

Beyond Recovery: Foundations for  
Inclusive Growth in Latvia  
**Riga, 3 June 2013**

Presentations

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# Making Work Pay

**Jacob Soper**

Department for Work and Pensions, UK

3 June 2013

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## What's the problem?

- The UK working-age income-related **benefit system is complicated – difficult to understand** for claimants, and **difficult and costly to administer** for Government.
- There are **separate in-work and out-of-work benefits**: Jobseeker's Allowance for those seeking work, and Tax Credits for those in work on a low income. Moving from unemployment into employment means stopping a claim to one, and having to claim another.
- **It's hard for claimants (and officials!) to calculate how much better off someone will be in work.**
- **Work incentives are currently often weak and sometimes non-existent; complexity and uncertainty makes work appear a risk rather than an opportunity.**

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## What's the solution?

- **Universal Credit:** a new single system of means-tested support for working-age people who are in or out of work. Support for housing costs, children and childcare costs will be integrated in the new benefit. It will also provide additions for disabled people and carers.
- Universal Credit aims to reduce the number of workless households by **reducing the financial and administrative barriers to work** that exist in the current system of benefits and tax credits.
- By removing the distinction between in-work and out-of-work support, Universal Credit will **remove the need to claim different benefits and reduce the risks associated with moves into employment** that exist in the current system.
- Universal Credit will deliver **a fairer system**, by removing inconsistencies that exist between different benefits and tax credits in the current system.

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# Principles of Universal Credit

- **Work will always pay.** Universal Credit will be withdrawn gradually at a consistent rate as claimants start work or increase their earnings - meaning their total income goes up.
- Universal Credit will be for everyone on low income. This means it will be **safe for a claimant to try a job**, or increase their earnings, without losing their benefit.
- Claimants should be able to **understand how their award is calculated**. It should also be simpler to administer. Standard rules, concepts and definitions should be intuitive and apply across Universal Credit.

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## More on Universal Credit

A policy	that tackles welfare dependency, poverty and worklessness by <b>making work pay</b>
A benefit	that <b>replaces a complex system</b> of working-age (in/out work benefits and credits) with the Universal Credit and a single set of rules
A gateway	that together with our employment support programmes, <b>helps people into work</b>
A platform	<b>largely self service; internet-age and digital</b> - whilst continuing face-to-face support for those who need it
An ambition	<b>transforming</b> lives and society through work

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# Some key challenges

## For Claimants

- Largely digital and self-service
- A single monthly payment to household
- Housing costs will be paid direct to claimant
- It's all about work

## For DWP

- To create a **digital** platform that both meets the needs of people who are used to managing their lives online, whilst helping claimants who need extra support to get online
- To ensure the right **support** for claimants who are unable to use online system
- To develop a Personal Budgeting Strategy (PBS) for claimants who need personal budgeting support
- To create a system capable of **flexibility** and **continuous improvement**
- To **co-ordinate** across 3 major delivery organisations – DWP, HMRC and 400 Local Authorities
- To **convert** 12 million claims to 8 million household accounts



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# Improving Work Incentives: Making Work Pay

## **Single Taper**

- a single taper rate (65%) to withdraw support as earnings rise
- reduction in Marginal Deduction Rate / Participation Tax Rate

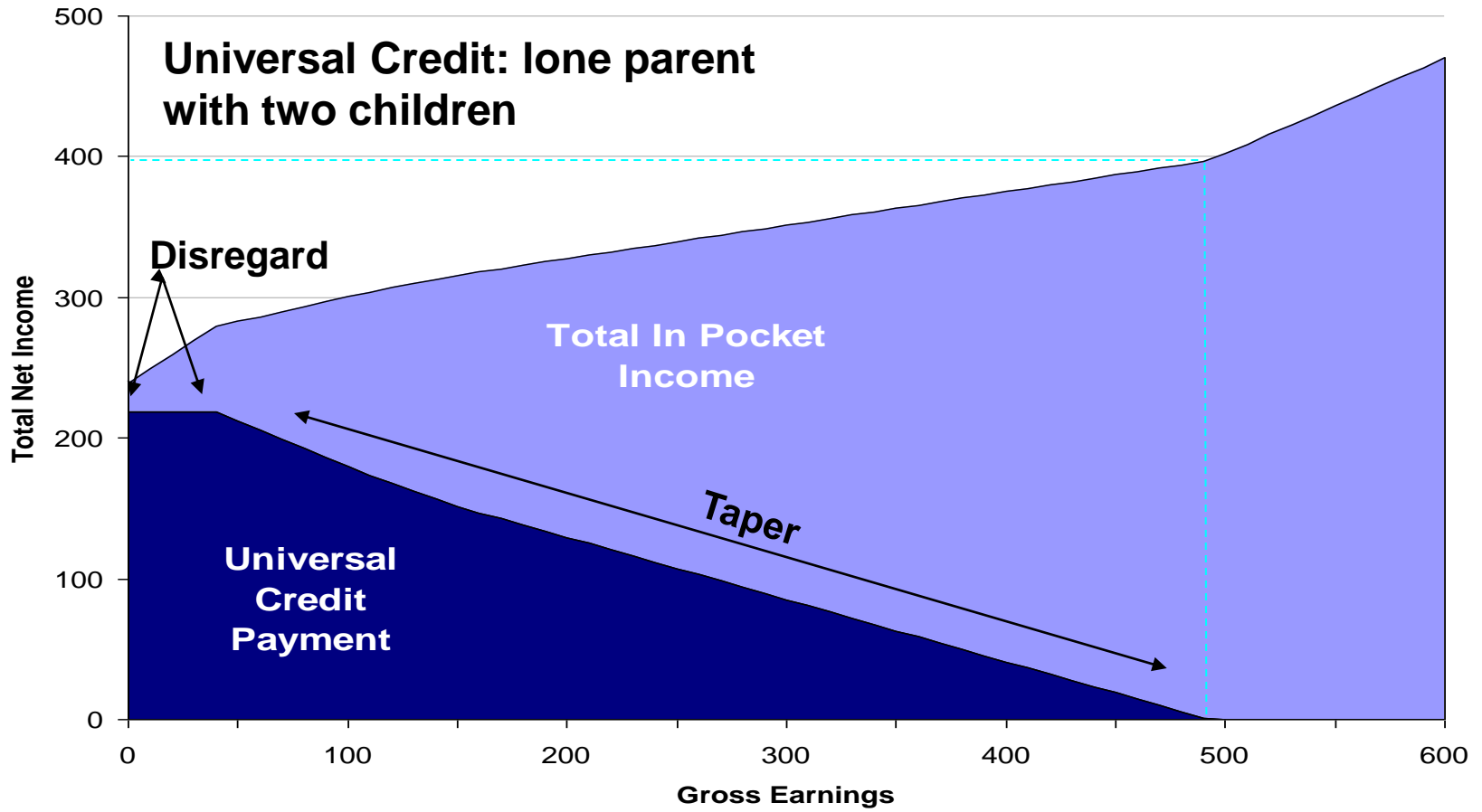
## **Work Allowances**

- will reflect the needs of different families and ensure that work pays
- will reflect support people receive for rent or mortgage interest support

## **Supporting Small Amounts of Work**

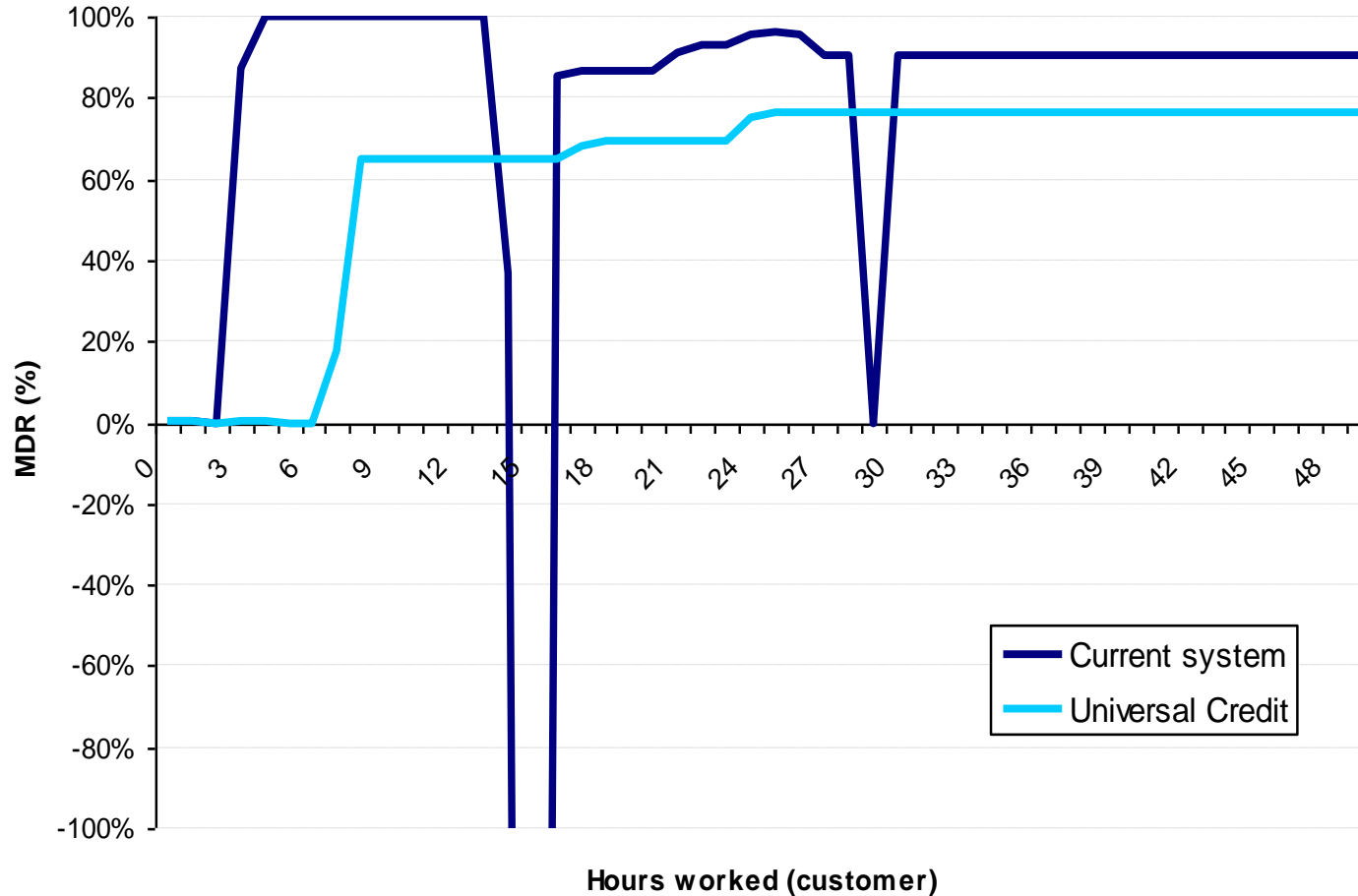
- In and out of work benefit minimising the risk of moving into work
- Safe for a claimant to try a job, or increase their earnings, without losing their benefit.
- It helps people to work just a small number of hours, or to take multiple jobs to make up their earnings

# A simpler system with clear work incentives



# Making work pay

**Marginal Deduction Rates (MDR)** - calculate how much of a small increase in earnings is lost through benefit withdrawal and taxation.



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## Making Work Pay - Childcare

- Childcare costs will be supported through an additional element in Universal Credit.
- The Government has committed to investing an additional £300 million into childcare support on top of the £2 billion already spent in the current system.
- Support for the costs of childcare within Universal Credit will be available to all lone parents and couples, where both members are in work, regardless of the number of hours they work. It will mean that for the first time around 80,000 extra families will be eligible to receive support through childcare.

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## Universal Credit Delivery

- Universal Credit will be **paid monthly in one single direct payment**, like a salary, and should mirror the experience of work more generally.
- Some households may need more help to budget; arrangements will be put in place to support them during the transition to monthly payments.
- Universal Credit will be **'digital by default'** – being designed from the outset to be delivered by online self-service. There will continue to be other ways to claim for those who are unable to use the online service.
- We are testing all aspects of design with end users on a frequent basis (fortnightly) to **ensure the system is simple to understand** and easy to use.

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## Summary and Impact

- **Universal Credit increases the rewards of work and makes them more transparent**, as well as removing the risks of moving from benefits to work.
- The **greater simplicity of Universal Credit is expected to lead to a substantial increase in the take-up of currently unclaimed benefits**, with most of the impact being at the lower end of the income distribution.
- **Universal Credit will help tackle poverty.** It's by helping people see a greater financial reward from working, so they will work their way out of poverty.

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## Key dates

### **Autumn 2012**

12 local authority pilots began as part of UC testing.

### **April 2013**

Pathfinder went live.

### **October 2013**

Progressive roll out, and further testing begins.

Local authority pilots complete (Sep)

### **December 2013**

Direct Payment Demonstration Projects complete

### **January 2013**

'Learning the lessons' early findings of Direct Payment Demonstration Projects Report available.

### **July 2013**

Pathfinder expands

### **2017**

Every eligible person claiming UC by 2017.

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Thank you

Questions?





European Bank  
for Reconstruction and Development

# Inclusion in the Latvian Labour Market, Pre- and Post-Crisis

J Michelle Brock

Office of the Chief Economist

European Bank for Reconstruction and Development

Beyond Recovery: Foundations for Inclusive Growth in Latvia  
Riga, 3 June 2013

- I. Defining Inclusion
- II. Why we care
- III. Are Latvian Labour Markets Inclusive?
- IV. Barriers to Inclusive Labour Markets
- V. Youth as an excluded group, post-crisis
- VI. Summary and Policy Implications

- Inclusion = equality of opportunity
  - Economic outcomes should not be correlated with *circumstances* beyond one's control (Rawls (1971), J. Roemer, (1998), Bourguignon et al (2008))
  - Circumstances include gender, parents' background, ethnicity, age cohort
- An “inclusive labour market” → the likelihood of being employed does not depend on circumstances
  - We consider employment in terms of formal jobs



- Exclusion...
  - is inefficient
  - undermines incentives to participate in economic activity (invest, enter markets, obtain skills ...)
  - erodes support for rules of markets and market-supporting institutions
- Successful transition to sustainable market economies requires inclusion (Besley et al., 2010)

 Inclusion is critical to well-functioning market economies.

# Are Latvian labour markets inclusive?

- Compare pre- and post- crisis using the Life in Transition Survey (LiTS) data
- Regress whether or not a person has formal employment on a set of circumstances NOT efforts:
  - Age
  - Parental education
  - Gender
  - Ethnicity
- If circumstances matter, labour markets are not inclusive.

# Are Latvian labour markets inclusive?

Perhaps less than one would think, particularly after the crisis.

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	Employment (pre-crisis 2006)	Employment (post-crisis 2010)
Age	0.055 (0.075)	0.163*** (0.057)
Father's education	-0.157 (0.155)	0.431** (0.181)
Mother's education	0.187 (0.162)	-0.095 (0.132)
Male	0.276 (0.317)	0.359 (0.261)
Ethnically Latvian	-0.054 (0.454)	-0.294 (0.321)
Constant	0.741 (1.795)	-2.894** (1.291)
N	420	364

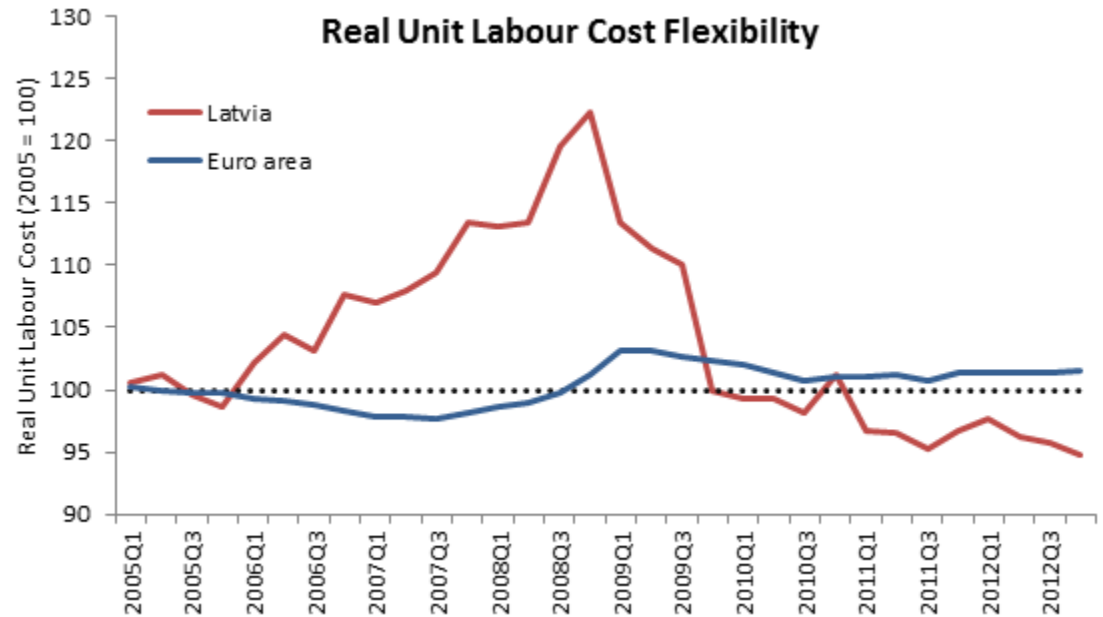
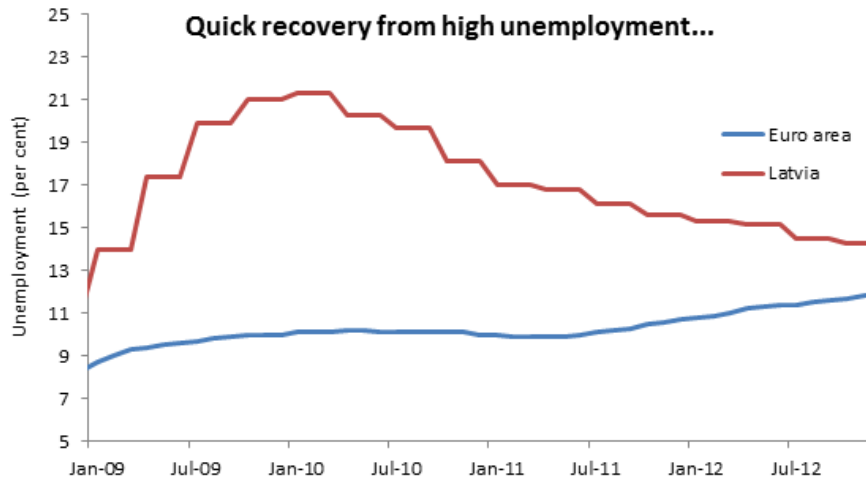
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- “Inflexibility” of labour market: formal or organisational barriers to entry can reduce access to “good jobs” for certain groups
- Skills and experience unfairly distributed across groups
- Parental background (job history and education) affects perception of opportunity, own educational attainment and career

- Policies for a flexible labour market
  - Required severance pay is comparatively modest (does not exceed 4 months average pay)
  - Unemployment insurance, during the crisis the period eligibility for unemployment benefits was extended (doubled)
  - Notification periods in cases of collective redundancies shortened during crisis
  - Active labour market policy programs (ALMPs), 3 new programs implemented during crisis



# Evidence of a flexible labour market



Source: Eurostat



- “Inflexibility” of labour market: formal or organisational barriers to entry can reduce access to “good jobs” for certain groups
- Skills and experience unfairly distributed; importance of parental background for education and employment outcomes

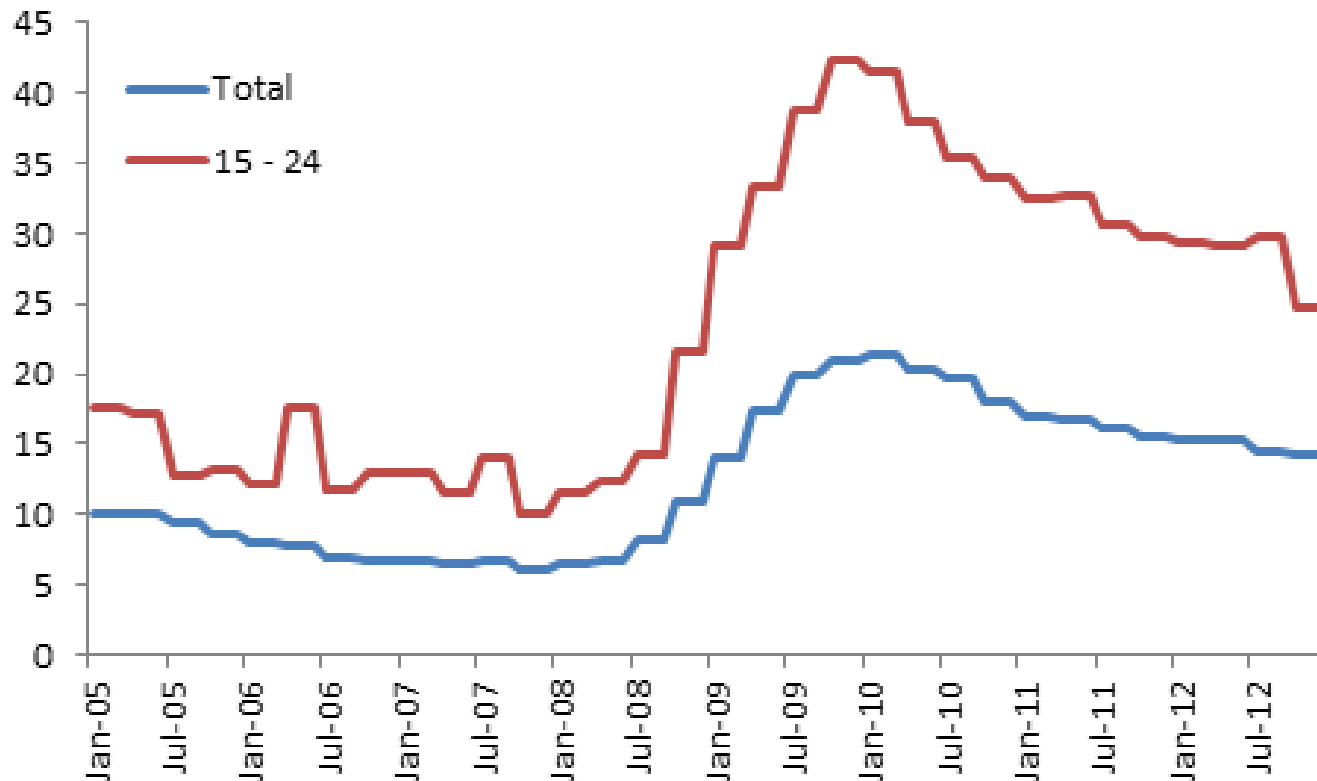
- “Inflexibility” of labour market: formal or organisational barriers to entry can reduce access to “good jobs” for certain groups
- Skills and experience unfairly distributed; importance of parental background for education and employment outcomes



Distribution of *opportunities* to build skills and experience → Exclusion of the youth post-crisis

# Evidence of youth exclusion post-crisis

- Youth unemployment
  - double average unemployment post-crisis
  - double pre-crisis levels



Source: Eurostat

- Why this pattern?
  - Less experience → natural consequence of age
  - Fewer skills → exclusion of youth from education opportunities
- Do circumstances affect educational attainment?
  - Parental background effect on employment: education channel
  - Parental education = the exogenous part of own educational attainment

# Differential access to education?

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	Education (pre-crisis 2006)	Education (post-crisis 2010)
Age	0.087*** (0.011)	0.074*** (0.014)
Father's education	0.197*** (0.041)	0.236*** (0.062)
Mother's education	0.304*** (0.043)	-0.021 (0.057)
Male	-0.096 (0.081)	-0.010 (0.098)
Ethnically Latvian	-0.024 (0.100)	0.131 (0.094)
N	872	620

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# Differential access to education?

- Own education impacted by age and father's education
  - This has not changed with the crisis,
  - but younger cohorts, who are already disproportionately affected by the crisis, do not have as much education as older cohorts
- Reduced youth investment in human capital (relative to older cohort) *OR* skilled youth migrated when Latvia joined the EU
  - regardless, low education of youth in Latvia today → subsequent lack of opportunities in the labour market

- **Strengths**
  - Ethnicity and gender are not barriers to formal employment
  - Good flexibility of labour markets
- **Distribution of skills and experience**
  - Parental background determines opportunity set both through education and directly through employment
  - Younger cohorts have less education than older cohorts → excluded youth in labour market
- **Policies**
  - Target educational opportunities to underserved populations
  - Improve vocational training programs targeted at youth





European Bank  
for Reconstruction and Development

Thank you.

# Do policies support youth inclusion?

- Policies on the books and in practice are relatively good
- Latvia ranks 5 out of 29 EBRD countries on hiring and firing practices (World Bank, Doing Business 2008).
- Latvia receives a 4 of 5 on SME support/development training (Women's Economic Opportunity Index 2012 EIU)
- Half of Transnational mobility training schemes target non-vocational **adult learners** (European Commission Study on Mobility Developments in School Education, Vocational Education and Training, Adult Education and Youth exchanges June 2012; youth defined as ages 0-35 )

# Are labour markets in Estonia inclusive?

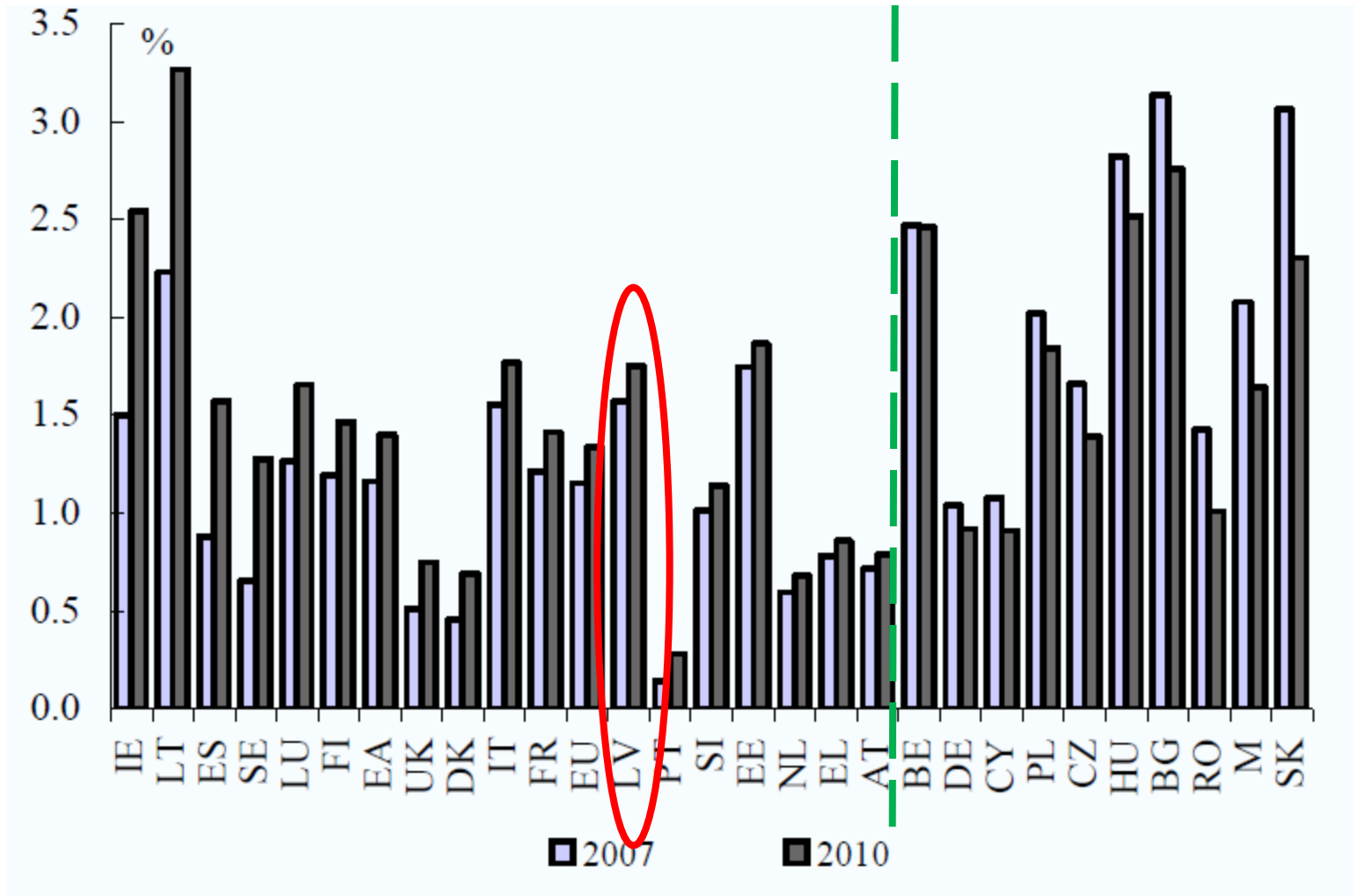
	Employment (pre-crisis 2006) Estonia	Employment (post-crisis 2010) Estonia	Education (pre-crisis 2006) Estonia	Education (post-crisis 2010) Estonia
Age	0.015 (0.101)	0.110* (0.057)	0.073*** (0.014)	0.034** (0.015)
Father's education	0.343 (0.302)	-0.039 (0.139)	0.201*** (0.047)	0.270*** (0.047)
Mother's education	-0.012 (0.302)	0.148 (0.161)	0.279*** (0.051)	-0.028 (0.037)
Male	-0.449 (0.384)	0.082 (0.355)	-0.095 (0.069)	-0.134 (0.095)
Ethnically Estonian	0.811 (0.540)	1.247*** (0.304)	0.090 (0.091)	0.132 (0.093)
Constant	0.366 (2.476)	-2.665** (1.316)		
N	410	324	851	638

# Are labour markets in Poland inclusive?

	Employment (pre-crisis 2006) Poland	Employment (post-crisis 2010) Poland	Education (pre-crisis 2006) Poland	Education (post-crisis 2010) Poland
Age	0.183** (0.087)	0.146** (0.058)	0.068*** (0.014)	0.033** (0.016)
Father's education	0.036 (0.149)	0.302* (0.180)	0.230*** (0.038)	0.318*** (0.050)
Mother's education	0.019 (0.168)	-0.188 (0.142)	0.236*** (0.044)	-0.012 (0.045)
Male	0.585* (0.331)	-0.300 (0.317)	0.076 (0.079)	-0.201*** (0.078)
Ethnically Polish	-0.319 (0.670)	0.001 (0.443)	-0.009 (0.168)	0.013 (0.120)
Constant	-2.353 (1.817)	-1.100 (1.182)		
N	349	401	814	801

- Skills mismatch for all ages
  - 39.1% of firms identify an inadequately educated workforce as a major constraint (Business Enterprise Environment and Performance Survey BEEPS)
  - Apparent skills mismatch has increased since the crisis

# EU MS skills mismatch



Source: European Economic Forecast, Autumn 2011

# Are Latvian labour markets flexible?

- Latvia has minimum wage policies and the private sector has full rights to strike, but in practice...
- Low trade union density (19.8% in the region)
- Low collective bargaining coverage (36.3% in Central-East Europe)
- Latvia ranks lower than most Western European countries in terms of wage coordinating across firms and sectors

# LiTS 1 vs LiTS 2 Descriptive Statistics



European Bank  
for Reconstruction and Development

	<b>LiTS1 (including retired respondents)</b>	<b>LiTS1 (excluding retired respondents)</b>	<b>LiTS2 (including retired respondents)</b>	<b>LiTS2 (excluding retired respondents)</b>
<b>Mean age</b>	52.90 (18.39)	51.37 (18.14)	42.72 (13.13)	41.94 (13.23)
<b>Max age</b>	97	96	83	84
<b>Dad's education average</b>	Compulsory school (med); Compulsory school (mode)	Secondary (med); Compulsory school (mode)	Primary completed 8-11 years (med); no degree 0-7 years (mode)	Primary completed 8-11 years (med); Primary completed 8-11 years (mode)
<b>Mom's education average</b>	Compulsory school (med); Compulsory school (mode)	Secondary (med); Compulsory school (mode)	Primary completed 8-11 years (med); no degree 0-7 years (mode)	Primary completed 8-11 years (med); Primary completed 8-11 years (mode)
<b>% female</b>	61.59%	54.24%	59.43%	54.9%
<b>% ethnic majority (Latvian)</b>	77.94%	77.85%	57.92%	57.82%
<b>Unemployment rate (%)</b>	9.6%	11.26%	18.64%	19.71%
<b>Mean education (35 and under)</b>	Professional, vocational school/training (med); Professional, vocational school/training (mode)	Professional, vocational school/training (med); Professional, vocational school/training (mode)	Upper secondary (med); Upper secondary (mode)	Upper secondary (med); Upper secondary (mode) <small>*Min age in all groups is 18.</small>





# **The German case: The impact of the Hartz reforms on making work pay and activation**

Conference

“Beyond Recovery: Foundations for Inclusive Growth in Latvia”

Riga, 3<sup>rd</sup> June 2013

Bettina Schattat

Director for Employment for Labour Market Policy  
and Unemployment Insurance

Federal Ministry of Labour and Social Affairs

## The German case: Challenges

- Germany was not competitive in the early 2000s:
- Economic growth was weak and Germany's international competitiveness tended to be low.
- Unemployment was high.
- The labour market was divided.
- The labour market was rigid.
- Labour market policy lacked a pro-active and activating element.

