

BULGARIAN'S POVERTY REDUCTION STRATEGY: WHY EMPLOYMENT MATTERS

Assoc. Prof. Philipova, C.
Faculty of Finance – University of Economics - Varna, Bulgaria

K.Filipova@ue-varna.bg

Abstract: Lack of paid employment for a considerable part of the employable population creates serious difficulties for the social security system. An unemployed individual is no longer able to meet the social requirement for labour contribution and the personal depression results in social and political instability. Hence, solving the problem of unemployment is a prerequisite for decreasing poverty and social exclusion. It is in this context that a proposal is made for directing the public policy of the labour market towards active measures concerning employment. The objective is for the state to interact as a partner between the two parties on the labour market – workers and employers. In its role of a mediator the government can, on the one hand, stimulate demand, and on the other – the supply of labour on the part of the economically active population.

Keywords: ACTIVE LABOUR MARKET POLICIES, ECONOMIC STABILIZER, EUROPE 2020 STRATEGY, INCENTIVES, JOB SEARCH ASSISTANCE, POVERTY ALLEVIATION, SOCIAL EXCLUSION, UNEMPLOYMENT BENEFITS

JEL Codes: D31, E24, E60, I32, I38, J64, J65, J68.

1. Introduction

Poverty, social exclusion, employment structure and unemployment are among the most serious problems facing Bulgarian economy in the aftermath of the global financial and economic crisis. Globalization, the stage of economic development and the dynamics of technologies pose new demands to individuals' lifestyle and position at work. Changes occur in the job opportunities, new skills are needed, flexible employment policies are introduced and stress levels in the workplace are high. The risks and benefits that come with the new situations seem to be unevenly distributed – a large proportion of the population is facing the risk of difficult adjustment to the labour market or ending up unemployed and relying on social security benefits. The existence of a large number of people excluded from the labour market is a significant challenge for the social cohesion within the European Union. The longer the period a person is unemployed, the greater the likelihood of this person ending up in poverty and social exclusion because of the inability to provide sufficient amount of goods and services.

According to the International Labour Organization, unemployed are all persons aged 15 – 74, who were not employed over the period surveyed, but were actively looking for work and are ready to start work immediately or in two weeks' time. Labour legislation in some countries of the EU (Spain, Italy, The UK) defines this age from 16 to 74 years old [International Labour Organization 1982: 12].

A person who has remained outside the field of paid employment is not always classified as unemployed. It is possible that such a situation is his/ her own choice. Therefore we should distinguish between unemployed and economically inactive people. *Economically inactive* are the persons, who are at the legally defined working age but are, for various reasons, not looking for a job. *Unemployed* are those individuals at the legally defined age, who are able to work but have not been contractually employed, do not earn an income, have been registered in the regional branches of the Employment Agency, are willing to work and are actively job searching. Thus only people of the second category are beneficiaries of the social security system.

The proposed thesis of actively looking for a job seems to emphasize the contrast between two statuses – activity and desire to work. And it is in exactly this contrast that the main weakness of unemployment statistics lies. Many of the people who wish to get a job but for one reason or another do not seem to demonstrate an active position, are excluded from the category of the unemployed. They all add up to the category of the "discouraged workers". The meaning of this notion is essential to the state of a country's economic and social problems. According to some estimates, those

people amount to ½ of the total number of officially registered workers in the developed countries. This is not only a grave loss of labour potential, but may, at a certain moment, act as a clockwork mechanism bomb in the development of social and political processes in any country.

Increased unemployment results in a fall of incomes for many households. Consequently, they are threatened by poverty and rising debts. Loss of earnings reduces consumption. Shocks sustained by household income reduce expenses in a way that only increases the likelihood of vulnerability and further shocks. At the same time, due to the crisis of workers losing their job, it becomes even more difficult to find a new one and return to employment.

Bulgaria as many other developing countries encounters difficulties to create good quality and conditions of working places in public and private sector. "A well-functioning labor market is an essential ingredient for developing a sound investment-climate and can play a critical role in stimulating growth and poverty reduction" [Amjad 2005: 146].

The unemployment is a guaranteed social risk. As an objectively arising condition, it is an important criterion for the living standard of a particular society. High levels of unemployment may define a grave social problem. The unemployment affects not only the individual person but also a large number of people and in the cases like this it is could be defined as a mass unemployment. On a larger scale, it is could be characterized not only by a loss of human potential but also by deteriorating of the public health and social climate of a country or a given community.

