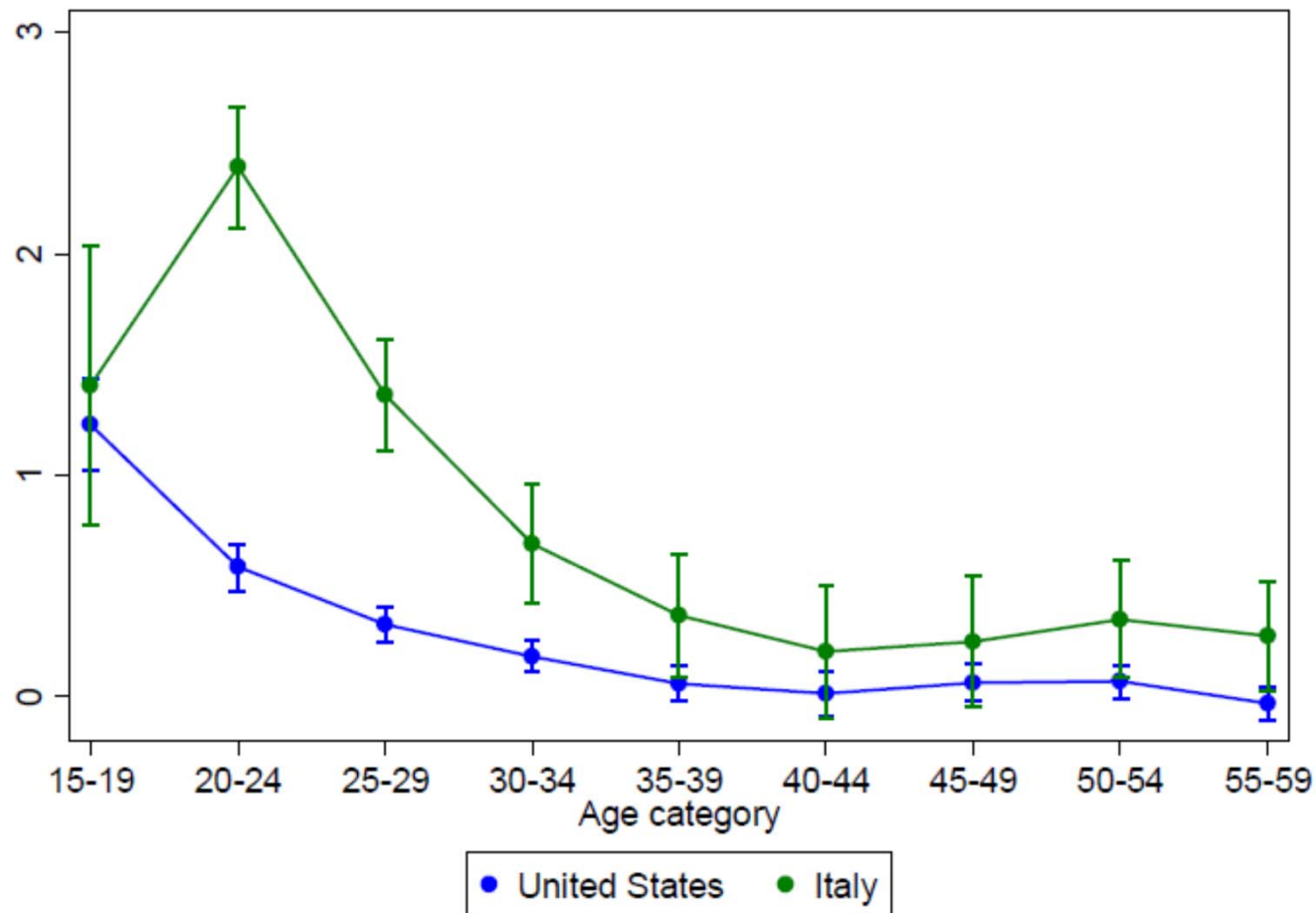


- Source: author's calculation on EUSILC

# This time was worse for the young people



# Pathology, rather than physiology

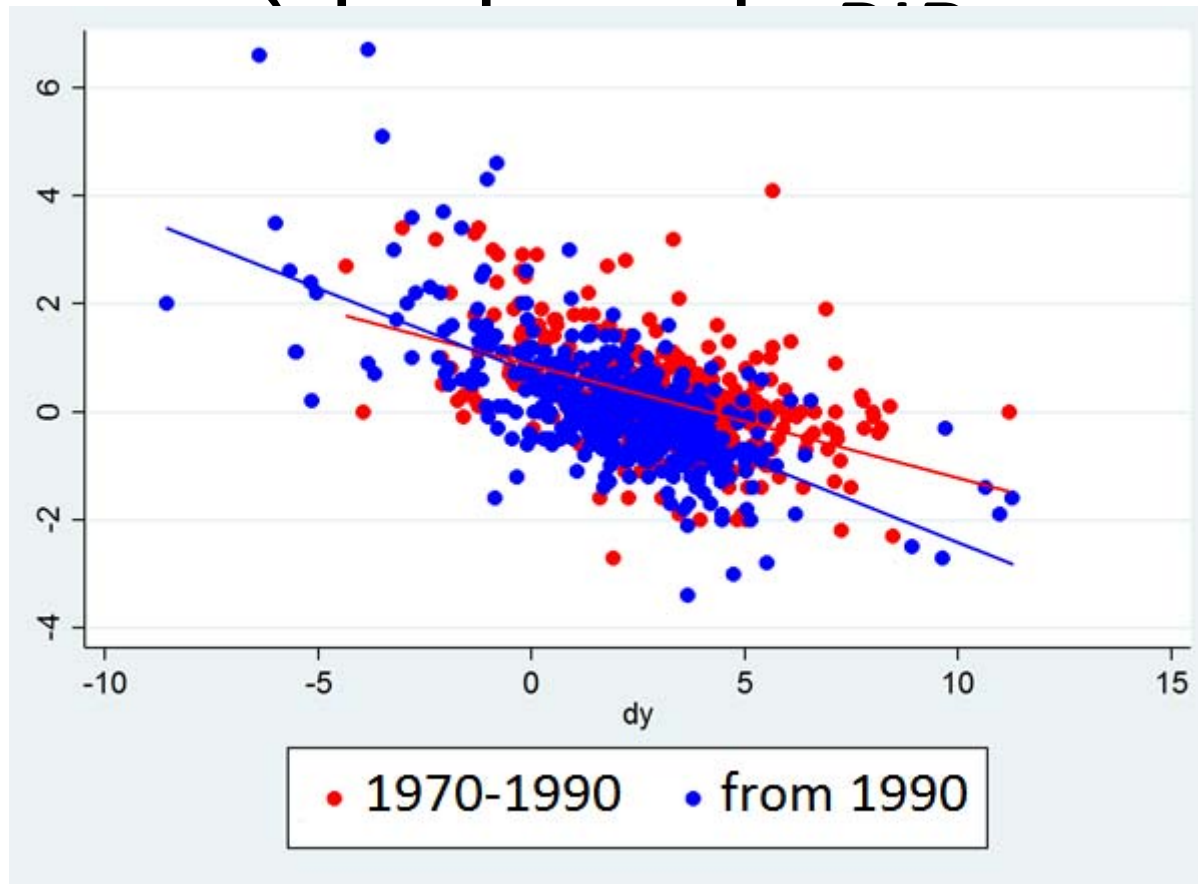


Dummy age in régressions of group specific unemployment against total unemployment as in Hoynes, 2011