## Overview:

1. “Rights and Responsibilities” – The labour market policy measures of the Hartz reforms
2. Effects and results of the labour market reforms
3. Youths and young adults: Germany’s dual vocational training system
4. Summary: Core results

# Labour Market Reforms 2002 - 2005

Job-AQTIV 2002	<ul style="list-style-type: none"> <li>• Starting point for activation approach with targeted active labour market instruments</li> <li>• Impact research on the effects of labour market policy measures</li> </ul>
Hartz I – 2003	<ul style="list-style-type: none"> <li>• Facilitation of new forms of work</li> <li>• Expansion and regulation of temp. agency employment</li> </ul>
Hartz II – 2003	<ul style="list-style-type: none"> <li>• Regulation of different types of marginal employment (mini-jobs, midi-jobs)</li> </ul>
Hartz III- 2003	<ul style="list-style-type: none"> <li>• Organisational reform of the Federal Employment Agency</li> </ul>
2004 (Agenda 2010)	<ul style="list-style-type: none"> <li>• Unemployment benefit reduced to 12/18 months (from 12/36)</li> </ul>
Hartz IV =	<ul style="list-style-type: none"> <li>• Merging Social Assistance and Unemployment Assistance</li> </ul>

## Reform intentions

- Increase willingness of unemployed to make more **concessions** when taking up new jobs
- Increase options for employers and employees to enter into regular employment with a **flexible set of contractual arrangements**
- Comprehensive approach of connecting unemployed to the labour market via **activation measures**

## Results of the reforms

- Unemployed persons more willing to make concessions when it comes to their **willingness to accept jobs** at lower qualification level (81%) or inconvenient working hours (63%).
- Less so with regards to regional **mobility** (28%)
- No measurable effects on **reservation wage**
- More **unsolicited** job applications
- Fairly weak bridge effect of mini-jobs

## The labour market in Germany

- Highest level of employment since reunification, 41 million working population
- Full-time employment subject to social insurance contributions increased before the crisis; is now on the rise once again.
- Increase in atypical employment since reforms in 2003; had previously been the general trend.
- Temporary agency work has increased from 562,000 (2006) to 775,000 (2011).

- Number of **unemployed able to work receiving UB 2 declined** from 2005 to 2011 by 700,000 persons to 2.1 million.
- **Stock of long-term unemployed (LTU) was reduced** for the first time: Not predominantly due to the outflow from LTU, but to the **stop of inflow**.
- **Youths and young adults who receive UB 2 continue to be “construction sites” for labour market policy.**



# The dual vocational training system

- Vocational training is conducted primarily in enterprises and is flanked by instruction in vocational school
- Aim: Ability to work in the respective occupation
- More than 340 recognised occupations that require completion of formal vocational training
- Length of training: 2 – 3.5 years
- 52.5 % of school-leavers start dual vocational training.
- 61 % of persons who complete training are hired by the enterprise that trained them.
- Unemployment rate among young people: 7.6% (2013)

# The dual vocational training system: Advantages

- Skills and qualifications that are precisely tailored.
- Vocational training is geared to trade and industry's needs.
- Enterprises reduce their familiarisation costs when they hire their trainees following completion of training.
- Costs are borne primarily by the enterprises providing in-house vocational training (€ 3.6 billion); funding from states: € 3.1 billion for equipping and operating vocational schools.
- National Pact for Training and Young Skilled Workers

# Summary

- Germany's labour market is now more flexible.
- Rights and Responsibilities: Unemployed now more willing to make concessions to obtain a job.
- Specific active labour market policies have improved the job chances of unemployed persons.
- Moderate increase in labour costs
- Continuous impact research into the effects of labour market policy and its instruments



**Thank you  
for your attention!**

# Developments in the Latvian labor market

*Riga, June 3, 2013*

*Mihails Hazans*

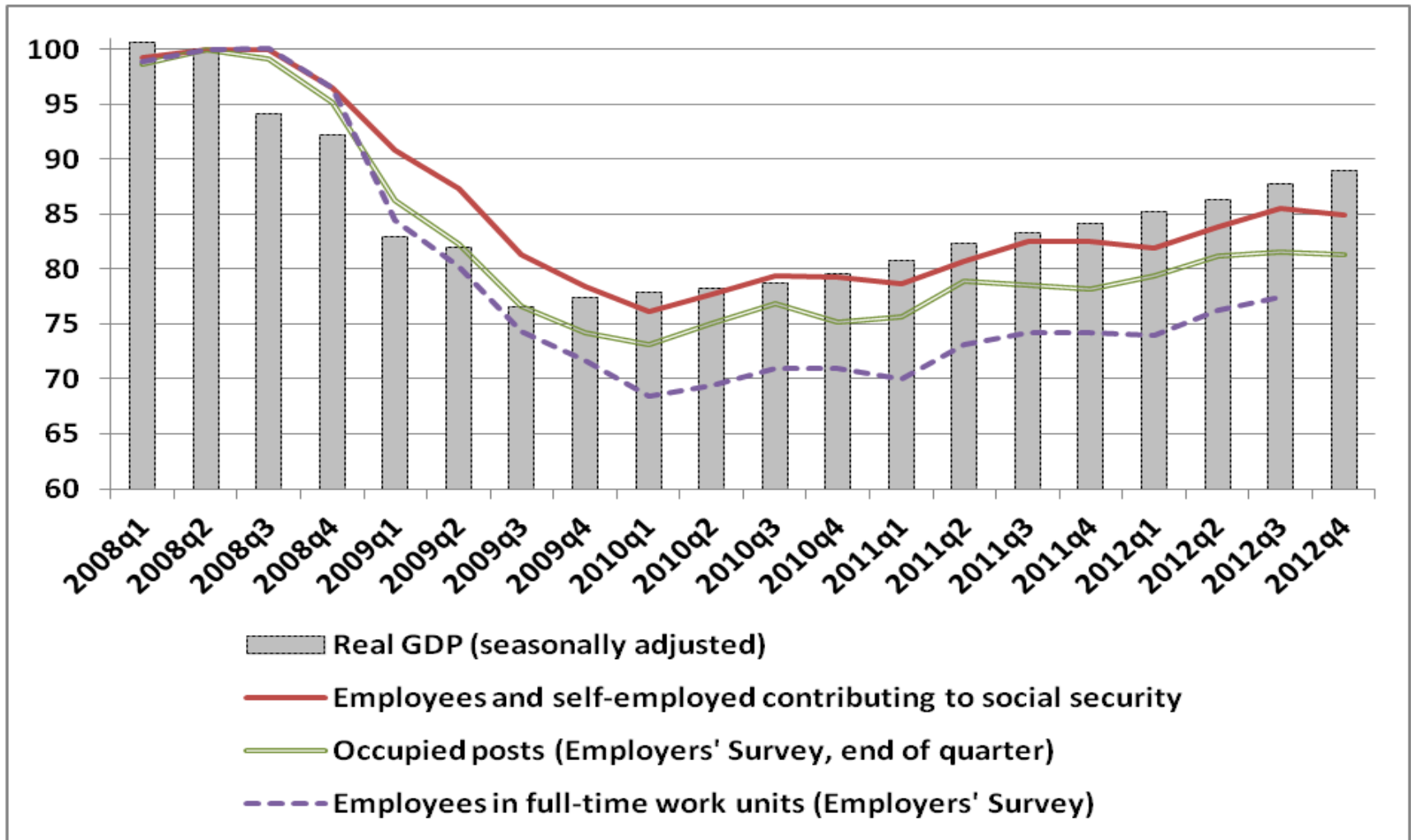
**University  
of Latvia**



**Institute for the Study of  
Labor (IZA)**



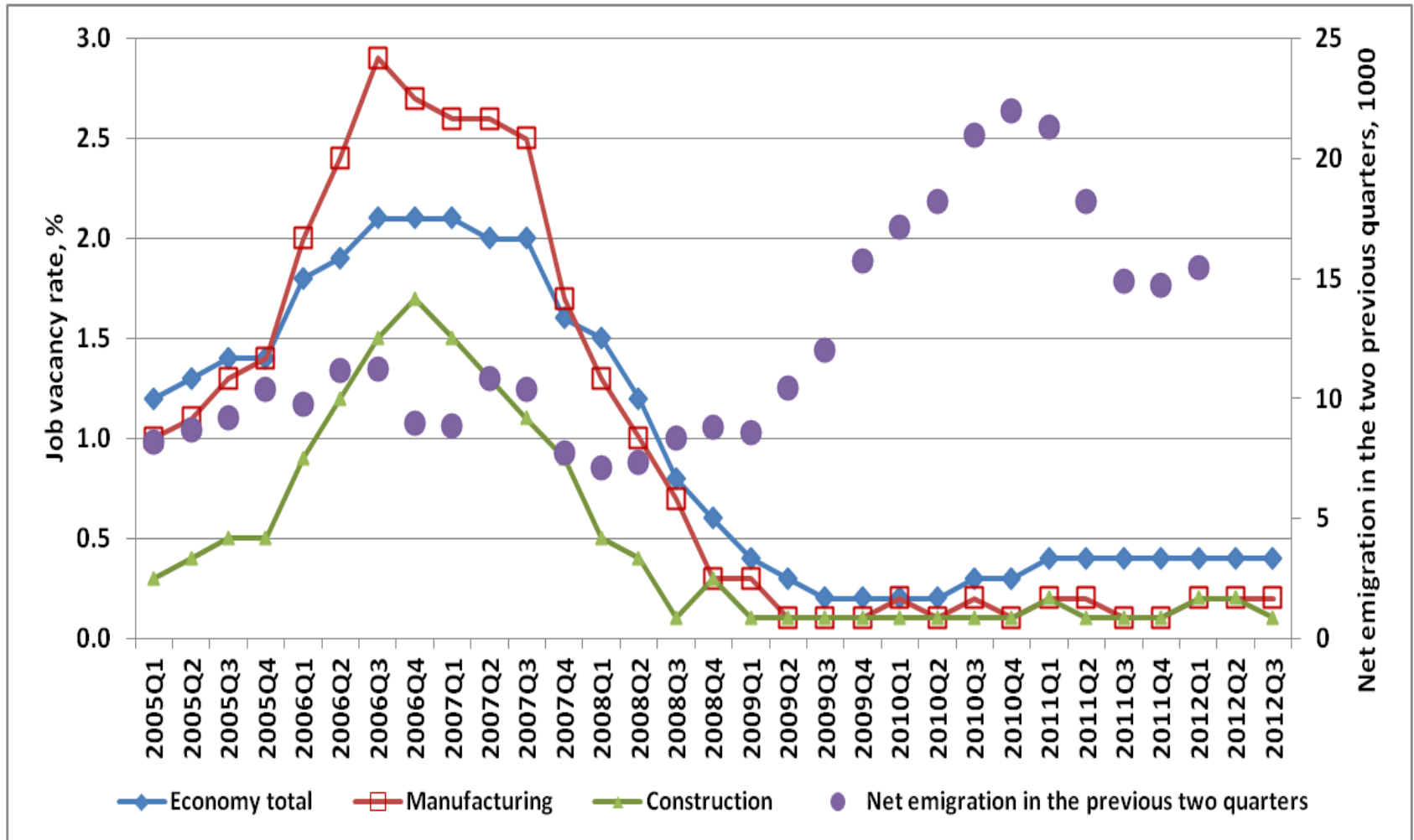
# Latvian real GDP and employment during the economic crisis (2008/Q2 = 100).



## **Why employment has not recovered and unemployment remains high?**

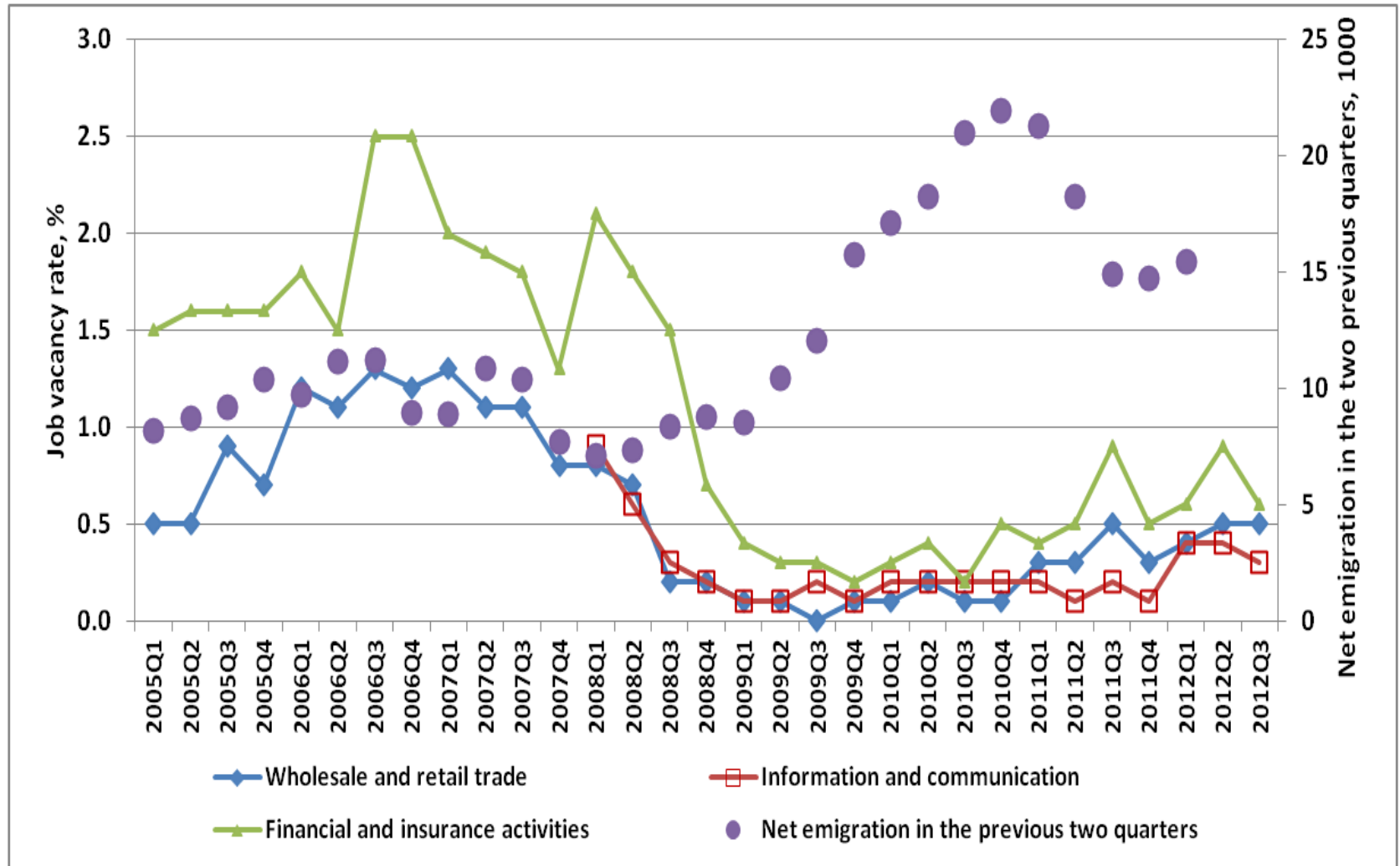
- IMF (January 2013): Latvian unemployed are not suitable for the jobs Latvian employers can offer
- In the media, [some] employers complain about this as well – already since 2011
- Is it really the case? Or there is just not enough vacancies?
- In fact, few businesses report labour shortages in surveys
- The level of vacancies in Latvia is very low – in comparison both to the pre-crisis levels and to other European countries
- Available vacancies are filled very quickly which is not consistent with the idea of notable mismatches between supplied and demanded skills

# Since 2009, job vacancy rates are extremely low, even despite the need to replace emigrants

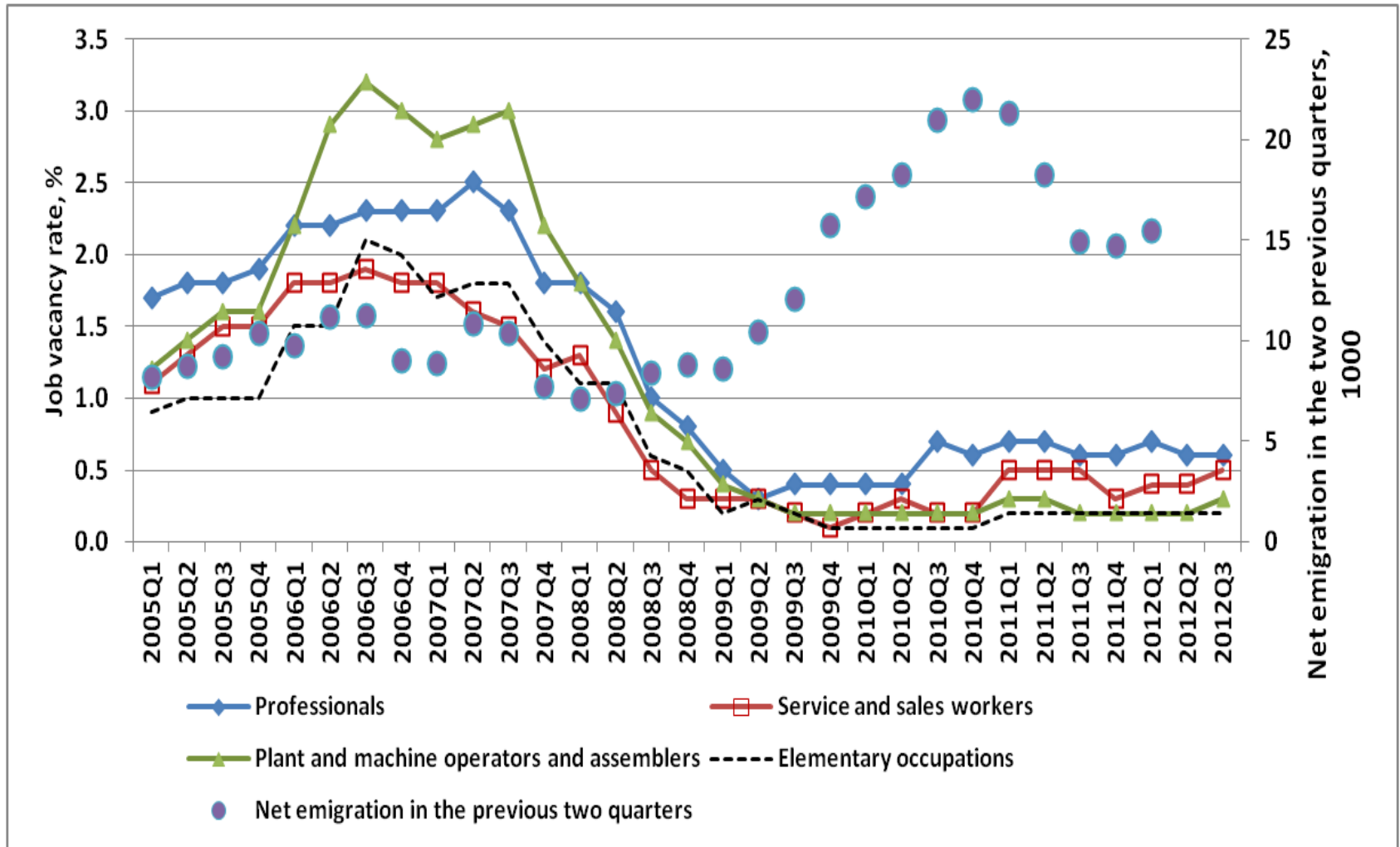




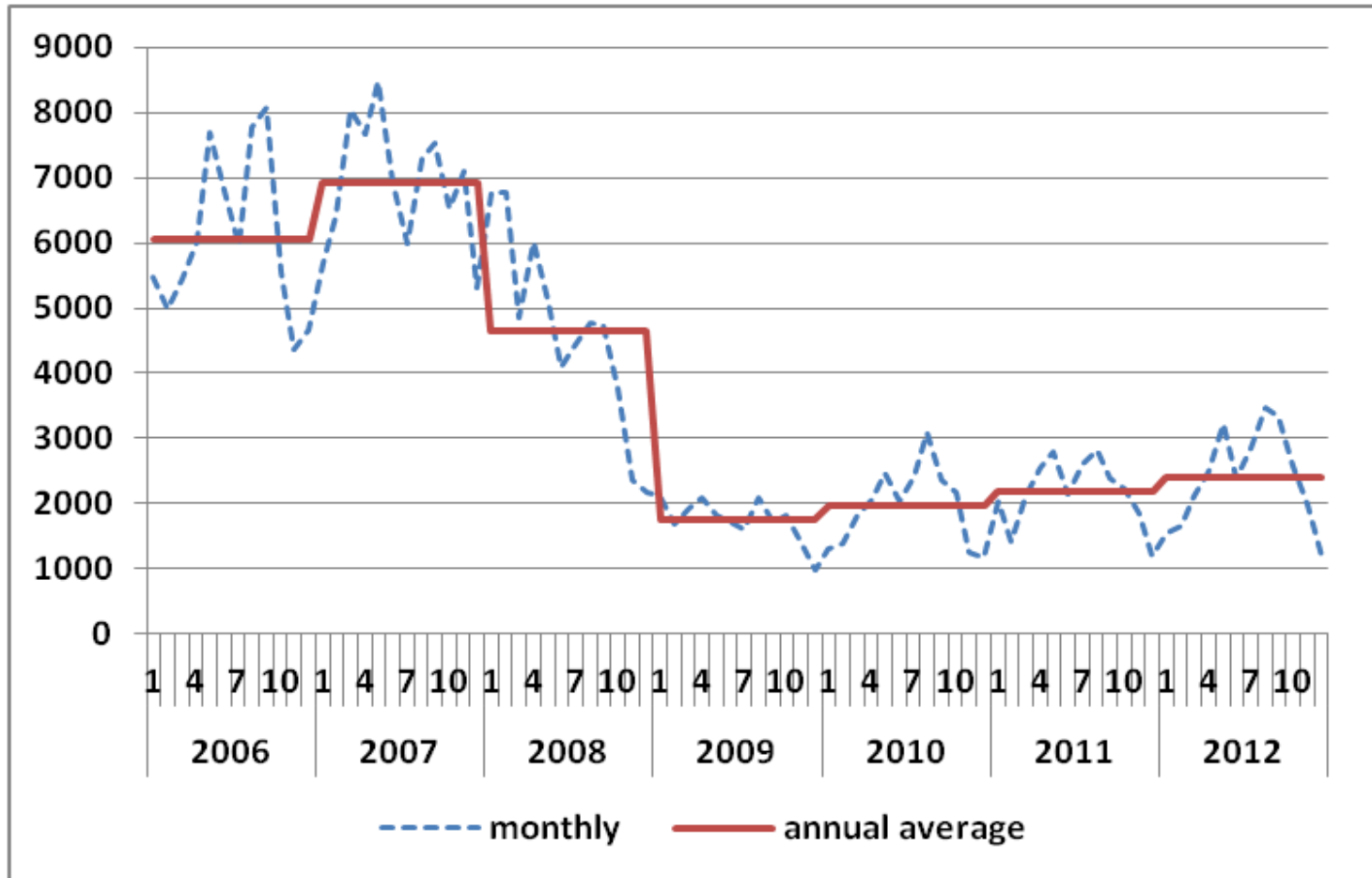
**Even in such sectors as IT, Finance and Insurance, and Trade, where job vacancy rates are growing, they remain extremely low by historical standards**



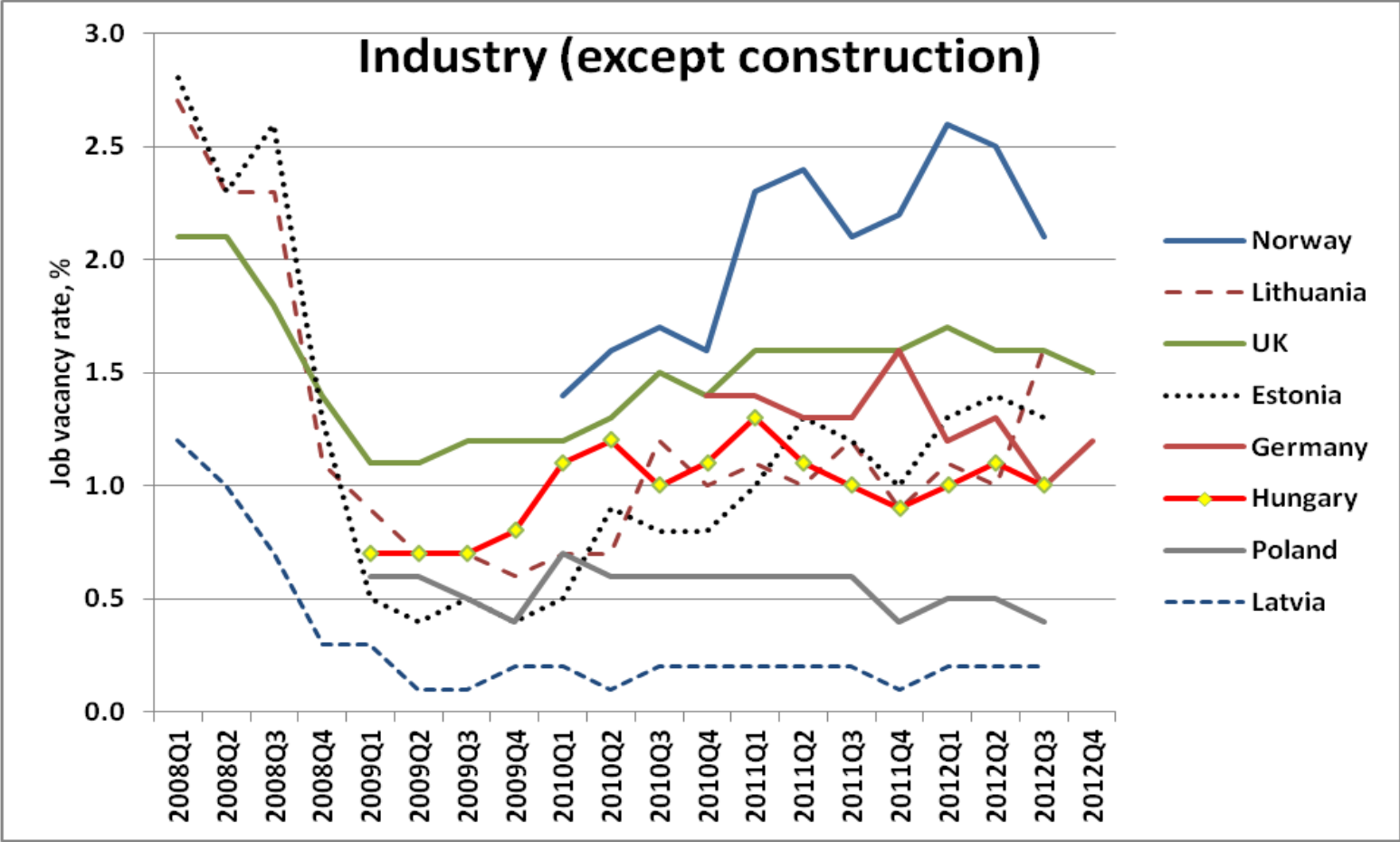
**In professional occupations, vacancy rates are higher than in manual ones, but still very low and not growing**



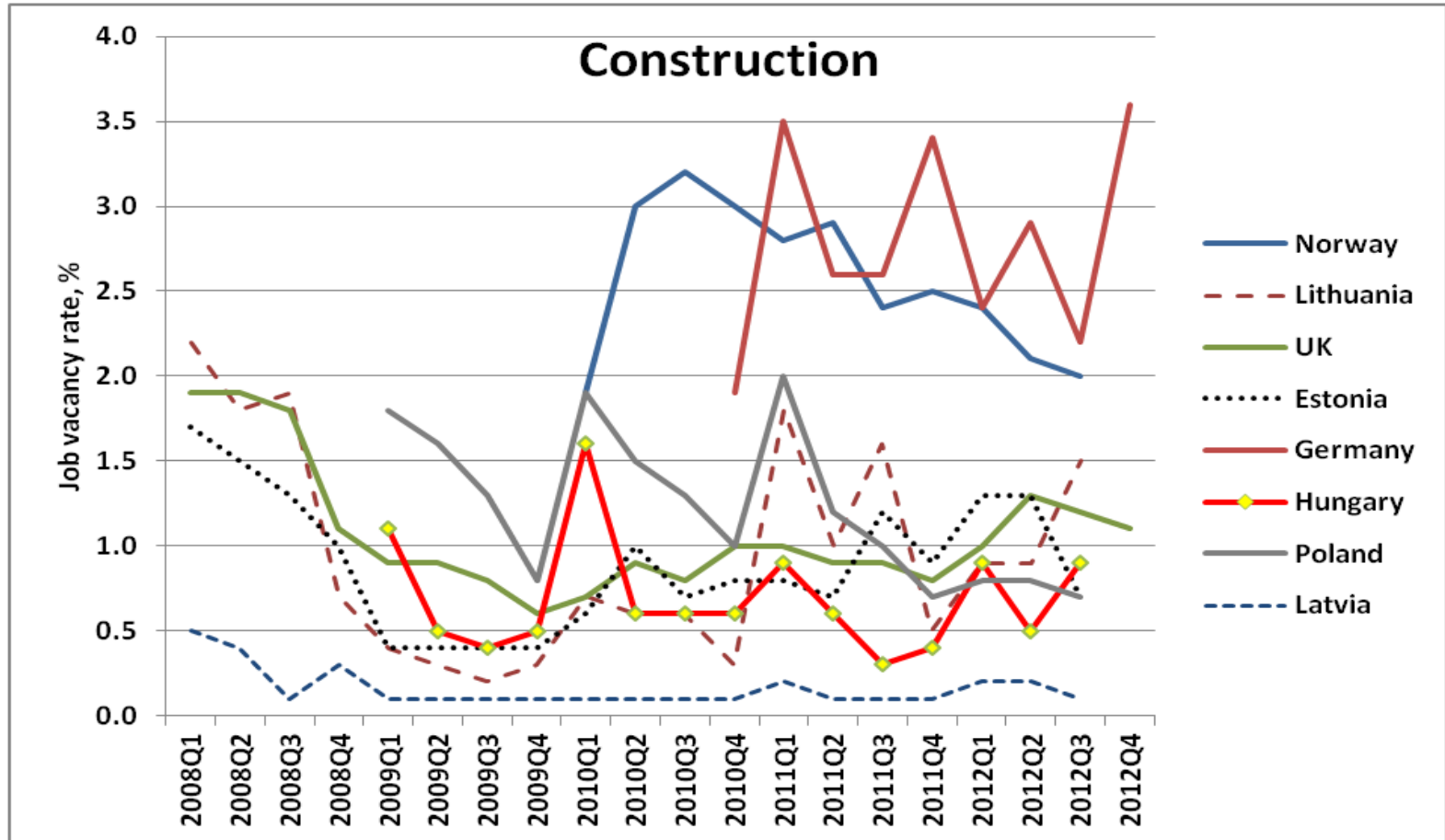
# Inflow of vacancies registered at the State Employment Agency also confirms lack of demand



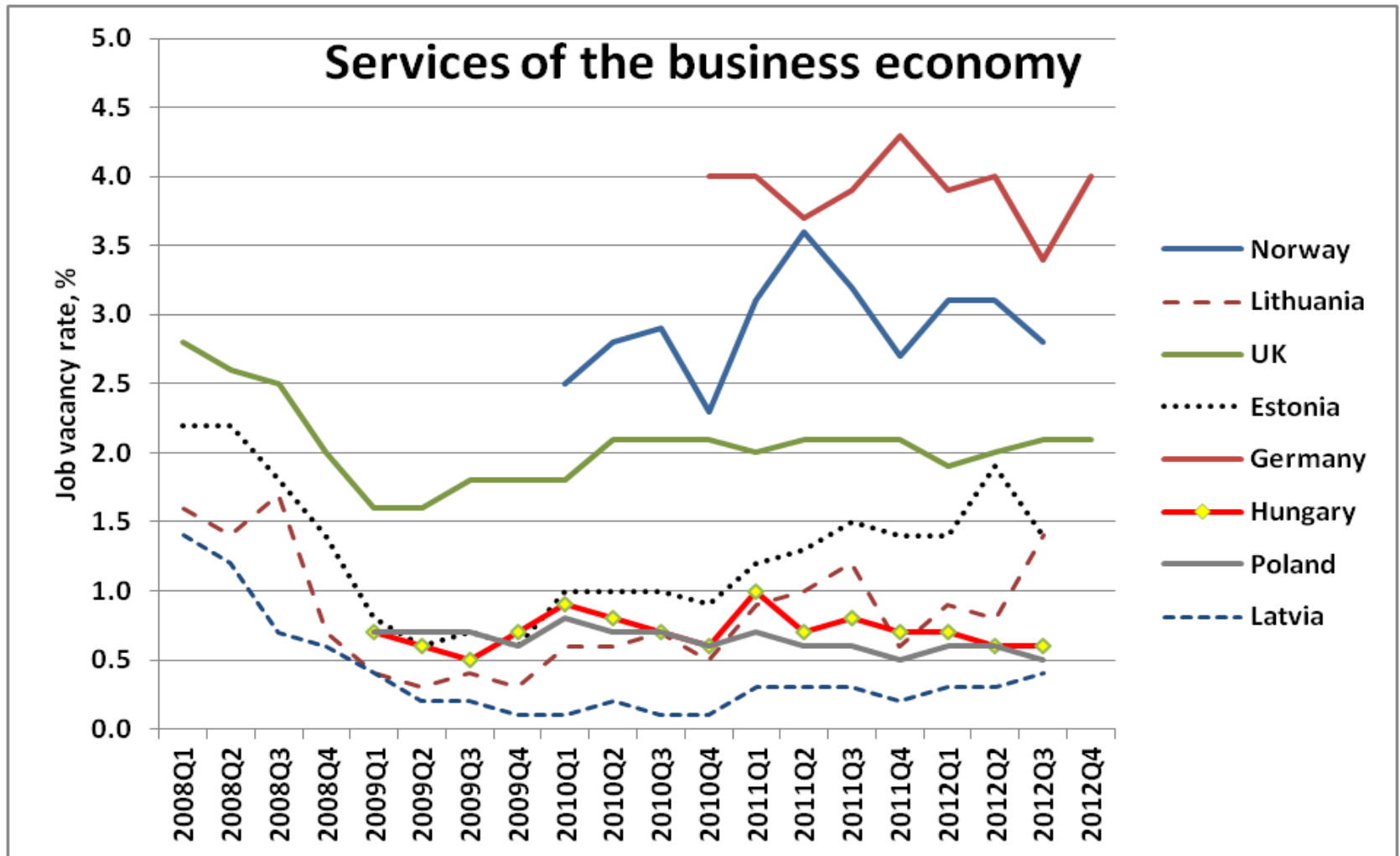
Recent job vacancy rates in Latvia are extremely low by international standards – even when compared to EE and LT



