

Dual Labour Markets in Southern Europe. Will Recent Reforms End *Precariat*?

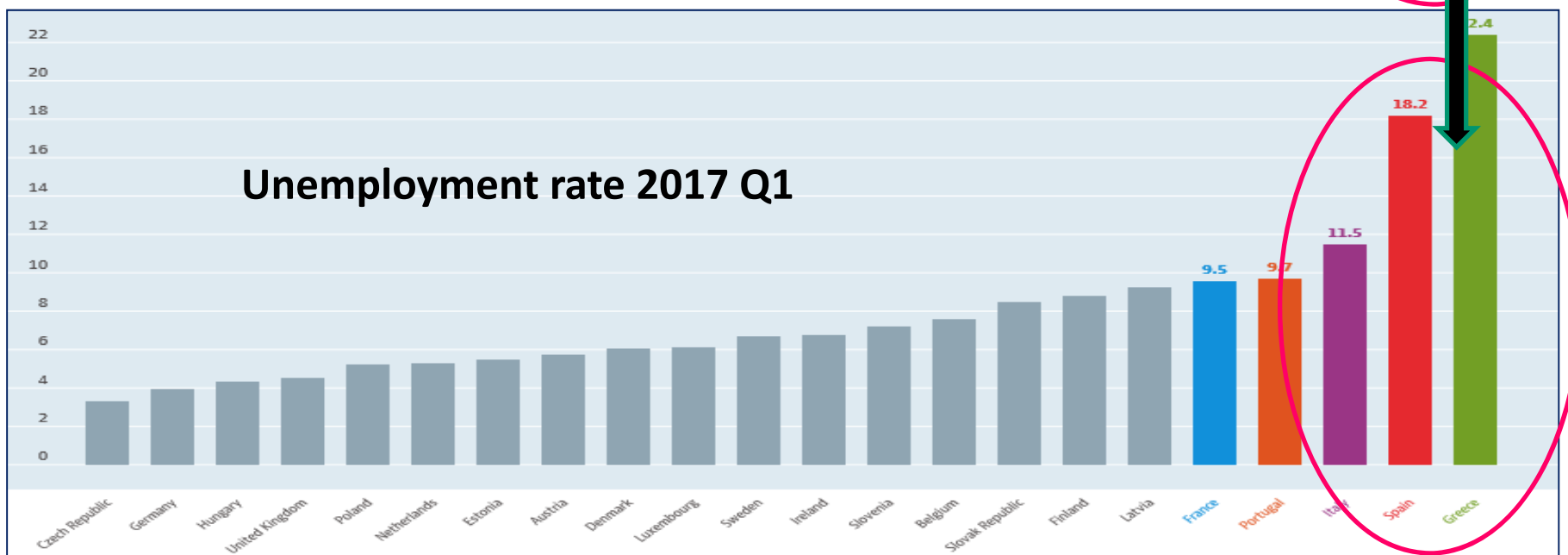
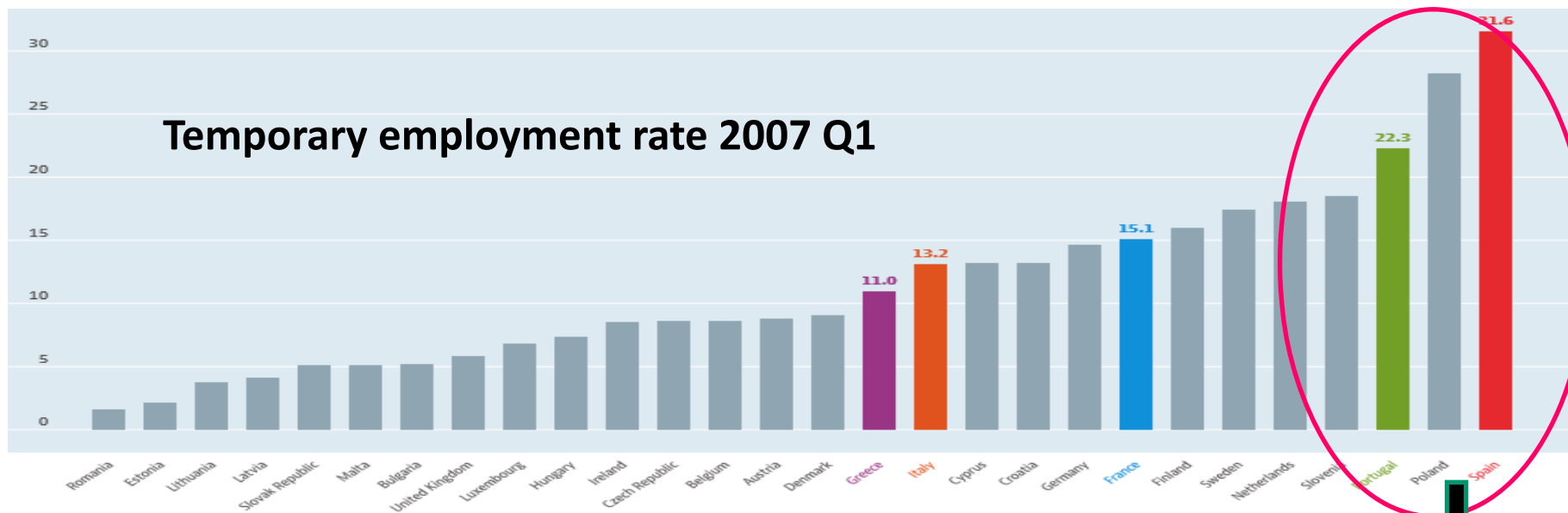
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<http://dolado.blogspot.com>