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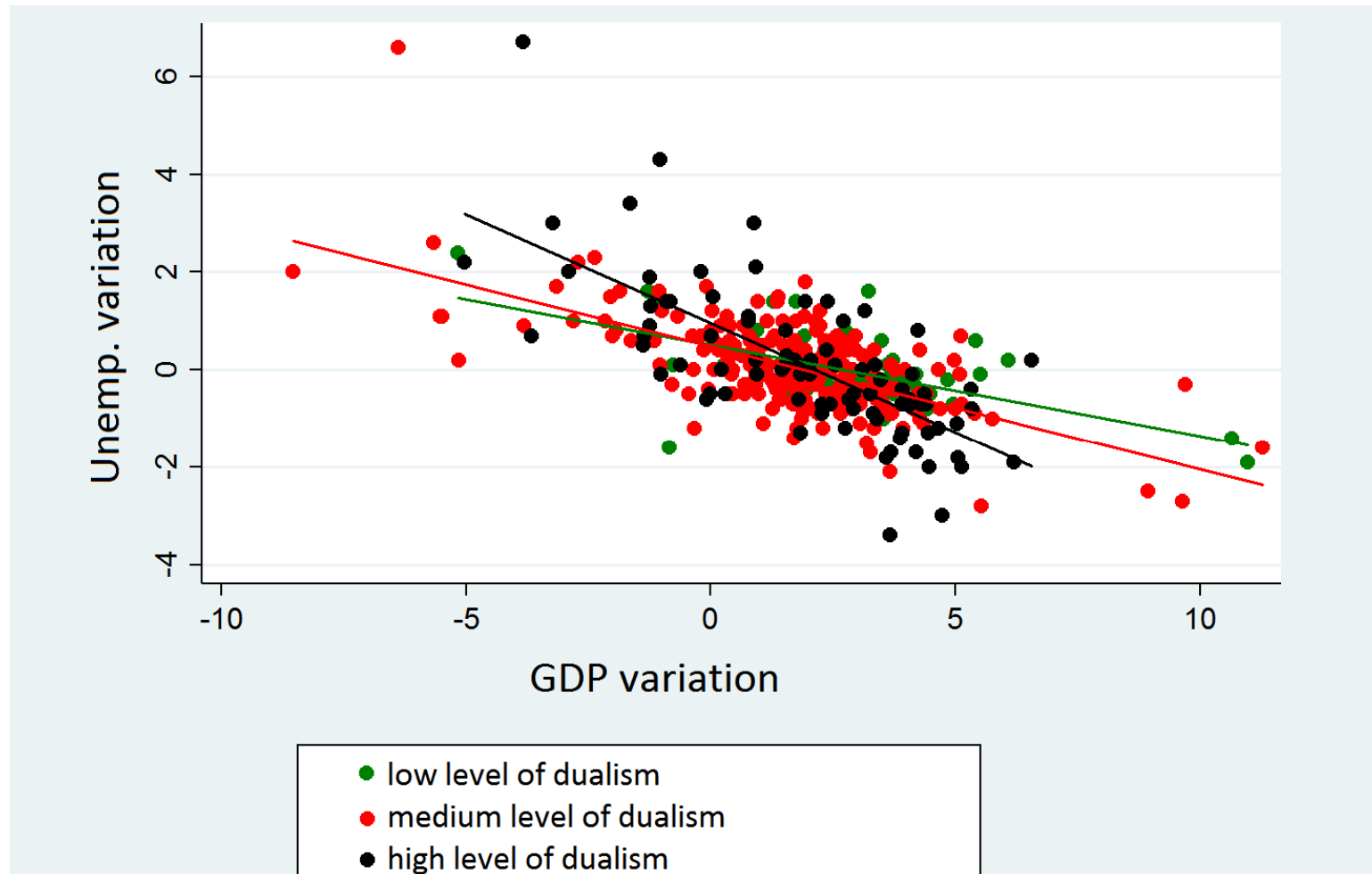
2014