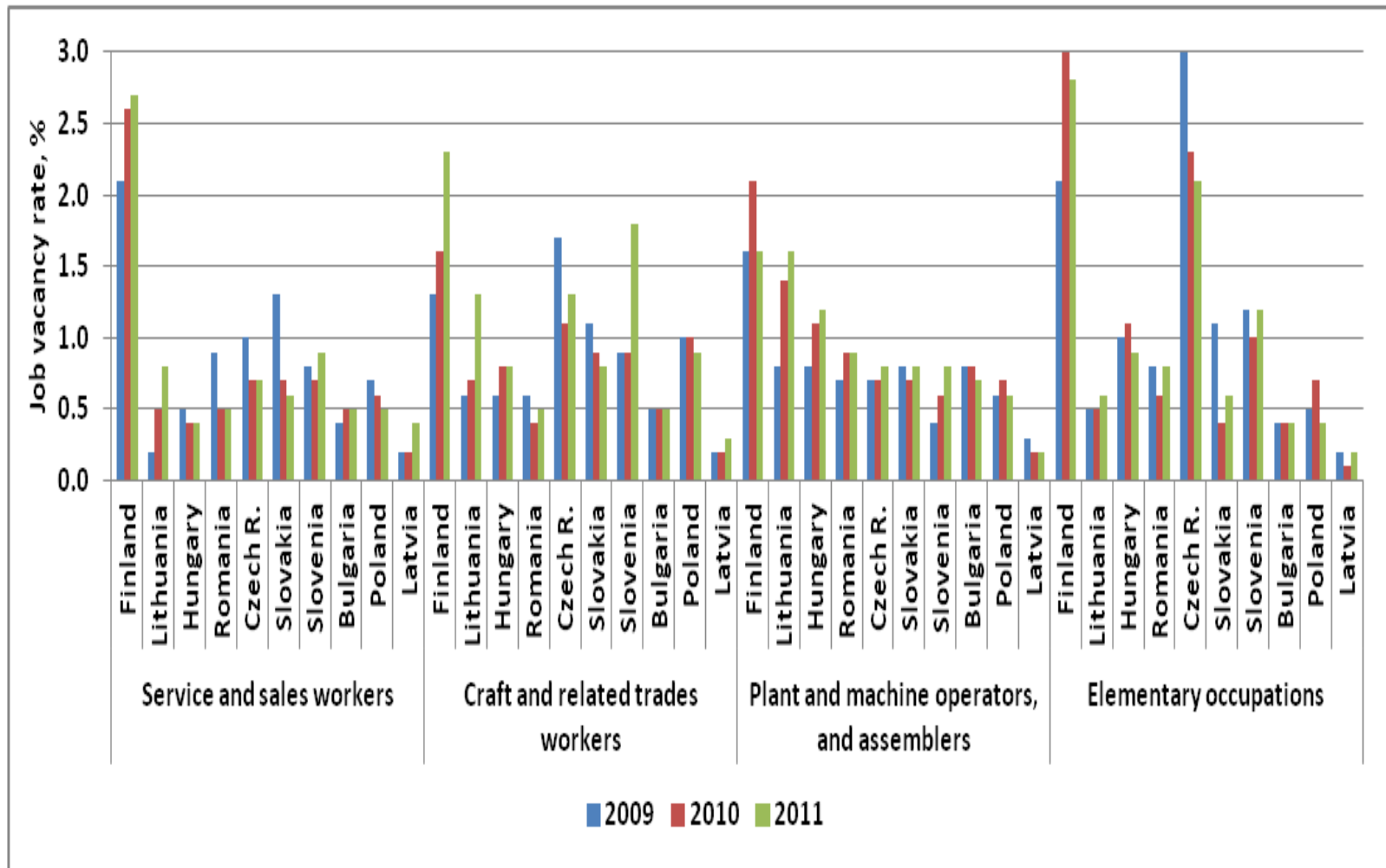
# Recent job vacancy rates in Latvia are extremely low by international standards



# Recent job vacancy rates in Latvia are extremely low by international standards



# Across occupations, recent job vacancy rates in Latvia are extremely low by international standards



# Job vacancy duration (days)

Publication Year	For 25% of positions, vacancies have been active for no more than ...days (p25)	For 50% of positions, vacancies have been active for no more than ...days (p50)	For 75% of positions, vacancies have been active for no more than ...days (p75)
2008	19	41	73
2009	7	19	43
2010	10	25	48
2011	14	29	51
2012 - closed	11	22	39
2012 - open	0	18	63



# Job vacancy duration (days)

	2008	2009	2010	2011	2012 <sup>a</sup>
	<b>Permanent jobs</b>				
p25	20	7	11	14	12
p50	43	20	26	30	23
p75	75	44	48	53	40
	<b>Temporary jobs</b>				
p25	11	5	6	12	8
p50	28	13	18	26	19
p75	53	37	37	45	36

# Job vacancy duration (days)

	2008			2009			2010			2011			2012 <sup>a</sup>		
	p25	p50	p75	p25	p50	p75	p25	p50	p75	p25	p50	p75	p25	p50	p75
Senior Officials and Managers	15	32	65	10	22	44	13	24	39	15	31	47	14	23	40
Professionals	25	49	83	13	28	55	16	31	58	20	36	70	14	28	50
Technicians	23	46	76	17	36	57	16	34	56	17	33	59	13	22	38
Clerks	14	30	57	10	23	69	13	29	56	11	26	49	11	21	33
Service Workers	19	38	66	6	17	36	10	22	42	14	28	49	12	21	39
Skilled Agric. & Fishery Workers	9	33	58	6	11	31	9	23	40	13	33	60	12	24	38
Craft & Related Trades Workers	28	57	94	7	21	49	14	29	53	18	34	56	15	28	47
Plant & Machine Operators	21	45	78	5	14	34	8	24	48	13	30	53	11	26	41
Elementary Occupations	9	28	59	1	6	15	4	12	28	7	19	35	7	15	29

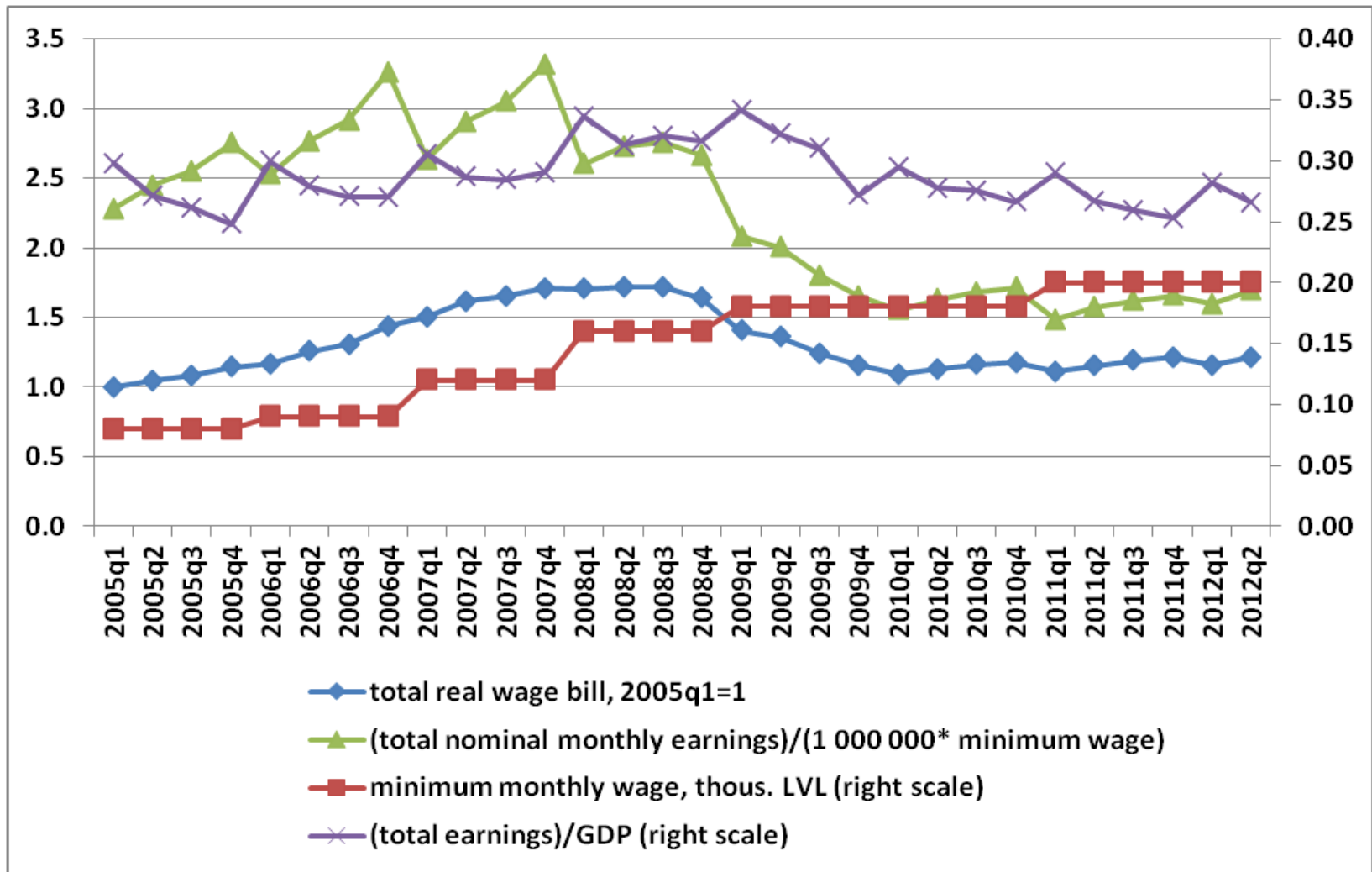
# Average duration of open job vacancy ads at cv.lv (CV Online Latvia)

Type of job	2012 Q2	2012 Q3	2012 Q4
Administration / secretarial	21.6	20.4	20.3
Organisation and management	26.2	21.9	21.1
Construction / real estate	28.6	30.1	24.5
Culture / arts / entertainment	22.4	23.1	24
Electronics / telecommunication	24.9	26	25
Energetics / electricity	23	23.3	22.8
Finance / accounting	24.1	20.7	19.9
Health care / social care	25.2	24.7	25.2
Production / manufacturing	24.6	25	24.2
Information technology	29.9	26.1	26.6
Media / public relations	20	22.2	18.6
Law / legal aid	19.4	25.4	20
Marketing / advertising	21	22.2	20.6
Technical engineering	27.1	24.8	26.1
Sales	21.5	23.3	21.4

# Average duration of open job vacancy ads at cv.lv (CV Online Latvia)

Type of job	2012 Q2	2012 Q3	2012 Q4
Agriculture / environmental sciences	21.7	22.4	20.8
Service industry	23.9	23.2	22.2
State and public administration	21.1	20.8	19.8
Tourism / hotels / catering	38.8	25.2	27.5
Trade / purchase / supply	21.4	22.2	21
Education / science	27.2	25.3	22.6
Transport / logistics	28.1	23.3	24.2
Banking / insurance	25	21.6	17.6
Human resources	19.2	23.7	18.6
Security / rescue services	32.8	24	20.4
Voluntary job	97	19	20
Internship	24.4	22.6	20.2
<b>OVERALL</b>	<b>27.4</b>	<b>23.4</b>	<b>22.0</b>
<i>Total job ads posted</i>	<i>8716</i>	<i>10554</i>	<i>10534</i>

[Satisfied] labor demand: (i) in constant prices;  
(ii) as % of GDP; (iii) vs. minimum wage



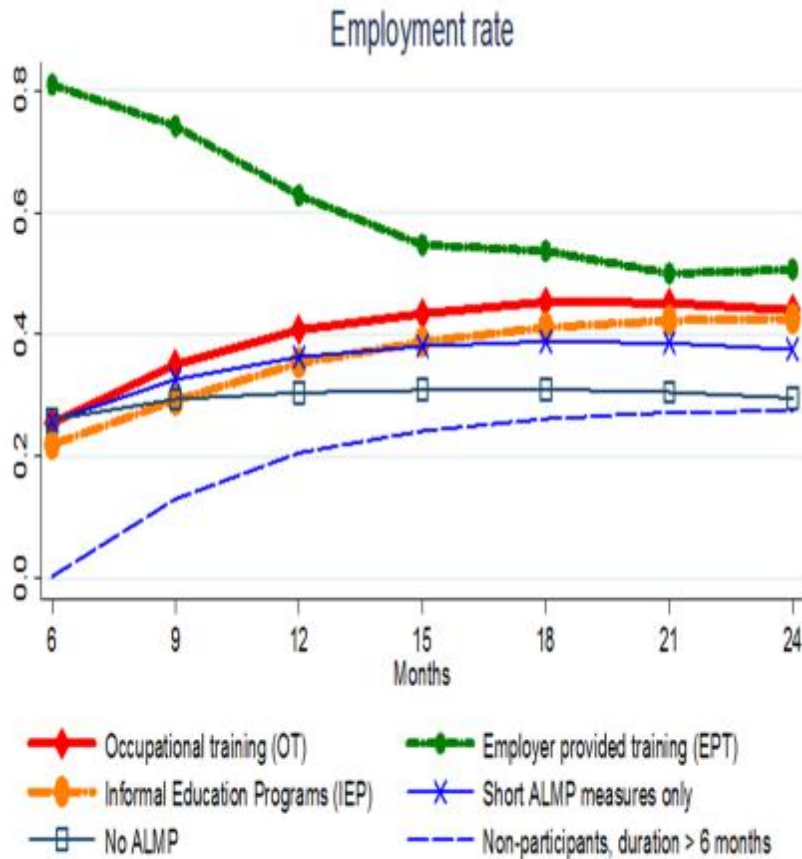
# Labor market diagnostics

- Lack of demand remains the major constraint to further labour market recovery in Latvia
- While some entrepreneurs indeed face difficulties if finding relevant employees, this concerns only a small share of businesses and a small proportion of available vacancies
- General job creation measures such as new infrastructure (incl. social) expenditures are the correct response to the current situation where business continue to be constrained by lack of demand
- On the other hand, the quality of the labor force (and, in particular, of the pool of unemployed) allows for successful training and retraining in accordance to changing labor market needs

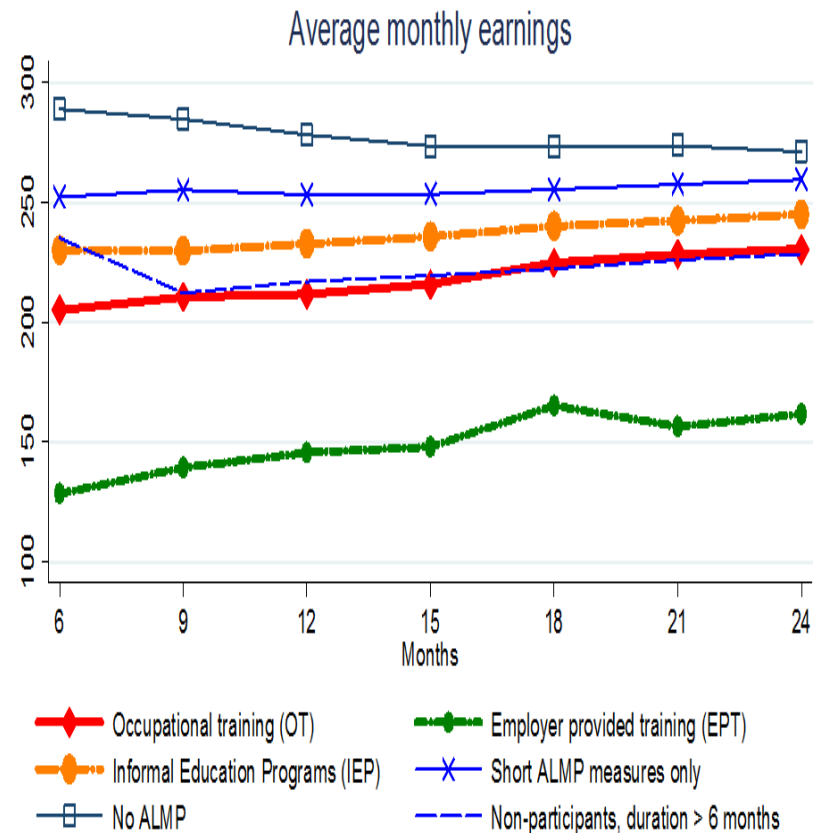
# Main findings from ALMP evaluation

- **All types of professional training and informal education programs for unemployed significantly improve participants' employment rates—both soon after training completion and in the medium term**
- **Most of the employer-provided training programs** (service and sales sector for both genders; manual jobs for men, and non-manual jobs for women) seem to be less successful in terms of both job stability and, especially, earnings
- **There is no case for expanding subsidized employer provided training**
- Short (non-training) measures to improve competitiveness of the unemployed are useful, but they cannot substitute training and education, especially in the medium and longer term
- **A substantial variation in terms of various labor market outcomes is found both between types of programs and within each type**

# Employment rates and earnings of trained and not trained unemployed, 6 to 24 months since registration



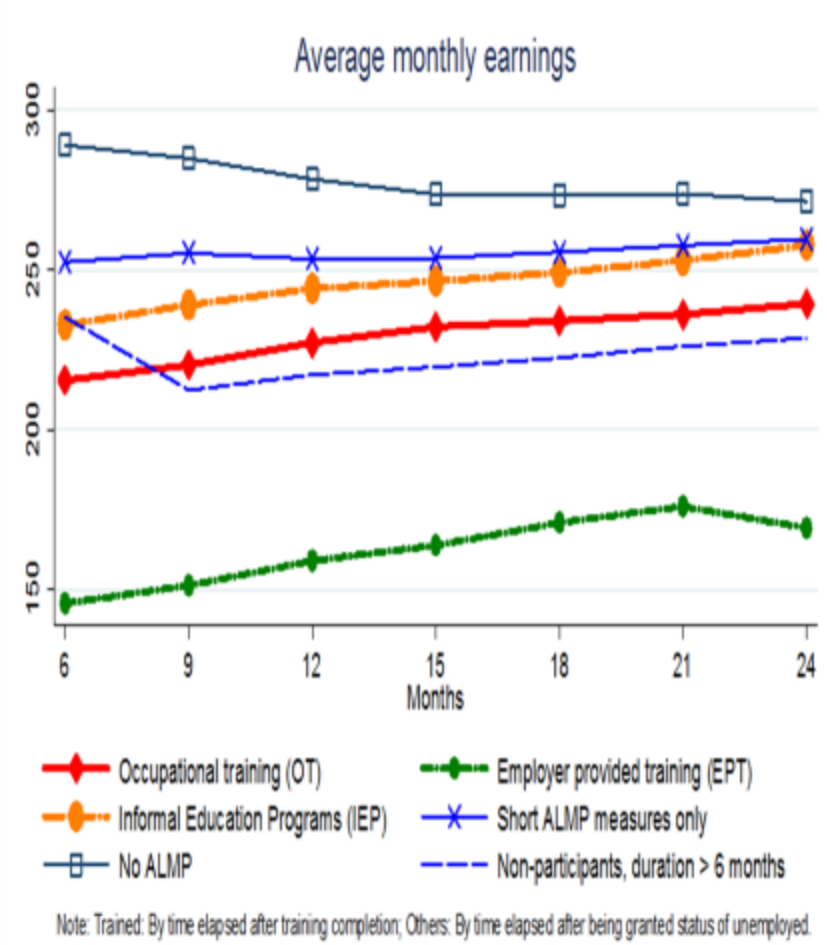
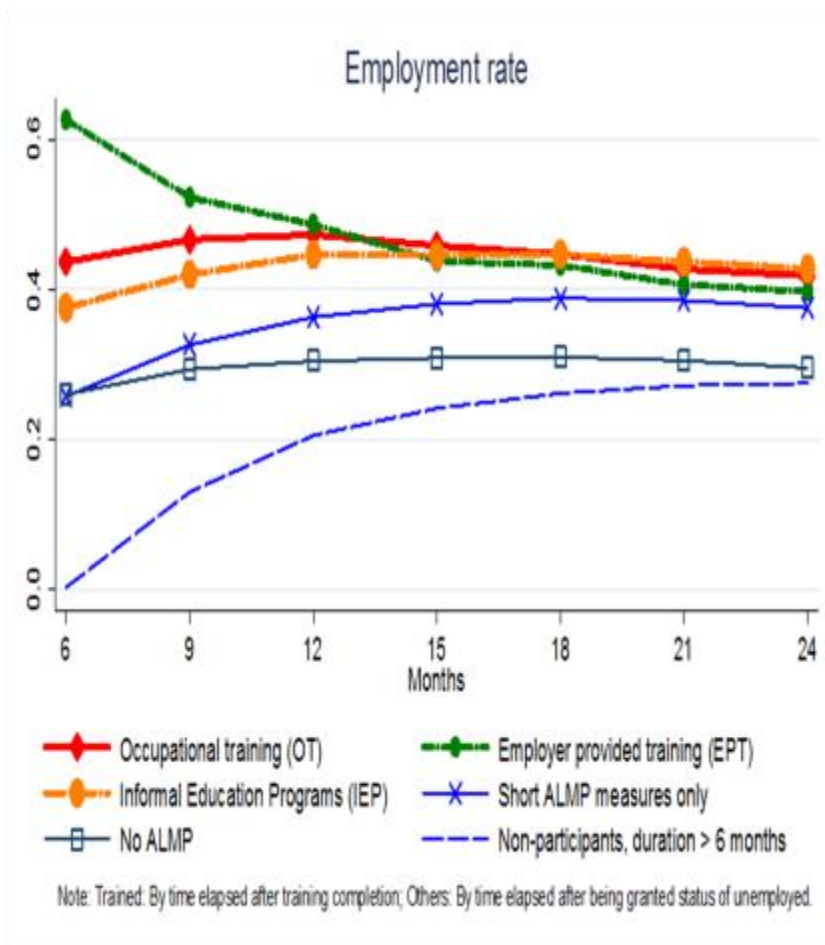
Note: By time elapsed after being granted status of unemployed.



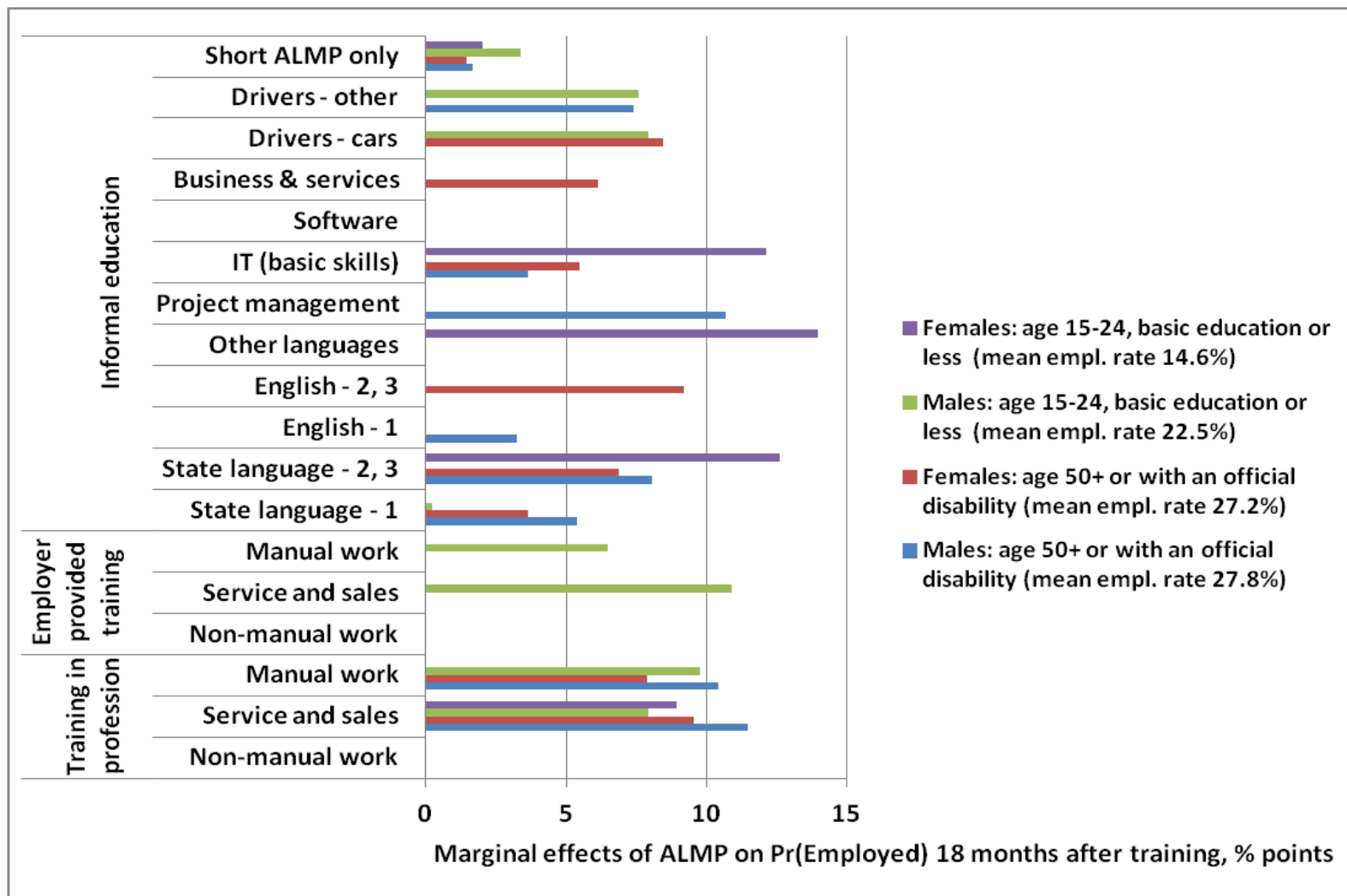
Note: By time elapsed after being granted status of unemployed.



# Employment rates and earnings of trained and not trained unemployed, 6 to 24 months after training (respectively, after registration)



# Which training programs work for groups with persistent labor market difficulties?



Thank you!



# INCLUSIVE GROWTH: CHALLENGES AND POLICIES

**Henrik Braconier**  
Senior Economist  
Economics Department



## Why inclusive growth?

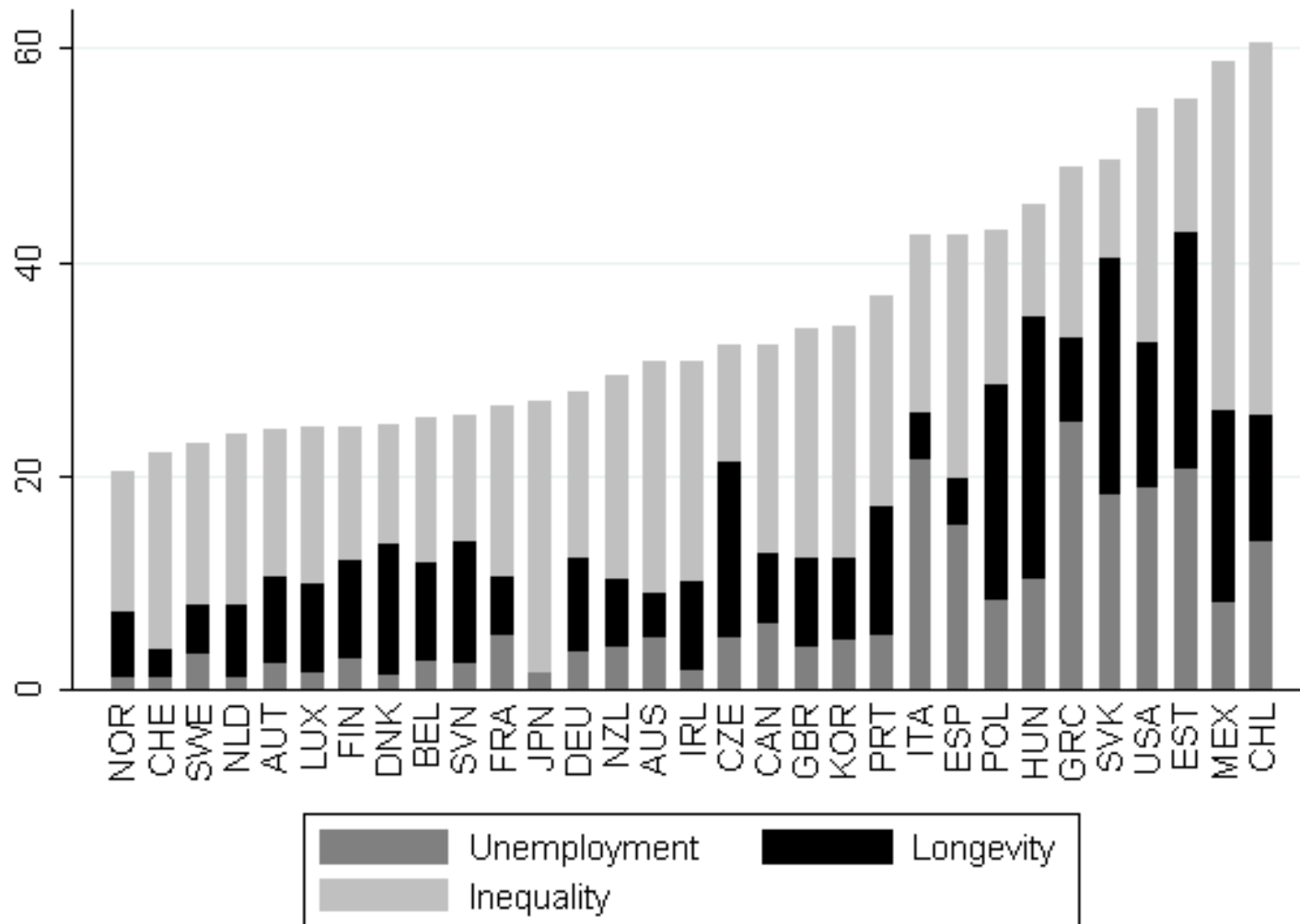
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- Perceived increasing divergence between GDP and well-being, reflecting distributional concerns and rising focus on non-monetary outcomes
- Political economy concerns, sharpened by crisis
- Improved understanding of drivers of non-monetary and distributional outcomes (e.g. education, health, inequality)



# Welfare losses due to various non-market components are large

As a share of household disposable income





## The OECD strategy – two approaches

---

- “Holistic” approach: Develop an indicator of inclusive growth that:
  - Includes monetary and non-monetary components of well-being, including participation
  - Weighs in distribution of outcomes
  - Is possible to measure and apply consistently across OECD countries
  - Can be linked empirically to policies



# The OECD strategy – the “holistic” approach

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- Very much work in progress
  - Concept and measurement
  - Implementation
  - Mainstream
- Joint work with Ford Foundation





# The “gradualist” approach – what to do here and now?

- Making OECD policy recommendations more inclusive:
    - Current framework (e.g. *Going for Growth*) implicitly captures market value of well-being outcomes (labour market participation, skills etc)
- Extensions:
1. Which are the distributional effects of pro-growth policies on inequality and the environment (*Going for Growth, 2013*)?
  2. To what extent do growth-enhancing policies also benefit median- and low-income groups?
  3. How can fiscal consolidation be pursued in such a way that it minimises negative side-effects on growth and equality?



