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INTERNATIONAL SOCIAL SECURITY ASSOCIATION

# Social Policy Highlight

04



## Social security and labour markets: Working better together

The relationship between social security and labour markets is an issue of increasing complexity. But it follows that since labour markets are becoming more dynamic – especially as a result of globalization – social security must be dynamic too. This is one of the main conclusions drawn from ISSA's 2007 International Research Conference<sup>1</sup>. This *Highlight* explains why social security, with the aim of contributing to more productive economies and inclusive societies, must remain responsive to, and better anticipate, labour market developments.

*Hans-Horst Konkolewsky, Secretary General*

Typically, access to social security coverage is linked positively with active involvement in the formal labour market. In theory, by extending formal employment the door to social security should open to more and more people.

Of course, access to formal labour markets and social security has never been globally equitable. Nonetheless, there was once a real expectation that the labour markets of the global South would play catch-up with the global North: sustained economic growth would extend access to social security. As we know, the present-day reality in many countries has fallen short of this earlier expectation.

Today in many developing countries work in the informal economy accounts for the lion's share of employment. And in some regions, in Latin America for instance, this trend is increasing. Although not all informal economy workers are the working poor, the absolute number of the world's working poor (earning no more than US\$ 2 a day) has grown to 1.37 billion<sup>2</sup>. And in all likelihood these same workers will

### This issue:

- Draws attention to the link between labour markets and social security
- Highlights an international trend toward non-standard employment
- Underlines how regional, sectoral, gender, and age factors influence access to labour markets and social security
- Discusses how social security can adjust to labour market challenges
- Argues the importance of better anticipating labour market evolution

have no access to social security. In the more advanced economies – where labour markets and social security coverage are strongest – challenging trends are equally afoot. These trends take the form of increasing labour market flexibility.

## Changing labour markets

Globally, a number of contributory factors underlie the expansion of non-standard employment. These include the decline in trade union bargaining power, high unemployment, the challenges of global economic competitiveness, the financial pressures of demographic ageing, the employment possibilities of longer-lived populations, changing family structures, changing attitudes to the work-life balance, and higher female employment levels. Another factor is the sizable number of migrants who work in unskilled, hazardous, and low-paid jobs and who are especially affected by employment precariousness.

By and large, the trend toward non-standard employment is often viewed as driven by the needs of employers. But demand also exists among some workers, not least to facilitate evolving individual life-course and family needs. Regardless, the consequences of this trend may result in reducing workers' security.

## The risks of non-standard employment

A number of risks accompany the growth of non-standard employment. One risk faced by those in self-employment or temporary, part-time, or agency-dispatched work is increased job insecurity. In turn, the risks of skill obsolescence and recurring periods of unemployment may be heightened. A further risk is that irregular employment histories may lead to incomplete contribution periods for full entitlements under earnings-related social insurance programmes or reduce the build-up of capital in mandatory individual accounts.

To address these risks, a range of innovative policy measures are under discussion. In Europe this debate is often framed in terms of a need for 'flexicurity' – a proactive agenda seeking to ensure that flexible labour markets are coupled with adequate social security. More widely, the income protection role of non-contributory, tax-financed social security is rising on many national policy agendas.

## An emerging paradox

Worldwide, the observed trend is towards declining job stability and a rise in informal-economy employment – developments viewed as detrimental to better ensuring adequate social security. Moreover, rising instability in employment is viewed as being bad for labour productivity too<sup>3</sup>.

And here emerges a paradox. Labour market trends have heightened employment insecurity and drawn attention to the need for better social security. Yet because of these same trends, adequate social security has become less accessible to many.

## Adjusting benefits programmes

To better ensure continuing access to covered populations in a context of expanding non-standard employment, different measures can be followed. For instance, access to innovative part-time sickness or unemployment benefits may be premised on a partial return to work. But to make a success of these measures, habits and attitudes will first need to change, including among employers, administrators, and service providers. Improved benefits and services for families and care givers are also important. And with full employment records across the working life becoming rarer, and where access to full benefits remains dependent on, for example, forty years of contributions, there may be a case for shortening required contribution periods.

## Promoting formal employment

Better access to social security also requires better access to formal employment. To this end, many social security programmes are now proactively contributing to endeavours to increase employment levels. Of course, an essential objective is also to produce healthier social security receipts while reducing the growth in benefits expenditure. Targeted groups addressed by these measures have included the long-term unemployed, social assistance recipients, first-time job seekers, older workers, and people with incapacities.

For beneficiaries this sometimes implies the imposition of additional qualifying conditions – for instance, the requirement that non-employed persons must actively seek work or see their benefits suspended. Alternatively, in some other programmes the imposition of conditions has been used to discourage undesirable forms of work – for example, child labour.

