



## Social Policy and Employment: Rebuilding the Connections<sup>1</sup>

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**W**ith concerns continuing to mount about the persistently high levels of unemployment and informal/nonstandard employment stemming from the global economic crisis, recent debates on the social protection floor suggest that social policies remain high on the global agenda. But what are the connections between social policy and employment? This brief argues that over the past three decades these links have been weakened in both policy formulation and actual outcomes. It is high time that their connections are recognized for policy purposes. The post-2015 development agenda provides an opportune moment to reconnect social policy and employment.

The global crisis has recentred attention on employment. But macroeconomic policies are detached from their social moorings, focused not on creating jobs but on containing public debt and inflation. Social

policies remain a palliative after-thought to address the worst social fallouts of economic policies.

Employment and social policies are intrinsically linked and inseparable. They must be reconnected in policy design in order to frame solutions to the crisis grounded in long-term, sustainable, employment-centred growth.

### The Historical Link Between Social Policy and Employment

*Welfare state models in high-income countries differ widely, yet they all link labour market policies to social policies.*

Welfare state models differ in their assumptions about the rights and responsibilities of states, markets, households



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## Key Messages

- Employment should be placed at the centre of economic policy.
- Palliative safety net approaches offer inadequate protection in the face of economic risks.
- Citizenship-based social provisions are important complements to, but not replacements for, robust employment policies.
- Labour standards and protections are vital for reducing conflicts between paid and unpaid labour, and should not be undermined.
- Social provisions serve as cross-cutting support in employment and social policy arenas.

and individuals in protecting and enhancing social welfare.

But across various approaches, the allocation of rights and responsibilities has typically been linked to an individual's status as a citizen and/or active participant in the labour market.

Historically, an important part of social protection programmes was tied to employment status (of typically male “breadwinners”) through unemployment insurance, public pension schemes and labour regulations, broadly referred to as social insurance.

***Employment regulation and formalization facilitated the extension of social protection.***

The establishment of these social protections was, in part, a response to demands from organized labour

and collective action among other social groups, such as peasants. There were also varying degrees of support from the state and employers in different contexts. In many cases, the extension of social protections to larger sections of the population was facilitated or accompanied by greater formalization of employment and labour regulations.

***Macroeconomic instruments were used to promote employment.***

There was also an implicit policy assumption that in order to finance and sustain a comprehensive social welfare system, something close to sustained full employment would be necessary, and should therefore be promoted by the state. This required the use of all policy instruments, including macroeconomic ones.

## The Gradual Decoupling of Social Policy from Employment

***Policy formulation and actual outcomes now reflect the distance between employment and social policy.***

Since the early 1980s policy assumptions about the links between social policy and employment have been changing for a variety of reasons. These include changes in labour markets (growing labour market informality), limited reach of social insurance programmes, and changing ideas about the nature of welfare/social policy.

One illustration of a disconnect between employment and social policy on the one hand, and between economic policy and employment goals on the other, comes from poverty reduction and national develop-

ment strategies, such as Poverty Reduction Strategy Papers (PRSPs), where employment was often treated as an automatic by-product of growth. Furthermore, while PRSPs often included a component on social policies, these operated within the environment set by economic policies which primarily emphasized economic growth. The idea was that after the conditions for growth had been secured, social policy could use a portion of the resources generated to provide social services (such as education and health care) and assistance to vulnerable populations excluded from the benefits of growth.

The distance between employment and social policy can also be seen, for example, in emerging forms of social assistance and social protection in developing countries, such as conditional cash transfer programmes not directly linked to job status.

The linkages between social policy and employment have also been weakened by emerging trends in labour markets. Growth of nonstandard employment arrangements has meant a rollback of employment-based social protections premised on full-time, permanent jobs in high-income countries. In developing countries with high levels of informal employment, many people continue to be excluded from social protection programmes.

Yet both historical and current experience suggest that social policy instruments, such as conditional cash transfer (CCT) programmes, work most effectively when complemented by a broader set of policies, including employment and industrial policies that facilitate investment in sectors that create jobs and provide a foundation for sustainable improvements in earnings and the quality of employment.