# 1. Distributional effects of pro-growth policies (*Going for Growth, 2013*)

---

- On an aggregate level there is no strong link between growth and inequality
- Different pro-growth policies have different distributional effects, but
  - The devil is in the detail
  - Careful policy design can mitigate trade-offs
  - Institutional settings can influence the impact pro-growth policies have on distribution



# 1. Distributional effects of pro-growth policies (*Going for Growth, 2013*)

---

- Reforms favourable to equity include:
  - Education policies / LM and social policies that foster participation
- Reforms likely to be harmful for equity include:
  - Shift in taxation from direct to indirect sources (VAT, real estate and environment) / Reductions in housing subsidies
- Careful design can mitigate and alleviate equity concerns:
  - Thresholds in real estate taxes / Reductions in labour tax focus on low-income / Cutbacks in tax expenditures that mainly benefit high incomes
- Some reforms have opposing income distribution effects through wage and employment channels:
  - Reforms to wage bargaining / minimum wage / unemployment benefits



### 3. Scope for growth- and equity-friendly fiscal consolidation?

---

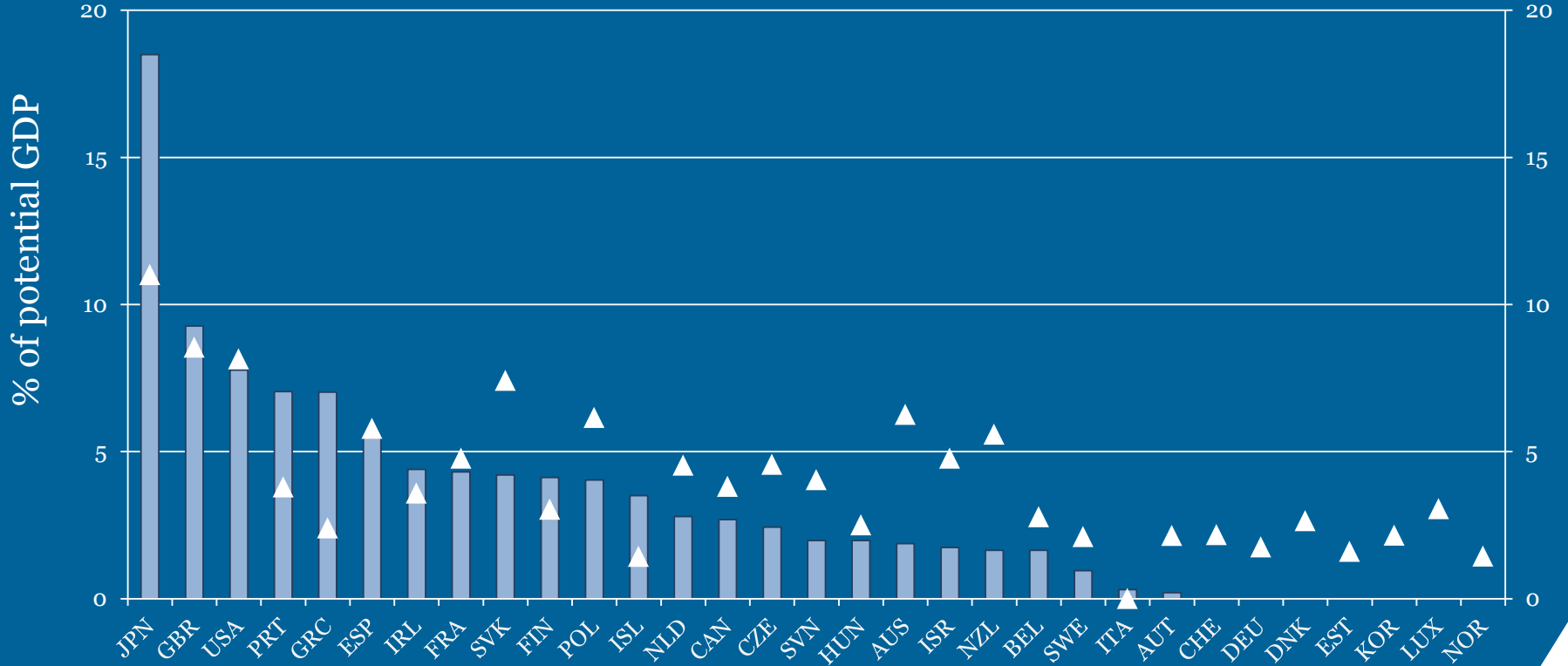
- Work in progress at the OECD Economics Department
- Preliminary results, not for quotation
- Forthcoming OECD Economics Department working papers by Boris Cournède, Antoine Goujard and Álvaro Pina (early July)



# Estimated consolidation needs

Difference between debt-control and baseline underlying primary surplus

- In the year when initial consolidation ends (short to medium term)
- ▲ In 2060 (long term)





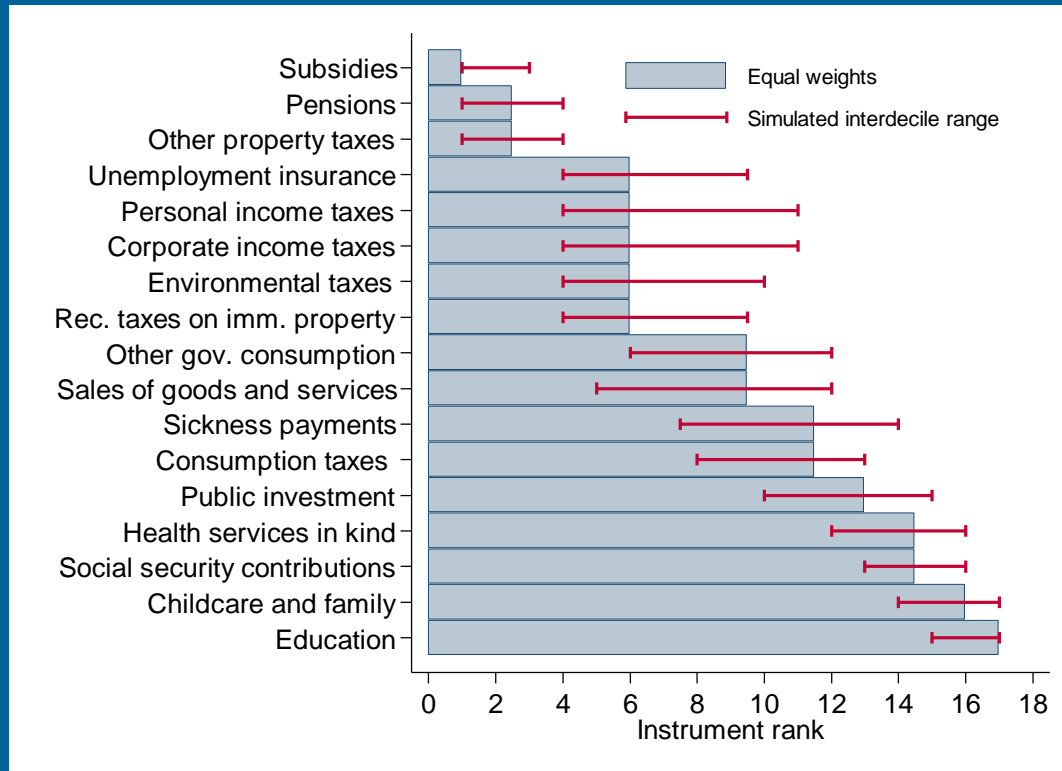
# Assessing fiscal consolidation instruments

	Growth		Equity		Current account <sup>(a)</sup>
	ST	LT	ST	LT	ST
<b><i>Spending cuts</i></b>					
Education	--	--	-	--	+
Health services provided in kind	--	-	-	-	++
Other government consumption	--	+	-		+
Pensions		++			++
Sickness and disability payments	-	+	--	-	++
Unemployment insurance	-	+	-		++
Family	-	-	--	--	+
Subsidies	-	++	+	+	+
Public investment	--	--			++
<b><i>Revenue increases</i></b>					
Personal income taxes	-	--	+	+	+
Social security contributions	-	--	-	-	
Corporate income taxes	-	--	+	+	++
Environmental taxes	-	+ <sup>(b)</sup>	-		+



# A possible generic hierarchy of consolidation instruments

Ranking from most (highest score) to least (lowest score) desirable instrument of consolidation





## Use of consolidation instruments depends on:

---

1. Consolidation needs
2. Hierarchy of instruments: instruments are used one by one until consolidation needs are met
3. Room for manoeuvre in each instrument:
  - Move until reaching the group of the ten OECD countries with lowest spending or highest taxation in the area under consideration
  - No more than one standard deviation (national preferences)





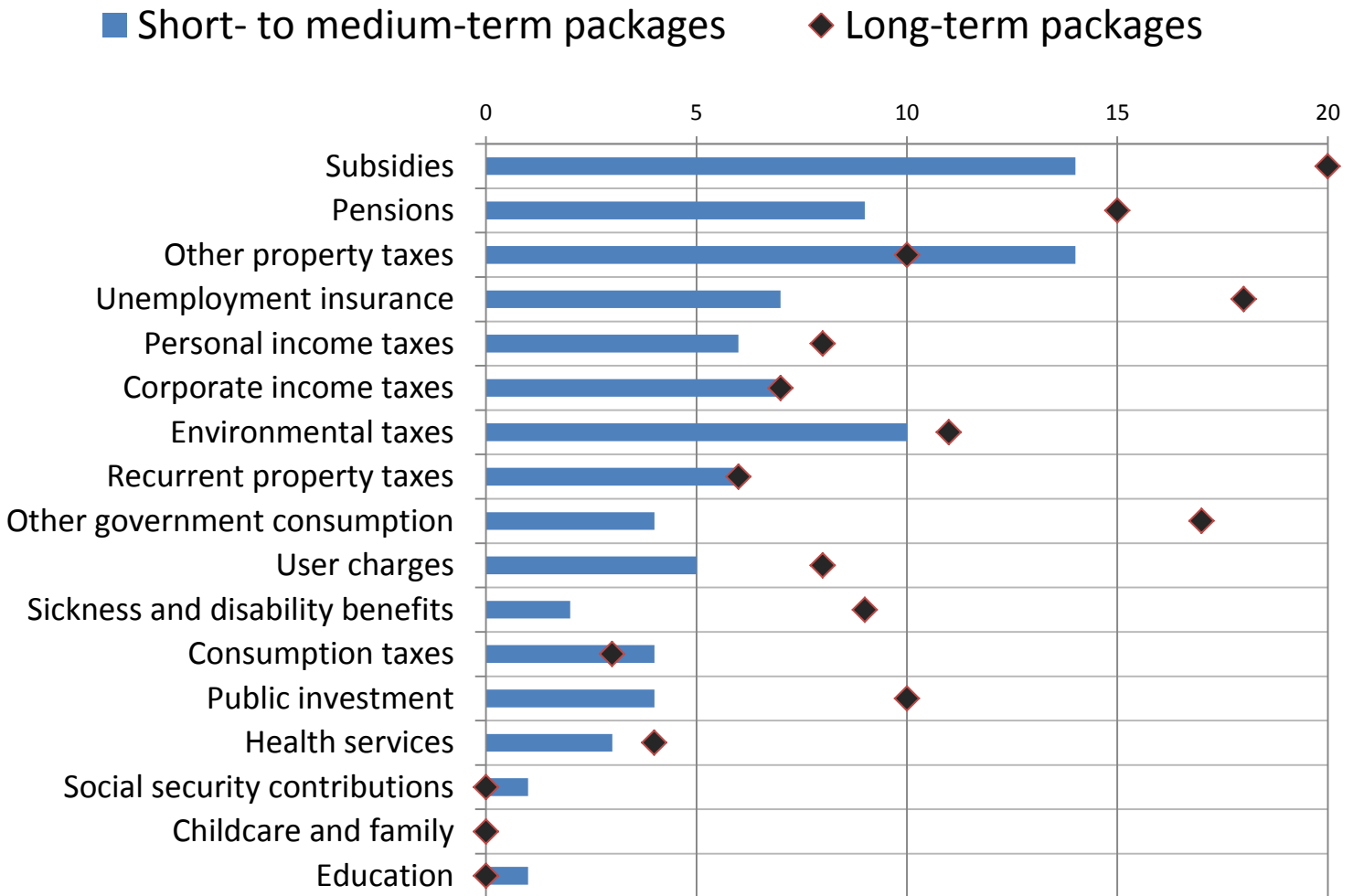
## Two sets of simulations for each country

---

- Short to medium term simulations:
  - short- to medium-term consolidation needs
  - hierarchies that are differentiated by country cluster
- Long-term simulations:
  - long-term consolidation needs
  - same hierarchy for all countries (considering only long-term growth and equity effects)



# Number of countries using instruments in simulations





# How far down the hierarchy of instruments do countries need to go?

---

## Simulated short- to medium-term consolidation packages:

- Eleven countries use only top-half instruments (e.g. Australia, Netherlands)
- Mainly top-half instruments in 7 countries (e.g. France, New Zealand)
- Bottom-half instruments mainly Japan, the United Kingdom and the United States
- On average 51% of consolidation is spending-based



# How far down the hierarchy of instruments do countries need to go?

---

## Simulated long-term consolidation packages:

- Only top-half instruments in 18 countries
- Mainly top-half instruments in 6 countries
- Bottom-half instruments mainly in Australia, New Zealand and the United States
- On average 75% of consolidation is spending-based



Thank you!

Resources:

- *Going for Growth*,
  - <http://www.oecd.org/eco/growth/goingforgrowth.htm>
- *OECD Better Life Index*,
  - <http://www.oecd.org/statistics/betterlifeinitiative/beingandprogress.htm>
- *Inclusive Growth*,
  - <http://www.oecd.org/inclusive-growth/>



# **Employment and Social Developments in Europe 2012**

**Beyond Recovery: Foundations for Inclusive  
Growth in Latvia**

**Riga, 3rd June 2013**

**Robert Strauss**

**Employment, Social Affairs and Inclusion  
Employment Analysis**



European  
Commission



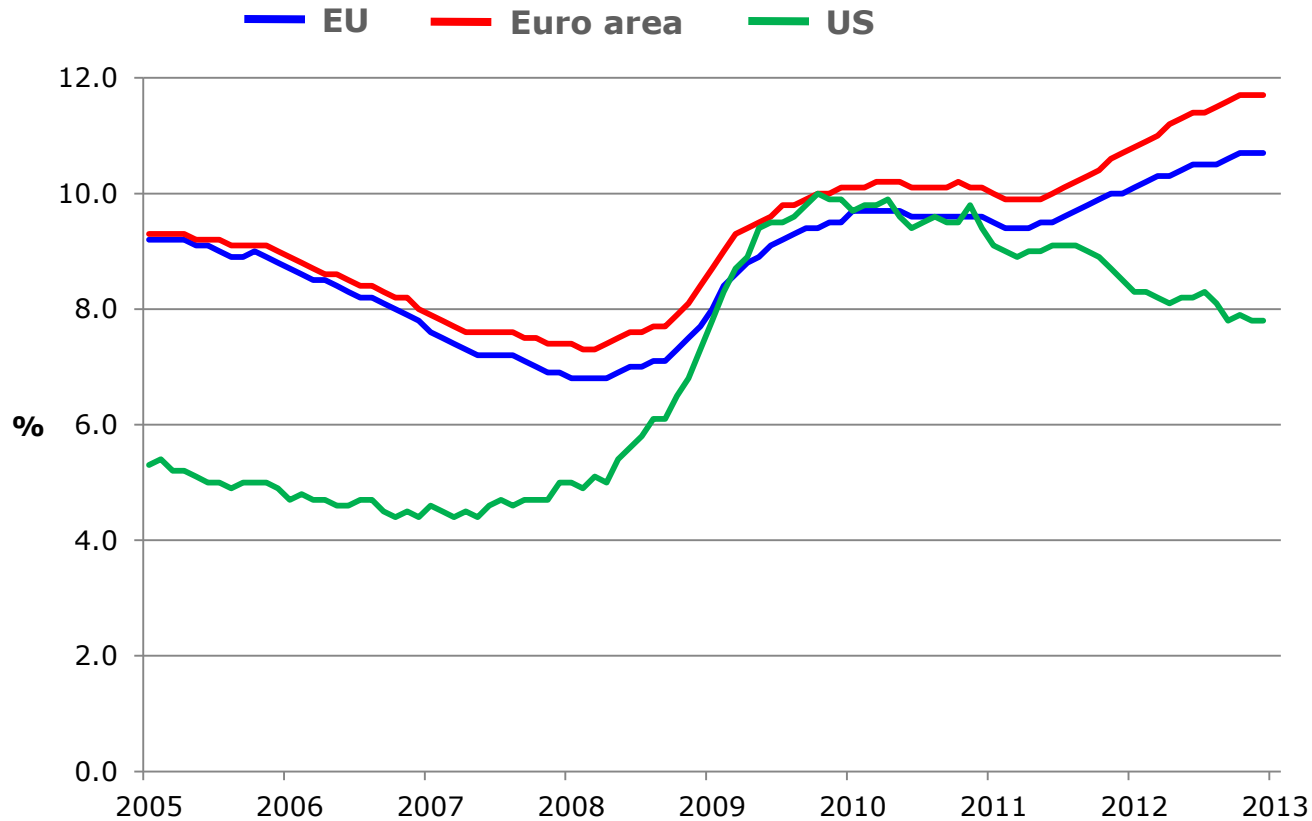
# Employment and Social Developments in Europe 2012

# ESDE 2012: chapters

- 1. Key features of current employment and social trends*
- 2. The dynamics of long-term unemployment*
- 3. The dynamics of poverty and social exclusion*
- 4. Effectiveness and efficiency of social protection*
- 5. The employment and social effects of taxation*
- 6. Wages, employment and productivity*
- 7. Skills mismatches*

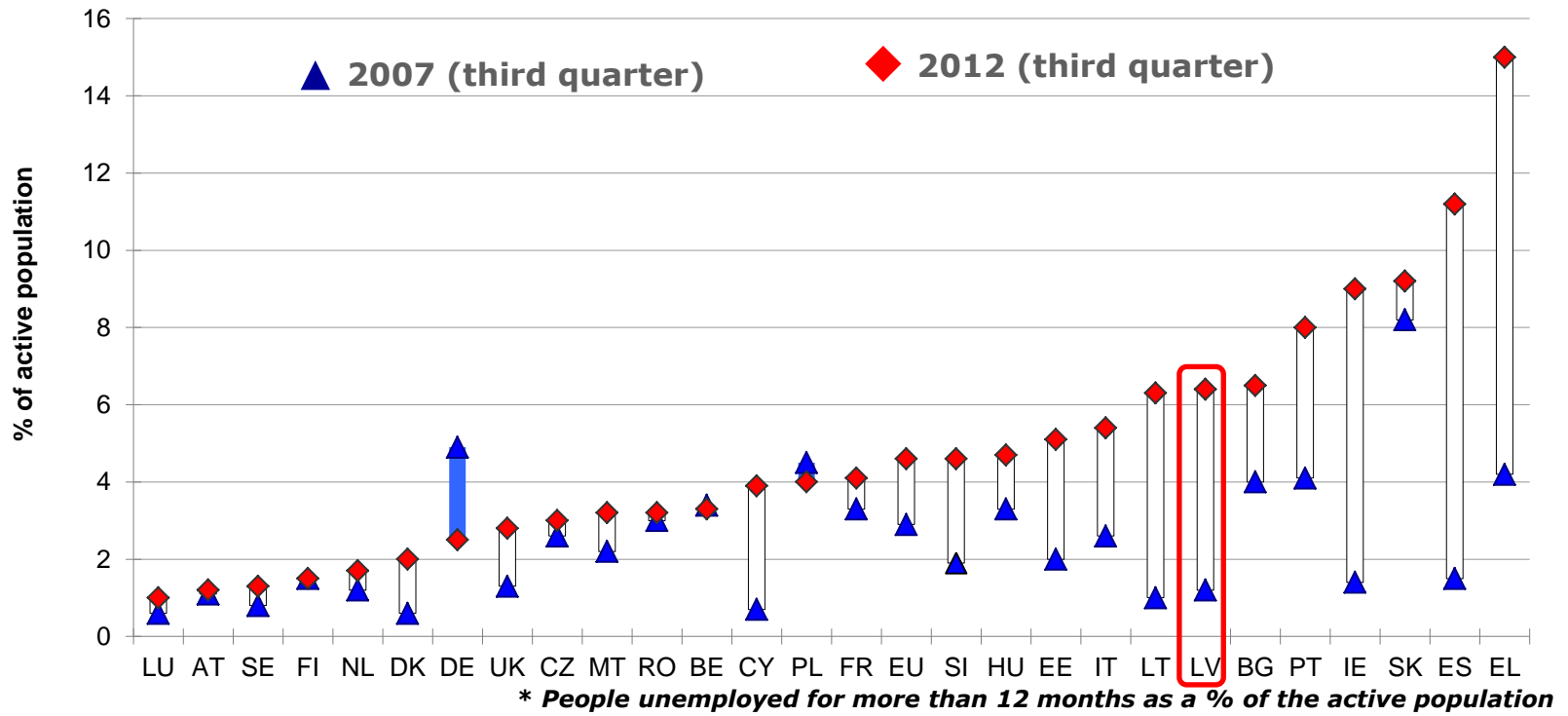


# Unemployment rates in Europe and the US



# Rising long-term unemployment

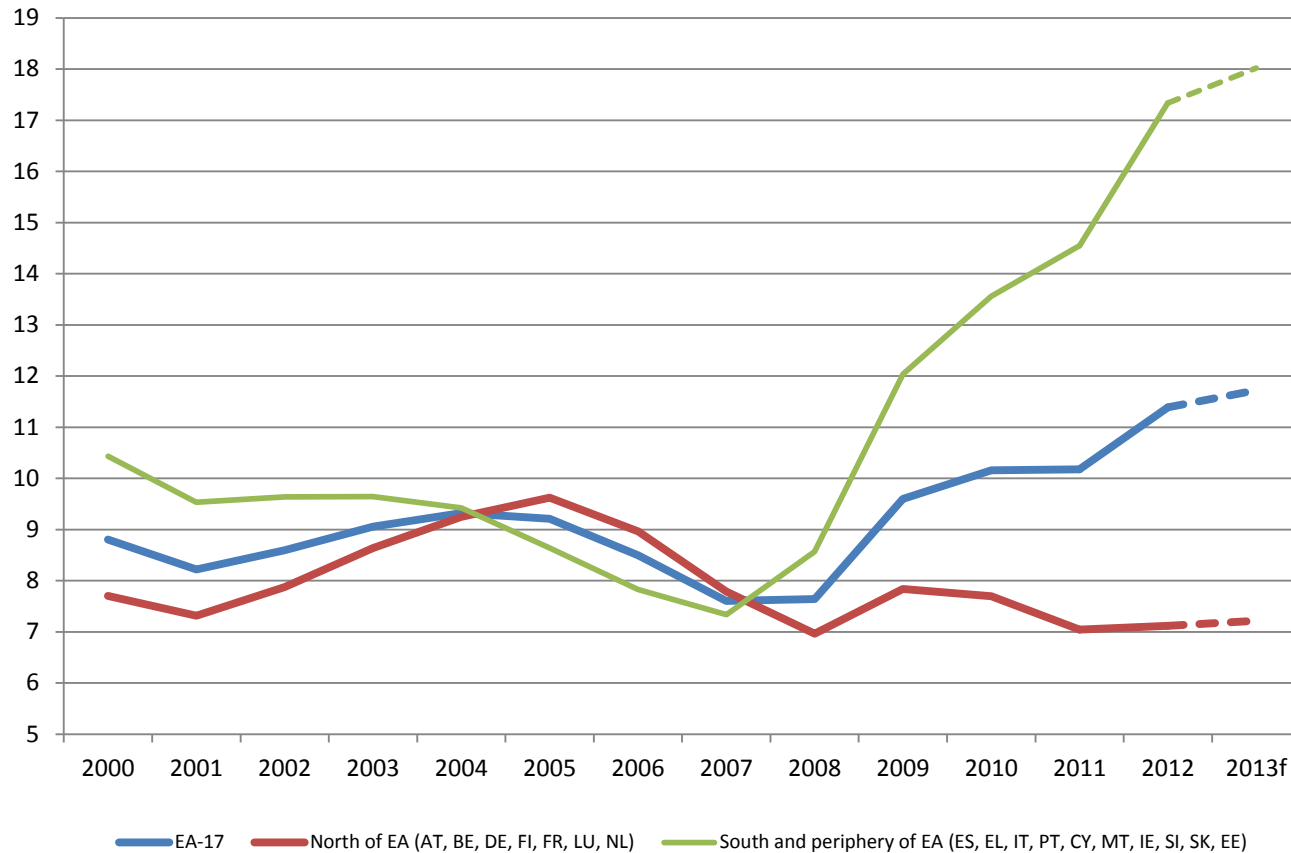
Evolution of long-term unemployment rates\*  
across the EU between 2007 and 2012



Source: European Commission

# Striking North/South Divide

Unemployment rates (%)



# Which policies help the unemployed back to work?

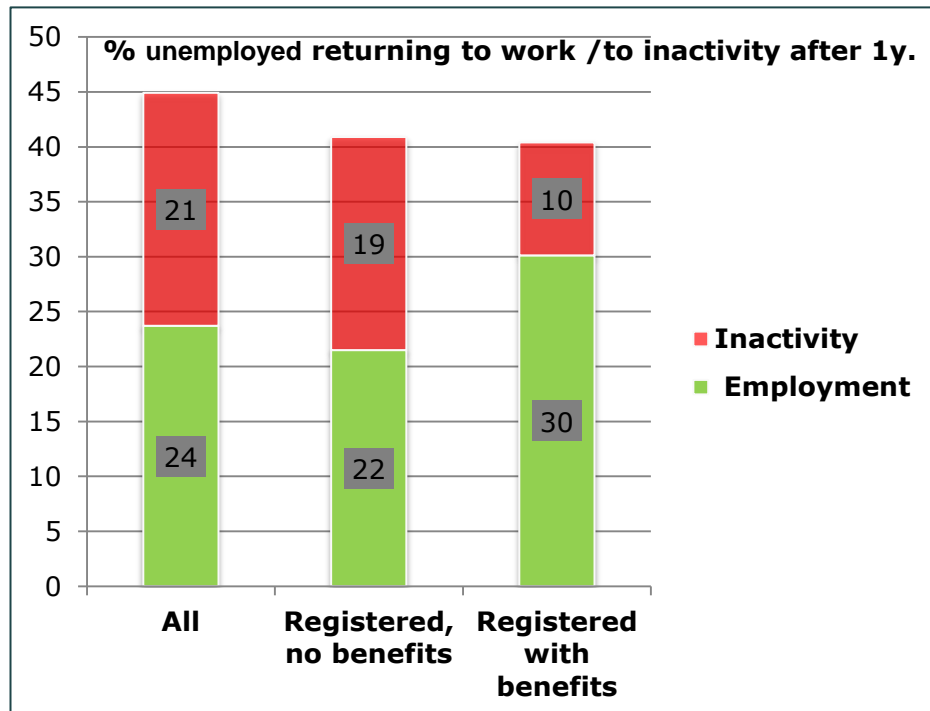
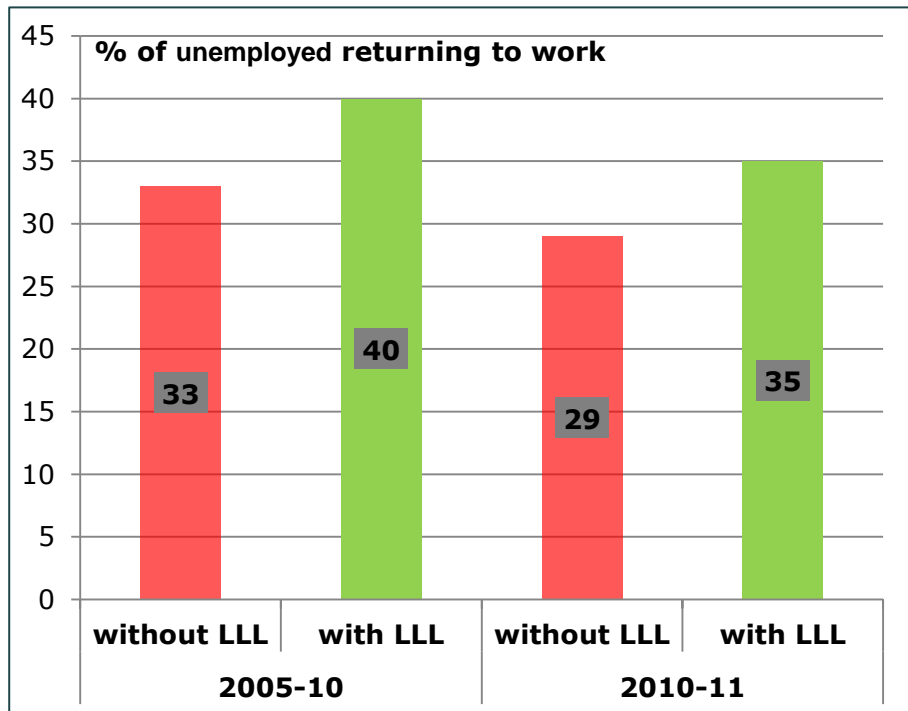
*Better macro-economic conditions and policies supporting job creation*

**ACTIVATION:**

*Participating in lifelong learning (LLL)*

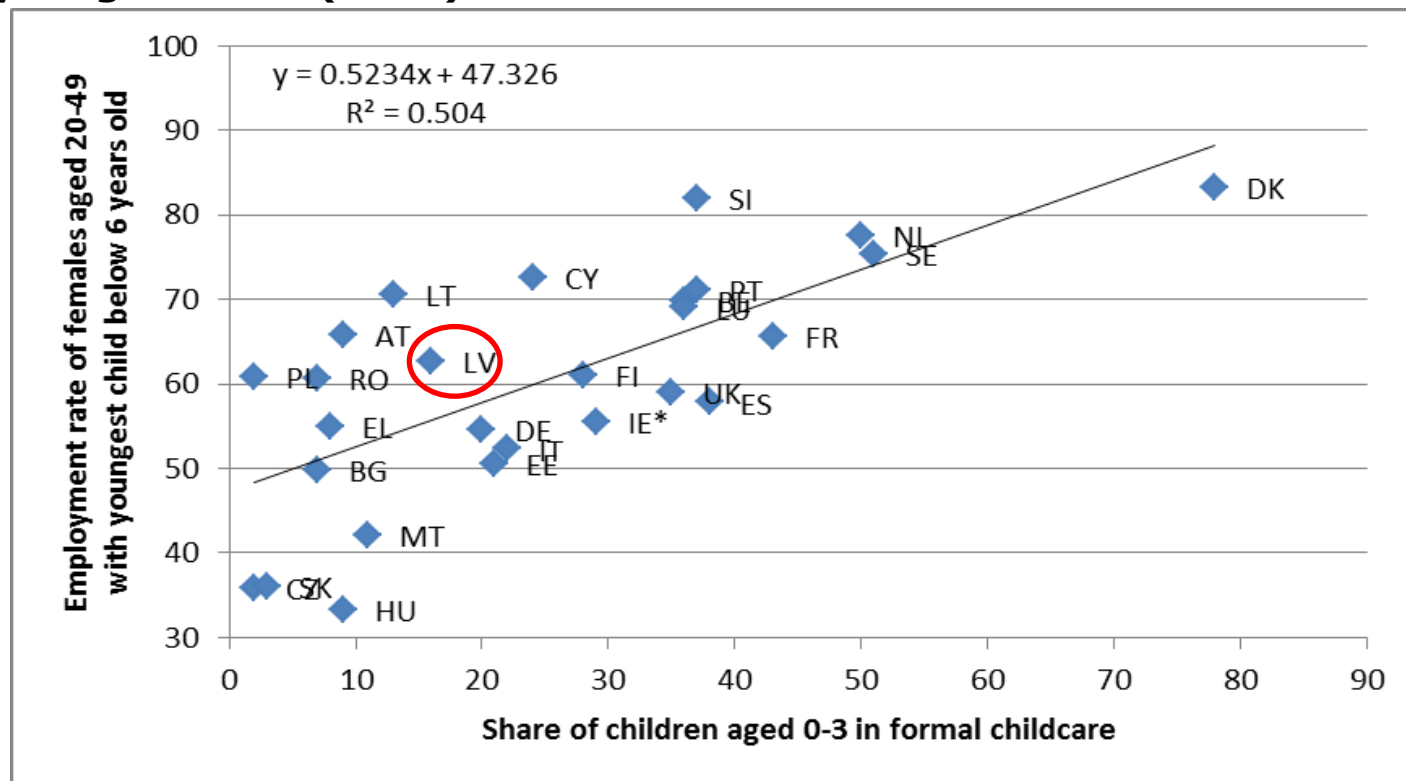
**PROTECTION:**

*Receiving benefits*



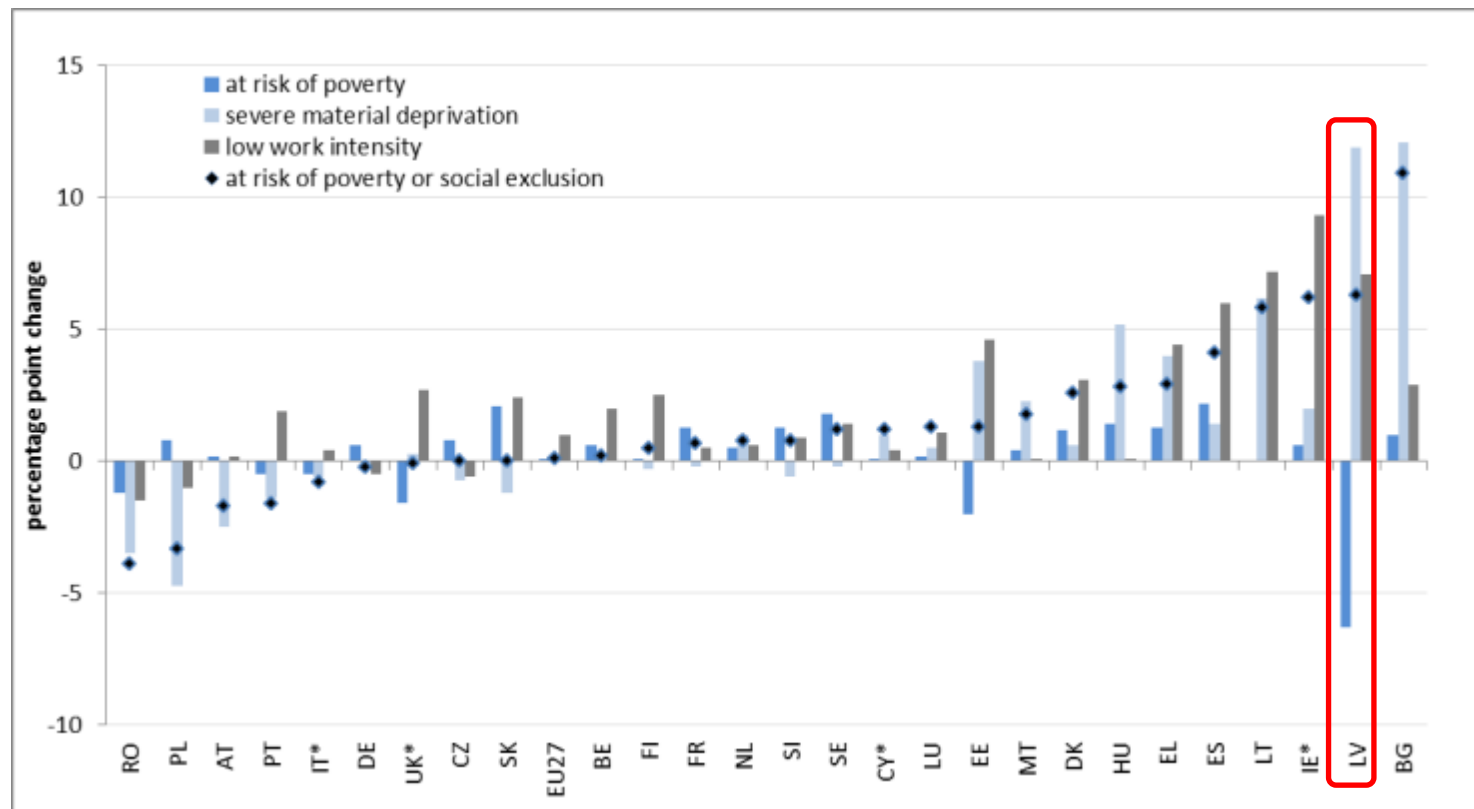
# More accessible childcare leads to greater female employment rates