When taken together, these measures can be summarised as having sought to:

- Reduce work disincentives inherent in the design of some social security schemes
- Refocus social security on improving employability, and
- Change the behaviour of employers, administrators, and service providers to encourage the (re)integration of non-active members of society.

## Developing country labour markets

Many of the above initiatives primarily address the concerns of more advanced economies. A further necessary task is to address social security's role in developing country labour markets.

Over the last decades social security programmes in developing countries have typically focused their energies on the needs of formal economy workers. For administrative and developmental reasons this was deemed appropriate. But today the policy focus is widening. There are two main reasons for this.

First, in most developing countries, employment in traditional, rural, and non-formal activities continues to predominate. Second, the priorities of many people working in traditional, rural, or non-formal activities often differ from those catered for by conventional social security programmes.

In practical terms, low, irregular, and often seasonal income patterns or the lack of a fixed business address penalise potential contributors. Therefore, the challenge for social security is to design programmes that more readily address the needs of all. As ISSA-promoted research highlights, important steps in this direction are already underway<sup>1</sup>.

Besides providing temporary employment and promoting skills development through public works programmes (e.g. India, South Africa), legislative changes can widen coverage to casual, rural, and self-employed workers under social insurance programmes (e.g. India, Iran, Turkey). Other steps include designing public schemes for informal-sector workers (e.g. Tunisia) and promoting community-based micro-insurance schemes (e.g. Tanzania, Uganda). And tax-financed benefits in some countries of sub-Saharan Africa, Asia, and Latin America are also targeting those most marginal to formal labour markets.

## Global employment

Although the estimated global unemployment rate remains stable at around 6 per cent, the last decade has witnessed the share of the global population of working-age in some form of employment decline by 1.2 percentage points to 61.4 per cent (see Table). For policy-makers, declining global employment among two population groups is noteworthy. First, the decline has been most pronounced among younger workers aged 15 to 24. Second, women continue to have fewer employment opportunities than men<sup>2</sup>.

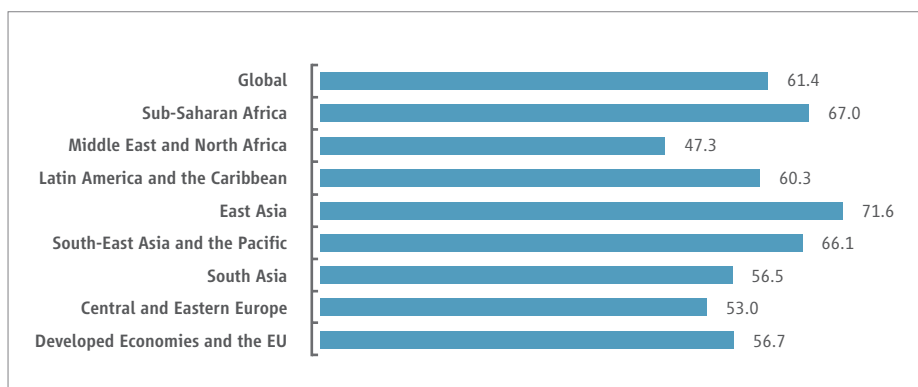
## Future evolution

The dynamic nature of labour markets necessitates that social security is correspondingly dynamic. One necessary response must be to better anticipate labour market evolution through better tracking global trends, especially demographic and economic trends. Similarly, improvements in producing labour market data are essential. And a change in mind-set – as well as vocabulary – is also needed. If flexible or informal work is the employment reality for an increasing number of people, is the term ‘non-standard employment’ still appropriate?

Or should we talk rather of a global jobs crisis? Consequently, as identified by the ISSA 2007 Research Conference<sup>1</sup>, the following policy questions require prioritized attention:

- Faced with the expansion of ‘non-standard employment’, how can social security better accommodate requirements for collective and individual responsibility?
- What future challenges will labour markets present for social security?

## Working-age population in employment<sup>a</sup> in 2006 (per cent)



Source: ILO, 2007.

a. Figures are estimates.

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## Sources

- <sup>1</sup> ISSA. 2007. *Social security and the labour market: A mismatch?*, 5th International Research Conference on Social Security, Warsaw, Poland 5–7 March, 2007. Available at <http://www.issa.int>.
- <sup>2</sup> ILO. 2007. "Global Employment Trends", *Brief*, January, Geneva, ILO. Available at <http://www.ilo.org>.
- <sup>3</sup> ILO. 2005. *World Employment Report 2004–2005*, Geneva, ILO.

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The **International Social Security Association (ISSA)** is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

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