2. Employment, Social Exclusion and Poverty Alleviation

Social exclusion is multidimensional, as it covers the working poor, unemployment, access to education, information, childcare, and health care institutions, living conditions, as well as social participation. Social exclusion is a multi-layer notion in as much as the reasons for social exclusion can be examined at a national, community, household or individual level.

The European Union "and the national governments of Member States work closely together to provide a coordinated response to the issues of poverty and social exclusion, some of which are detailed later in this" [Eurostat 2010: 1] publication.

The negative impacts on the social sphere do not just amount to the reduced income and consumption that unemployment imposes upon the unemployed and their families. The existence of social exclusion is a sure sign that the economy underperforms, does not ensure good use of resources and the GDP produced is below its potential size. The dependencies between unemployment levels and

the GDP produced are described by Okun's Law (OL; [Okun 1962]). According to this law, there is an inverse relationship between the changes in unemployment levels and the real gross domestic product of a country. OL is important from a theoretical and empirical point of view. Theoretically, Okun's law, along with Phillips curve is a key component to devising the aggregate supply curve" [Velev 2017: 40]. From an empirical view point Okun's quotient is a useful tool for developing, applying and forecasting the results of the macroeconomic policies carried out [Harris, Silverstone 2001].

Other authors attribute negative demographic consequences to migration, population aging, labor force productivity and economic growth. They summarize that "determination of the labor productivity and economic effects of the young population migration that occurred in the European Union as a result of the idea that the employment and salary facilities in the other European countries are better...Population aging and demographic transformation at the global and national level, economic, social, demographic and so on. Causing various problems to occur" [Terziev, Can 2018: 446].

As long as poverty and social exclusion exist, we cannot claim that any social assistance system operates effectively. Obviously, the pace of social reforms and the timing of their implementation must be in line with the possible increase in economic growth. Given the economic growth, it will be possible to implement reforms fast. In the absence of real economic growth, rapid social reform cannot be carried out, which is related to future negative consequences for society.

A proper understanding and managing of the dynamics of demographic processes is essential for the efficiency of the public sector and the social assistance in particular. The negative effects of the increasing income inequality are many. Therefore, it is of particular importance these effects not only to be defined but also limited. A serious political attention is needed in this direction through consistent and well thought out public action combined with the collective support of the whole society. Some alternative forms of reducing poverty and social exclusion other than the social protection of the public system can be described in further studies.

Some of the social dimensions in Bulgaria show a high degree of income differentiation. Despite the priority targets set with the Europe 2020 strategy and the affect of the social policy, public social transfers are failing to reduce poverty, social exclusion and unemployment [European Federation for Elevator Small and Medium-sized Enterprises 2018].

"Combating poverty and social exclusion is an important subject of the Lisbon Strategy, which represents the vision of a socially cohesive, economically prosperous and competitive European Union. This is reaffirmed in the Europe 2020 strategy where employment is again considered the best protection against poverty. Therefore, in recent decades, measures in the European Union have been aimed at ensuring full employment for all those willing and able to work" [Blagoycheva 2016: 5-6]. Table 1 outlines the indicators of the Europe 2020 strategy for smart, sustainable and inclusive growth in EU-28.

Table 1: Bulgaria's indicators of the Europe 2020 strategy for smart, sustainable and inclusive growth. *Note: The overall EU target is to lift at least 20 million people out of risk of poverty or social exclusion by 2020 with 2008 as a baseline year (see conclusions of European Council 17 June 2010) [European Council 2010: 12].

Indicator	Unit	Reference period			Target
		2008	2016	2017	2020
75% of the population aged 20-64 should be employed					
Employment rate - age group 20-64	% of population aged 20-64	70.7	67.1	71.3	76
The share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education					
Early leavers from education and training	% of population aged 18-24	14.8	13.8	13.2	11
Tertiary educational attainment	% of population aged 30-34	27.1	33.8	33.1	36
Poverty should be reduced by lifting at least 20 million people out of the risk of poverty or social exclusion in the EU-27					
People at risk of poverty or social exclusion	Cumulative difference from 2008 in thousand	0	-439	-531	-260
People living in households with very low work intensity	Thousand	470	607	618	:
People at risk of poverty after social transfers	Thousand	1632	1586	1639	:
People severely materially deprived	Thousand	3151	2468	2285	:

Source: Eurostat

In view of the upcoming 2020, Bulgaria reports progress in the major macroeconomic indicators as shown in Table 1. In the years to come, we shall see reports on the direction of the government policy concerning the objectives set by Europe 2020 Strategy. Therefore, one of the main objectives of the macroeconomic policies carried out is reducing the rates of unemployment, poverty and social exclusion at a national level and across the regions of the country.