Share of children aged 0-3 in formal childcare and employment rates of women 20-49 with youngest child below 6 years old (2010)



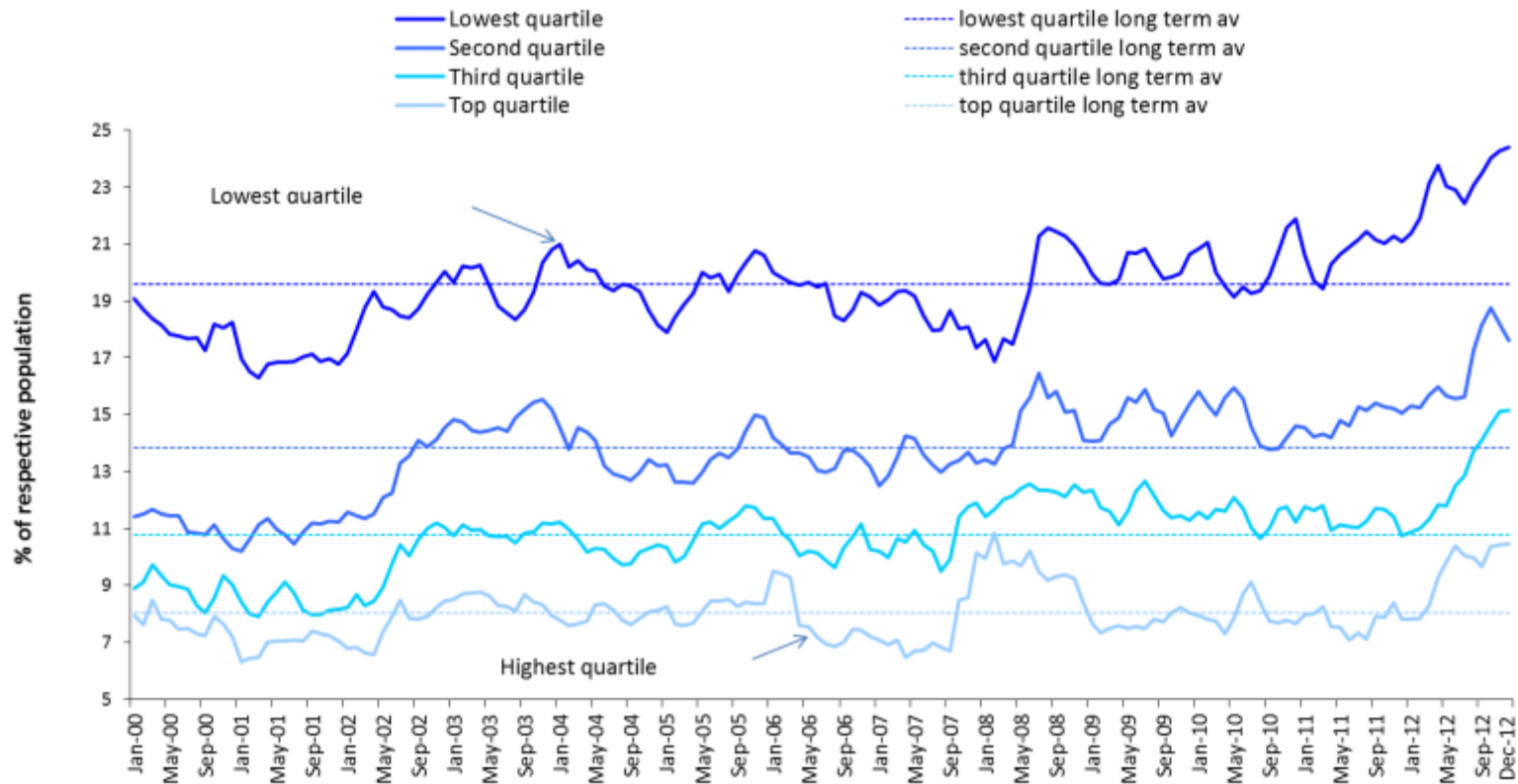
# Poverty and social exclusion on the rise

Change in the risk of poverty or social exclusion and its three components in Member States between 2008 and 2011



# The financial distress of low-income households kept increasing in 2012

Reported financial distress in EU households by income quartile of households (2000-2013)



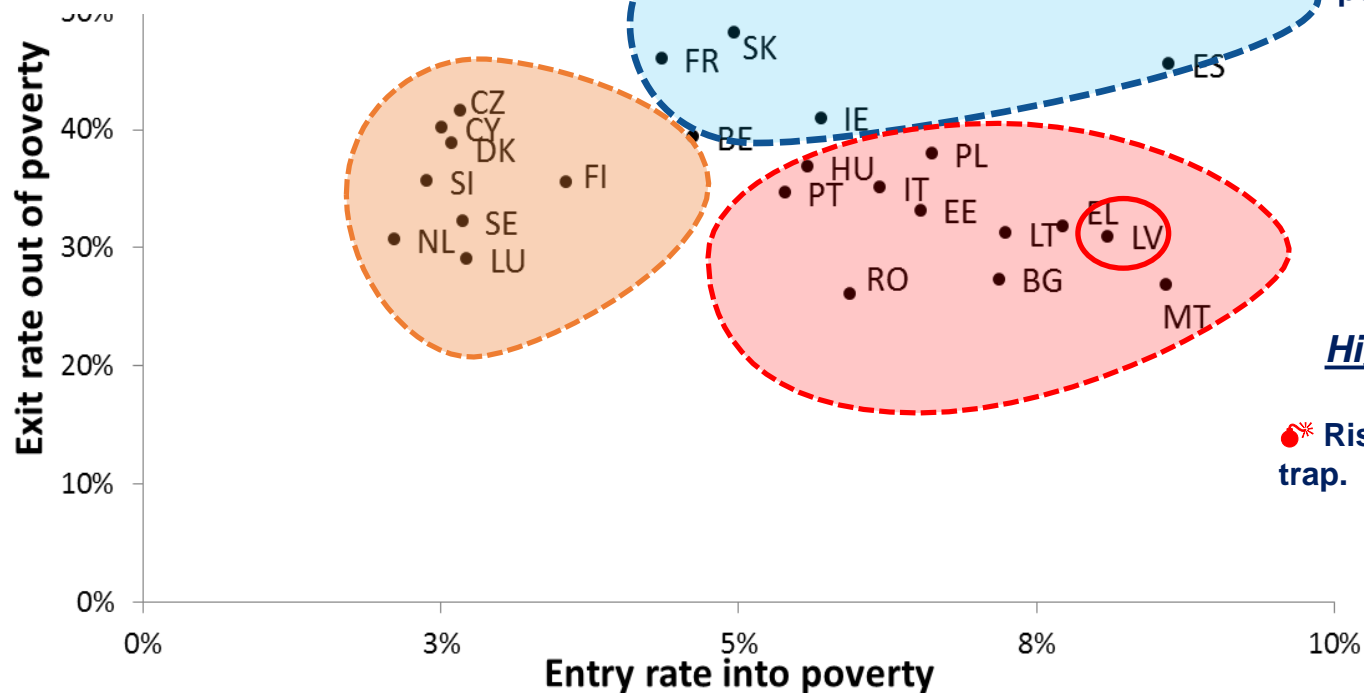
# Dynamics of poverty; risk of long term exclusion in some MS

## Low entry & low exit rates

- ✓ framework favourable
- 🚫 Risk of social polarisation

## High turnover of poverty

- ✓ framework favourable
- 🚫 does not exclude risks of recurrence
- 🚫 risk of 'core bulk permanently poor'



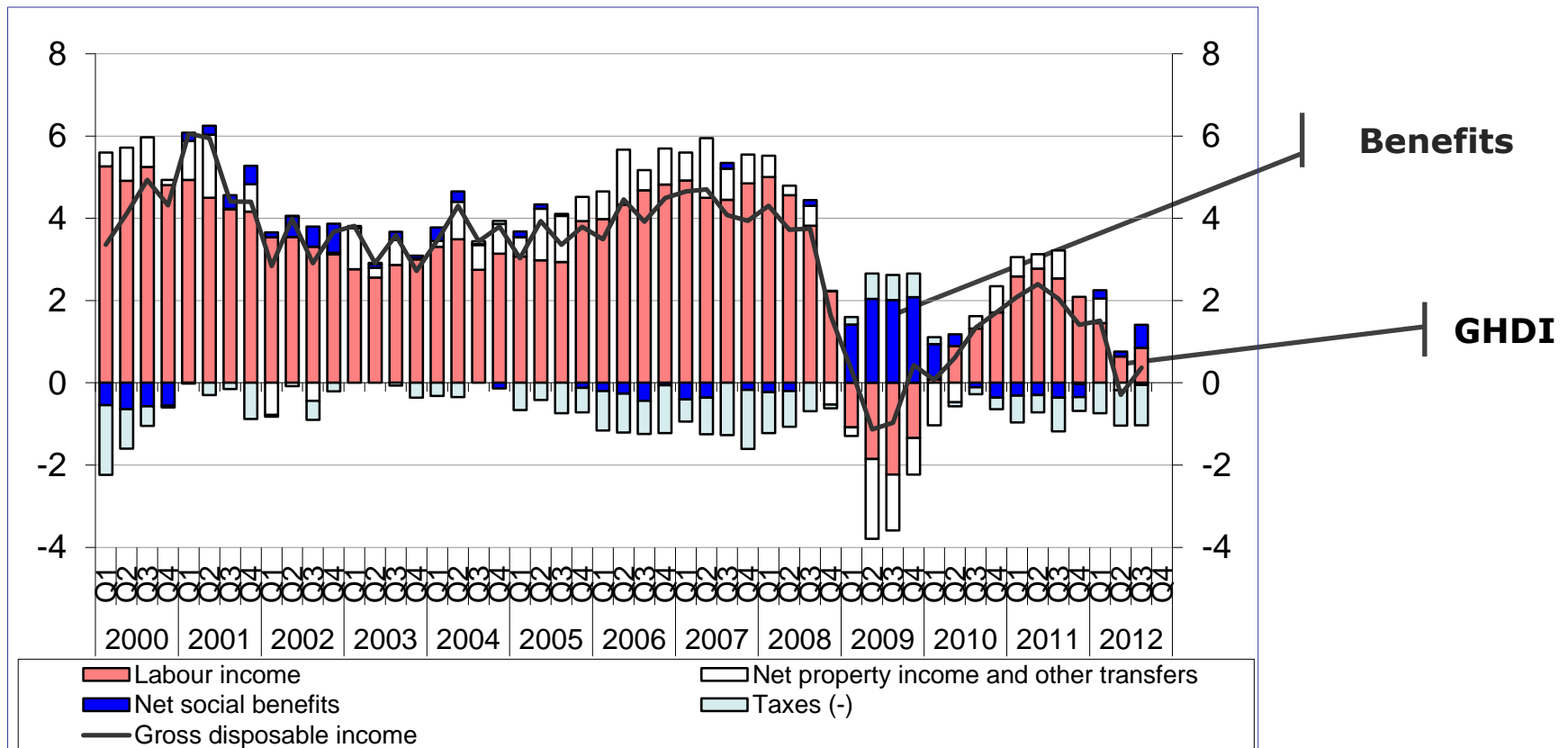
## High entry & low exit rates

- 🚫 Risk of massive poverty trap.



# Weakening of stabilisation of household incomes in the crisis

Contributions to nominal growth of gross disposable income of households (EA 17)

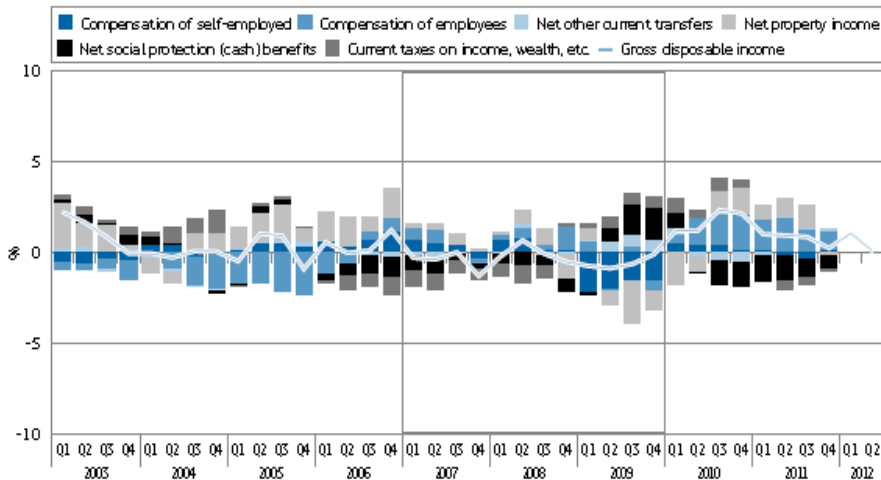


Source: Eurostat and ECB.

# By country

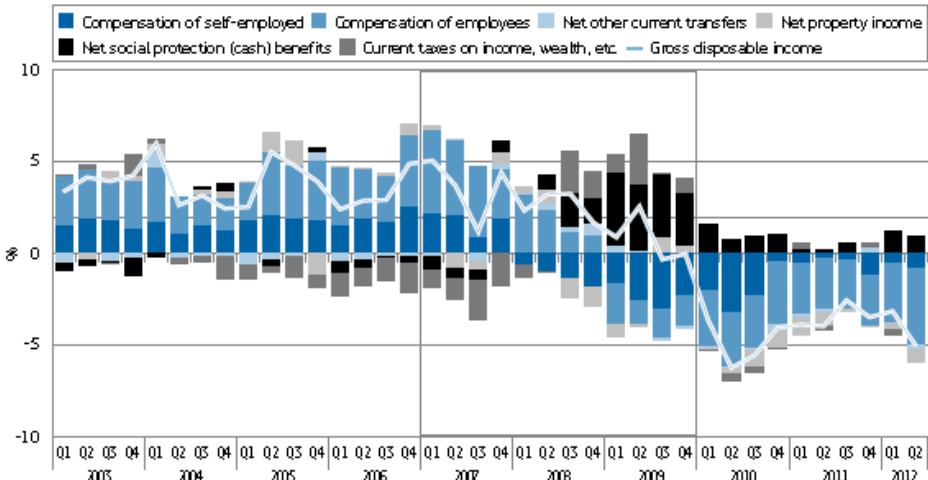
## After 2010

**Germany: Market incomes increase again with recovery; benefits not needed anymore**



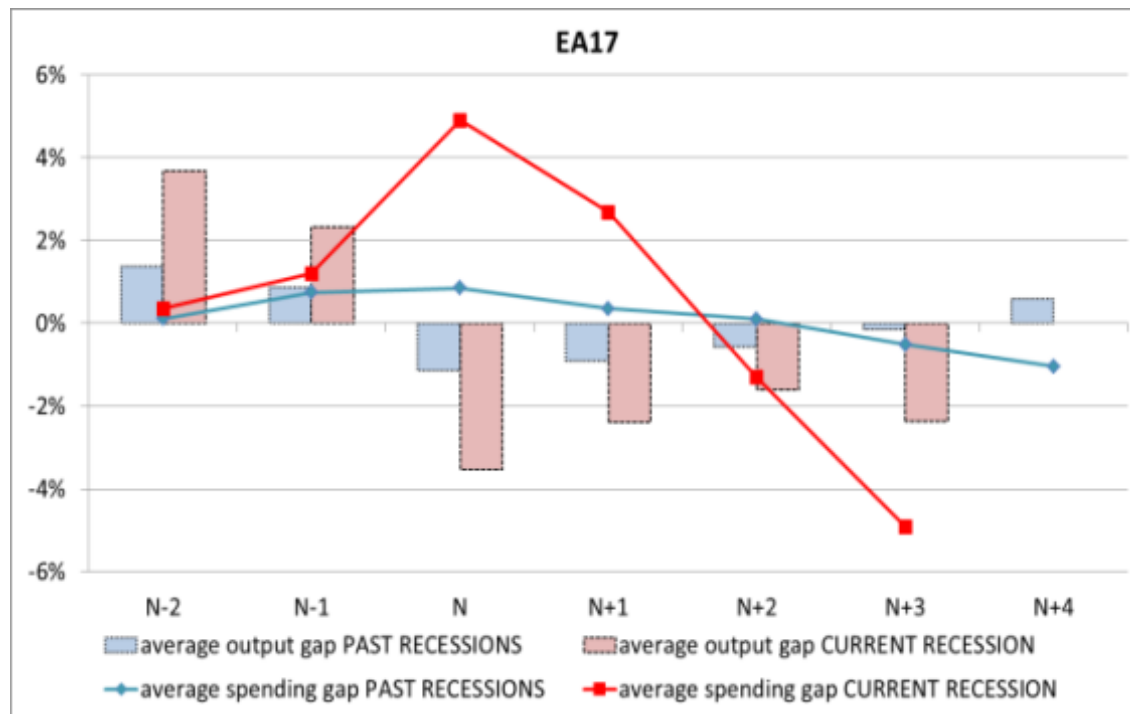
## After 2010

**Spain: Weakened social benefits do not compensate for ongoing falling market incomes**



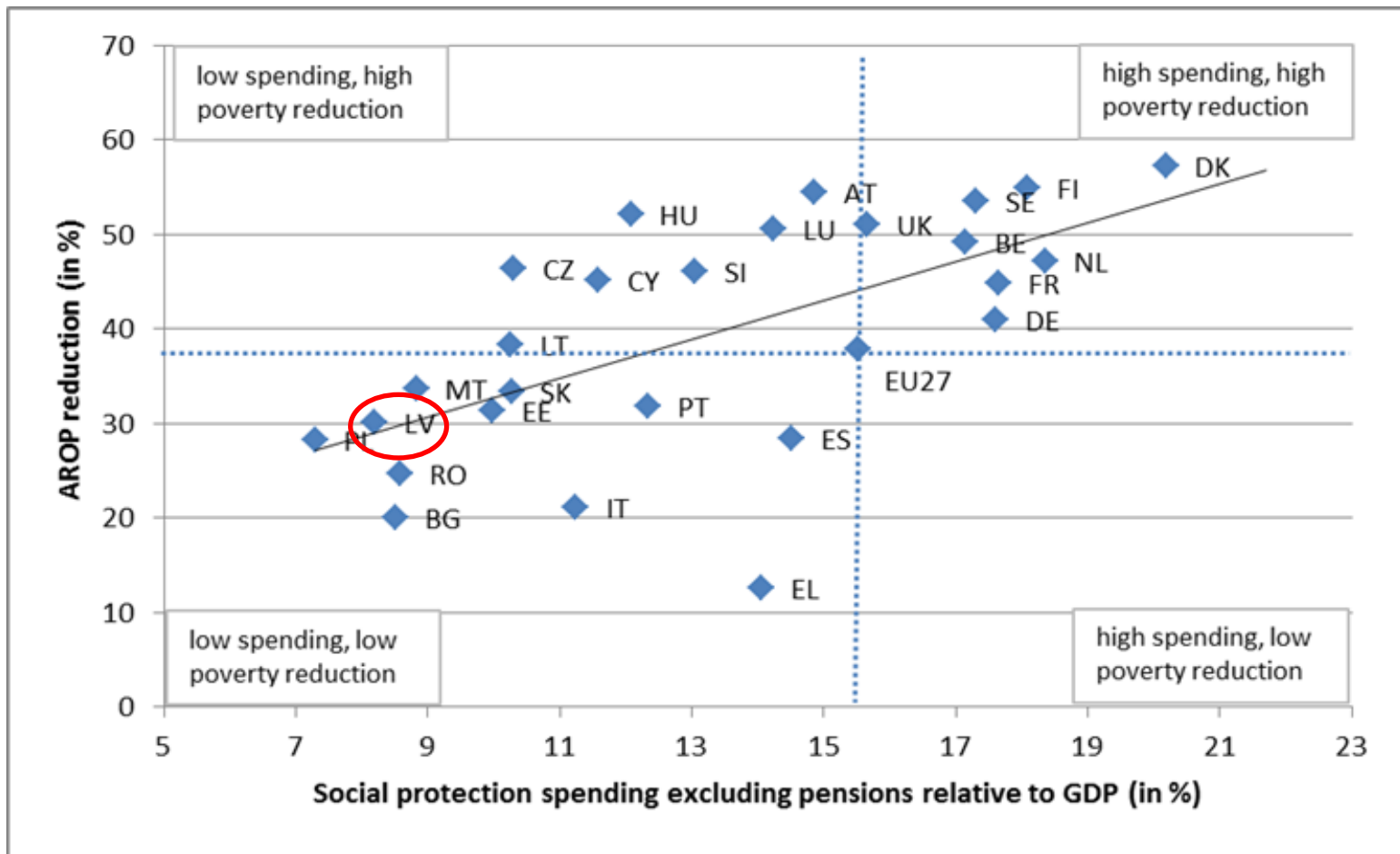
# Weakening of Automatic stabilisation: 2011 and 2012

Public social expenditure and GDP: deviations from the trend in current and past recessions



Source : Eurostat, National Accounts, DG EMPL calculations. Note: 2012 data are estimated based on quarterly data from the first 3 quarters. In the current recession, N is year 2009. Estimates of the deviation from the trend in social protection expenditures are based on a standard Hodrick-Prescott filter. Reading notes : in the year of the recession, in the current crisis, social expenditure were around 5% above their trend in Europe, while the GDP was about 4% below its potential (output gap of -4%). Averages are unweighted country averages (since countries do not always experience a recession the same year).

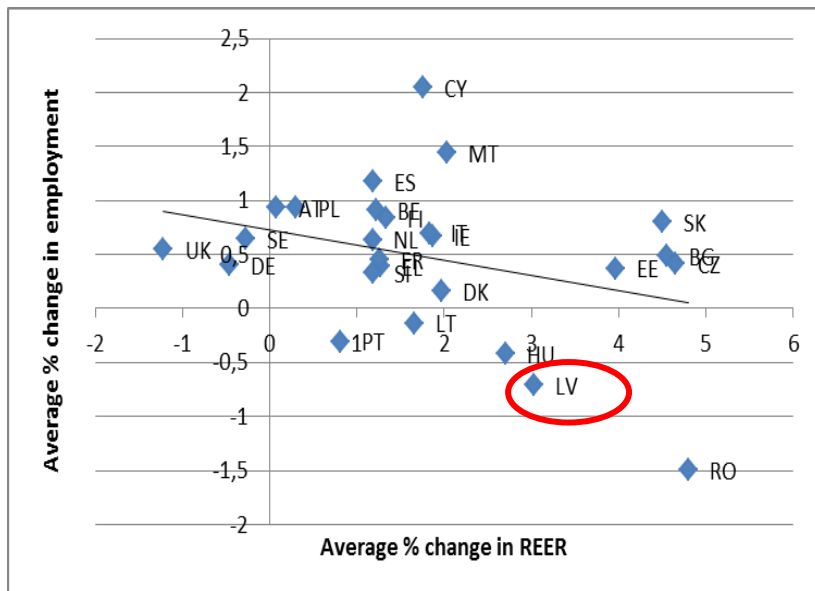
# Room for efficiency gains in social protection spending



# Wages: both external and internal demand effects matter

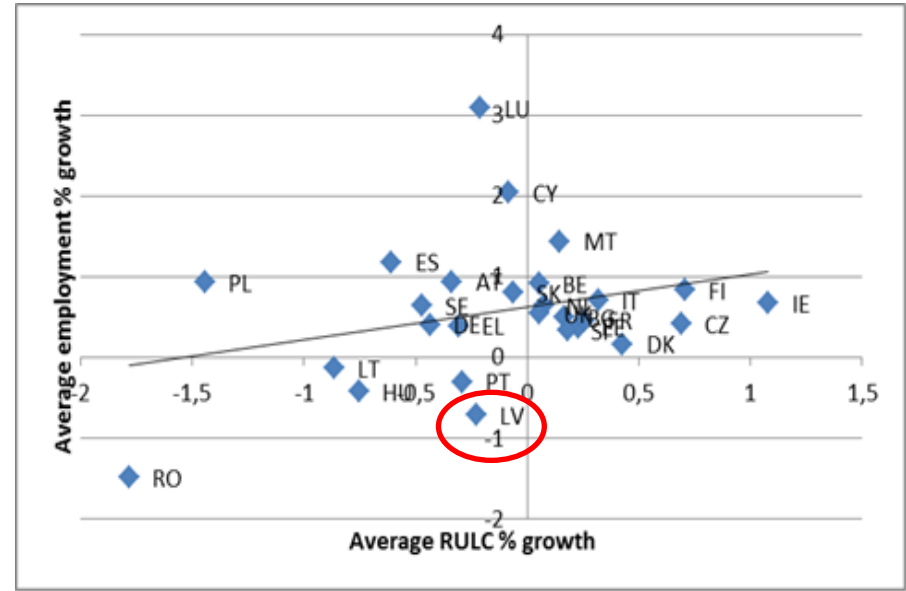
*Case of REER (external competitiveness) vs. RULC (labour income share)*

**Real Effective Exchange Rates (REER) and employment growth (2001-11 averages)**



Source: DG EMPL calculations based on Eurostat

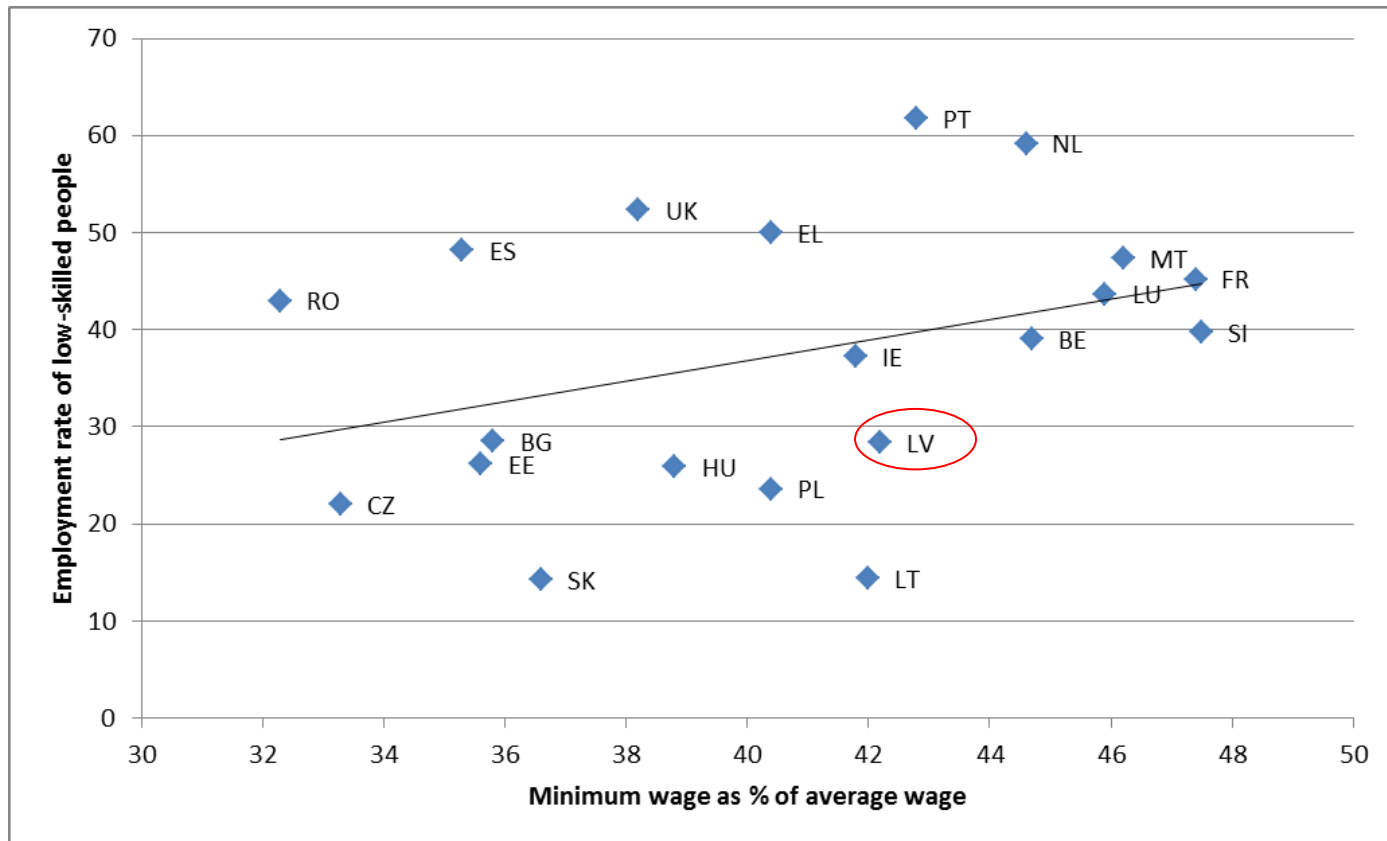
**Real Unit Labour Cost (RULC) and employment growth (2001-11 averages)**



Source: DG EMPL calculations based on Eurostat

# Minimum wages and employment

## Correlation of minimum wage and employment rate of low skilled (2010)





***Thank you !***



**Protecting and Getting People Back to Work: Effective  
Government Programs and Their Impact**



**Ana Revenga, Director, Human Development The  
World Bank**

**Riga, June 3, 2013**



## Thinking about Jobs in Europe: Three policy challenges

2

### **Resuming Sustained Growth:**

Ensure macro fundamentals for economic recovery and regain pre-crisis reform momentum