# Youth unemployment and the output fall



Source: author's calculation on EUSILC

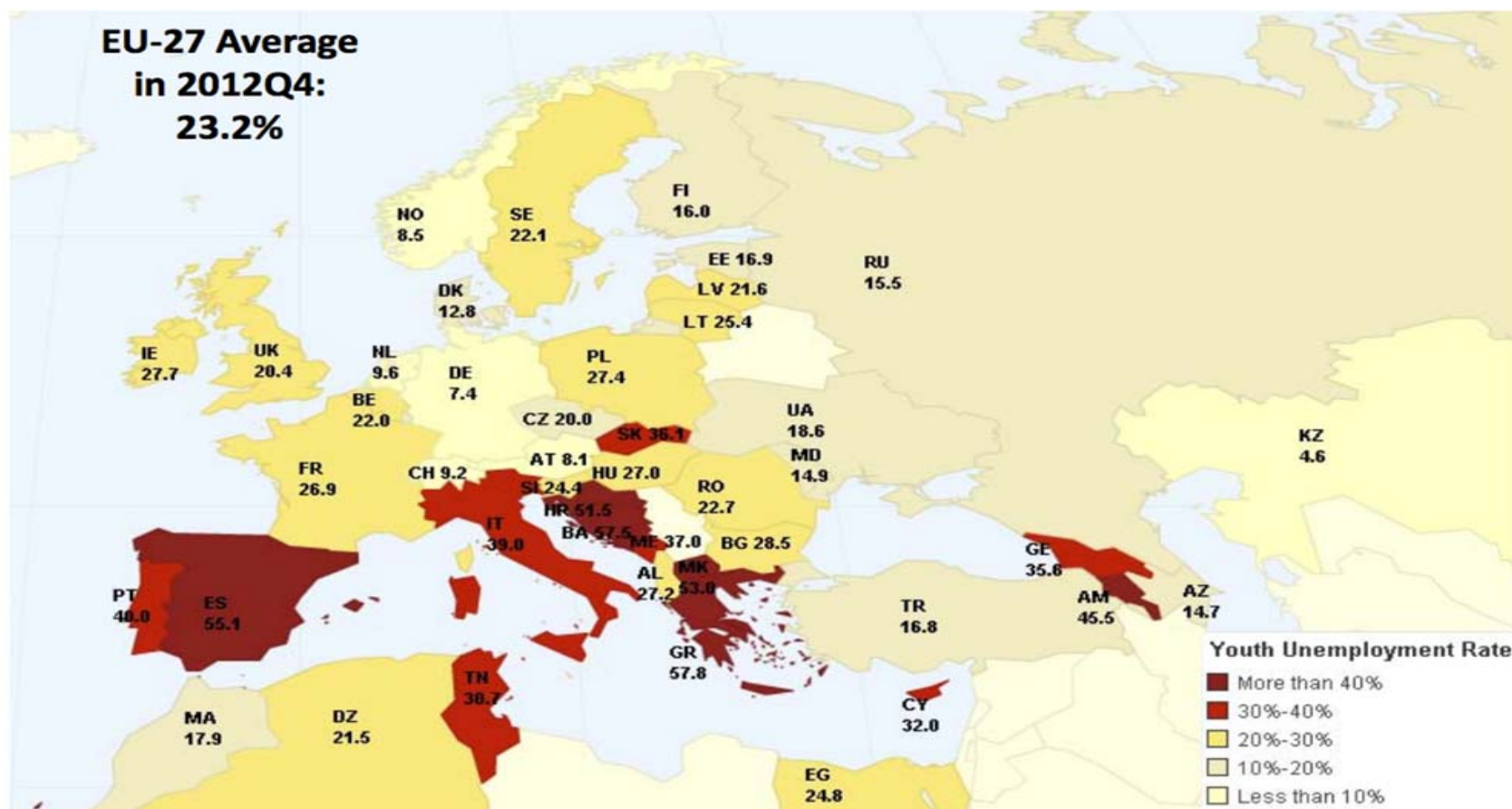
# The role of temporary employment



Source: author's calculation on EUSILC

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# Where the stress is localized



Source: Eurostat , IMF Unemployment, youth total (% of total labor force ages 15-24)

# Summarizing

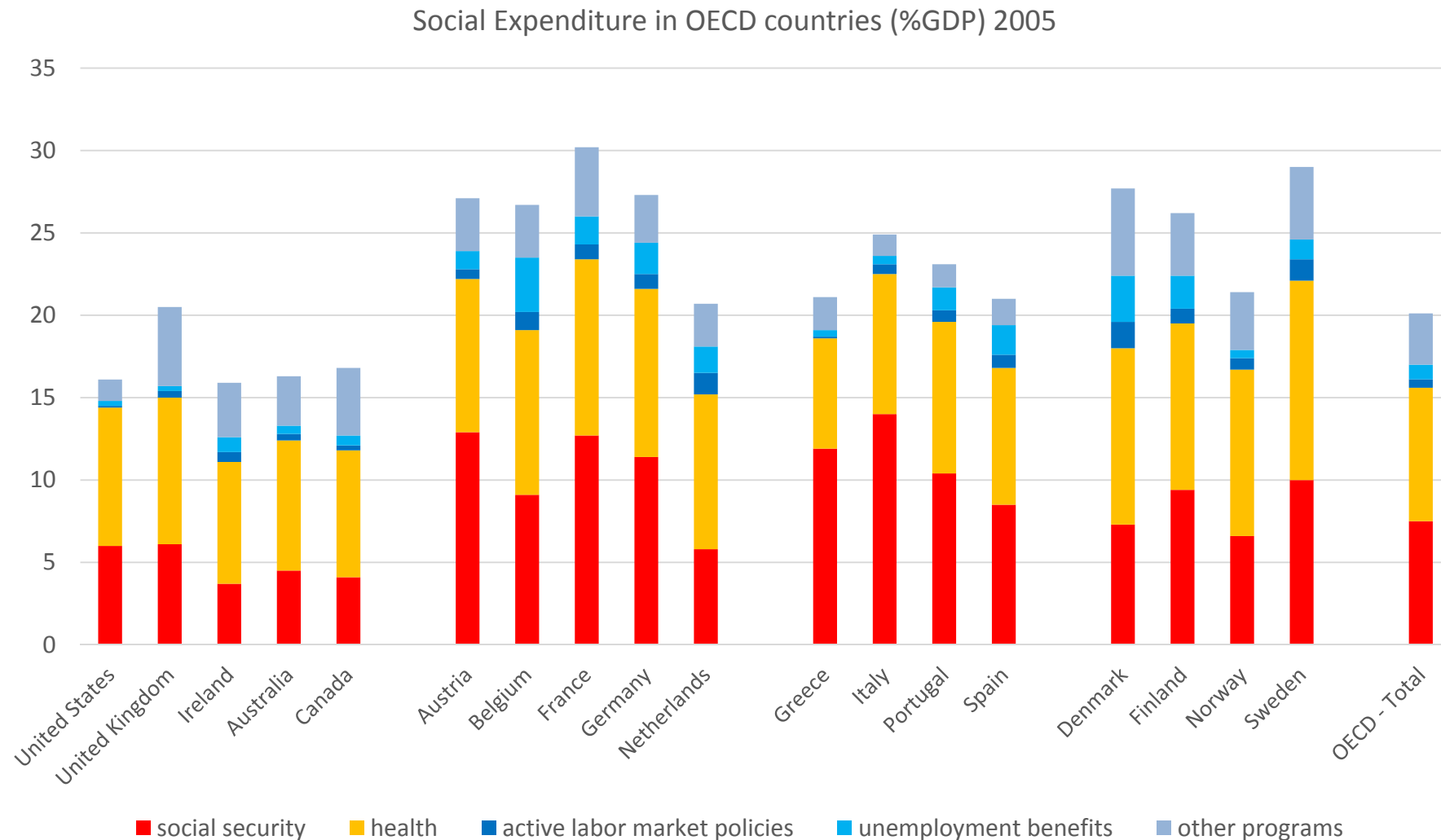
- Poverty and unemployment strictly (but not unaivodably) related.
- Unemployment concentrated among young people.
- Contractual dualism increases the unemployment response to output falls.
- Stress was this time localized (Southern Europe), but potentially present in all countries with strong contractual dualism.