## Macroeconomic Policies Remain Detached from Social Moorings

### *Employment growth has often lagged behind GDP growth.*

In many developing countries as agricultural labourers and smallholders have exited agriculture, the absorptive capacity of the formal manufacturing and services sectors has not been enough to keep them fully employed and to offer a living wage. Instead of a transition out of agriculture into industrial activities, workers increasingly move from agriculture to informal service and industrial work, often in urban areas.

Employment growth has often lagged behind GDP growth, a phenomenon sometimes called “job-poor growth” or, in its most acute form, jobless growth. Even in countries with very high rates of economic growth, such as India, growth has been virtually jobless, particularly in important sectors such as manufacturing.

The “post-Washington Consensus” agenda that became dominant by the mid-1990s recognized some of the adverse employment and social effects of unbridled liberalization policies. There has since been increasing emphasis on restoring the social sectors, on poverty reduction, and on meeting various development goals, such as those elaborated in the MDGs.

But at the same time, macroeconomic policy has remained detached from its social moorings. As in the 1980s, economic policies and the instruments chosen to implement them remain unconstrained by social objectives, such as protecting people’s incomes, creating sufficient employment, or eradicating poverty. Instead they continue

to be almost exclusively used to contain public debt and inflation, open product and factor markets, and liberalize external trade and capital flows. Social policy, therefore, remains solely a palliative after-thought to address some of the worst social fallouts of economic policies.

### *Workers with employment security and social benefits are shrinking in number in most countries.*

Job-poor or jobless growth is not simply the result of technological change, as is sometimes argued. Advances in technology and communications have dispersed activities along global value chains, which has been good for productivity and profit levels. But global integration has unleashed competitive pressures to reduce labour costs, by producing more while either limiting the number of new workers hired or hiring workers on a seasonal or sub-contracted basis.

The result is slower growth in industrial employment. In addition, workers have not always been able to reap the benefits from higher productivity through improved wages and/or more robust social provisions. Those with employment security and social benefits constitute a shrinking share of the total work force in many countries.

### *Neoliberal macroeconomic policies have played a significant role in slowing the rate of formal employment generation.*

Neoliberal macroeconomic policies have focused on a narrow set of goals, such as lowering inflation to very low levels, while failing to address other sources of economic volatility, such as unstable financial flows. By dampening productive investments, neoliberal macroeconomic policies have had a significant part to play in slowing the rate of formal employment generation. Financial and trade liberalization, by intensifying competitive pressures and making it difficult to strike bargains with capital, have

## Defining employment

Employment is the most visible component of work captured through labour market statistics and used for policymaking. Employment is defined with respect to labour that produces goods and services that are valued and included as part of an economy’s gross domestic product (GDP).

These mainly market-based exchanges can take many different forms and are not confined to situations where individuals exchange their labour directly for a salary or a wage, as in the classic employer-employee relationship. For many who are self-employed—whether farming their own land, engaged on a family-run enterprise, or working alone—labour represents the productive resource they command in relative abundance and they engage in various forms of market transactions to realize the value of this labour.

## Unpaid work

It is important to note that labour used to produce services for use in the household, including unpaid care work, is excluded from standard definitions of employment. Therefore, labour contributes to social welfare through multiple channels, not simply employment.

## Quality matters

The quality of employment matters, not simply the quantity of jobs, which introduces another distinction into the analysis of employment. The difference between formal, regular employment and informal, non-standard employment represents one of the principal cleavages in the overall structure of employment today, particularly in developing countries, but increasingly in high-income industrialized countries as well.

## The working poor

Access to employment is not a guaranteed path out of income poverty or towards improved welfare. A large proportion of employed individuals worldwide do not earn enough to lift themselves and their dependents above the poverty threshold.



put further pressure on wages and working conditions. The role of the state in the economy has weakened in many, but not all, countries. Around the world, public employment has fallen. This has altered approaches to social policy in which the state has a role to play.

