

# **From Social Policy to Risk Management**

## **The Role of the State in Building a European Social Model**

by

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## The Future of the European Social Model

The Nobel Prize winner James Buchanan recently wrote: "The 'social model' that many Europeans hold up as superior to the somewhat more limited welfare states elsewhere is not economically viable for the twenty-first century." This is a shocking statement for Europeans who claim that social protection could and should also be a productive factor. However, if one reads Buchanan carefully, one can interpret his statement more optimistically. Buchanan continues: "The general welfare state may survive if it imposes a limit upon itself and does so generally; the discriminatory welfare-transfer state will not survive".

What does that mean? My answer is: Although Buchanan is only partly right, his argument suggests an important strategic conclusion: The European Social Model has only a future if it succeeds to maintain a universal and non-discriminatory system of social protection and employment policy. This implies that the present trend towards a selective welfare state oriented only towards the so-called 'needy people' is a wrong direction. It also implies that 'activation' should not be restricted to 'workfare' but also be extended to 'learnfare'. It further implies that employment policies only targeted towards the so-called 'problem groups' on the labour market will be ineffective in the long run. The future of the European Social Model depends crucially on remaining inclusive in social terms, on containing the tendency of discrimination in policy terms and on incentive structures for life-long-learning. How can these principles be transformed into policy strategies?

## Making Work and Transitions Pay

The concept of transitional labour markets developed at the Social Science Research Centre in Berlin starts from the basic assumption that social security, equality and equity (the classical objectives of social policy) are better served through ex ante promotion of mobility and opportunity the labour market than through ex post redistribution through transfers. Social Policy has to become reflexive in as far it induces people to take over more risks with beneficial externalities for the society. Examples are the foundation of a family or an enterprise, to move to another location, shifts from full-time to part-time work and vice versa, further training or education. Reflexive policy cannot be administered through hierarchies and conditional programmes. It has to be managed through a combination of high level expertise, decentralised (local) implementation and participation of people concerned. The aim of risk management, thus, is not to minimise risks but to tame risks through the provision of solidarity in case of losses through no fault of the risk takers. Transitional labour markets, therefore, relate social and employment policies systematically to the changing variety of labour market risks deriving from the 'new economy' as well as the 'new family'. Transitional labour markets draw also attention to the fact that all labour market flows can occur in both directions: outflows from unemployment are linked to inflows into unemployment. A narrowly defined unemployment insurance system which focuses only on flows between unemployment and employment is likely to overlook other flows. Just to give an example: In Germany, inflows from employment into unemployment decreased within the last 15 years from a level of about 80 percent to 44 percent; vice versa, the outflows from unemployment into employment decreased also from a level of about 80 percent to a level of only 40 percent. This means, that more than half of labour turnover takes place not within the core labour market but between the labour market and other subsystems of social activities.

These are dramatic changes which have not yet clearly been recognised in a corresponding targeting of employment policies.

An activating system of social protection and employment policies has to find institutional responses for five main types of risks.

- First, maintaining and enhancing *income capacity* during transitions between education or training and employment over the whole life-cycle;
- second, guaranteeing *income security* during critical transitions between various employment relationships, especially between part-time and full-time work and between dependent employment and self-employment;
- third, providing *income support* during phases in the life cycle in which the income capacity is reduced through social obligations, especially through the care for children;
- fourth, securing *income maintenance* during transitions between employment and unemployment;
- fifth, providing *income replacement* in case of disability and in the period of retirement.

We know that these employment risks are changing dramatically for at least four reasons: *First* the change of the family to a network relationship and an investment unit through changing aspirations of men and especially of women; *second* the revolution of skills and competencies through the new information technology; *third* the ageing of the work force through declining fertility rates and rising life expectancy; and *fourth* rising competition through globalisation. These changes call for a differentiation of social protection and employment policies according to the new 'nature of risks'. Such a differentiation corresponds, on the one hand, to the positive principle of "requisite variety" in systems theory: 'Only variety in institutions can meet varieties in problems'; on the other hand, such a strategy follows the (normative) principle of "cybern-ethics" articulated by the science philosopher Heinz von Foerster: "Act always in a way that the number of possibilities increases." Institutionalised forms of solidarity are still mainly concentrated on standard risks which are – due to the golden age in the sixties and early seventies – often covered generously, whereas contemporary risks, such as discontinuous employment careers due to care obligations, social exclusion of ethnic minorities, chronic illness or disability, skill obsolescence are either not formally recognised or insufficiently acknowledged as risks.

As far as the labour market is concerned, the reorientation implies the move from the concept of unemployment insurance centred on income maintenance for jobless people to a system of *employment insurance*. Compared with the mono-centred orientation of unemployment insurance, employment insurance would establish interfaces with the other systems of risk management to increase the opportunity set of adjustment to labour market changes. Such an extension of unemployment insurance would enhance the interactive capacity of this system through establishing systematic links with the other elements of social protection. In return, family and education policies as well as the classic social security systems have to be reconsidered and partially be restructured in order to become more employment friendly.

The reasons for extending the UI-system are straightforward: Classical UI responded only to *external risks* such as cyclical ups and downs, seasonal influences on the product market, or technological innovations. An extended EI carries the idea of risk management one step further to *internal* or 'manufactured' risks. One of the functions of EI is paradoxically to induce people to take over such risks by providing at the same time an institutional solution to cover the related risks, for instance income support during sabbaticals or parental leaves, enhancing employability through life-long learning arrangements, income maintenance during changing working time regimes. The future world of work requires not only "making work pay" but also – and may be even more – "*making transitions pay*".

Modern social choice theory suggests four criteria which institutional arrangements have to fulfil in order to support "good transitions" and to prevent "bad transitions". *First*, enhancing individual *freedom (or autonomy)* through empowering people and establishing not only entitlements to transfers but also entitlements to participation in employment decisions; *second* promoting *solidarity* through generality and inclusiveness in risk sharing; *third* improving *effectiveness* through specialisation, co-ordination and co-operation; *fourth* increasing *efficiency* through application of modern management principles in the implementation of employment policies such as controlling, monitoring, evaluation and self-regulation through decentralisation or management by objectives.

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How can this model work in reality? To answer this question, I will screen the five transitional labour markets according to the four principles of freedom, solidarity, effectiveness and efficiency, and illustrate the model with good practices from Germany and abroad.

- (1) Transitions between education, training and work (the institutionalisation of life-long-learning),
- (2) transitions between various working time regimes or employment statuses (the institutionalisation of working time flexibility),
- (3) transitions between private households and labour market work (the explicit recognition of social and civil work),
- (4) transitions between employment and unemployment (preventing long-term unemployment through activating measures),
- (5) transitions between work and retirement (institutionalisation of gradual retirement and preparation for active ageing).

Good practices demonstrate that the shift from social policy to risk management requires a policy mix of decentralisation, competitive outsourcing and management by objectives or quality standards, public-private mixes in financing (co-financing), new entitlements to participation and social rights (e.g. 'drawing rights' for educational leaves), and re-balancing rights and obligations. Social integration in the new economy and civil society requires the willingness, capacity and ability to take over more risks for the 'insiders' in order to extend the opportunity set of the 'outsiders'.