# Outline

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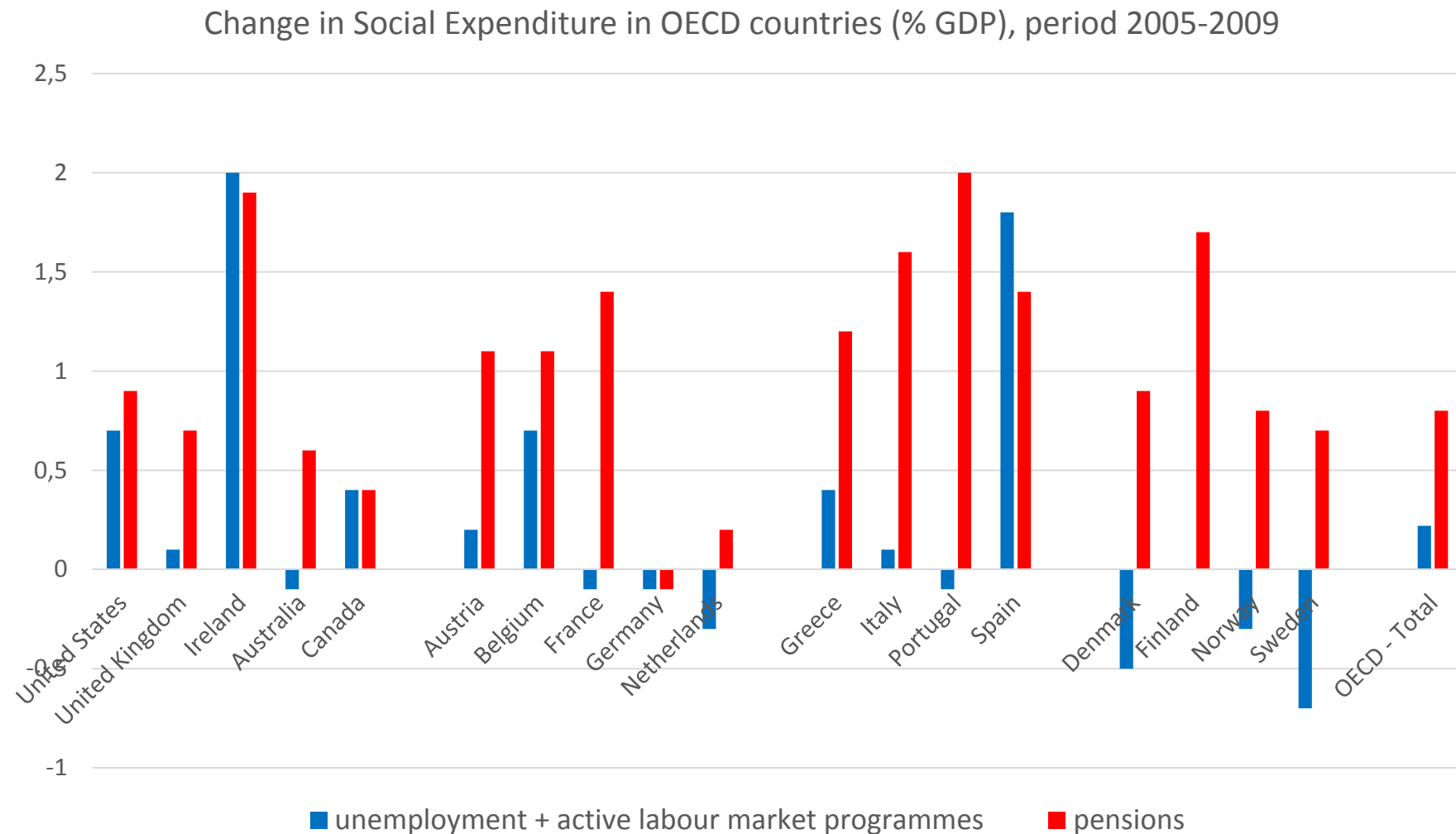
# The four social policy models before the Great Recession



Source: Pinotti, 2014

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Notes: data from OECD Social Expenditure Database (SOCX)  
2014

