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# Social Risk Management on German Labour Market

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**Abstract:** Terms such as social policy and labor market policies seem not be very current. Instead, we speak more and more about risk management. Social Risk Management is a concept developed by the Word Bank. It is a tool to transfer management techniques from the operating or finance in the social and labor market policy, to support individuals, households and communities to better manage their risk. Due to poor incentive structures, inadequate insurance policies or control often remain under preventive, palliative and solidarity balancing risk management measures. This paper sets out to define the term of social risk management, describing the basic features from different perspectives and the main measures and strategies used in social risk management area. The essay considers the most discussed word of risk management as a moral opportunity to redefine the balance of responsibility and solidarity in the labor market.

**Keywords***:* social policy; risk management; labor market; public finance

## 1. What is the Social Risk Management

The World Bank developed in 2000 a new conceptual approach for social security policy. This concept puts focus on the analysis of human risks and is used to apply business methods of risk management, such as in banking or insurance. It extends the basic framework of social policy that consists of public interventions to assist individuals and communities better manage risk. It also includes support to the critically poor people.

When using the concept of risk management, we put the question who should be responsible in handling with risks and what rights and obligations may he has. That means no more and no less than how to split your work when dealing with risks between individual, family, company, association and the public administration in order to be able to solve a risk situation.

Risks affect both the individual behavior and the choice of solving a problem in the relation with institutions and relevant actors. This means the division of responsibility between individuals, families and communities, businesses and government.

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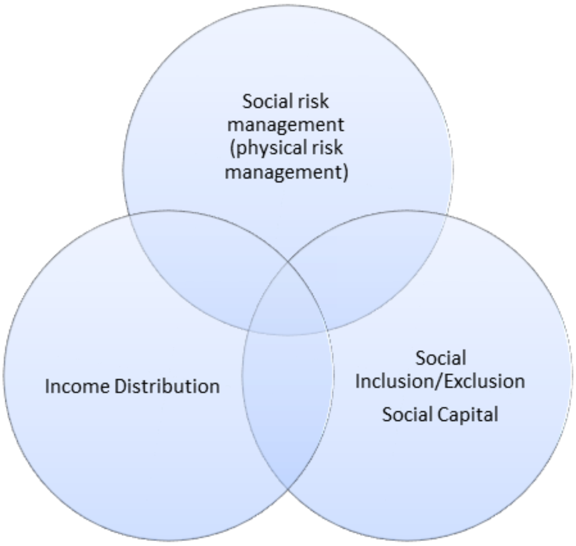


**Figure 1. Social risk management-basic features**

*Adapted from Holzmann/Jorgensen 2000*

The figure above depicts the basic features of social risk management: income distribution (as an intermediate goal to achieve social resilience) physical risk management (public measures to protect against natural disaster and illness).

Social risk management is also dealing both with physical risk management policies, such as public interventions to protect against natural disaster (earthquakes, epidemic illness, flooding) and man-made trouble (unemployment, environment protection, war, terror). It includes macroeconomic policies as well, for example to reduce the exposure to economic shocks like unpredictable exchange rates or sudden oil hikes.

## 2. Different Types of Risks

We refer to a risk when we take into account the result of a future event to which typical values can be assigned (in contrast to a situation of complete uncertainty). While in principle both positively and negatively result variations are possible, in human life risks we deal exclusively with damage risks whose occurrence could have threatening tangible and/or intangible consequences and whose structure is determined by cause, type and properties of the specific risk.

As we shortly stressed above, when we deal with risk management we have three main groups of risks:

- Natural risks such as earthworks and tsunami, droughts, floods and hurricanes as well as pollution, land degradation, over-exploitation and climate change resulting from ecological environmental risks.

- Health risks are for example illness or accident resulting, but also risks that occur as a result of harmful lifestyle such as malnutrition. Other risks, such as maternity and childbirth, divorce, age dependency and death are connected to the human life cycle. Focus here is put on the people that are not yet able to work, so they are in the phase of childhood, youth, training. These are dependent on others' care, fact that makes them vulnerable to many risks.

