



# Introduction: Changing Labour Markets and The Future of Social Protection

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RESEARCH



In recent years, labour markets all over the world have experienced severe but transitory shocks such as the Covid crisis, and long-term challenges such as the incorporation of new technologies, increased migration, population aging, and climate change. Together, they could all transform the nature of work. Governments, in turn, must support workers through appropriate social and public policies, with the aim of helping them upgrade their skills and adapt to new roles.

Never has the need for a coordinated response between labour and social policies been more obvious. The Covid pandemic highlighted this point: in both advanced and emerging economies, not having access to social protection systems (e.g., healthcare, income support, or unemployment insurance) starkly brought home their interdependence, even though policymakers too often approach them as separate policy issues. The crisis also changed *how* people work: many workers discovered that working from home, at least part of the time, improved their work-life balance, while firms discovered that sometimes (not always) they could live with this.

More unexpectedly, the crisis led to changes in participation rates, especially in advanced economies: experts are still puzzling over why so many workers chose to leave the labour market, and why many switched jobs or decided to work in other economic sectors entirely. Answers to questions about how many migrants simply went home and how many have arrived and are working in which sectors also remain unclear. In the absence of real-time administrative data that monitors such developments, policy responses (especially in developing countries) have been based on guesswork [1].

In addition, the now-abating world-wide cost of living crisis prompted conflicts and strikes in many countries, including the UK. Widespread staff shortages led to workers demanding not only higher wages, but also better working conditions [2].

Among these recent shocks, the impact of technology and machine learning has probably received the most attention, as estimates are put forward of how many jobs will be lost in 'A World Without Work' [3, 4, 5]. But other trends, such as population aging and climate change, merit equal attention as they will likely generate sizeable changes in the labour market.

Population aging has added to the acute labour shortages produced by the pandemic, especially in economic sectors with poor employment conditions, such as hospitality or social care. The OECD reports, for example, that before the pandemic, approximately 45% of companies reported labour shortages, a proportion which increased to 75% in 2021 [6].

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Climate change and the concomitant changes that will result from transitioning to net zero economies will add to these frictions. And in the long run, a very significant impact may come from climate change-driven migration involving workers whose skills may not be much in demand in receiving countries, even though these could be experiencing acute labour shortages in some sectors.

While policymakers have studied all these structural changes separately, most analysis still lacks an understanding of their interrelationships, particularly when it comes to the sustainability of social security systems. Developing countries are even less prepared for dealing with such changes than advanced economies. And *all* governments will have to find new ways of supporting affected workers, whether through income support, systems of vocational training, up- and reskilling, or systems of life-long learning.

It is because of these connections between labour and social policies that we launched a Beveridge Symposium on *both* of these topics and their interconnections. The brief papers included in this volume are not intended to present an exhaustive overview of these issues, but to illustrate some of them and explore how different disciplinary perspectives enable us to understand them through different lenses. The volume deliberately includes articles on both advanced and emerging economies and discussions of policy lessons to help inform global debates.

In the first paper of this special issue, Stephen Machin focuses on wage controversies that have arisen in this complex scenario and discusses the role of labour market institutions in this context. In the UK, the combination of low productivity and power shifts between workers and firms have led to high levels of wage inequality and real wage stagnation. Brexit certainly did not help and has left the UK worse off relative to its peers. Machin's paper focuses on discussing which policies would contribute to regenerating real wage growth going forward.

A second paper by Kirsten Sehnbruch, Mauricio Apablaza, and James Foster takes the policy debate beyond wages as indicators of labour market performance to show how low-wage workers often *also* suffer from other poor employment conditions, such as unstable jobs, insufficient or long hours, inconsistent or no contributions to social insurance systems, as well as risky or unpleasant employment conditions. To capture this, they develop a multidimensional measure of deprivation in the labour market, using data from both Latin America and Europe. They conclude by discussing how such a measure can be used by policy makers to include non-pecuniary dimensions of employment in policymaking and to target fiscal resources at the most vulnerable workers in a labour market.

Timo Fleckenstein and Soohyun Christine Lee then use the example of South Korea to illustrate how a high proportion of precarious employment combines with low social insurance coverage to generate an extremely high sense of insecurity among workers. In South Korea, this seems to have led to rapidly decreasing fertility rates, with concomitant population aging and acute labour shortages. Simultaneously, parents hoping to ensure a better future with a stable job for their children attempt to escape this trap (and ensure that they are taken care of in their old age) by spending on tutoring and private education.