# Evolution during the crisis

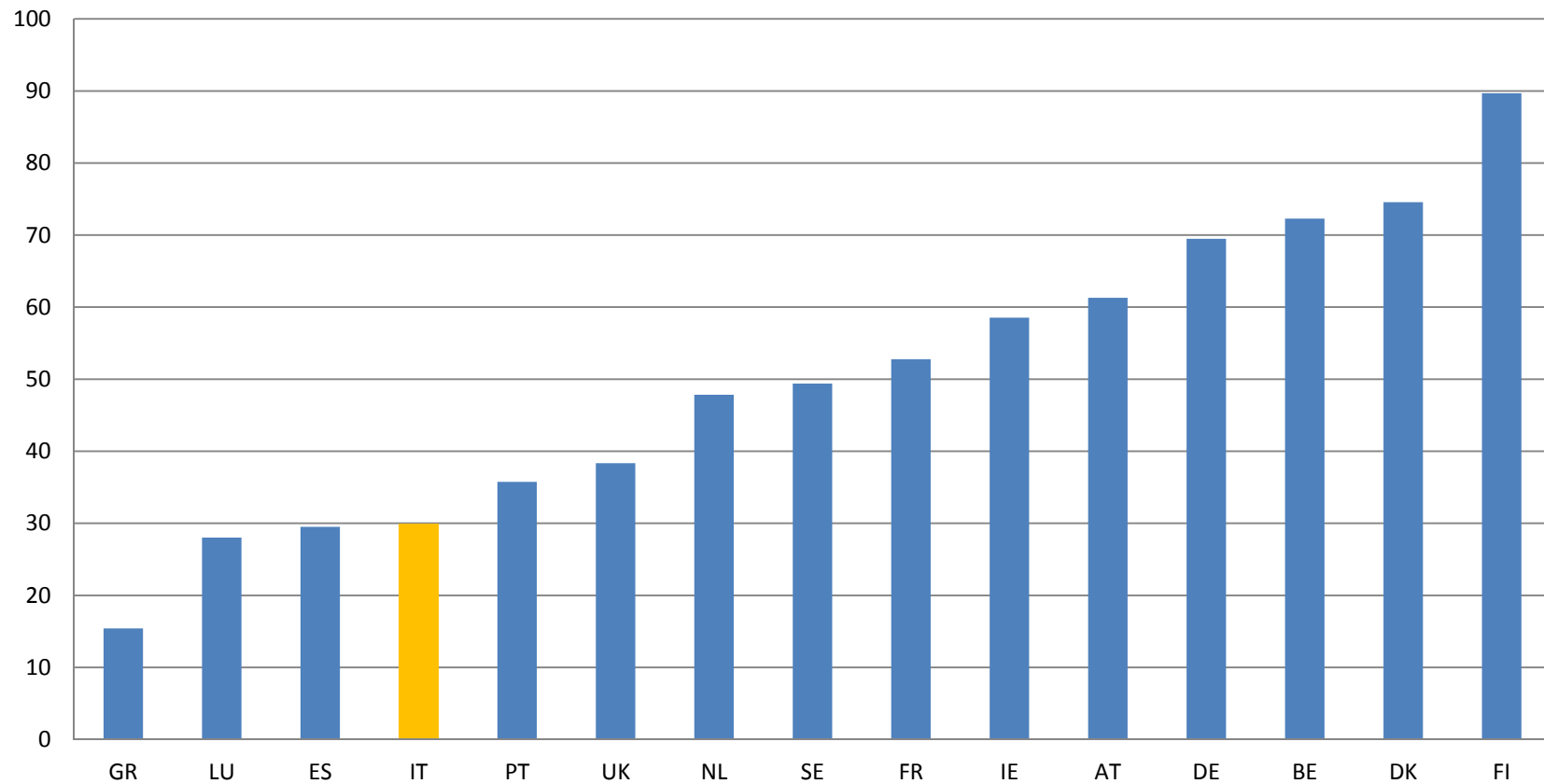


Source: Pinotti, 2014

Notes: data from OECD Social Expenditure Database (SOCX)

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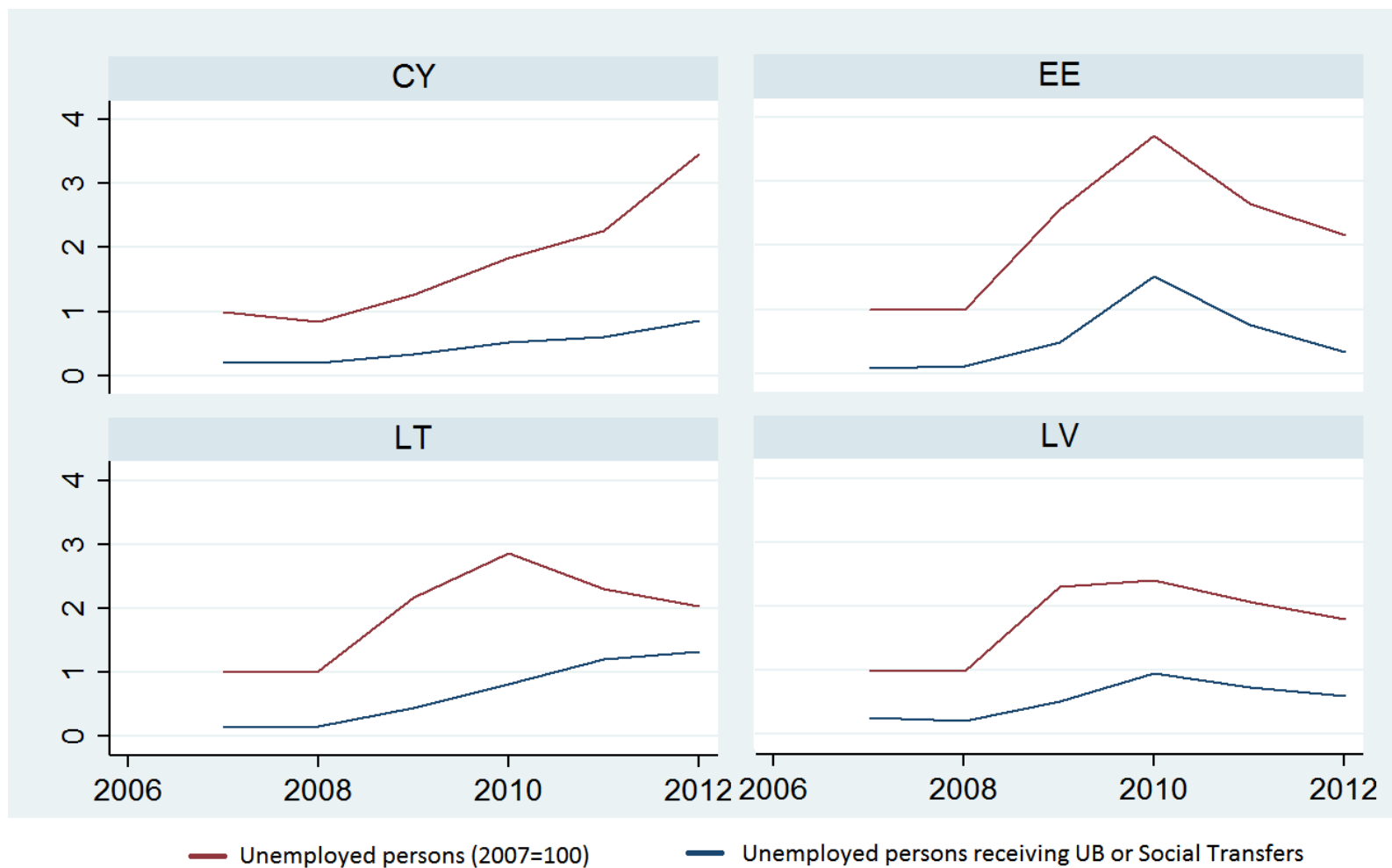
# Coverage of unemployment benefits (%)