The dominance of neoliberal policies favouring market liberalization has also reshaped the social policy terrain. Policies have been based on neo-classical economic theories, in which free markets are assumed to yield optimal outcomes. Social policies which interfere with market mechanisms, such as labour regulations, are seen to introduce distortions that lower social welfare. In this view social policy, delivered through the state, is seen as welfare-reducing.

As the demand for labour has grown at a slower rate relative to its supply, bargaining power has also been shifting in favour of employers and the owners of firms, while labour organizations and trade unions have lost ground. This has made it difficult to sustain collective action in support of social policies. With international sourcing of production, capital has an exit strategy if the costs of social policy are considered too burdensome.

## Arguments for Decoupling

Arguments for decoupling social policy from employment stem not just from the mainstream, where there is a perceived need to avoid distorting labour markets, but can also be found in “alternative” approaches to social policy and development.

### Decoupling to Limit Labour Market Distortions

In mainstream approaches, social policies are pursued in ways which attempt to minimize interference with market mechanisms. Social protections are separated from labour market status and employment outcomes.

Targeted assistance is provided only to those marginalized from the global economy.

In such approaches, the issue of “targeting” social policies frequently becomes a central consideration. In the drive to improve efficiency when state resources are scarce (“scarcity” itself being the result of macro-economic policy choices), there has been a growing emphasis on targeted policies. Social policy should focus on certain categories of people who are “needy.” Those who are stationed well above the minimum floor or who are assumed to be not in need are able to thrive in a market-based economy and do not require such protections. With regard to decoupling, targeted social policies usually identify the vulnerable to be those who are assumed not to participate in paid employment – children, the disabled and the elderly. The presumption is that labour markets provide sufficient support for those able to work.

### Decoupling to Decommodify Labour

Alternative approaches also reach the conclusion that decoupling social policy and employment is desirable, but arrive there through very different reasoning. In one such approach, social policy is decoupled from employment in order to reduce and eliminate the coercive forces that propel individuals into the labour market, and allow more flexible and creative ways of combining different types of work, leisure and capability development.

Proponents argue for the provision of generous and universal social benefits so that individuals become free to choose whether to sell their labour or not. A basic income grant, which in this formulation would be “the base of a social protection system that could be supplemented by insurance benefits and collaboratively occupational benefits” (Standing 2009), would provide resources to maintain an adequate standard of living and would eliminate any “coercive” aspect of having to work.

In this framework, social policy and non-wage entitlements, including the basic income grant, are separated from the need to participate in the labour market. There is no perceived need for employment policies that focus on job creation, if the jobs created are not those that individuals would freely choose. In this sense, employment and social policy are decoupled.

Not all proponents of basic income grants share the same views when it comes to policy design. There is a broad spectrum of approaches, which range from low-level conditional transfers to much more generous grants which embrace the kind of de-commodification discussed above. However, in all cases, there is separation of the basic income grant from an individual’s employment status.

## The Centrality of Employment to Development

*The global crisis has recentred attention on employment, but social policy continues to be regarded solely as a risk management tool.*

Despite the arguments for decoupling, concerns over the centrality of employment have intensified following the 2008 global financial crisis. For example, the World Bank’s 2012 social protection and labour strategy, “Resilience, Equity, and Opportunity,” suggests that improving employment opportunities is to be achieved primarily through investments in skills, education and human capital. Ensuring the future availability of jobs is not addressed directly. Instead, the focus is on improving the climate for “doing business” in order to create employment opportunities.

In this sense, the interaction between social policy and job creation remains limited to ensuring that social policies do not create disincentives for employment generation. The overarching approach in the World

## Implications for policy

### **Employment should be at the centre of economic policy.**

- Deflationary macroeconomic policies which dampen employment generation should be avoided.
- Opportunities for employment expansion should be explored to enable previously excluded social groups access to the labour market. Expanding the numbers in formal employment will contribute to tax revenues and social insurance funds.
- New forms of labour market regulation are necessary in order to redress the structural underpinnings of both labour market exclusion and situations of unfavourable inclusion where low earnings are coupled with highly unequal power dynamics.
- States need to develop locally appropriate revenue-harnessing systems to ensure the sustainable financing of social policies. High levels of employment are required to generate the necessary resources, through taxation and social security contributions, to create a viable welfare system. This was the premise on which the generous, citizenship-based social welfare system of European social democracies was based.

