Life-course perspective

- A (fresh) way to look at social risks and social policies
- A new perspective on institutional innovation
  - Broad perspective yields
    - new degrees of freedom at micro level
      - combining work and family
    - more room for bargaining by linking issues
      - trade between generations when moving to proactive, preventive policies
Outline

- Trends and challenges: changing nature of social risks
- Market and institutional failures: need for institutional innovation
- Institutional innovation: policy conclusions
Changing nature of social risks

- Knowledge economy and innovation
- Feminization of work
- Aging
Knowledge economy

• Innovation implies more creative destruction
  ➢ Firms can offer less security
  ➢ More adaptability required (as insurance)
• Human and social capital key for social inclusion (micro) and growth (macro)
  ➢ Longer in school
    ✓ delay of social adulthood
  ➢ Learning also on work floor and in family
    ✓ combination of work and family key
  ➢ Insurance of human-capital risks
    ✓ more important
    ✓ but more difficult: risks are ‘manufactured’
Feminization of work

- More combinations: work and family
- Life courses more heterogeneous in terms of working, resting, learning and caring
  - People responsible for own life biographies
- Intergenerational contract under pressure
Aging

• Increased longevity
  ➢ Human capital more durable
    ✓ but faster obsolescence of skills
    ❖ calls for life-long learning and increased flexibility and adaptability

• Lower fertility
  ➢ Motherhood more expensive in terms of lost human capital
    ✓ high-skilled women low fertility rates because large family gap
Modern life course

• Traditional life course of adults two seasons
  ➢ summer and winter
• Two new life seasons
  ➢ Young adulthood = spring: delay of parenthood
  ➢ Active seniorhood = autumn: delay of mortality and morbidity
  ➢ Thus: people spend more time in households without young kids
• Compression of working life in ‘rush-hour of life’ (=summer)
  ➢ Longer adolescence: social adulthood delayed beyond biological adulthood
  ➢ Longer retirement: social aging precedes biological aging
Retirement period, 1970 and 2004

Years in retirement, men, 1970-2004

- France
- Italy
- Germany
- UK
- US
- Japan

Comparison of retirement periods for men in 1970 and 2004 for different countries.
Distribution of time over life cycle
Outline

• Trends and challenges: changing nature of social risks

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• Institutional innovation: policy conclusions
Institutional failures

• Early retirement cultures
  ➢ Vicious circle of less human capital investment in adults and children
  ➢ Transfer resources from summer into autumn (from young to old)
    ✓ Liquidity constraints in spring and summer
    ✓ Less investment in human capital = merit good (lack of foresight and social floor)

• Lack of wage flexibility
  ➢ Demand for elderly workers weak
    ✓ Labor market for elderly does not function
      ❖ Higher retirement ages not legitimate
      ❖ Older workers tied to current job
        ▪ Lack of flexibility to adjust work to private circumstances
Institutional failures

• Employment protection
  ➢ Firm as insurer
    ✓ Firm can offer less security: fear of falling
      ❖ Early retirement programs
    ✓ Statutory retirement age required
      ❖ Lack of flexibility
  ➢ Tax on new initiatives and innovation
  ➢ Tax on outsiders, i.e. young adults
    ✓ Lengthens adolescence
      ❖ Similar insider-outsider issues on housing market
    ✓ Less stable personal relationships
Institutional failures

• Workplace cultures focused on breadwinner
  ➢ Lack flexible career paths
• High minimum wage floors based on breadwinner
  ➢ Prevent two-earner families and elderly from contracting out household services
  ➢ Put low skilled out of work
• Life-time income insurance
  ➢ Annual incomes poor indicator of life-time needs
    ✓ capital markets allow people to smooth consumption
Outline

• Trends and challenges: changing nature of social risks
• Market and institutional failures: need for institutional innovation
• *Institutional innovation: policy conclusions*
Autumn

• Longer working life
  ➢ Measure age appropriately: link retirement ages to longevity
  ➢ More flexible retirement patterns
    ✓ workers less dependent on firms
    ✓ more flexibility to adjust working patterns to changing needs

• How?
  ➢ Develop and maintain human capital
    ✓ Make employers more responsible for maintenance of talents in social insurance
  ➢ More flexible wages and work practices
Spring

- More inclusive labor and housing markets
  - Allow outsiders (marginal workers) to easily enter
    - Shortening social adolescence and more stable personal relationships
      - Combine working and learning
Summer

• From breadwinner support to child (or parent) support: Allow parents to invest in the human capital of their children without depreciating their own human capital
  ➢ Shift public support from autumn to summer
    ✓ Externalities of children in PAYG systems
      ❖ Less investment in human capital calls for more investment in financial capital
      ❖ Gradually focus PAYG on poverty alleviation in old age
  ➢ Different organization of work
    ✓ Flexible work times, work practices and career paths
    ✓ Develop and maintain human capital
Disadvantaged groups

• Early intervention in dysfunctional families
  ➢ No trade-off efficiency and equity
    ✓ dysfunctional families source of inequality

• Social assistance based on mutual obligations
  ➢ In-work benefits
    ✓ especially for parents with young kids
  ➢ Lower minimum-wage floors
    ✓ more contracting out of household services
    ✓ more work as instrument for social cohesion
Saving accounts

• More flexibility of working time over life cycle
  ➢ minimum public and corporate income provisions (e.g. paid parental leave, child benefits, child care)
  ➢ supplemented by individual saving accounts
• Other roles individual saving accounts
  ➢ Financial buffers to pay deductibles
    ✓ more responsibility own human capital (i.e. self insurance)
  ➢ Security is portable: diversify risks on capital markets rather than being dependent on firm
Compulsory saving accounts in social insurance

• Compulsory saving accounts in social insurance
  ➢ Includes liquidity insurance (negative balances), life-time income insurance (bail out at retirement) and paternalism (combat myopia)
  ➢ Improve trade off between incentives in life-time income insurance
    ✓ Base deductible on aggregate loss rather than annual loss
      ❖ Non-catastrophic risks with non-verifiable actions