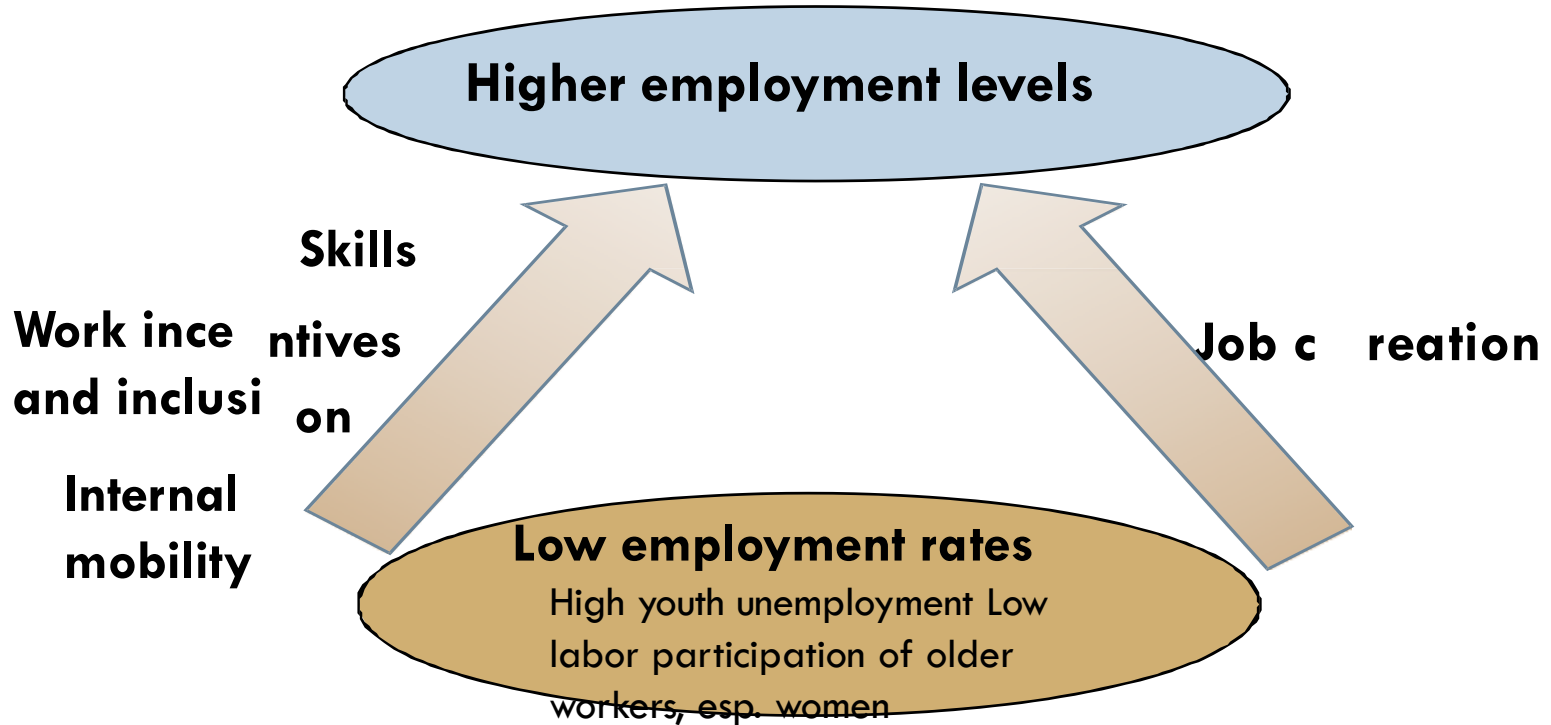
**Enabling Private Sector-led Job Creation:** Eliminate impediments to business expansion and entrepreneurship

### **Preparing Workers for New Jobs:**

Helping workers acquire skills for the modern workplace and making (formal) work pay by removing disincentives and barriers to work

# Thinking about Jobs in Europe: Policy levers to strengthen employment creation

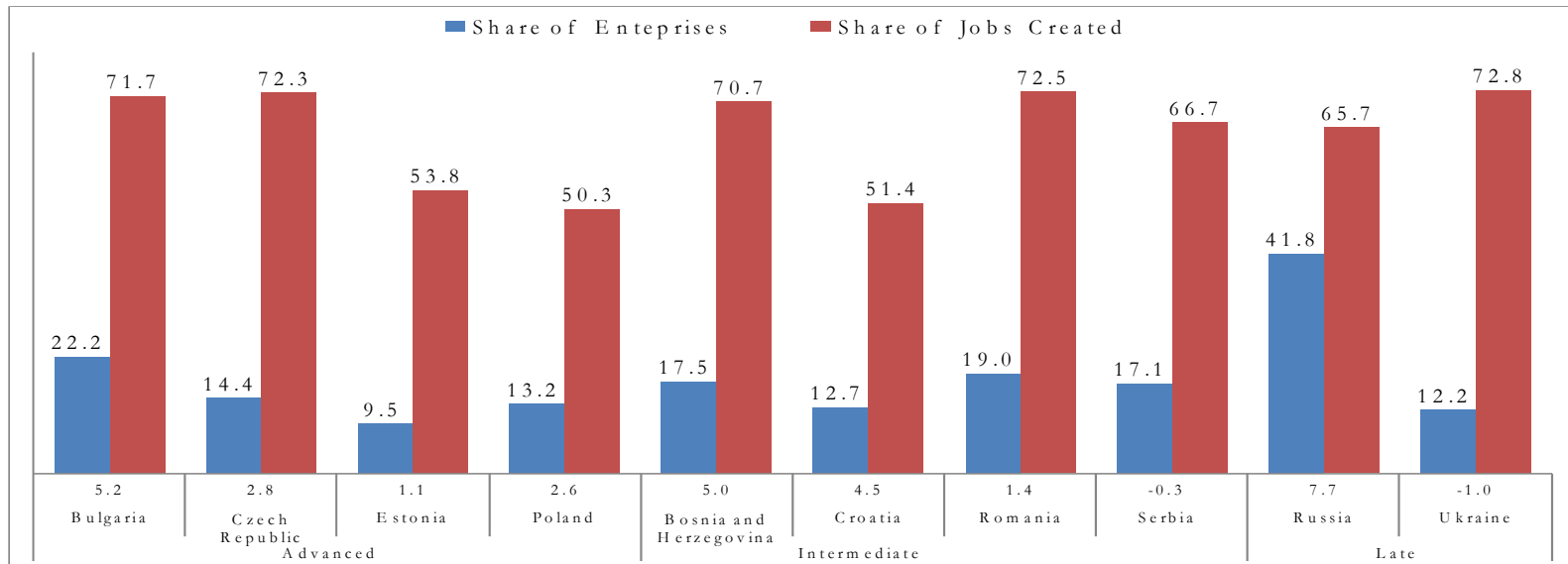
3



# Job creation is a prerequisite: A necessary but not sufficient condition

4

A small segment of “super star” firms account for most job creation almost everywhere



As % of all firms and all jobs created during 2004-08

# Barriers on the labor market supply side also must be addressed

5



□ **Incentives for low wage earners**



□ **Norms (older workers, women)**



□ **Skills**



□ **Mobility**

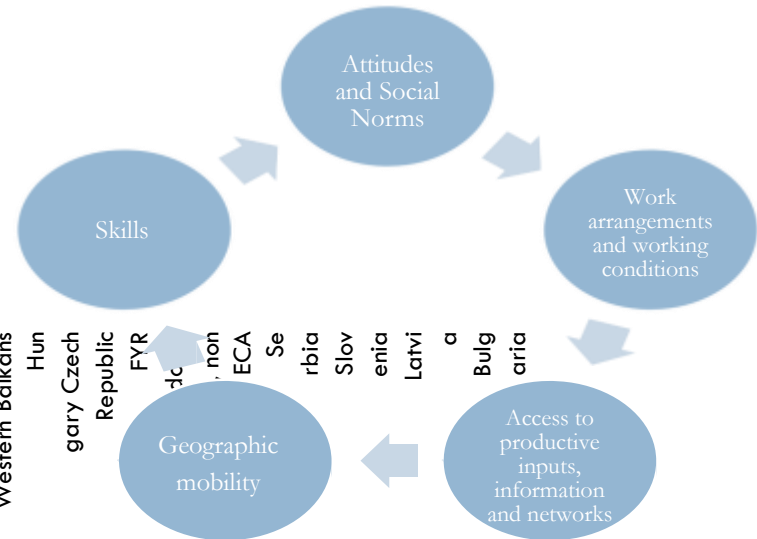
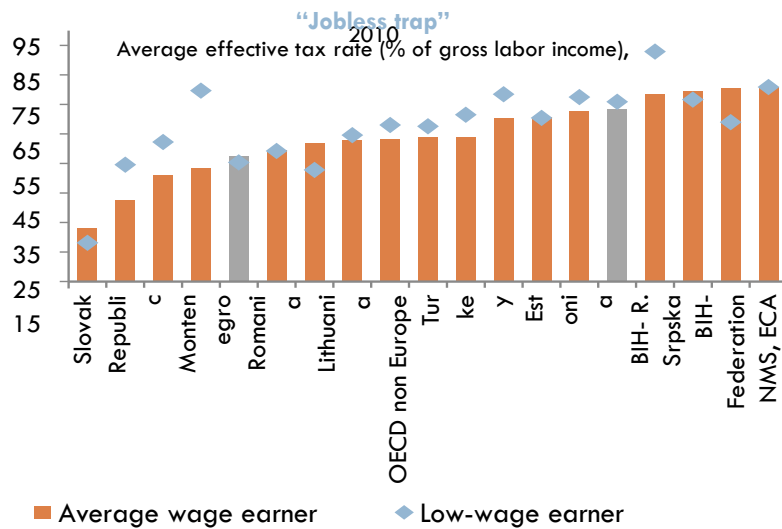
# Low-wage and/or secondary earners face strong disincentives and barriers to labor force participation and formal employment



6

Design of tax and benefit systems discourage formal work especially for low-wage, part-time earners, and second earners

... and mutually reinforcing barriers lead to labor market exclusion



## Working longer in the future is inevitable: Better to start adjusting expectations now



7

- ❑ Discourage early retirement and support pensioners who want to work
- ❑ Encourage life-long learning
- ❑ Make labor markets more flexible (including by encouraging non-standard labor contracts)
- ❑ Build understanding that early retirement does not “give” jobs to young people, but burdens them with higher social security contributions
- ❑ Strive for clarity and predictability of retirement rules
- ❑ Address discrimination of older workers

# Norms also correct gender imbalances in the labor market supply



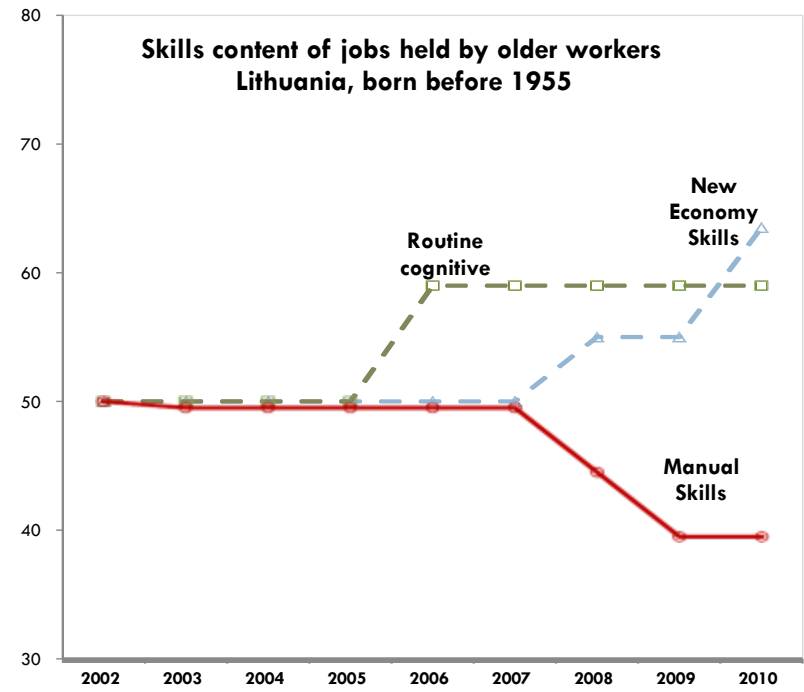
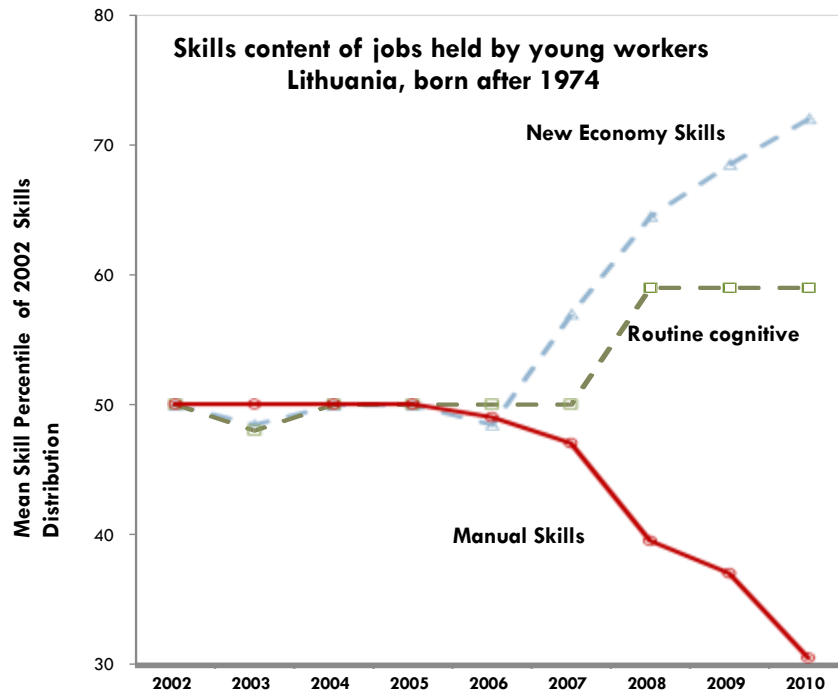
8

- **Gender inequality lowers labor productivity** often leading to suboptimal allocation of talent (e.g. too few female managers), and suboptimal institutions and policies. These disparities do not necessarily close as countries grow richer.
- Estimates suggest productivity gains on the order of 7-10% for closing the managerial gap; and 6-8% for closing labor force gap in Europe.
- Increased female labor force participation is not without challenges as it requires:
  - The provision of **affordable child care** (freeing up women's time to work)
  - Institutional changes aimed at **shifting norms and responsibilities** (e.g. joint conditional parental leave in Sweden)
  - **Interventions to address labor market discrimination or legal barriers** (e.g. Argentina)
  - Leveraging **private sector** to build the 'business case' for gender equality

## Preparing Workers for New Jobs

# Growing demand for higher-order (analytical and organizational) skills, mostly in jobs held by younger workers

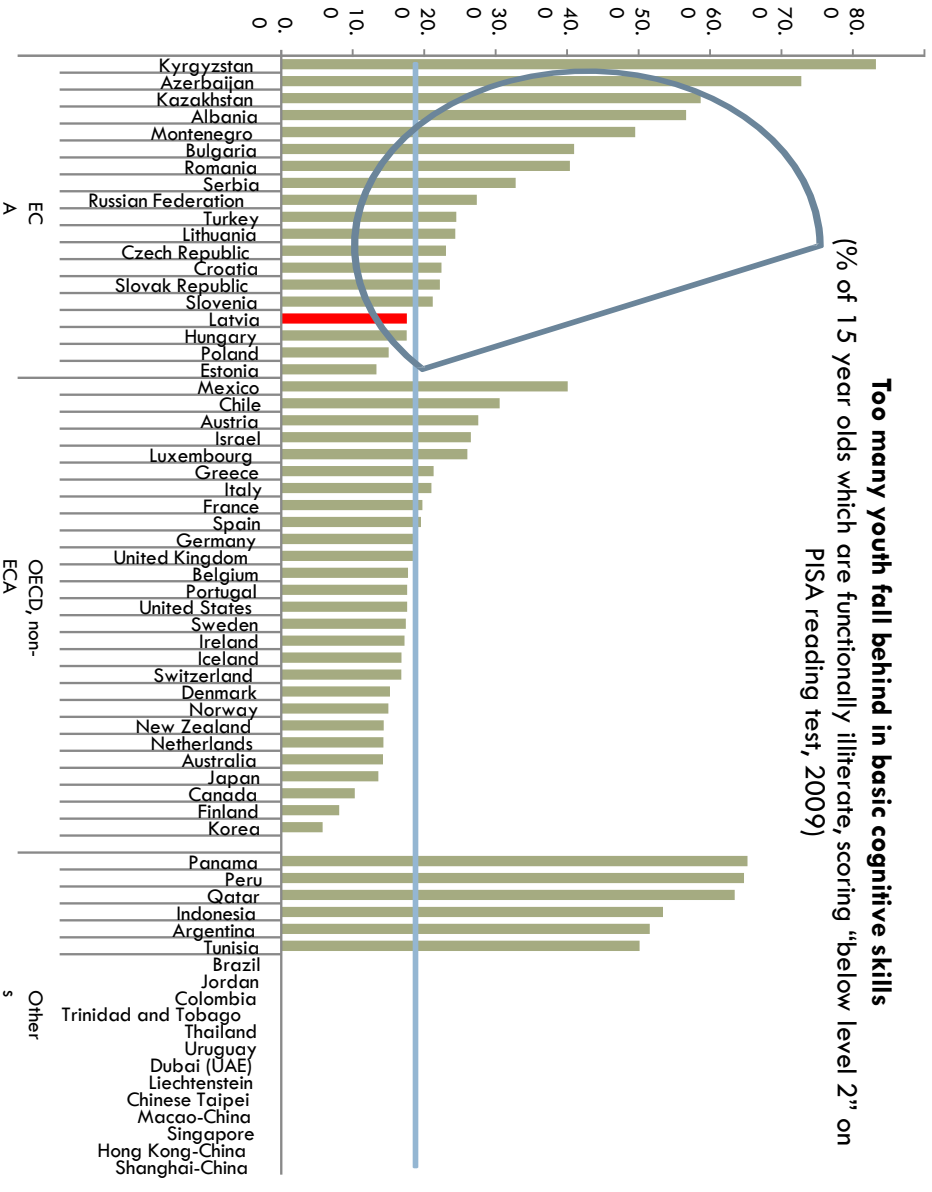
9





# Preparing Workers for New Jobs But insufficient response from education and skills training systems

1  
90.0



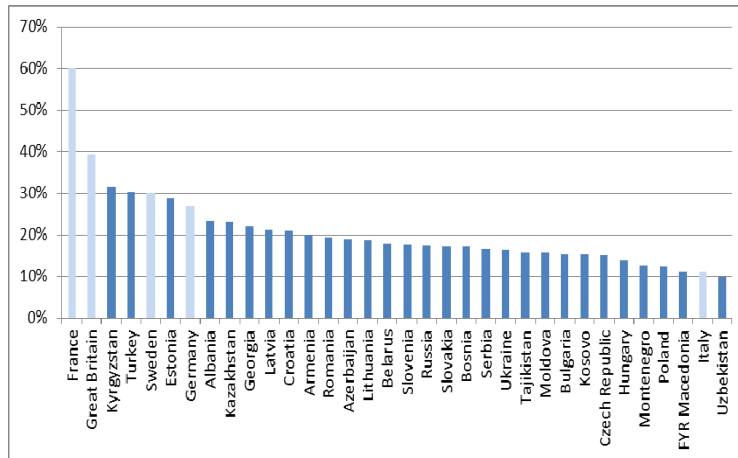
# Many workers fail to move to areas with higher job creation potential, which entails high economic costs



11

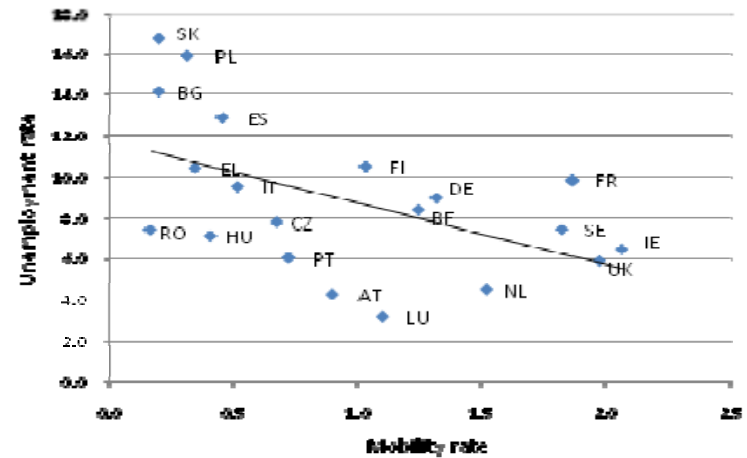
## Low levels of internal mobility...

Percentage of adult (18+) population who moved to a different city in the last 20 years



## ... with high costs in terms of unemployment and other outcomes

Labor mobility and unemployment rates EU Member States, 1995-2006



# Key elements of a (diverse) Jobs-centered policy agenda

12

- **Overall objective**
  - Rebalancing the work- social protection pillars of the growth and social model, while fitting policy priorities to *aging demographics* - enabling longer and more productive working lives and labor market inclusion
  
- **Requires combination of short- and long-term policies**
  - *Short term*
    - Macro/fiscal policy to ensure fundamentals for economic recovery
  - *Longer term, address:*
    - Growing superstar firms – Eliminate barriers to business expansion and entrepreneurship
    - Making workers more adaptable – Generic skills and market-driven life-long learning
    - Making (formal) work pay – Removing disincentives and barriers to work
    - Making workers more mobile – Removing impediments to labor mobility

# For programs/interventions implemented, continuous monitoring and evaluation is critical

13

- **Latvia Emergency Public Works Program:** Econometric evaluation of program participation in 2011/2012
  - that WWS was successful at targeting poor and vulnerable people, and that leakage to non-poor households was small
- **Audit of means-testing procedures in the UK:** National Audit Office in 2011
  - Aim to increase the efficiency of public spending on non-contributory cash transfers and evaluate design of means-testing procedures
  - Found that many people faced high effective marginal tax rates which have important effects on incentives to work
- **Continuous monitoring and evaluation of public spending programs:** Chile 2000-today
  - 2000-2004 led to important changes in program design or management in 60% of programs; plus 10% were ended

14

Thank you!

© d-maps.com

50 km  
30 mi

# Latvia: Who is Unemployed, Inactive or Needy? An Assessment of Post-Crisis Policy Options

## Summary Findings and Policy Options

Emily Sinnott, Riga, June 3, 2013

**The World Bank**

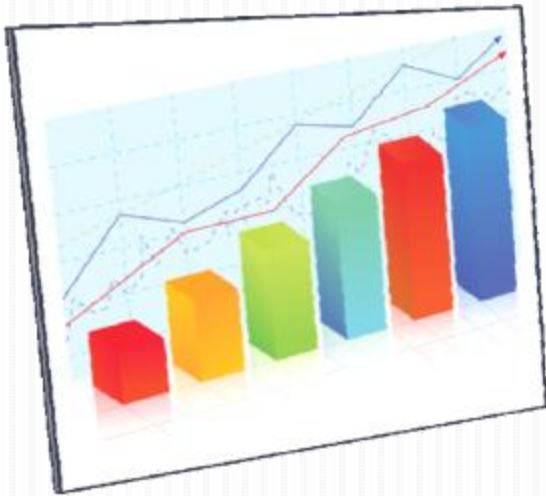


# Contents

- Context For Study
- Who Are Those Who Have Experienced **No/Unstable Work**?
- Is There Evidence of **Benefit Dependency**?
- How Much Does Latvia Spend On **Social Assistance**? How Do Programs Perform?
- What Options Are There For The **Tax And Benefit System** To Increase Protection And Work Incentives?
- How Does The **Design of The Guaranteed Minimum Income Program** Compare To Other EU Member States?
- How Are **ALMP Programs** Performing and What Lessons Can Be Drawn for Future Policy Directions?

I.

## Context for the Study



Why do a study on unemployment and the tax-benefit system?

### Background Papers/Presentations:

1. **Hazans, Mihails, (2013). Structural or cyclical? Unemployment in Latvia since 2008-09 Financial Crisis, Presentation.**
2. **Katrin Gasior, Orsolya Lelkes (with Eszter Zólyomi), (2013). Poverty, Inequality, and the Social Impact Of The Financial Crisis In Latvia**



# Motivation for Study

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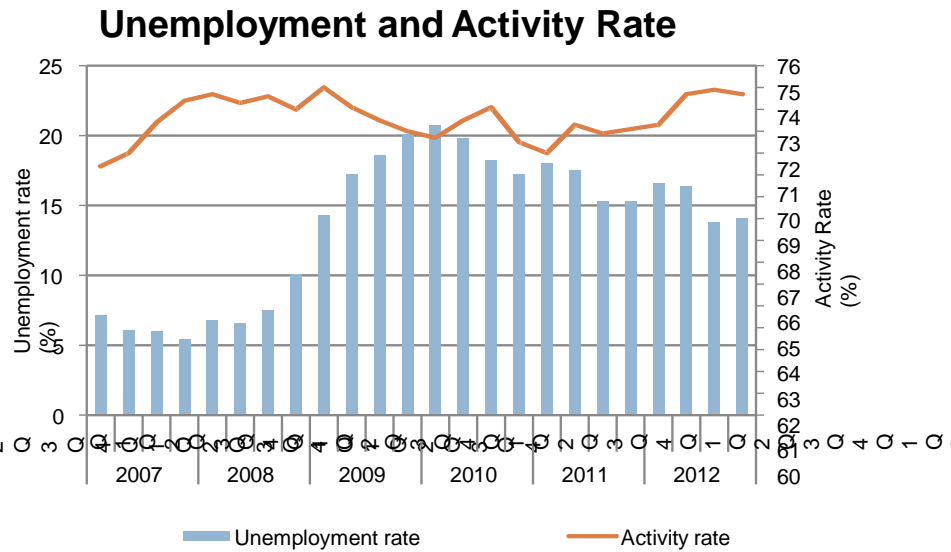
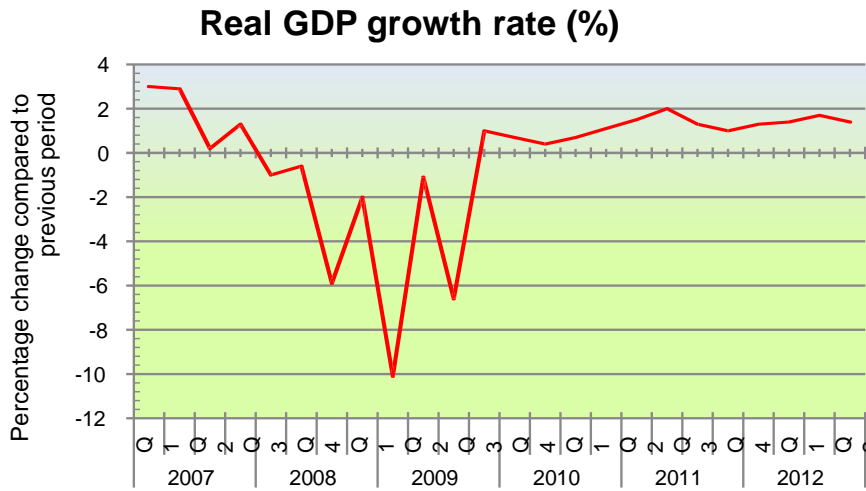
- Labor market recovery has begun, but unemployment still high and participation lower than pre-crisis
  - Concern on **long-term unemployment and benefit dependency**
  - Growth issue—esp. given **aging demographics**—need to maximize labor market participation and labor productivity
- Aim to increase living standards (given high poverty and inequality)
  - Strategy of **shared prosperity and to support families**
  - Government expanded safety net during the crisis and increased spending: What **policies moving on from crisis measures** (emergency social safety net)?

# Objective of Study

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- In collaboration with World Bank, Government of Latvia embarked on study to get background analysis to **inform tax, benefit and ALMP design**
- Focus on **evidence-based policy making**
  - Build on approach of Government-supported evaluation of crisis measures (emergency public works program)
  - Government of Latvia invested significant effort in producing a detailed database on benefits
  - Latvia joins countries such as the U.K., the Netherlands and Nordic countries in using administrative data for evidence-based policy analysis

# Economic Recovery Has Begun, But Unemployment Remains High



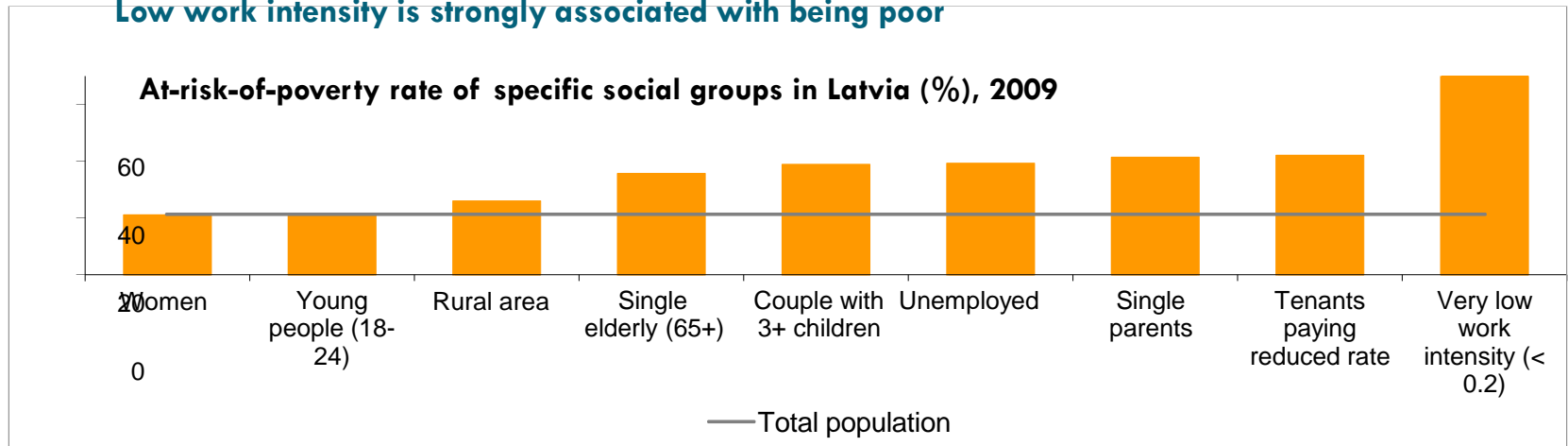
\* The employment or unemployment rate is calculated for the population aged 15 to 64 . Data is for Quarter 4. From 2011, data represents information recalculated according to the results of the Population and Housing Census 2011).  
 Source: Central Statistical Bureau, Latvia.