- Economic risks are risks that indirect, such as climate change, or a direct result of economic, social or political activity of humans. These risks often arise in the (internal) related to direct employment by income or employment losses, but they are also caused by monetary, financial or commercial crises and recessions shocks. Usually poverty risks are associated with the economic risks.

To the social risks we consider disadvantages by discrimination and marginalization (social exclusion) as well as threats that result from violence, crime and terrorism. There are also political risks to mention as a form of governance (bad governance) and the appropriate social instability, but can also be manifested as corruption and nepotism.

## 3. Social Risk Management Strategies

Usually a social risk management strategy describes whether and, if so, how companies jointly handle both in formal and in informal manner with certain human risks in order to protect its members either preventive (proactive social risk management) or reactive, unforeseen occurred risk consequences (reactive social risk management). This procedures are applied, both structurally, for example by institutions of social security, as well as procedurally by defining policy options for dealing with certain risks. At this point the content and functional design of social risk management strategies is primarily determined by the risk structure. This structure can be determined also in combination with the cause, type and characteristics of the associated human risk.

According to Holzmann and Jorgensen social risk management strategies can be group in three categories:

- Prevention strategies – these are public measures to reduce the probability of risk and they are employed before the risk occurs. Policies in macroeconomic, public health, the environment and education are included in strategies. For example in the labor market, preventive social risk management policies are introduced to improve the skills or the functioning of labor markets in order to reduce the risk of low wages and unemployment or underemployment.

- Mitigation strategies decrease the impact of a probable down-side risk and they are introduced before the risk occurs, like the prevention strategies. Typical mitigation strategies are portfolio diversification, insurance and hedging. Portfolio diversification requires the acquisition of different assets (for example a man can own land, the woman can acquire gold an jewels). Risk mitigation can be both formal and informal insurance. Formal insurance benefits of a large pool of participants (less correlated risks), informal insurance has a low information asymmetry (like reciprocity arrangements in families or communities). Hedging is based on risk exchange or payment of a risk price to somebody for assuming that risk.

- Coping strategies relieve the burden of risks once it has occurred. The main forms are: individual borrowing, migration, reduction of food intake and reliance of public or private transfers. The government plays here the main role in assisting people in coping: for example individuals have been poor their entire lifetime with no possibility to assets at all, so they are not able to handle with repeated or catastrophic risks.

## 4. German Transitional Labour Market

When we talk about "knowledge society" we bring the educational investments as a core problem of risk management: educational decisions still increasingly determine the future employment and income opportunities. I continue with pointing some facts from Germany (that can be meet also in other EU countries).

The risk of unemployment and poverty among low-skilled workers in Germany is about three times higher as that of high school or college educated. The unemployment rate of the labor force without a professional degree was in 2009 of about 21,9 % [1].

The poverty rate (defined as 60 percent of disposable income below the median value) of the people under 18 years old with primary school level without further education is at highest level since years and it was about 15.2 % in 2012[2].

The educational opportunities and the continuing learning chances are unequally distributed. Of 100 young college-age only 22 have a father with High school diploma - 18 of them start studying; 45 young people have a father with secondary school; of these, only nine enroll at a university. The study rate of young people (19-24-year old) was about 54% in 2012. For the continuing learning process, the risk of non-participation in training is higher, the lower the education level or household income is.

However, it is now widely accepted that the socio-political challenge of the educational opportunities for youth, but also the training opportunities for adults should not be determined by the primary income of the parents or by the employment status in the course of employment as much as possible. This raises the question of how social risks can be better "managed" regarding to the choices and consequences of the investment in training (education).

