

# ECA RESEARCH NOTES

Office of the Chief Economist

EUROPE AND CENTRAL ASIA

SOCIAL PROTECTION FOR RECOVERY

October 2022

Dear colleagues,

This October has been busy again with the Annual Meetings back to Washington, D.C. In the meantime, we launched our Fall 2022 Europe and Central Asia (ECA) Economic Update, "Social Protection for Recovery", covering the regional economic outlook and the role of social protection during times when the region is facing repeated shocks and uncertainty. It is projected that ECA's output will barely return to growth in 2023. This outlook is predicated on slowing inflation, tightening global financing conditions, softening external demand, and easing supply chain bottlenecks. A protracted war would likely heighten policy uncertainty and fragment regional trade and investment integration.

Globalization, demographic trends, and technological innovations are transforming European labor markets, altering their institutional and contractual arrangements, and creating disparities and vulnerabilities in various segments of the labor force. Social protection systems in ECA will need to be reformed to address these challenges and provide adequate protection to workers and families. Key policy questions in this context are whether countries should protect jobs or the incomes of workers, and whether social insurance schemes should be contributory and tied to workers' specific employment relationships or noncontributory and unrelated to workers' job characteristics.

Jointly with the Infrastructure group and other colleagues, we also produced a policy note "*Energy Crisis: Protecting Economies and Enhancing Energy Security in Europe and Central Asia*". It provides an overview of the policy options available to countries to respond to the energy price shock and examines how this crisis could harness the clean energy transition to enhance collective energy security.

You can download the full Economic Update and the policy note below. We have also included a list of the background working papers and related blogs.

ECA Chief Economist's Office

## FEATURE STORY



### Fall 2022 Europe and Central Asia Economic Update: Social Protection for Recovery

The Russian Federation's invasion of Ukraine has triggered a massive human displacement crisis, adding to already historically high global refugee levels. Output in Europe and Central Asia is forecast to contract 0.2 percent in 2022, reflecting negative spillovers from the invasion. Escalating geopolitical tensions have triggered a possible energy crunch in Europe. If the war escalates, regional output could decline even further. This update summarizes recent developments and presents the economic outlook for the Europe and Central Asia region. It also focuses on social protection, which is a key policy instrument for protecting

workers and households from adverse shocks faced by the region, and on the policy options that countries have to address the energy crisis.

**Related:** [Report](#) | [Press Release](#) | [Energy Crisis: Policy Note](#)

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## RELATED RESEARCH

### [Is Social Protection a Luxury Good?](#)

*Michael M. Lokshin, Martin Ravallion, and Iván Torre, Policy Research Working Papers 10174 - September 2022*

The claim that social protection is a luxury good has been influential. The paper tests the “luxury good hypothesis” using newly-assembled data on social protection spending across countries since 1995. While the mean income share devoted to social protection rises with income, this is attributable to multiple confounders, including relative prices, weak governance in low-income countries and access to information-communication technologies. Controlling for these, social protection is not a luxury good.

### [Protect Incomes or Protect Jobs? The Role of Social Policies in Post-Pandemic Recovery](#)

*Aslı Demirgüç-Kunt, Michael M. Lokshin, and Iván Torre, World Bank Policy Research Working Paper 10166 - September 2022*

This paper examines the effectiveness of income protection and job protection policies for the post-pandemic economic recovery of the second half of 2020 through 2021. It is based on a new data set of the budgets of social protection programs implemented as a part of the pandemic stimulus package in 154 countries. The empirical analysis shows that, in the short run, higher expenditure on job protection measures is associated with more robust gross domestic product growth, increased employment, and decreased inactivity and poverty rates compared to the expansion of income protection programs.

