

Who Needs a Safety Net?

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One definition of safety net found on the internet is the following: “a net placed to catch an acrobat or similar performer in case of a fall”. This brings to my mind to the thrilling performances I saw at the circus when I was a child and I have to admit in most cases there was a safety net. Only in some rare occasions it was removed and the increased tension became palpable. We knew that only the best acrobats could dare performing in those conditions since the slightest mistake or distraction could lead to disastrous consequences. Born in this context, the term safety net has soon been extended beyond circuses. The same internet source, right below the standard definition adds: “fig. a safeguard against possible hardship or adversity: a safety net for workers who lose their jobs”.

Imagine you are a European worker in a time of crisis. You are the only breadwinner in your family and you become unemployed. The situation of your family is going to worsen significantly, but you know that – at least for some time - you and your family will be able to survive thanks to your unemployment benefits and to other forms of social support. In the meantime, hopefully, you will be able to get a new job – maybe thanks to the help from a public employment agency - or will at least be admitted into some publicly sponsored training program increasing your probability to get a new job.

Imagine that, instead of being fired, you get sick. Luckily most of the costs for your care will be covered by the public healthcare system. You will continue receiving your salary (with a reduction as the length of the period of sickness goes beyond a certain number of days) for at least a few months, typically until you can go back to work. If your illness is really serious, at some point you will not receive compensation but you will keep your job unless you stay away from your workplace continuously for a very long period. Should you lose your job, you will still be able to rely for a while on unemployment benefits and on additional forms of social support. Your family will be suffering of course, but at

least you will be able to “gain some time” to find a solution.

Now imagine a different scenario. You lose your job. You get one month severance pay but no unemployment benefits. The labor market is hardly creating new jobs, so you have a high probability of not finding a good job and will have either to accept to be unemployed for a long period of time or to work in badly paid temporary jobs, maybe in very dangerous working places (because nobody is in charge of checking working conditions). In case you choose not to risk and to try looking for safer jobs, most likely during your unemployment period you will not receive any training and certainly no support from (non-existing) public employment agencies.

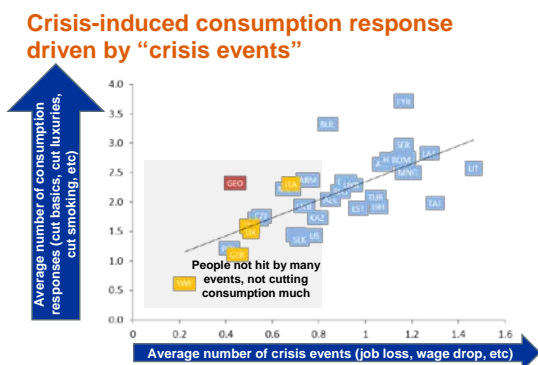
Or, what if you are sick and all healthcare costs fall on you. If you have a private health insurance you get some assistance. If not, you have to dissave in order to get some treatment. You receive one month of salary, after which your employer is free to fire you without having to give you any compensation. So you suddenly find yourself sick and not only unable to help your family but being a burden for it, with no public support and no income. To be fair, you might receive some sort of

assistance, after you have applied to the government for support as a needy household if your situation has deteriorated so much that you cannot ensure even your subsistence (maybe by selling assets). However, this support is typically not that high.

This second case is not that of a fictional country. It is a representation of the conditions of most workers in Georgia.

If you keep this in mind, you will not be surprised looking at the following pictures taken from the latest EBRD (European Bank for Reconstruction and Development) Transition Report, titled: “Crisis and Transition: the People’s Perspective”. The tables and pictures included in the report are based on a series of household surveys conducted by the EBRD in a number of transition countries plus a few selected countries of Western Europe. The aim of this study was to study how the crisis had affected household’s welfare in order to draw some conclusion about the potential vulnerability of countries and households to future crises.

Figure 1.



Source: EBRD Transition Report 2011

In this first picture Georgia (in red) stands out as very much above the regression line. It is what is defined as an “outlier”. In this case, being an outlier means exactly that Georgian households, despite having been themselves hit by a relative smaller number of negative events, appear to have suffered much more than households in similar situations in other countries. In other words, they were forced to

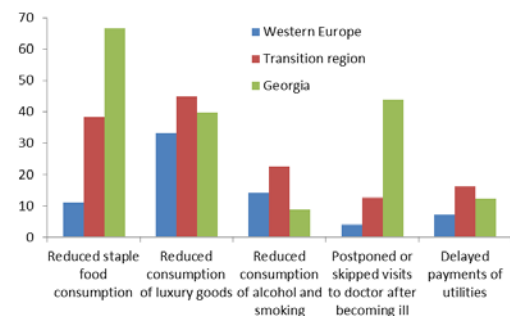
cut their consumption much more than households in other countries.

The second picture (below) allows us to see where Georgian households had to cut their consumption. Of course, cutting the consumption of luxury goods is not the same as cutting the consumption of food or healthcare. Looking at the second picture, the situation in Georgia appears even worse. Most households have had to cut exactly where one would hope they had not to: staple food consumption and visits to doctors.

Neither of these cuts bode well for the future of Georgian households, as they are likely to have long lasting (negative) effects. Especially as a new world crisis seems approaching.

Figure 2.

Consumption falls were bigger across all categories, with Georgians really hit



Source: EBRD Transition Report 2011

Why this discussion about Georgia and safety nets? The reason is because for some time now Georgia has been presented consistently as a showcase country with an impressive reform track (including an extremely liberal labor market reform that has drastically reduced all forms of workers’ protection) and equally impressive growth rates.

Much less has been said about how Georgian people have been affected by these reforms. For sure the picture that emerges from the EBRD study is of a country where households are extremely vulnerable to any slowing down of the economy or worsening of the macroeconomic conditions, much more than in most other countries.

Again, looking at the EBRD study, we can see that this is related to at least two factors: on the one hand the extremely weak safety net provided by the state; on the other hand, the limited success (so far) in translating high growth rates into a substantial amount of new, “good quality” jobs. This is what led the EBRD, after presenting these results to suggest the following two key priorities for the Georgian government: “...to create a basis for export led growth... [...] but also to establish an effective social safety net”.

I would like to conclude with my personal answer to the question: “who needs a safety net?” The answer is a lot of people, I would say, especially in times of crisis like the current. After all, not even the best acrobats would dare to perform all the time without it, especially when they are trying their most dangerous performances for the first time and when preconditions are less than perfect. Why? Because the cost of failure would be too high. Like in the case of acrobats – even more, as they are not risking their own lives – policy makers have the responsibility of taking into account in their evaluations what could go wrong and think of ways to minimize negative impacts on the population.

Most economists would agree that only a sustainable increase in the welfare of citizens (including the most vulnerable ones) is the true sign of development of a country in the long run. Assuring this, as someone sometimes seems to forget, requires also creating and maintaining – especially when markets are less than perfect, a solid social safety net.

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Before joining ISET, Norberto Pignatti has been analyzing problems related to trade-capacity building in low-income countries at the Development Centre of the OECD in Paris. He has also worked as a short term consultant for the World Bank and been a research fellow at the University of Bologna where he worked in an EU financed project: “Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine”.

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His main fields of interests are Labor Economics, Economics of Transition, Development Economics, Energy Economics, Cost-Benefit Analysis and Program Evaluation.