Fleckenstein and Lee portray a society that has made a fundamental mistake by building an economy based on precarious employment, and whose experience holds many lessons for other emerging economies. They conclude by discussing how effective reform likely involves increasing the flexibility of employment protection legislation together with regulating excessively precarious employment practices that are widely used to circumnavigate existing legislation. This would level the playing field between high- and low-quality employment.

Issues of labour market reform are also addressed by Hugh Collins in his paper on job security, precarious work, and freedom of contracting. He reviews the history of employment legislation in the UK and shows how employers use strategies of casualisation and outsourcing to reduce their labour costs. As a result, statutory employment law does not apply to these jobs. He provides examples of how case law – rather than legislation – has shaped employment practices. This has led to peculiar situations, for instance in the gig economy, where Uber drivers have been classified as workers and afforded concomitant rights, while Deliveroo drivers lost their case and are therefore unprotected. He argues that legislative reform is necessary to level the playing field among the different types of employment relationships.

In addition to legal inequalities, labour markets around the world are also shaped by significant spatial or regional inequalities. Neil Lee, Mark Fransham, and Pawel Bukowski highlight this point, also in the context of the UK. The combined impact of manufacturing decline and the surge of the knowledge economy have been behind many regional disparities. Policies that focus not only on generating higher employment rates but also create ‘good jobs’ are needed, and that is the focus of the paper. They echo other papers in this volume by arguing that national legislation which levels the playing field can have a significant impact.<sup>1</sup>

In developing countries with high levels of informality, policy responses to precarious employment will obviously be different from those in advanced economies. In her paper that discusses case studies from several developing countries (India, South Africa, Mexico, and Pakistan), Naila Kabeer shows how policy interventions such as mid-day meals, conditional cash transfers or employment guarantees are often designed to affect a particular aspect of human development (e.g., poverty or nutrition), but then have an unexpected impact on employment levels as well. Kabeer highlights how the impact assessment literature often frames research questions relating to the effectiveness of a social policy in very narrow terms, without considering broader socio-economic outcomes, such as employment levels. In the context of this special issue, the paper therefore connects with others in the volume to illustrate the interconnectedness of social and labour policies.<sup>2</sup>

This connection is embodied in the concept of unemployment insurance, which is both a labour and social policy. Using comprehensive administrative data from Sweden, Jonas Kalsrud and Johannes Spinnewijn argue that individual workers value unemployment insurance more than previously thought. They highlight a key policy issue by showing that long-term unemployment is predictably based on the characteristics of workers and their previous employment trajectories. The use of administrative data in predicting labour market behaviour could potentially enable policymakers to manage and trigger potential support when needed [7]. The paper also explores the possibility of providing workers with a choice in how they receive benefits from unemployment insurance systems. The authors find little evidence of adverse selection in this process, which suggests that unemployment insurance coverage should be expanded to workers with non-standard contracts.

The closing paper of this volume, by Anna Valero, examines the impact of net zero policies on the UK’s labour market. The paper summarises findings from an occupational approach to this issue, which classifies jobs as being ‘green’ when they involve new tasks or skills required by the transition to net zero, or when they are likely to see increased demand due to this process. The paper highlights that ‘green’ jobs have the potential to be ‘good’ jobs, meaning they are likely to require higher levels of skills and be well paid. Valero argues that although the transition to net zero is expected to be a net creator of jobs, it will likely generate frictions in the labour market, which require targeted policies and programmes to deliver the skills needed in this process.

Several important conclusions emerge from these papers that are relevant to policymaking, regardless of a country’s level of development.

*First, institutions and labour market policies matter.* The institutional setting matters for any market, but particularly so for labour markets, where frictions and potential market failures are rife. A badly functioning labour market can have broad negative effects on a country’s overall socioeconomic development, and may even lower fertility rates, as the case of South Korea suggests.

*Second, social policies for supporting workers are equally important,* especially for those workers who are unemployed or in poor-quality employment, and most especially in regions that have been left behind. Measuring and tracking poor-quality employment over time enables policymakers to focus on the most vulnerable workers in a labour market. The role of administrative data in ensuring that this process is effective and targeted cannot be overemphasised.

*Finally, and most importantly, labour and social policies are two sides of the same coin.* Social policies affect behaviour in the labour market, and the functioning of the labour market

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1 See papers by Machin, Collins, Fleckenstein, and Sehnbruch et al. in this volume.

2 See papers by Sehnbruch et al., Fleckenstein, and Lee in this volume.

determines the effectiveness (or lack thereof) of social policies. An interconnected set of such policies should be a priority, not be relegated to the political backburner at a time when technological advances, climate change, migration and population ageing are rapidly changing labour markets.

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