Table 2: Number and relative share of the persons in the poverty trap

Year of the study	2011	2012	2013	2014	2015	2016	2017
Reference year of the income	2010	2011	2012	2013	2014	2015	2016
Poverty line – average monthly amount (BGN)	273.3	283.8	279.7	285.9	323.8	300	308.17
Number of people below the poverty line (in thousands)	1672	1559	1528	1578	1586	1639	1639
Relative number of poor people (% of the population)	22.2	21.2	21	21.8	22	22.9	22.9

Source: NSI

Referring to the date in Table 2, it becomes clear that in the period 2010 – 2013 there was a decrease in the relative share of the persons entrapped by poverty, while their number increased in the years after 2014. In 2015, the poverty line decreased by 5.06% compared to 2014 and the relative share of the poor population increased by 0.9%. The public social assistance system is essential to reducing poverty. Data for 2016 show that "if income from pensions is included in household income but other social transfers (benefits, social and family allowances and supplements) are excluded, the poverty level rises from 22.9 to 27.9%. Respectively, when pensions and other social transfers are excluded, the poverty level increases to 45.5% or 22.9 percentage points" [Национален статистически институт 2017: 1].

From the view point of their usefulness for the economy, the basic value of unemployment benefits is measured by decreased incentives to work, resulting from the moral hazard. It causes a lower-than-optimal intensity of job searching [Mortensen 1977], unemployment trap and inactivity connected with the tax and insurance systems [Carone, et al. 2003]. The unemployment trap (UT) visualizes to what extent a person receiving unemployment benefits is financially stimulated to look for another job. In particular, the unemployment trap reveals the percentage of gross income that is withheld when a person returns to employment, because of the loss of the unemployment benefits and tax and social security contributions deducted from his/her wages [Aleksiev 2015].

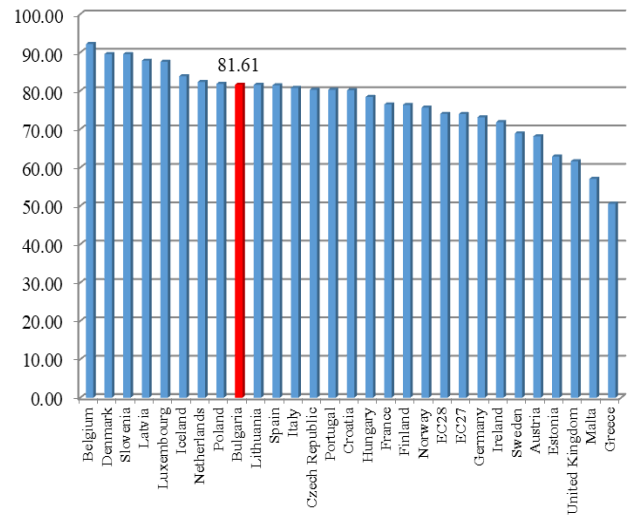
UT is calculated with the formula (1):

$$(1) UT (\%) = 100 * (1 - ((NEI - NUI) / GW)), (NSI 2018 b)$$

Where NEI stands for net employment income (NEI), NUI is net unemployment income and GW – gross wages.

NEI is calculated by deducting the social security and tax payments due from the individual's wages. NUI equals 60% of a person's gross insurable earnings, on which contributions have been made over the last 24 months.

The poverty trap indicator ranks Bulgaria on the 9th position among the 28 member states of the EU (Figure 1). In Eurostat data for 2015 no value is found for Cyprus, so the country has been excluded from this research.