### **Palliative safety net approaches offer inadequate protection in the face of economic risks.**

- A minimum safety net approach, such as a low-level grant, delinked from employment, is likely to be too thin to represent an adequate response to economic risks in today's globalized economy. Such an approach, like some of the conditional cash transfer (CCT) programmes promoted in recent years, cannot adequately replace the income from wages, robust forms of public provision (of infrastructure and basic social services) and social benefits that have been traditionally linked to employment (pensions).
- Lessons from some of the more successful Latin American countries show that CCTs have worked well when they complement public provision of essential social services. Typically, extensive efforts were simultaneously made to expand social protection coverage and to regulate labour markets.
- Recipients of so-called “non-contributory” grants, often women, who appear to get “something for nothing,” are often subjected to various paternalistic conditionalities which restrict their rights and may even hinder their access to the labour market.

### **Citizenship-based social provisions cannot replace robust employment policies.**

- A generous citizenship-based set of social provisions, which could include a universal basic income grant, would go further than targeted approaches in meeting needs and being free of paternalistic conditionalities.
- Such provisions should complement, rather than replace, employment policies. Within this approach, there is a role for basic income to improve outcomes with regard to livelihoods. This is the approach taken in the Bachelet Report, which sees the social protection floor as a complement to social insurance institutions where they exist.
- A successful social protection floor is one that has strong links with employment policies: first, by investing in human capital, the social protection floor contributes to “a settled and productive work force” (ILO/Advisory Group Chaired by Bachelet/WHO 2011: 50), and second, in a macroeconomic sense, a successful floor can also act as a countercyclical stabilizer which stimulates aggregate demand.
- The long-run sustainability of a productive economy requires robust social provisions. Health, education and care services, affordable housing and transport infrastructure supplement the unpaid social provisioning by families and households. If these social services are delivered through a publicly-regulated system, then they can also generate decent employment opportunities.

### **Labour standards and protections should not be undermined and are vital for reducing conflicts between paid and unpaid labour.**

- Key labour standards and protections – such as paid sick leave, working hours standards, and occupational health and safety – should not be undermined, as has often happened in the case of informal and nonstandard employment. These elements of a broader set of social protections cannot be delinked from employment policies, since they directly affect conditions in paid employment.
- Labour standards also have important implications for unpaid care work. Access to paid leave when a child or dependent becomes sick, for example, can be essential in resolving conflicts between paid employment and unpaid family responsibilities.

Bank's social protection and labour strategy is risk management, but without an effort to identify and address the sources of risk, including labour market risks. Moreover, important types of labour are virtually ignored in the strategy: although there is an emphasis on human capital, the role of unpaid, non-market care work is not acknowledged.

## Social Policy and Employment Policy Remain Implicitly Connected

Despite approaches that distance social policy from the full set of issues surrounding employment and the allocation of labour, the connections between them remain strong.

For example, paid and unpaid care work, much of which is performed by women, represents an economic investment in human resources, (re)producing labour and sustaining societies. In this regard, unpaid work is a complement to social policies which invest in areas such as health care and education.

The benefits of investing in labour have a strong social character—that is, they generate broader social benefits which exceed the private benefits individuals enjoy. Employers have a stake in processes that maintain a skilled and stable workforce. A productive workforce generates the tax revenues required to support a broad range of social policies, including protections for those unable to work. In addition, employment remains the most important source of income for the majority of households – income which is necessary to sustain households, meet needs and support social welfare. For these reasons, social policy cannot be neatly separated from labour and employment.

Social policies should be integrated with employment policies to provide education and skills training; improve the mobility of labour so that individuals can take advantage of opportunities as they are created; protect individuals from asymmetries of market power which place downward pressure on job quality; and safeguard the real value of wages through minimum wage legislation that is indexed to inflation and GDP growth.

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