# Getting More People Back to Work is Critical for Long-run Growth, and Reducing Poverty and Inequality

7

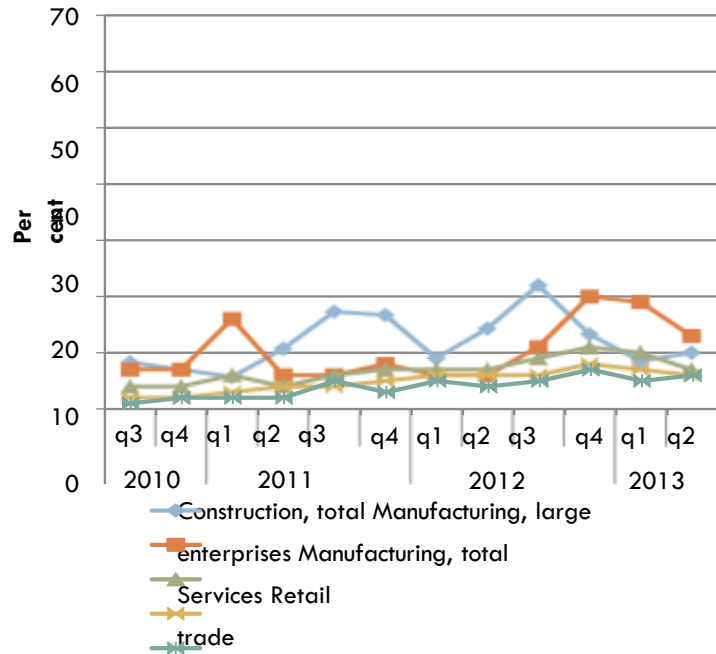
- Nearly two-thirds of the poor population is made up by people who live in households with low work intensity, with 28% of the poor population unemployed
- Just over a quarter of the poor are “working poor”

## Low work intensity is strongly associated with being poor

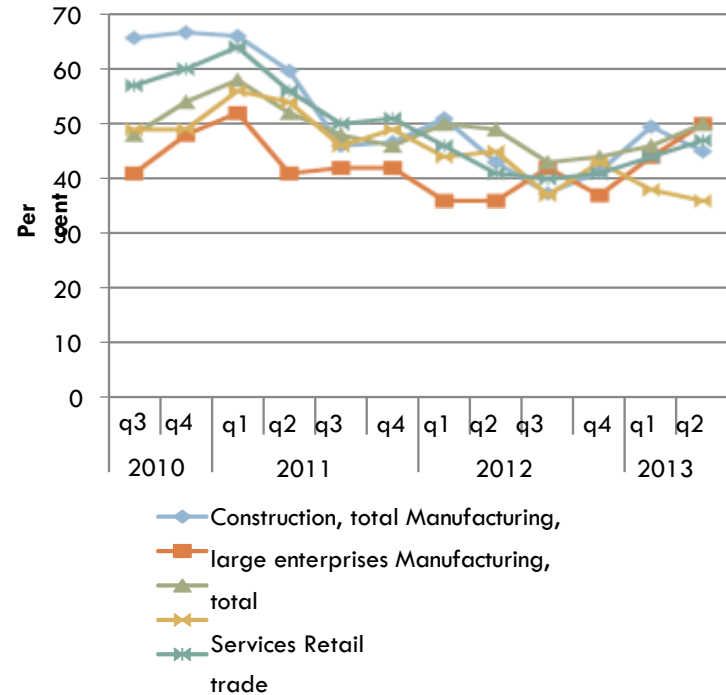


# Enterprises Report Insufficient Demand Rather than a Shortage of Labor as Limiting Factor in Latvia, 2010-2013

## 8 Shortage of labor



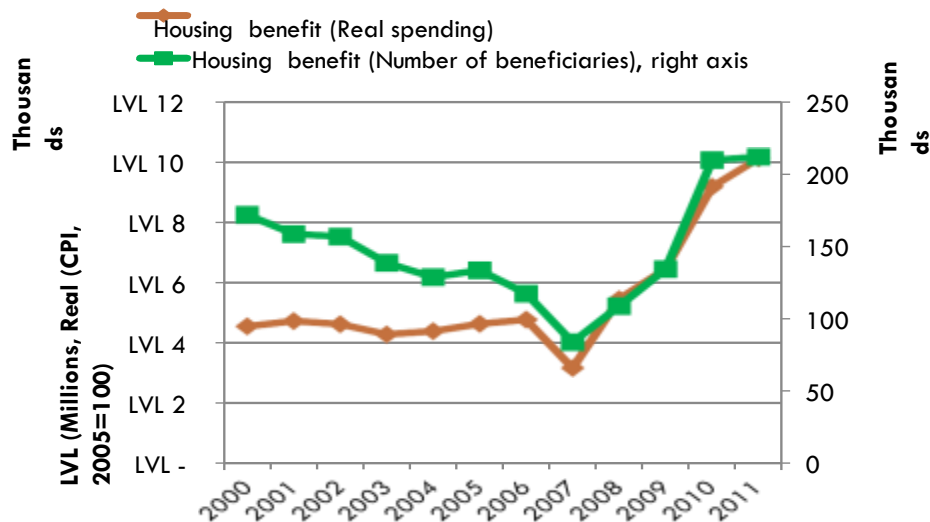
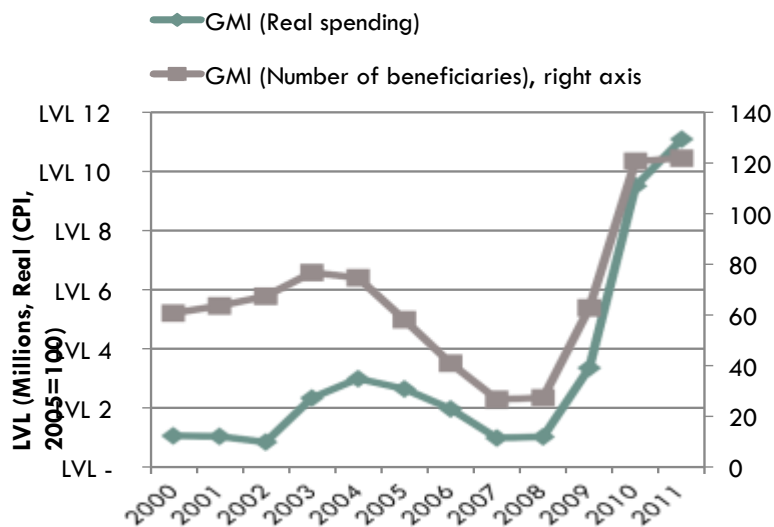
## Insufficient demand



Source: Business Tendencies (Economic Sentiment) survey, CSB

# Unlike In Some Other Countries With Large Austerity Programs, the Safety Net in Latvia Did Expand During the Crisis

...but policy adjustments were needed



Source: Administrative data.

II.

## Profiling Those with Persistent Labor Market Difficulties



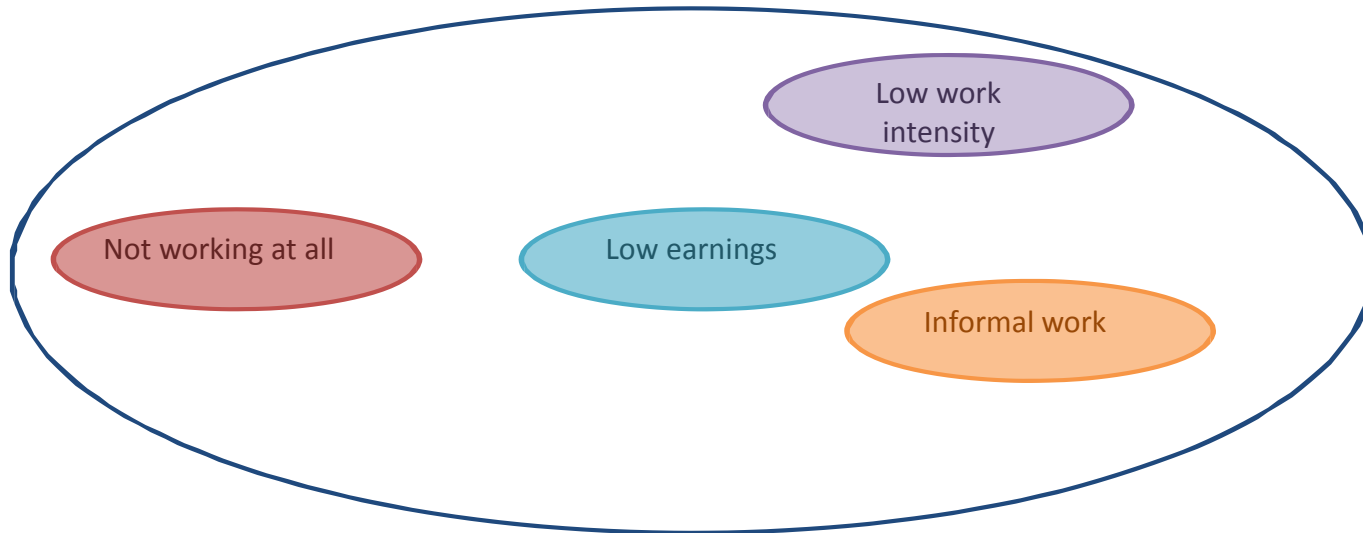
Which groups are suffering from no or unstable work?

Background Papers/Presentations:

1. World Bank (2013). Profiling of People with No or Limited Labor-Market Attachment (Céline Ferré and Herwig Immervoll).
2. World Bank (2013). Latvia: Best Practices and Constraints In Provision of Training Services and Employment Incentives (Arvo Kuddo).

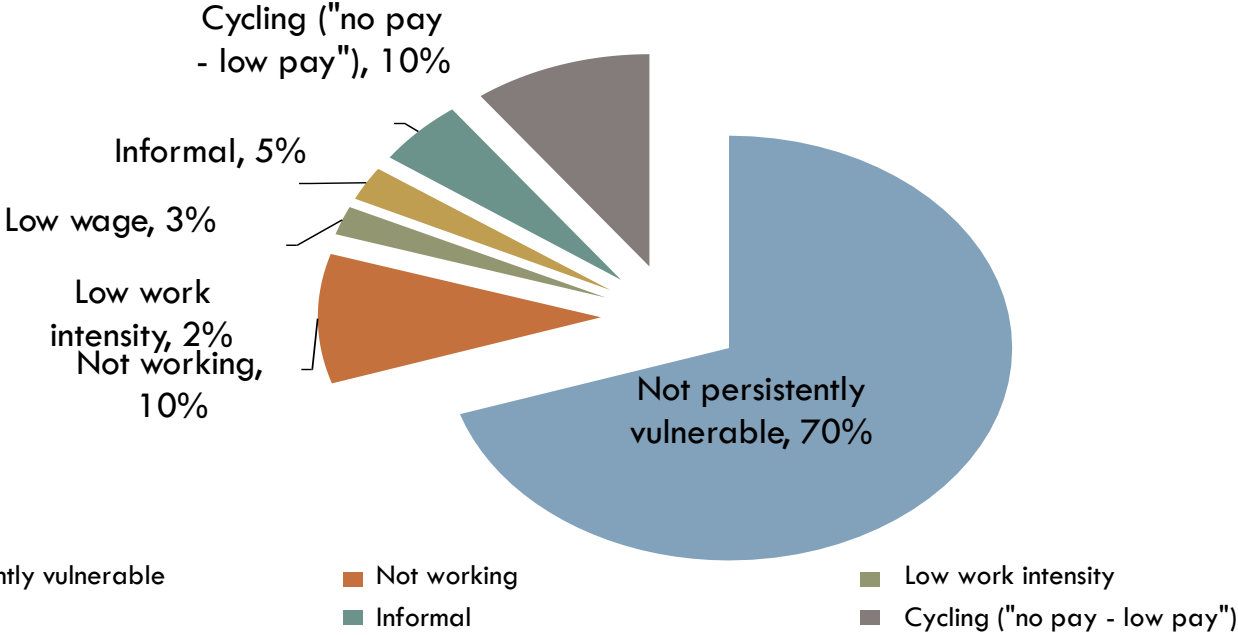
## Four Types of No/Unstable Work...

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# 2007-2010: Broad Categories of No/Unstable Work



## NO/UNSTABLE WORK: DETAILED GROUPINGS

### Group 1

#### “single older unemployed/disabled”

- . Old/Middle-aged 45-61 y.o.
- . Single
- . 10+ yrs. experience
- . Low education
- . Many disabled/unemployed
- . Chronic illness

22%

### Group 4 “stay-at-home mothers with small child”

- . Younger women 25-39 y.o.
- . Married/union
- . Higher education
- . Child < 6 y.o.
- . Rural

11%

### Group 7

#### “disabled older women with working partner”

- . Older women 50+
- . Married
- . Lower education
- . 10+ yrs. experience
- . High disability (most in sample), inactive
- . Chronic illness

6%

### Group 2

#### “single young males with low education”

- . Young 20-29 y.o.
- . Men
- . Never married
- . Very low education
- . Unemployed
- . No children
- . Rural

18%

### Group 5

#### “poorly educated, rural male breadwinner”

- . 30-44 y.o. men
- . Married/union
- . Very Low education
- . 10+ yrs. experience
- . Child < 6 y.o.
- . Rural

11%

### Group 8

#### “highly educated stay-at-home mothers”

- . 30-39 y.o. women
- . Married
- . Higher education (most)
- . 10+ yrs. experience
- . Children
- . Urban
- . Working partner

6%

### Group 3

#### “older unemployed, fit for work”

- . Older 50+
- . Married
- . 10+ yrs. experience
- . Low education
- . Unemployed/Low earnings /Infrequent work

14%

### Group 6 “self-employed older men”

- . Older men 40-54 y.o.
- . Married
- . 10+ yrs. experience
- . Self-employed
- . No child in household

9%

### Group 9

#### “disabled older women, partner not working”

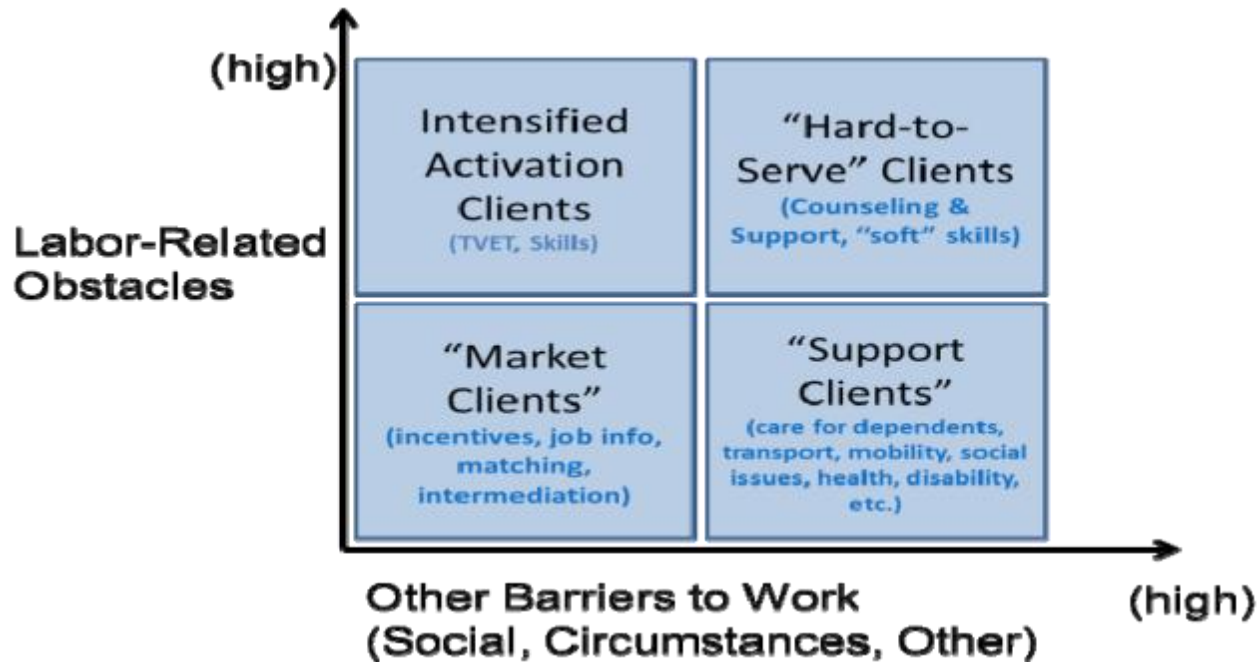
- . Older women 50+
- . Married
- . Lower education
- . 10+ yrs. experience
- . Little fit for work, inactive
- . Large share retired early
- . Chronic illness
- . Partner not working

4%

Group size

# Tailoring Activation and Employment Support For Those With No/Unstable Work

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TVET: Technical, Vocational Education and Training

14

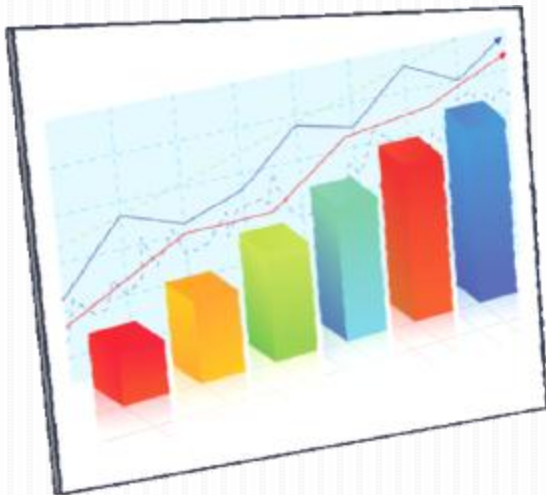
# Policy Options

15

- Desirable targeting mechanism: combined strategy that aims at tackling those at risk of persistent labor market difficulties and economic hardship
  - Hardest to activate: Older and/or disabled pre-retirement age group; and large group of young, less educated unemployed
  - Easier to activate?: the more educated older male self-employed population and well-educated stay-at-home moms
- Use **the link between benefits and activation policies** as an instrument to bridge unemployed to employment services
- Implement an activation strategy to target each of the identified groups

### III.

## Benefit Dependency: Is There A Benefits Trap?



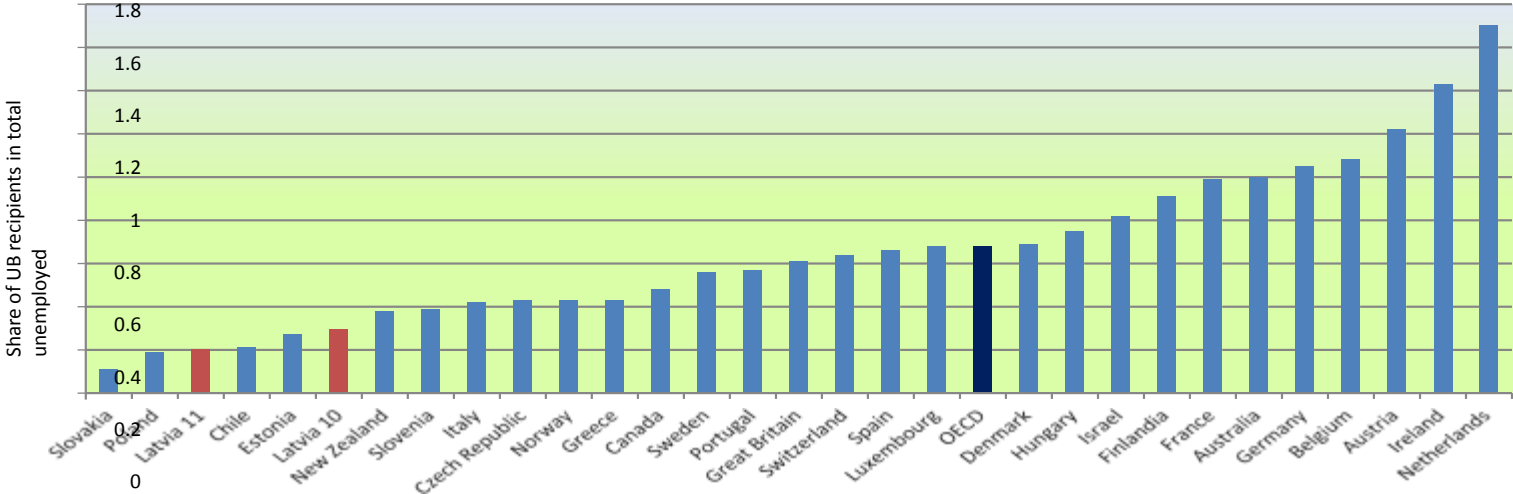
Is there evidence of widespread benefit dependency? Do those on benefits stay on them for long?

#### Background Papers/Presentations:

1. World Bank (2013). Latvia GMI Program: Main Design Characteristics and Comparison with Minimum Income Schemes in Other EU Member States (Boryana Gotcheva).
2. World Bank (2013). Expenditure and Performance of Welfare Benefits and Employment Programs in Latvia (Victoria Strokova and Tomas Damerau).

# Unemployment Benefit Still Covers Few

Ratio of unemployment benefit recipients to the number of unemployed (2010)



Sources: Eurostat for Latvia, OECD Employment and Labor Market Statistics for all other countries.

# Relatively Few People GMI Have Benefited From GMI Compared to Unemployment Insurance

## Share of People Receiving Different Benefits in Latvia for at Least One Month

(percent of population who received a benefit for at least one month over January 2006 to July 2012)

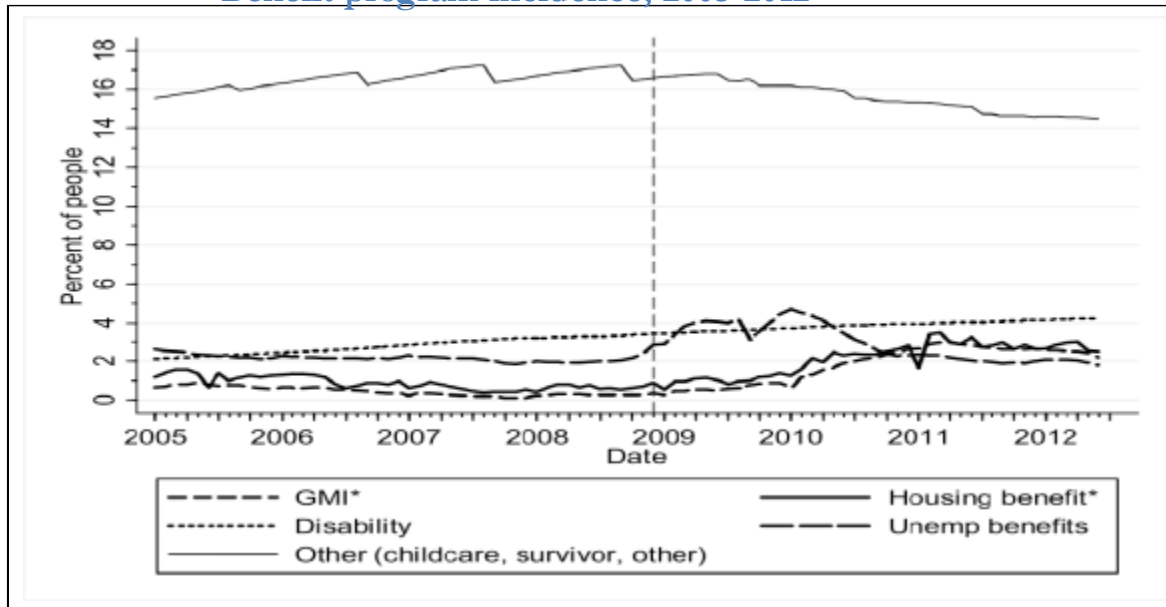


■ Percent of persons receiving benefits at least one month

# GMI has Grown Since 2010; But a Maximum of 4 Percent Have Participated In Any One Month ...

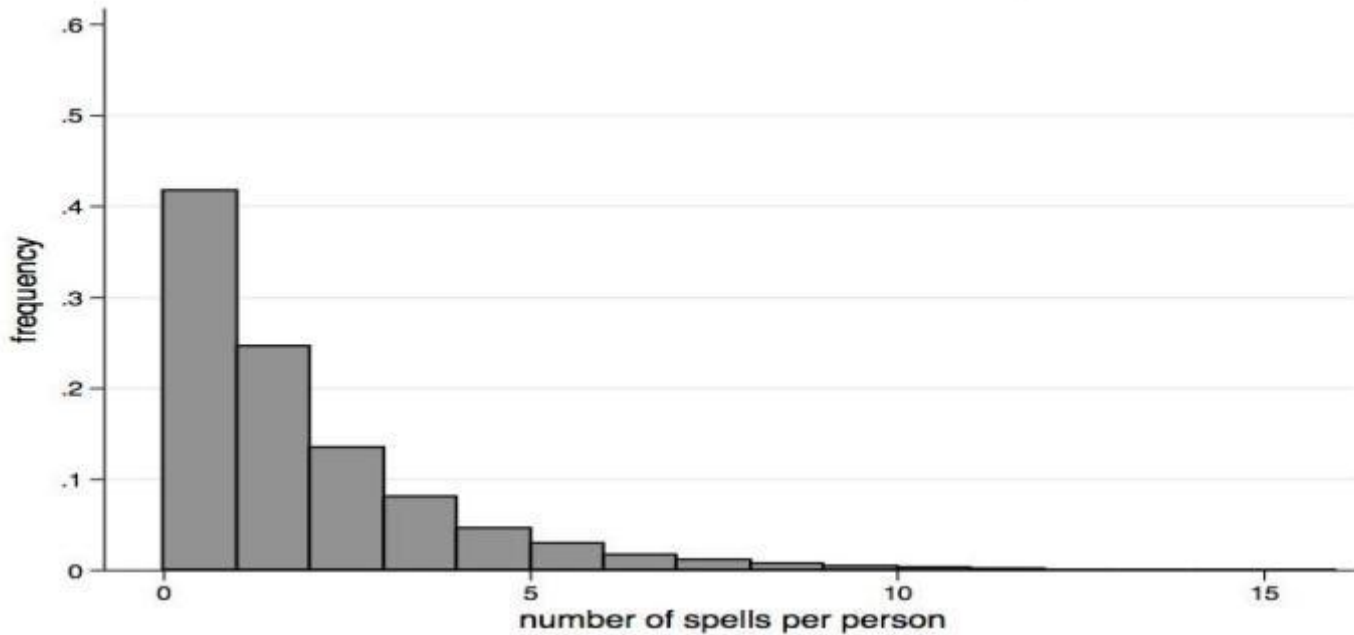
19

Benefit program incidence, 2005-2012



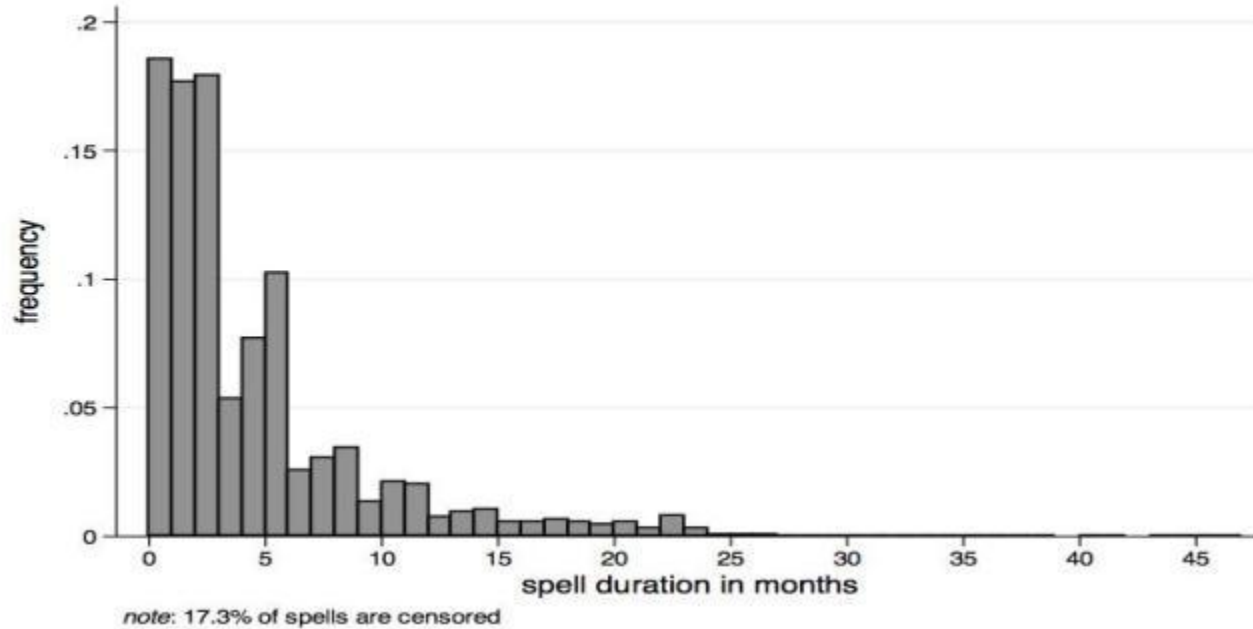


# 40% of People Have Only One GMI Spell In 2006-2012



Note: A GMI Spell is defined as one continuous period when a person receives GMI benefits.

## ... and Spell Durations Appear to be Short...with A Lot of Spells of One to Three Months



## Evidence Does Not Support Widespread Benefit Dependency

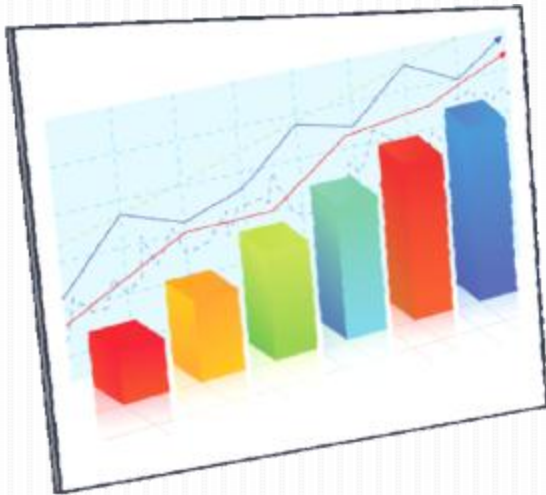
22

- Coverage of both the unemployment insurance and the Guaranteed Minimum Income (GMI) program remains low
- After unemployment benefits run out, many of those that collect GMI beneficiaries do so as a temporary stop-gap
- Few rely on GMI benefits as main source of income for a long time
- But as we will see ... there is scope for improving adequacy of benefit provision

## IV.

# Tax and Benefit Policy: Social Assistance Spending

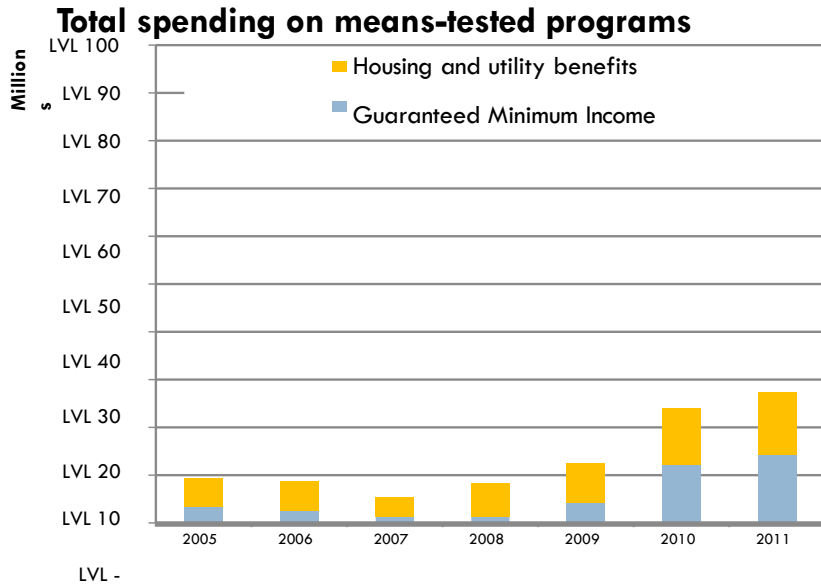
How much does Latvia spend on social assistance compared to other EU countries? How do programs perform?



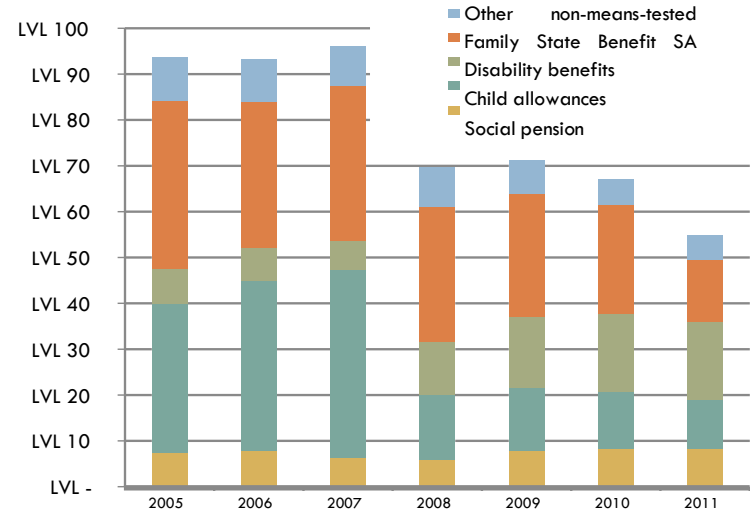
### Background Paper:

1. World Bank (2013). Expenditure and Performance of Welfare Benefits and Employment Programs in Latvia (Victoria Strokova and Tomas Damerau).

# Turning to Total Spending, Expenditure on Universal Programs is Larger Than On Means-Tested Programs

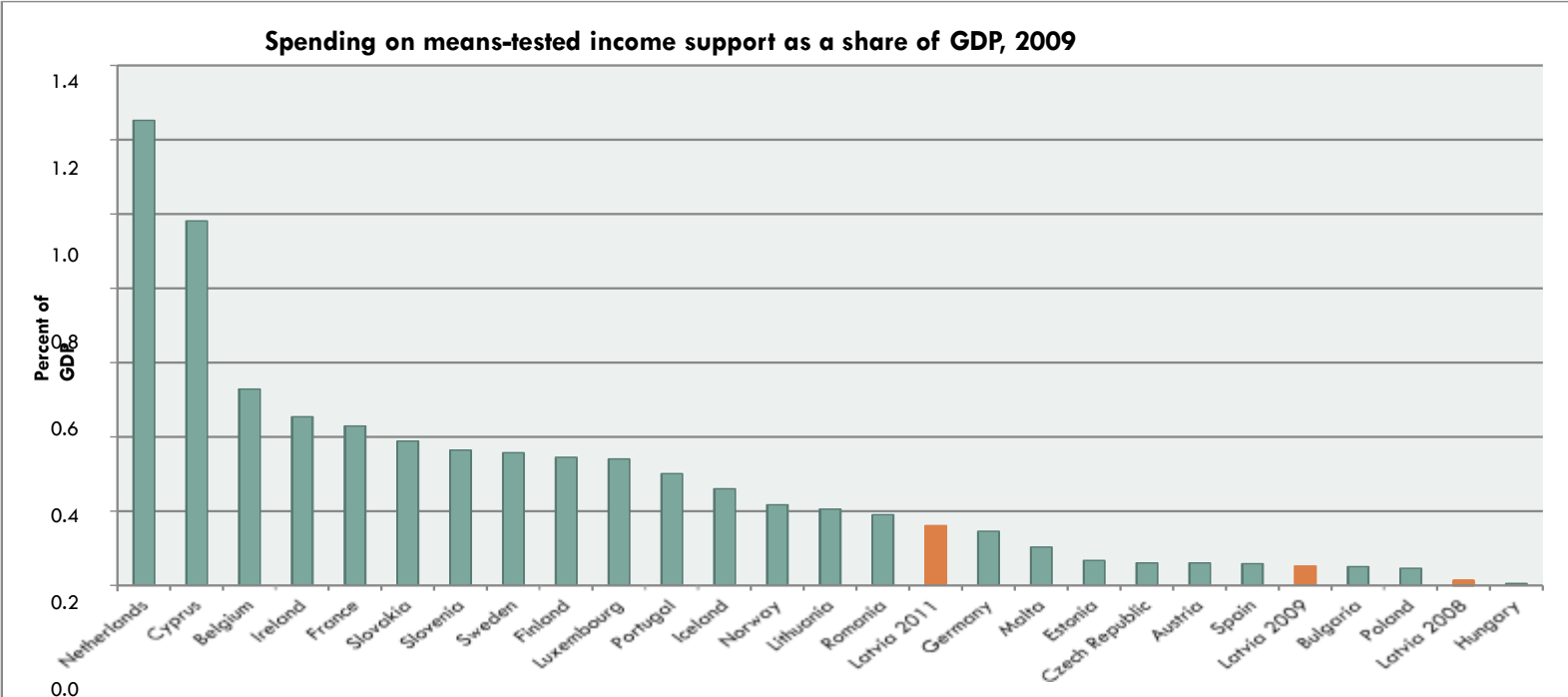


### Total spending on non means-tested programs



Source: Administrative data, Staff calculations.