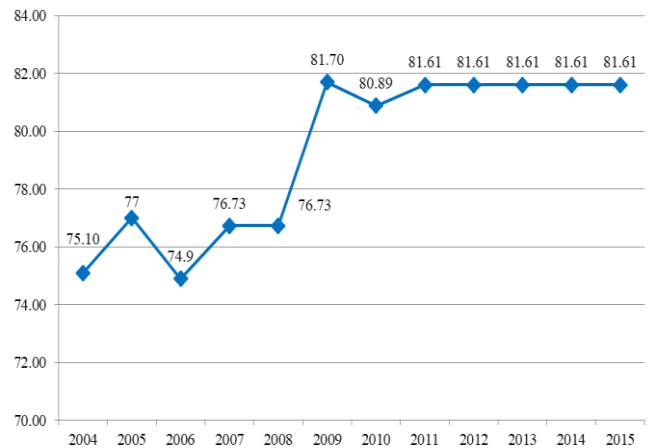


Source: Eurostat

Fig. 1 Unemployment trap in EU28 in 2015. (%)

For Bulgaria in particular, the unemployment trap value in 2016 is 81,61. It has stayed unchanged since 2011 (Figure 2). This means that for the period 2011-2015 in a state of employment (and at a potential level of earnings equal to that of before becoming unemployed) a person would earn additional income of only 18,39% of his/her gross wages, compared to the income she/he receives as unemployed [Institute for Market Economics 2015: 8].

(%)



Source: Eurostat

Fig. 2 Unemployment trap in Bulgaria for the period 2005 – 2015

As income taxation in Bulgaria is proportionate (10% of gross wages after deductions for social security) the unemployment trap in this country will affect a large proportion of the employed individuals equally, irrespective of their income levels.

Nevertheless, some of the peculiarities of the Bulgarian social security system and those of the economy in general, may have a different effect on the size of the real unemployment trap in this country when calculating UT is individualized. The differences result from an individual's eligibility for various social benefits and allowances, depending on the type of household, the social security

burden which individuals pay depending on the category of labour they fall in and their year of birth. When calculating social security burden for Bulgaria, the National Statistical Institute (NSI) uses the contribution for the prevailing 3rd category of labour¹.

In this connection, the dependence of benefits is associated with the length of the period they are received and the ever more declining probability of finding a job throughout the period of unemployment. To reduce the risk of moral hazard and the unemployment trap, it is necessary to limit the size and/or the period of paying unemployment benefits and to adjust national level of contributions, in order to avoid the constant transfer payments. However, these measures are unacceptable. The reason is they will decrease the stabilizing effects of the system.

The conflict can be alleviated by linking certain elements of social security during unemployment (such as benefit rate depending on the wages, length and access to benefits) with the business cycle (economic volatility in production and employment). Benefits should be more generous when unemployment is high, while the opposite should be the case when unemployment is low.

3. The Opportunities of Active Employment Measures in Bulgaria

The active policy is aimed at boosting employment and generating sustainable economic growth. Influences on job searching aim to preserve the existing employment and create new one through entrepreneurship, through flexible strategies, export of labour, more sheltered working conditions for people with lasting disabilities, or by means of devising a number of generally useful activities, with the active financial participation of the government.

The impact over the lasting supply of labour (L) is connected with the introduction of flexible programs for qualification and re-qualification of L, training to ensure fast adaptation to the labour market as well as motivation to seek employment; creating prerequisites for development and financial support for individual's entrepreneurial ideas.

The development of the economy which is recovering from the global crisis, and the normalization across financial markets are all preconditions for rising incomes. European directives regarding free movement of people and capital within the Union are expected to bring about increased competition not only in business, but among individuals looking for and finding a job. Adjustment of the social security practices will be necessary towards the requirements for flexible employment, caused by the challenges the labour market faces. These factors will necessitate the personal responsibility concerning social security. At the same time, the already established regulatory base will bring about accelerated formation of the private social insurance institutions necessary.

Having in mind the large numbers of unemployed in Europe, certain schemes must be implemented to support entrepreneurship, in order to encourage the setting up of one's own business as a means of leaving the army of unemployed. There are very few schemes for business development that are designed especially for young unemployed people.

Special attention should be paid to unemployed persons in general. In particular, to those who already possess the skills and competences which, after a period of business training and mentorship, can be transferred into performing entrepreneurial activity as self-employed persons. Under the conditions of the current economic crisis new and young enterprises are a key element in restoring European economy, as well as creating a large number of jobs. There are well known problems associated with the low share of new businesses, the high percentage of enterprises going into and out of business and the poor growth of European companies.

¹ In Bulgaria the contribution in the "Unemployment" fund is 1% of the insured person's gross earnings.

It is necessary to promote the role of entrepreneurs in creating jobs and welfare in the public administration circles of every member state in the EU.