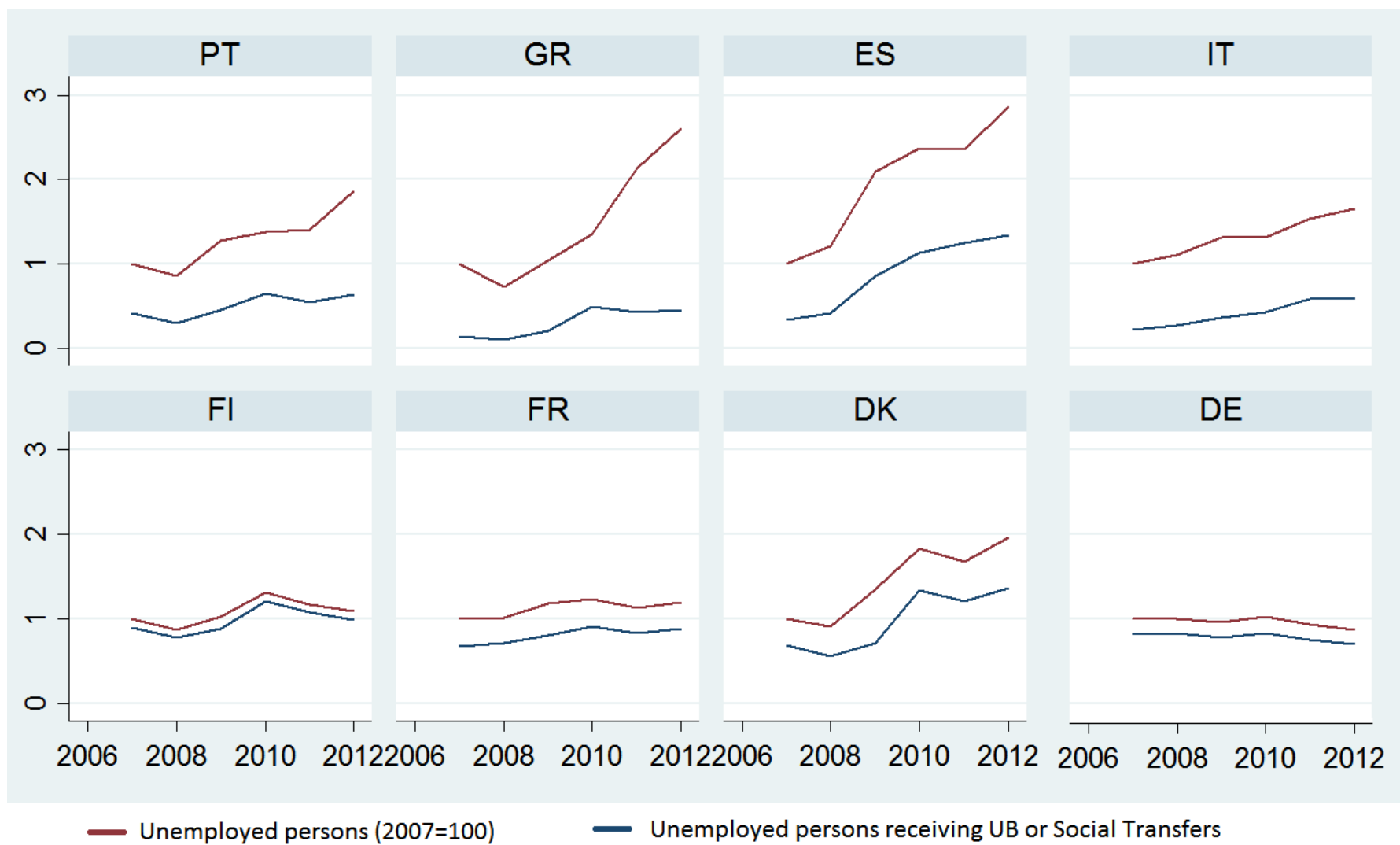


Note: 2012. Unemployed with previous work experience

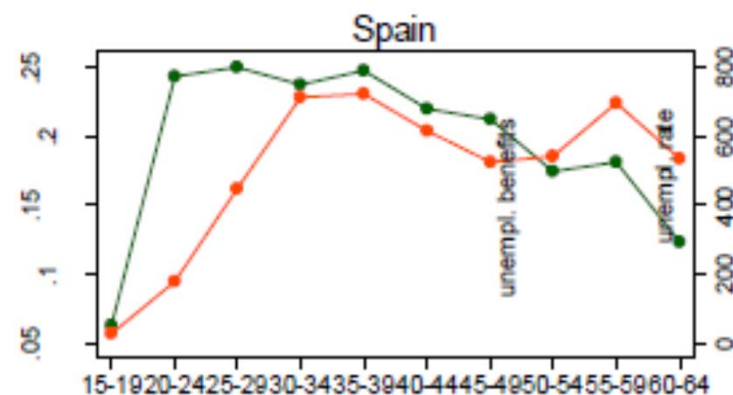
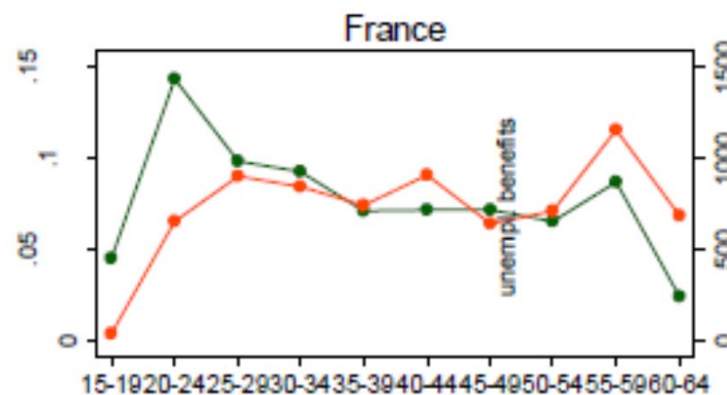
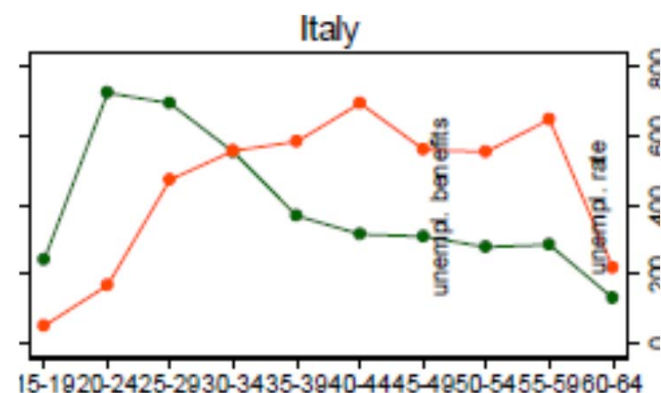
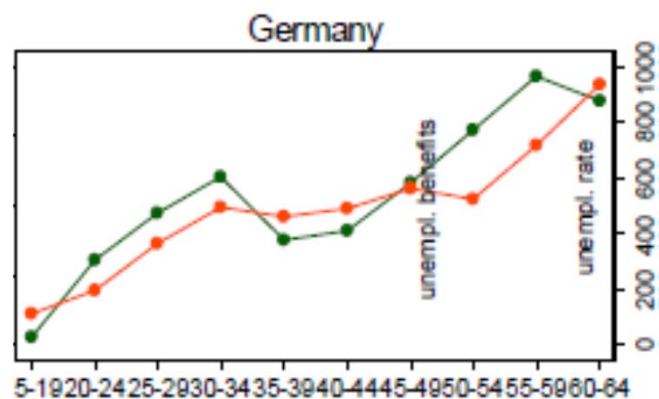
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# Coverage of UB and SA during the crisis