### [Explaining the Evolution of Job Tenure in Europe, 1995–2020](#)

*Maurizio Bussolo, Damien Capelle, Michael M. Lokshin, Iván Torre, and Hernan Winkler, World Bank Policy Research Working Paper 10205 - October 2022*

Using data from Eurostat Labor Force Surveys of 29 countries from 1995 to 2020 and applying an age-period-cohort decomposition to analyze changes in tenure for specific birth cohorts, this paper shows that tenure has shrunk for cohorts born in more recent years. The estimations demonstrate that, over time, the likelihood of having a medium- or long-term job decreased and holding a short-term job increased. The paper also finds that stricter job protection legislation appears to decrease the probability of holding a short-term job, and higher trade openness and ICT-related technological change are correlated with an increase of that probability.

### [Job Tenure and Structural Change in the Transition Economies of Europe](#)

*Maurizio Bussolo, Michael M. Lokshin, Nicolás Oviedo, and Iván Torre, World Bank Policy Research Working Paper 10206 – October 2022*

This paper uses labor force survey data for 1995–2020 to analyze the dynamics of job tenure in seven transition economies of Europe and a comparator country (Türkiye). The country-specific age-period-cohort decomposition demonstrates that, except in Albania, the job tenure of the cohort of workers entering the labor market in the 2000s is four to nine years shorter than that of workers who started working in the 1970s. This difference is at least twice as large as the difference in job tenure observed among workers from the same cohorts in European Union countries.

### [Electoral Cycles and Public Spending during the Pandemic](#)

*Michael M. Lokshin, Aylén Rodríguez-Ferrari, and Iván Torre, World Bank Policy Research Working Paper 10214 – October 2022*

This paper uses a newly assembled data set on various types of social protection spending in 154 countries during the COVID-19 pandemic in 2020 and 2021 to analyze the effect of the electoral cycle on the size and composition of the social protection stimulus budget. The analysis shows that the longer is the time since the last election in a country—and thus the sooner the next election date—the larger is the share of the social protection pandemic budget allocated to social assistance and income protection and the lower is the share allocated to job retention schemes.

## BLOGS

[How to help people in Europe and Central Asia pay their energy bills](#)



*Nithin Umapathi, October 18, 2022*

The current energy cost shock presents a distinct and broad challenge in Europe and Central Asia. The crisis of surging energy prices will not only push many households into extreme poverty—it will also make it impossible for many nonpoor households to keep their homes warm. In many countries, the average shares of spending on energy were well over a threshold for energy poverty even before the current crisis. The energy price surge is also expected to create adverse effects on health and wellbeing.



#### [Helping families cope with price shocks—without subsidies](#)

*Mamta Murthi, Michal Rutkowski, & Ugo Gentilini, October 7, 2022*

Amid ongoing food and fuel crises worldwide, general subsidies are making a big comeback as a way of delivering social protection to the population. According to a World Bank tracker, the number of social protection measures introduced in response to rising inflation almost tripled globally between April and September 2022. The questions arise as to why subsidies are such a popular response, and why are they so difficult to reform.



#### [Charting a course towards Universal Social Protection](#)

*Michal Rutkowski, September 29, 2022*

As the world slowly emerges from the COVID-19 pandemic, it is an opportune time to take stock of the implications of the pandemic response for the social protection sector and to define new strategic priorities. Recently launched [Social Protection and Jobs Compass](#) provides a guide to the World Bank engagement with countries to learn the lessons from the COVID-19 pandemic and to progressively build universal social protection systems.



#### [What we're reading about employment in times of multiple crises](#)

*Joana Silva, Michael Weber, & Kevwe Pela, September 17, 2022*

The global economy is facing a combination of challenges seldom seen before, and Russia's war against Ukraine piles a host of new risks onto the pre-existing ones created or exacerbated by a once-in-a-century pandemic. Rising global inflation and an uneven economic recovery from the 2020 crash that widened the gap between rich and poor nations figure prominently in the long list of risks that mark 2022.

The ECA Research Notes newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to [ECACEoffice@worldbank.org](mailto:ECACEoffice@worldbank.org).

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