In 2011, European Commission adopted Youth Opportunities Initiative which is a result of particular extended effects of the Great Recession and economic crisis in 2008. "According to it EU encouraged the actions of its Member States to increase youth EU Structural Funds were mobilised to increase support for youth and financial resources for policy measures and investment projects are now being funded. Both the European Council and the European Parliament have since re-emphasised the crucial importance and urgency of addressing youth unemployment, highlighting the potential for initiatives on youth guarantees and on a quality framework for traineeships" [European Commission 2012: 2]. In 2012 European Commission adopted a 'Rethinking Education' social package².

"Young people face numerous problems on their way from education to work. In many countries, ineffective labour market regulation or poorly functioning institutions make it more difficult for young people to find a stable job. Too many are left without help if they drop out of school or have difficulty finding a job. More favourable labour market outcomes can be observed in countries where a higher proportion of students undertake quality traineeships or work placements as part of initial education and training or in countries with well-established apprenticeship systems" [Ibid: 3].

There is a discrepancy between job suppliers and job seekers. One of the main reasons for that is the wrong qualification, or the so-called skill gap. Many young workers and employees are over qualified for the position they manage to find, but at the same time the likelihood of young people having the necessary skills for exactly this position (degree of matching) is lower than that of older workers and employees.

Fearing the end of the period they are entitled to unemployment benefits, some unemployed may accept a lower-skilled job. But it is impossible for unqualified people to hold positions requiring specific competences. Therefore, the right to receive benefits could be tied to the requirement to raise the candidate's qualification or the need to re-qualify. Of course, here the government should also intervene, through regulations and measures concerning education from the earliest years at school. Also important are the programs paying subsidies to employers who provide employment and/or requalification to their staff. The European Social Fund resources, as well as other funds and programs can also be used. We cannot underestimate the role of the Employment Agency as an intermediary and consultant. What is needed is the joint efforts of the government and the various institutions to build new employee characteristics to match the new reality, and namely education, flexibility and mobility.

Despite the differences in the implemented public policies concerning employment, they all prioritize the same vulnerable groups. These are the long-term unemployed and the young, who are neither working, nor studying, nor in an apprenticeship scheme. To resolve individual cases and overcome the barriers to joining the labour market, authorized persons perform coordination between various institutions – social, health and educational. In view of improving a larger number of people's access to integrated services for returning to or joining the labour market, the services are provided according to the individual needs of the people belonging to the vulnerable groups.

² COM (2012) 669 of 20 November 2012. The Council Conclusions on European cooperation in education and training ('ET 2020') (2009/C 119/02 of 28 May 2009) and the EU Strategy for Youth (COM (2009) 200 of 27 April 2009) also provide relevant frameworks for concerted European efforts in education, training and youth employment.

In addition to decreasing regional disproportions of Bulgarian labour market, in 2017 a new measure was implemented, aiming to encourage unemployed individuals, including young people from specialized institution, or young people using the social services in resident communities who have completed their education. Such people can find *employment in a place located more than 50km away from their current residence*. Persons who start work under this measure are reimbursed with expenses made on crèche and nursery school fees, rent, Internet [Employment Agency 2018].

In 2017 there continue the incentives for opening apprenticeship jobs (dual system of education) for a period of up to 36 months. Also since 2017 the encouraging measure of "green jobs" has been uninterruptedly implemented. This measure is formulated in the Employment Promotion Act. On the one hand the measure supports job openings that contribute for environment protection, and on the other, it provides employment to individuals who have been out of work for more than 6 months. Other considerable opportunities for generating "green" employment are provided by investment in activities associated with the sustainable management of the water sector and waste disposal, as well as prevention of flood and landslide risk, assessment and protection of biological diversity and eco-systems and energy efficiency.

4. Conclusion

Based on the research we have carried out, we can reach the conclusion that the longer individuals are out of work, but can avail themselves of guaranteed financial compensation, the more discouraged they are from actively looking for a job and joining the labour market. This situation causes difficulties in achieving the objectives set in a number of national and international documents aiming to increase employment in the EU, even in the aftermath of the global economic crisis.

Finding the optimal balance between the policies that formulate the incentives for the unemployed, the economically inactive and those who work for a very low payment, the so-called working poor, is one of the key challenges in ensuring the sustainability and efficiency of the social system. At the same time, it is possible, by means of this balance to create conditions for a long-term inclusion of some of the most vulnerable social groups in the labour market. In particular, this is a possible option for reducing poverty and social exclusion in compliance with Europe 2020 strategy for smart, sustainable and inclusive growth.

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