The concept of transitional labor markets provides a means of this matter. Transitional labor markets manage the path between different employment relationships, between inactivity and employment or the combination of different employment relationships (for example independent activities, employment, gainful employment). The aim is to protect both the related income risks and to promote individual or business decisions to venture risky transitions or appropriate personnel management. Transitional labor markets can be seen as a bridge to help that occur during the course of acquiring critical events by institutional arrangements (financial, legal and organizational) for example during the transition between education and work, between employment and self employment between full - and part-time work, the balance between work and family life, between unemployment and employment, and between paid work and retirement. The demand for social protection of such transitions must be reconciled in order to achieve the balance between work and family life.

"Transitional labor markets" is a concept that respects entirely the principle of unemployment insurance to a work life by securing income and peoples ranking risks (someone's status) not only for unemployment, but also it manage the switch between different employment or forms of activity.

Therefore, in terms of social risk management, such a path of reintegration from unemployed into employment is not only a bridge but also a form of risk prevention and risk mitigation, traditionally known as "preventive labor market policy."

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[1] Source: Bundesinstitut für Berufsbildung 17/12, available on www.bibb.de
[2] Statistisches Bundesamt, available on www.destatis.de, Pressemitteilung Nr.431/17.12.2013

## 5. Good Practice for the Transitional Labor Markets

The apprentice systems are designed to meet almost ideally the principles of transitional markets because:

- financially, it meets a cost sharing responsibility between individuals, businesses and government;
- organizationally, by the combination of practical and theoretical learning;
- socially, through cooperative learning between employees, trainees, vocational schools and professional or industry-standard organized farms;
- legally, through the right to an apprenticeship.

Publicly sponsored educational or individual learning accounts can be interpreted as an instrument of periodic redistribution of resources in favor of the educationally disadvantaged people. They appear to be a promising new tool primarily to finance and promote lifelong learning.

## 6. Conclusions

During the last years of economic crisis the concept of the social risk management was critically discussed from different points of view. Individuals and governments were not able to manage the economic shocks. These show that the instruments of the social risks management were barely took into account. Sudden unemployment and a high level of debts brought many people to poverty, fact that exposed them to risks while they had limited access to appropriate management instruments. Excessive national debt made governments unable to act, to introduce the necessary measures in order to protect individuals, households and communities.

This paper considers the selection of appropriate social risk management instruments in order to reduce the vulnerability as an important device. This requires (in terms of Holzmann) to strike the balance between alternative social risk management arrangements (informal, market-based, public) and social risk management strategies (prevention, mitigation, coping) in order to match the appropriate social risk management instruments in terms or supply and demand.

In summary it can be stated that the way from labor market policies to social management of labor market risks has benefits for the scientific debate. It forces a holistic approach to a differentiated and prospective risk analyzes. It also puts into question the shared responsibility of between actors into question, including the rationalist behavioral assumptions of utility maximizing decision theory (rational choice).

However, the debate of social risk management instead of active or activating labor market policy is not uncritical. Risks such as unemployment, illness or loss of income in critical situations cannot be “manage” such as the risk of money investment. People and not material capital is the main part of this subject. It is not enough just to target opportunities and then leave the residual risks to the market forces. Not least because of new management technologies, the theory of social risk management shows that there is an unused room of risk management for individuals and private collective actors, without thereby sacrificing the same social objectives. However, the conditions of self-regulation or functioning markets are rarely given as accepted. In addition, the randomness of markets often produces gross inequalities that cannot be attributed to individuals. Therefore, regulatory intervention is requires both to create the conditions of functioning markets and also to protect the individual from negative consequences.

Although mechanisms for avoiding risks exist for some time, the development of a systematic and comprehensive risk management only began about few years ago in response to stricter legal requirements, increased demands of the capital market and the fact that costly errors can be avoid by a systematic approach.

Much more should be done in terms of how individuals and communities understand and apply the instruments of social risk management. Moreover it must be research how governments can facilitate informal risk management arrangements, guidelines must be developed for better understanding the balance between risk prevention, mitigation and coping.

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