# Spending on Means-tested Income Support for the Poor Remains Quite Low in Latvia



Source: ESSPROS data, Administrative data from Ministry of Welfare, Staff calculations.

# Indicators of Performance of Social Assistance

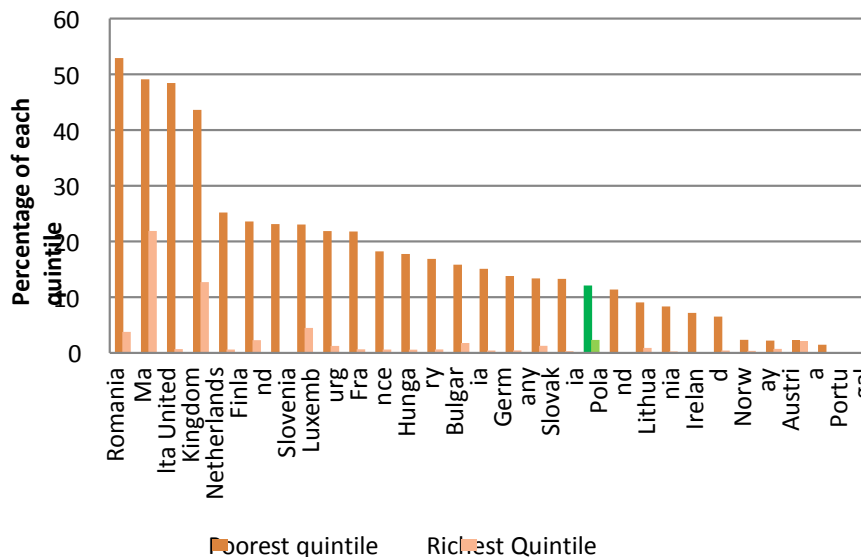
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We use household survey data to assess performance of cash transfers:

- **Coverage:** percent of those in the *poorest quintile* who receive benefits
- **Targeting accuracy:** percent of benefits going to the *poorest quintile*
- **Generosity (Adequacy):**
  - **Contribution to consumption:** Average transfer amount as a fraction of average income for beneficiary households in *poorest quintile*
  - **Unit transfers** as a fraction of minimum/average wage/poverty line

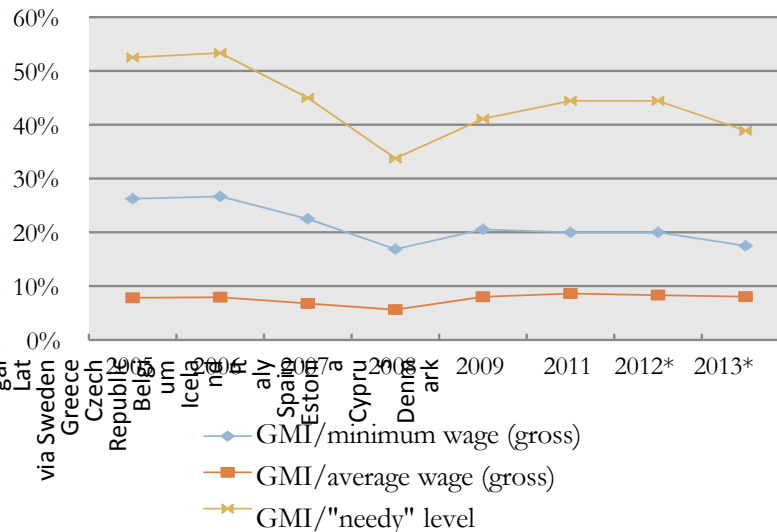
# GMI is Well-Targeted (91% Goes to the Poorest Quintile), But Coverage and Adequacy Are Low

Coverage of the poorest and richest quintile by programs targeting social exclusion, 2009



Source: EU-SILC 2010, World Bank staff calculations.

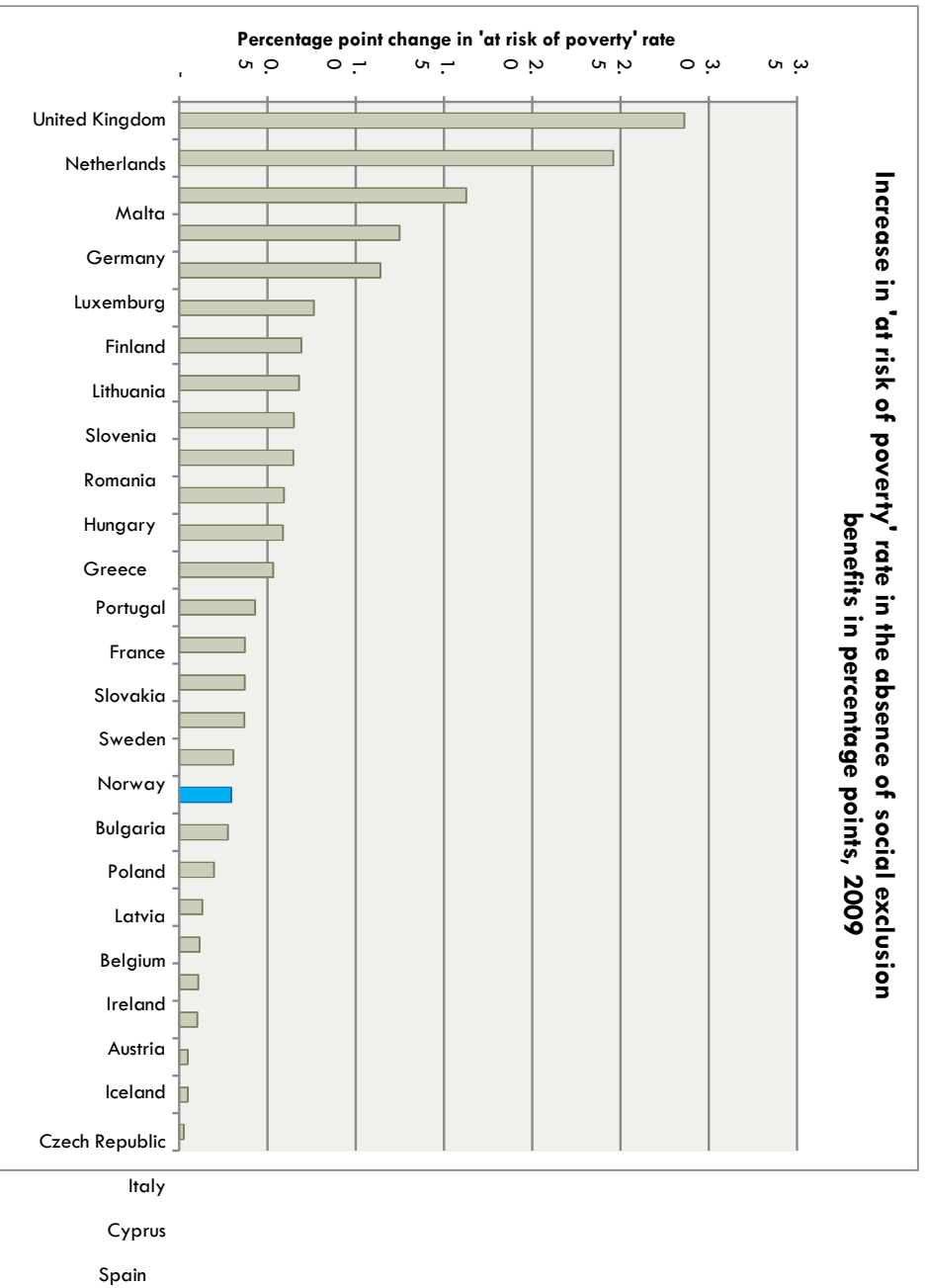
GMI benefit as a share of minimum and average wages, and the needy level



Source: Eurostat, Central Statistical Bureau of Latvia, Ministry of Welfare, World Bank staff calculations.



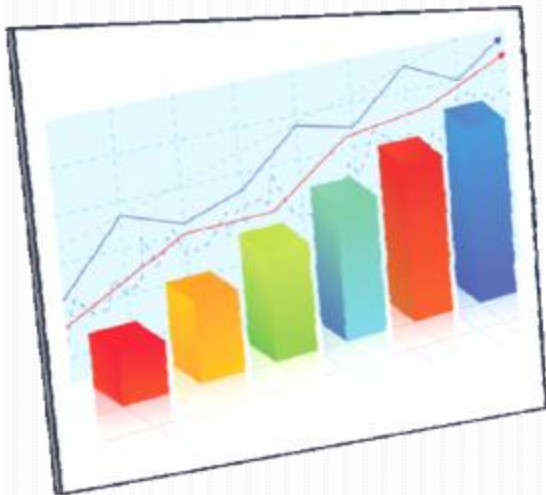
# Poverty Impact is Low Due to Low Generosity and Coverage



Source: EU-SILC 2009, World Bank Staff calculations.

v.

## Tax and Benefit Policy: Protection and Work Incentives



Does the tax-benefit system provide sufficient protection from poverty? Is there evidence of work disincentives? Are there options to increase the pay-off of work for those of lowest income?

Background Paper:

1. World Bank (2013). Financial Incentives of the Tax and Benefit System in Latvia (Victoria Strokova and Tomas Damerau).

## Does the Current Tax-Benefit System “Make Work Pay”?

30

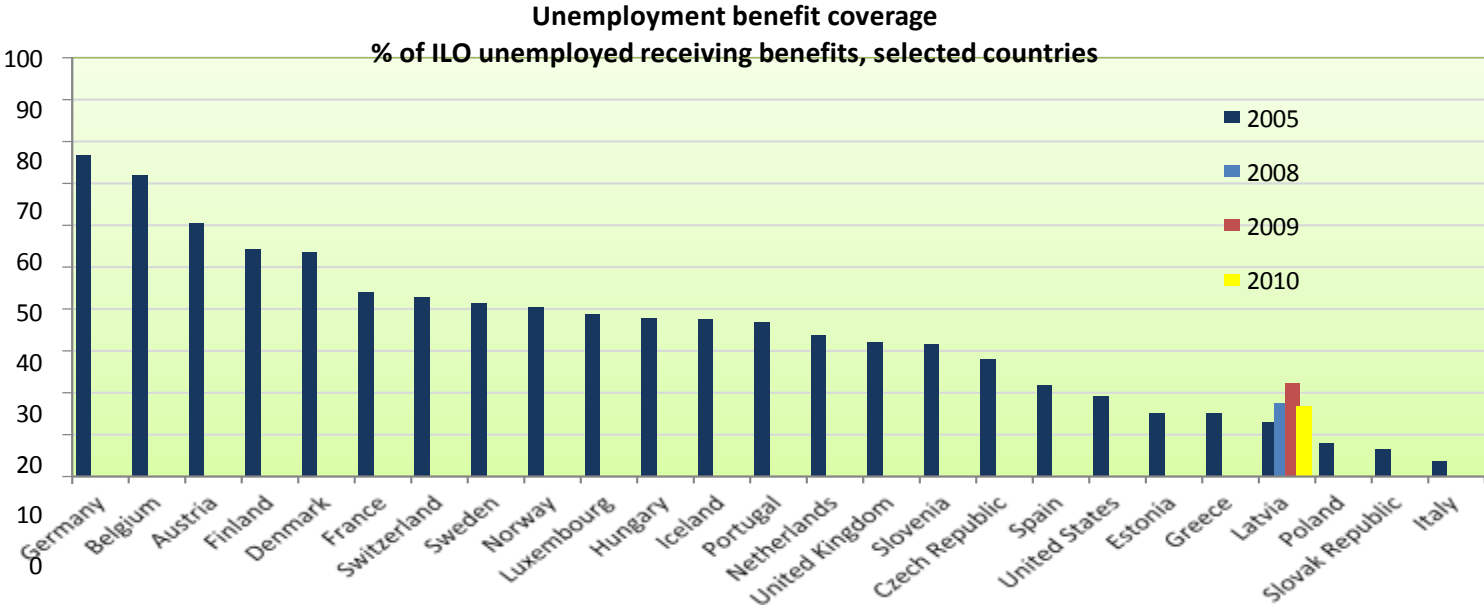
- Work disincentives are unlikely to be the main employment barrier after a deep recession, however:
  - Those on means-tested benefit recipients face high marginal effective tax rates (for every 1 lat earned, 1 lat of benefits is withdrawn)
  - Financial incentives to take up employment can be improved for low-wage earners

## Does the Current Tax-Benefit System Provide Sufficient Protection Against Poverty?

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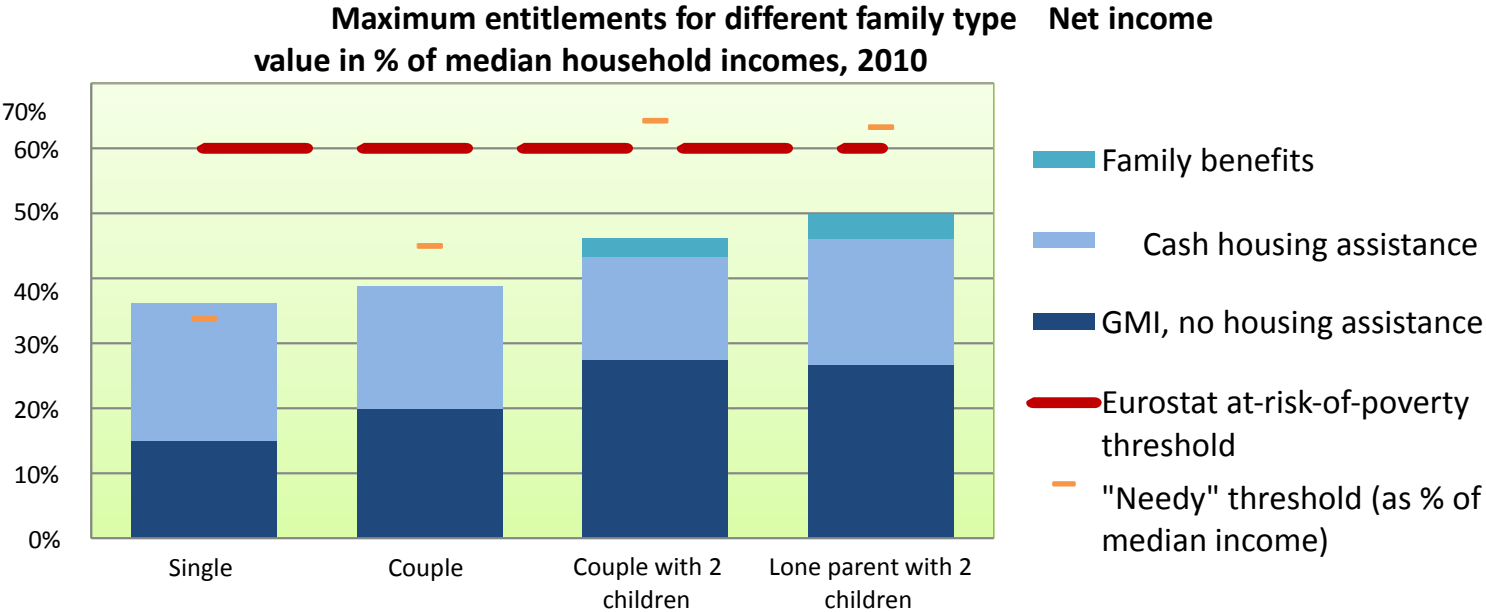
- There is a scope for improving adequacy of benefit provision
  - Coverage of both the unemployment insurance and the GMI program remains low
  - Those on the GMI benefit are at a high risk of poverty
  - Recently passed reforms exacerbate income losses for the poorest

# Unemployment Benefit Still Covers Few



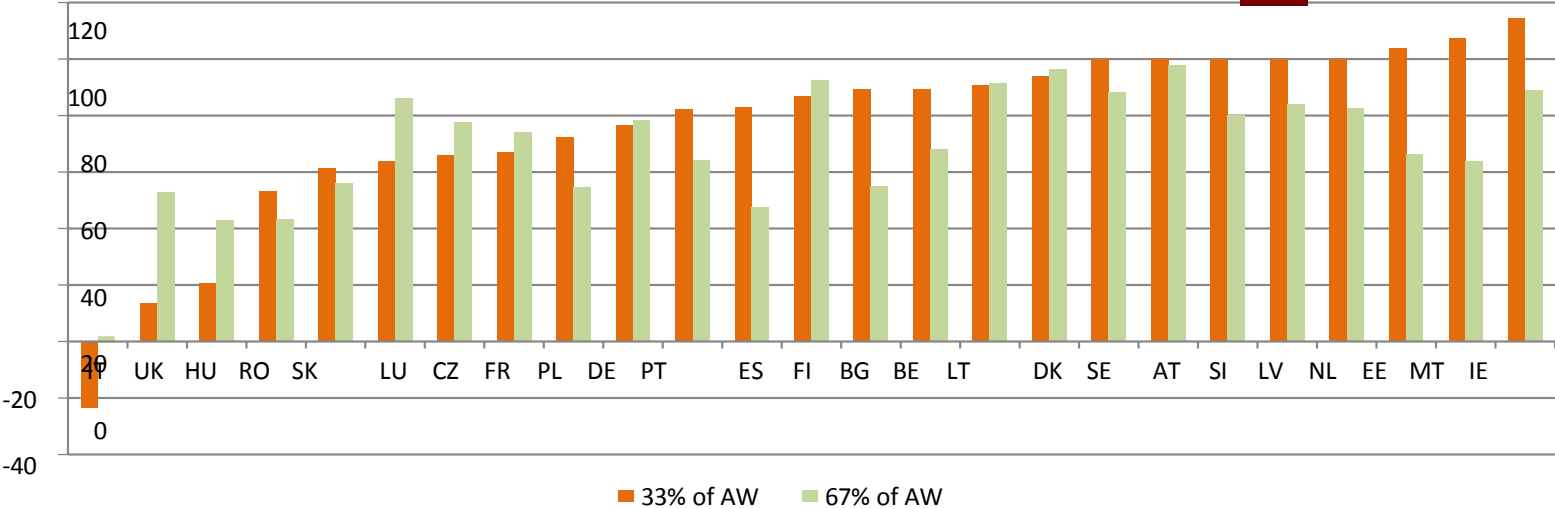
Sources: Authors' calculations using the Latvian Labor Force Survey; for other countries, Immervoll and Richardson (2011) using European Labor Force Surveys and Current Population Survey (US).

# GMI Program Recipients with No Other Incomes are at a High Risk of Poverty



# It Might Not Always Pay to Take a Low-Paid Job

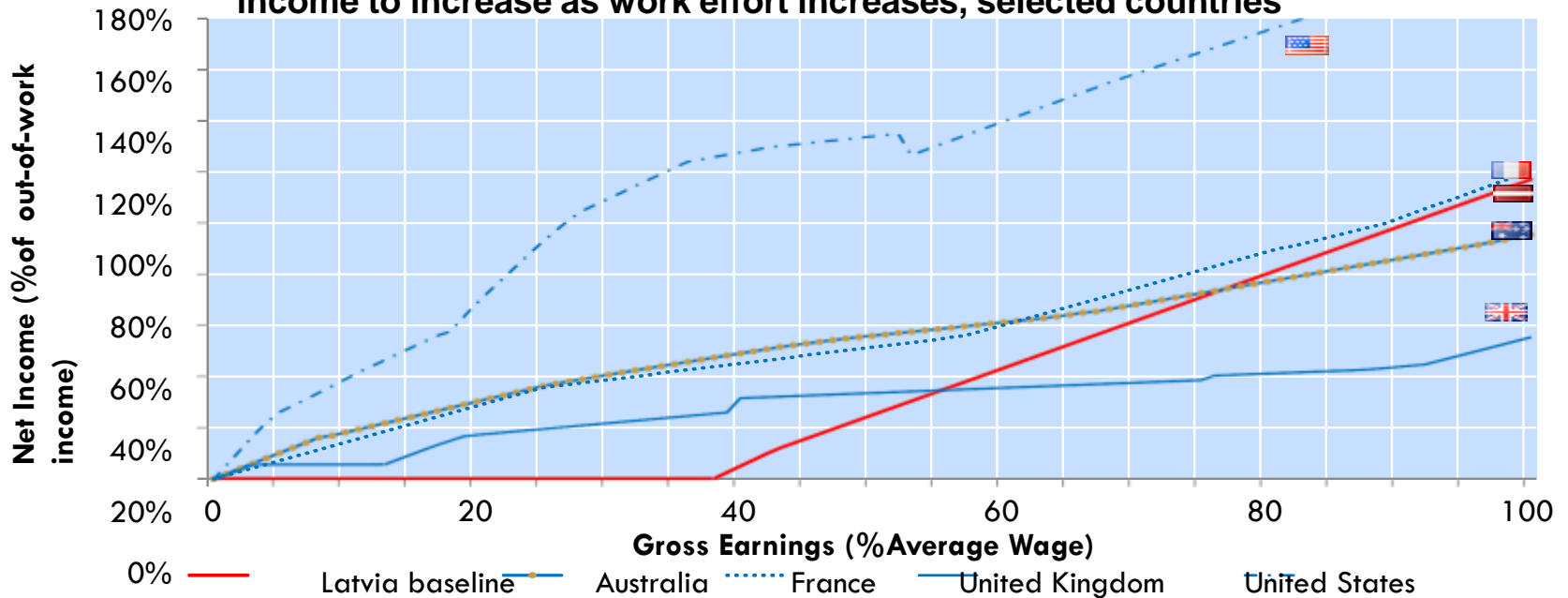
Participation tax rate (average effective tax rates) in 2011 One-earner couple, with 2 children  
Earning one-third or two-thirds of the average wage (AW)



Sources: World Bank calculations using OECD tax-benefit models

# Compared to Countries With Stronger In-Work Benefits, Taking a Low Paid Does Not Pay Off For GMI Recipients in Latvia

**In-work benefits for low income households allow after-benefit and tax income to increase as work effort increases, selected countries**



Source: World Bank calculations using OECD, Tax-Benefit Models for Lone parent with two children.



## OECD Policies To “Make Work Pay”

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- Many countries operate **gradual benefit phase-outs** for individuals who manage to earn only limited amounts, i.e. tapered withdrawal of Social Assistance in France, Australia
  - **Earnings disregard in France:** Continue to receive minimum income benefits while getting paid up to 750 hours per year (for a year);
- **Employment-conditional (“in-work”) benefits** or **tax credits** that support the incomes of workers in non-marginal employment
  - Reduced social security contributions and/or taxes for low-wage employment
  - Temporary benefits (“back to work bonuses” as in Australia and Ireland)
  - Permanent benefits (periodic payments via benefit or tax system), e.g. Earned Income Tax Credits in United Kingdom, United States

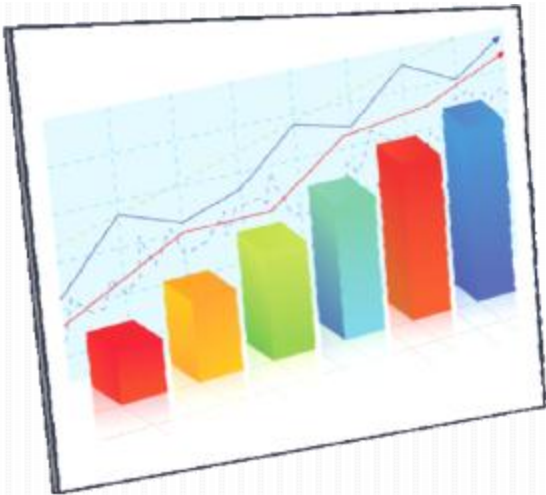
# Policy Options to Improve Protection and In-Work Benefits

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- **Benefit adequacy** could be improved, while simultaneously pay off from work can be increased
  - Increase coverage and generosity of means-tested benefits
- **Financial incentives to take up low-wage employment** could be enhanced
  - e.g. “back to work” bonuses (for long-term unemployed/GMI beneficiaries, etc.)
  - A permanent in-work benefit scheme can be designed and implemented along with measures aimed at combatting under-reporting
- Tax benefit models allow us to simultaneously assess theoretical effect of different measures above
  - Distributional analysis would be needed to assess full impact and costs of any reforms
  - Informality and under-reporting could present a challenge in designing targeted make-work-pay policies

## VI.

# GMI Benefit Design



Main design characteristics and comparison with minimum income schemes in other EU member states

Background Paper:

1. World Bank (2013). Latvia GMI Program: Main Design Characteristics and Comparison with Minimum Income Schemes in Other EU Member States (Boryana Gotcheva).

# Latvia Minimum Income Scheme Compared to Other EU Countries

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- As in many EU countries—centrally designed, implementation delegated to municipalities and with aim of protection/activation
- **Big difference is financing** is also delegated to municipalities (except for co-financing 2009 until end-2012)
- Latvia GMI framework gives more discretion to municipalities in benefit design than in many EU
  - State sets only a 'minimum standard' for GMI eligibility and adequacy
  - Municipal authorities have discretion to decide to grant higher GMI benefit levels (but with ceiling)
  - GMI provision likely to be a function of financing capacity and not just social assistance needs
- Strong coordination of design and implementation, along with common mechanisms and information systems for program tracking and evaluation, necessary to ensure effective provision

	Centralized Financing	Decentralized Financing
Strengths	<ul style="list-style-type: none"> <li>• State ensures equal financing standards (same eligibility criteria, amounts of benefits and implementation rules)</li> <li>• Centralized financing more stable and predictable</li> <li>• State has higher capacity for risk pooling</li> <li>• State has better access to a wider range of financing sources (budget reallocations, tax increases, foreign grants and/or borrowing)</li> <li>• State is better positioned to provide/protect counter-cyclical financing for the safety nets</li> </ul>	<ul style="list-style-type: none"> <li>• Better accounting of local needs/ local government level discretion</li> <li>• More flexibility in prioritizing benefits with change in needs and nature of vulnerability</li> <li>• Provides a link between beneficiaries and taxpayers</li> </ul>

	Centralized Financing	Decentralized Financing
Weaknesses	<ul style="list-style-type: none"> <li>• Limited knowledge of local needs and priorities</li> <li>• National eligibility criteria and financing standards are more rigid</li> <li>• Local governments have no incentives to raise own revenues for LRSA</li> </ul>	<ul style="list-style-type: none"> <li>• Less scope for countercyclical financing, problematic particularly in times of crisis</li> <li>• Local government spending may be less secure because of lower stability of municipal revenues</li> <li>• Interregional disparities in coverage</li> <li>• Higher risks of cutting benefits in poorer municipalities despite their population being most in need/less scope for risk pooling</li> </ul>

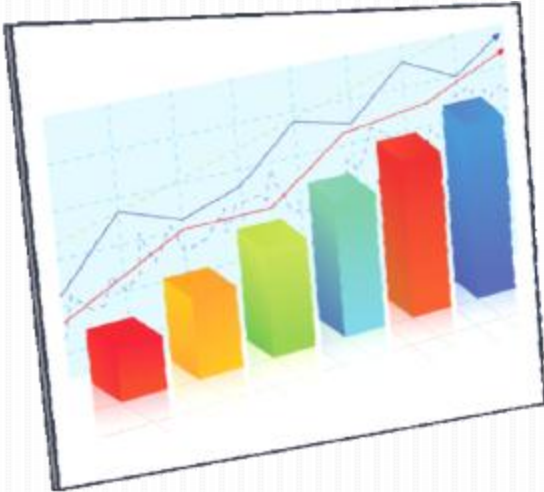
# Advantages and Disadvantages to Decentralizing Social Assistance Financing; But full Decentralization of Financing Rare in EU

Centralized Financing	Mixed Financing	Decentralized Financing
<p>Bulgaria, Cyprus, Czech Republic, Estonia, France, Ireland, Lithuania (piloted local financing), Poland, Portugal, Romania (administrative cost covered by local budgets), Slovakia, Slovenia, U.K.</p>	<p>Belgium, Denmark, Hungary (5-20% from local governments), Germany (assistance for those who cannot work provided by municipalities), Italy, Netherlands (municipalities can provide other allowances), Spain</p>	<p>Austria, Finland, Latvia, Sweden</p>

VII.

## Labor Market Programs

How are labor market programs performing and what lessons can be drawn for future policy directions?



Presentation:

1. World Bank (2013). Evaluation of active labor market programs in Latvia (Mihails Hazans and Jekaterina Dmitrijeva)



## Labor Market Programs Found To Have A Positive Impact in Latvia; But Variation in Outcomes Across Programs

44

- **All types of professional training and informal education programs for unemployed significantly improve participants' employment rates**—both soon after training completion and in the medium term
- **A substantial variation in terms of various labor market outcomes is found both between types of programs and within each type**
  - Results are not positive for subsidized employer-provided training
- While short-term (non-training) measures to improve competitiveness of the unemployed are useful, they cannot substitute for medium and longer term training and education
- Evaluation of new ALMP programs using micro-level data should become a normal practice

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Thank you!



Ministerie van Sociale Zaken en  
Werkgelegenheid



# Dutch unemployment insurance and social assistance system

Marc Konings

Directorate General for Participation and  
Income Security

Directorate for Income Insurances

Department for Financing Policy



## Topics

- Unemployment insurance act
  - (WW) Characteristics of the
  - system Planned reforms
- Work and social assistance act (WWB)
  - Characteristics of the system
  - Relation between central and local government
  - Financing system
  - Results
  - Planned reforms



# Unemployment Insurance Act (WW)

## Characteristics

- Main functions: labour market allocation and income security
- Employees insurance
- Financed with contributions paid by employers
- Requirements on work history (weeks - years)
- Minimum 3 months, maximum 38 months depending on work history: each year worked entitles for 1 month benefit
- Benefit is related to wage in lost job in last year (75% / 70%)
- Obligation to seek job
- Gradually all work is considered suitable
- Centrally lead Institute for Employee Benefit Schemes (UWV)
- 340.000 benefits end 2012 and expenditure 2012: €5,3 billion



## Unemployment Insurance: planned reforms

- Based on Coalition Agreement and on the Social Agenda agreed between government and social partners
- Goal: minimize the time in unemployment benefit for the good of employees, employers and public finance
- Main elements:
  - More focus on preventing unemployment by job mobility under responsibility of employers and employees
  - Transitional allowance for training or outplacement purposes
  - Maximum duration unemployment benefit gradually reduced to 24 months. Work history over 10 years entitles for ½ month benefit.
  - Social Partners wish to arrange supplementary 14 months in collective labour agreements
  - Social Partners will advise on sharing the contributions



# Work and Social Assistance Act (WWB)

## Characteristics

- Constitutional right. Safety net of the Dutch social security for persons residing legally in the Netherlands with insufficient financial resources.
- Basic principle: people responsible to work and provide in their own income. Social assistance only if work is not possible or temporarily not available.
- Means tested: income and assets
- Social minimum income related to minimum wage and depending on household type: couples 100%, singles 50% (+20%), single parents 70% (+20%)
- Obligations: work first / accept any job that is generally accepted
- Execution by local government (SVB for 65+)
- Municipalities responsible for supporting people towards work
- 325.000 benefits end 2012 and budget 2012: €4,9 billion



## Relation central and local government

- Under the General welfare act before
  - 2004: Lots of rules by central government
  - Municipalities decided and sent bill to central government
- Since 2004 Work and social assistance
  - act: Decentralization with focus on work
  - first More responsibility for municipalities
  - More possibilities, less rules, less reporting
  - Municipalities fully budget responsible
  - During implementation central government facilitated municipalities





## Financing system

- Financing system stimulates municipalities to focus on work first
- Municipalities get two budgets:
  - Reintegration budget: amount politically decided, budget must be spent on reintegration
  - Income budget: financial surplus or shortage for account of municipality
    - » Sufficient macrobudget
    - » Objective model to determine shares per municipality
    - » Facilities for severe shortages
- Financial and policy control and monitoring as much as possible in local democracy. Reporting to central government only if necessary.



## Results

- Decentralization and budgetting lead to 8% less
  - benefits Mainly under younger recipients
  - More effect on short term benefits than long term benefits
- Policy was considered very successfull and continued
- New initiatives:
  - Participationbudget introduced which combined budgets for reintegration, education and integration
  - Extra focus on work first for youngsters



## Social assistance act: planned reforms

- Based on Coalition Agreement and on the Social Agenda agreed between government and social partners
- Participation act: decentralization of responsibility for people with health problems or disabilities from a young age and ability to work
- Employers will create more job opportunities for those people. If not achieved a quota scheme will be introduced.
- Wage cost allowances will be introduced to support jobs if those people cannot earn the minimum wage.
- Facilitate municipalities and create opportunities for better efficiency and effect by combining budgets: reintegration, social participation, exceptional medical care, youth care.



**THANK YOU FOR YOUR ATTENTION!**