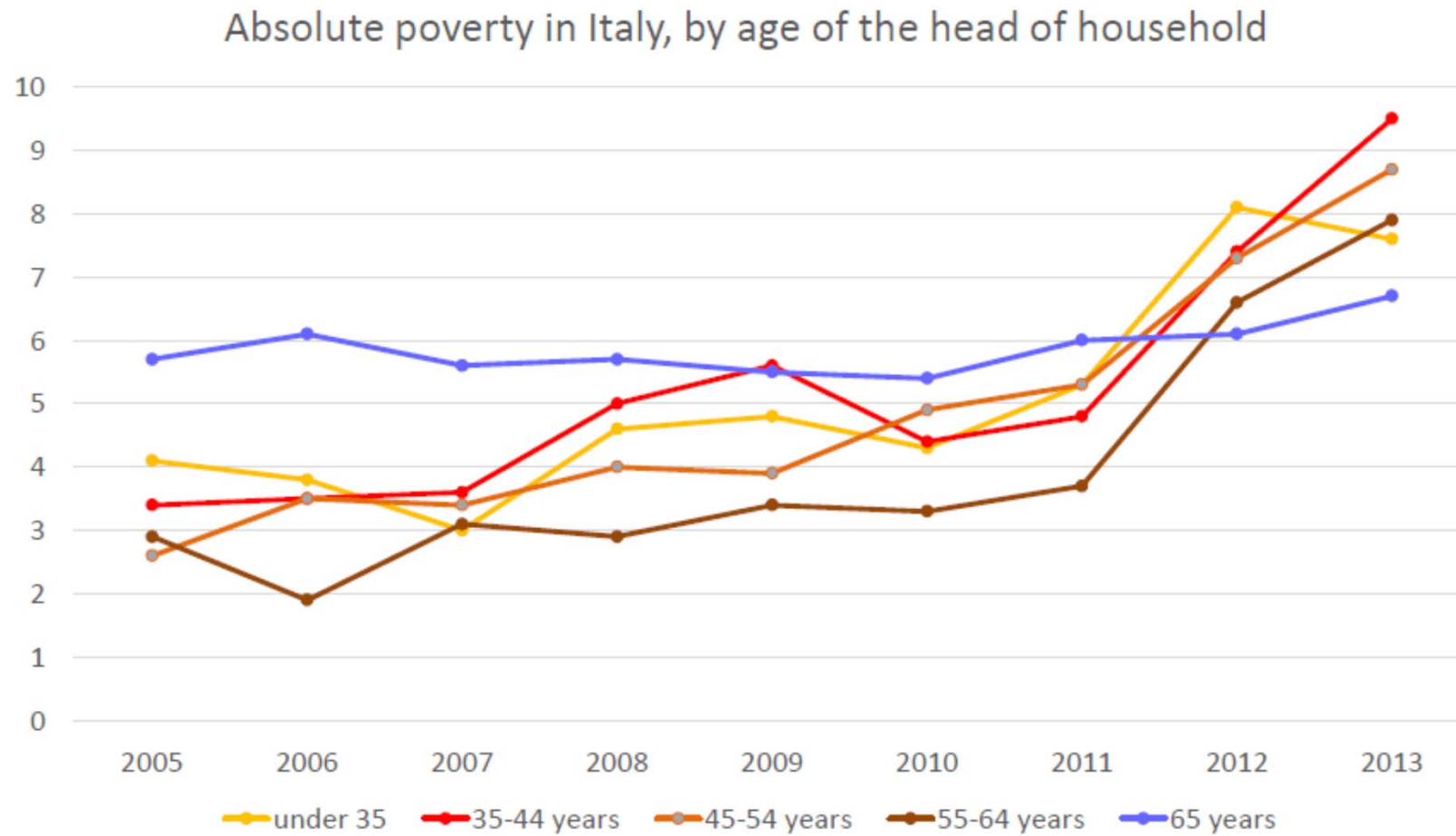




# Coverage of UBs by age (2012)



# Poverty by age



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# Should we worry about it?

- About 1/3 of youth unemployment is long-term
- Evidence from longitudinal studies that long duration unemployment can be very harmful.
- It carries implications for wages and unemployment incidence in later life (the scarring effects of unemployment). Also health problems
- It causes a lot of misery (from “happiness” studies)



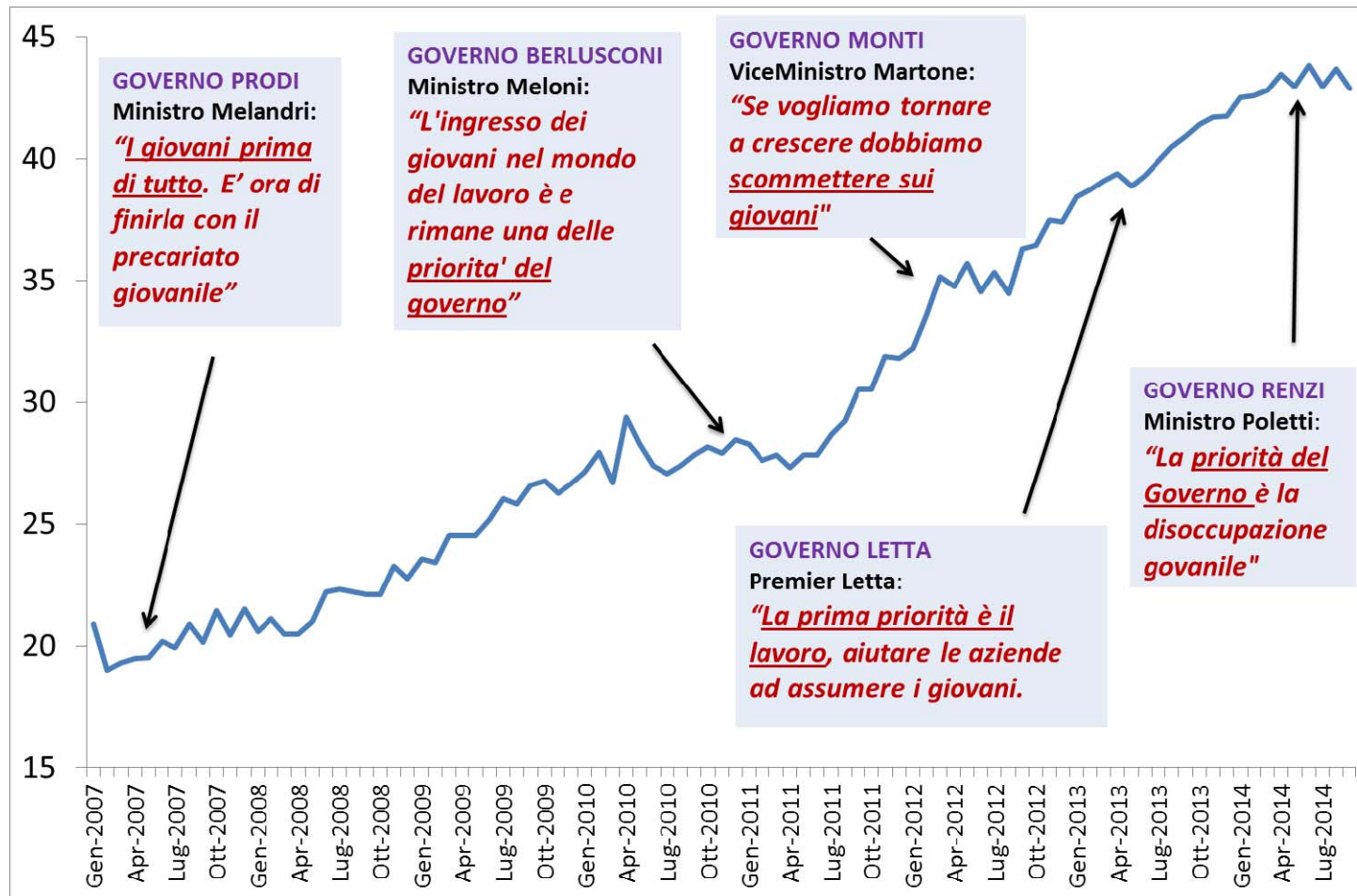
# Summary

- The welfare state does not sufficiently cover the youth notably in the countries most stressed by the crisis.
- Problem related to structure of social protection, but also contractual dualism
- Serious problem. Risk of loss of an entire generation.

# Outline

- Some facts about the shock: output fall, poverty and unemployment
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# From the nice words to the action?

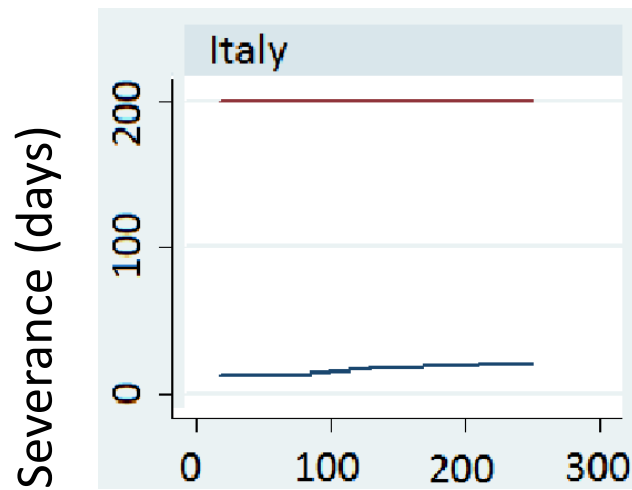


# Le Jobs Act

- Delegation (framework) law: general principles
- Graded security contract for all **new hires in open-ended contracts**
- Extension of the coverage of unemployment benefits to workers with short contribution records and «self-employment» with only one client

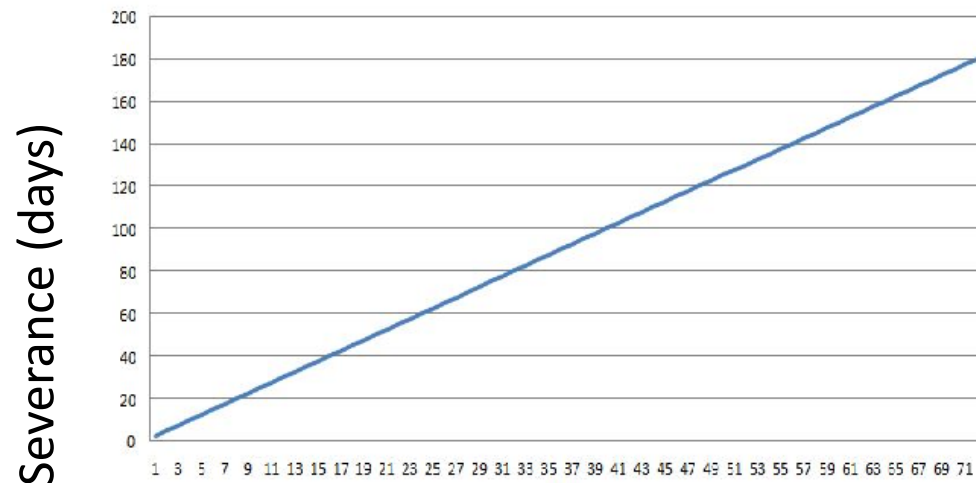
# Severance and tenure

## Status quo



Tenure (months)

## The new open-ended contract



Tenure (months)

# Coverage unemployment benefits

- Even for 3 months of contributions in the last 4 years
- And the «parasubordinato»
- Not yet social assistance of the last resort for long-term unemployed
- It would be too costly

# Divergence in unemployment rates: countries and regions

Decomposition of differences in unemployment  
rates: *between* and *within* countries

|                       | 2008  | 2009  | variation | 2010  | 2013  | variation |
|-----------------------|-------|-------|-----------|-------|-------|-----------|
| theil index (overall) | 13,6% | 11,7% | -14,0%    | 11,7% | 18,8% | 60,7%     |
| within                | 7,0%  | 4,9%  | -30,0%    | 4,4%  | 4,4%  | 0,0%      |
| between               | 6,5%  | 6,8%  | 4,6%      | 7,3%  | 14,4% | 97,3%     |

# Income inequalities in the EU

| Theil (all)       |       |       |          |
|-------------------|-------|-------|----------|
|                   | 2007  | 2012  | $\Delta$ |
| between countries | 2,3%  | 2,7%  | 17,4%    |
| within countries  | 17,2% | 17,9% | 4,1%     |
| total             | 19,5% | 20,6% | 5,6%     |

Equivalized income. EU-SILC



# Lessons from the stress test

- There are many things that could be done within each country to fill the gaps of the « land of the welfare state » in fighting poverty and preventing from privately uninsurable risk, but..
- Can we continue to fight poverty in case of asymmetric shocks without some shock absorbing mechanism at the supranational level?
- Do we need a welfare **union** rather than simply a welfare **state**?