ECFIN Annual Research Conference 2017, Brussels, Nov 20th

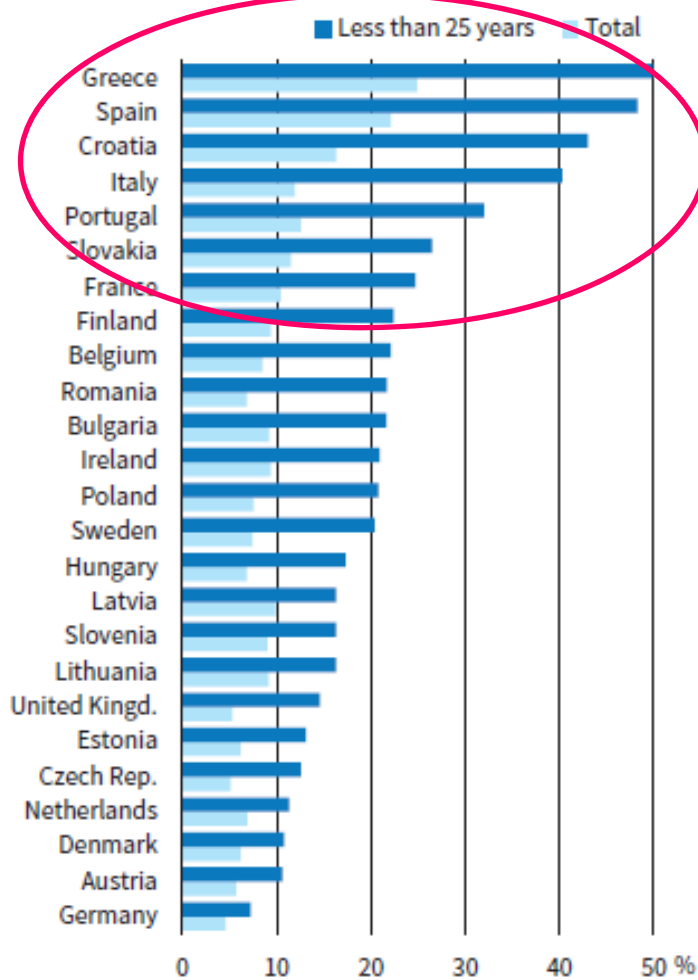
Fostering inclusive growth: Inequality and fairness in integrated markets

Why do Dual LMs still matter in the policy agenda ?

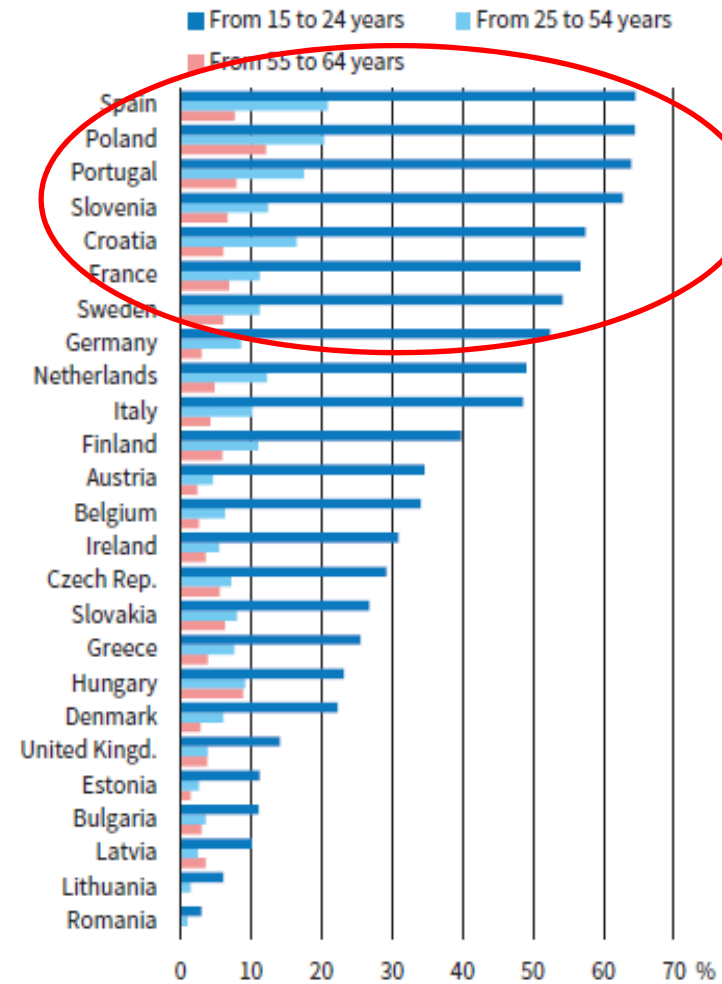


Dual LMs and Youth unemployment rates

Youth and total unemployment rates, 2015



Proportion of temporary contracts by age groups, 2015



What defines a Dual Labour Market ?

- Not necessarily the intense use of Temp/Fixed-term contracts (TCs) vs. Open-ended/ permanent contracts (PCs) but more importantly the **EPL gap** (*stepping stones vs. dead ends*)
- Wage rigidity and uncertainty about nature of dismissals (**red-tape costs**): TCs become a cost-reduction device rather than a screening device.
- Very high LM volatility: Workers rotate between short-term TCs and unemployment, with low access to PCs (**revolving door**)

Origins of Dual LMs in EU

➤ Southern-EU (Greece, Italy, Portugal, Spain)

- **Common pattern:** Dictatorships during 20thc. (stringent EPL to prevent social unrest) & subsequent transition to democracy during turbulent periods (oil price crises)

→ Two-tier LM reforms

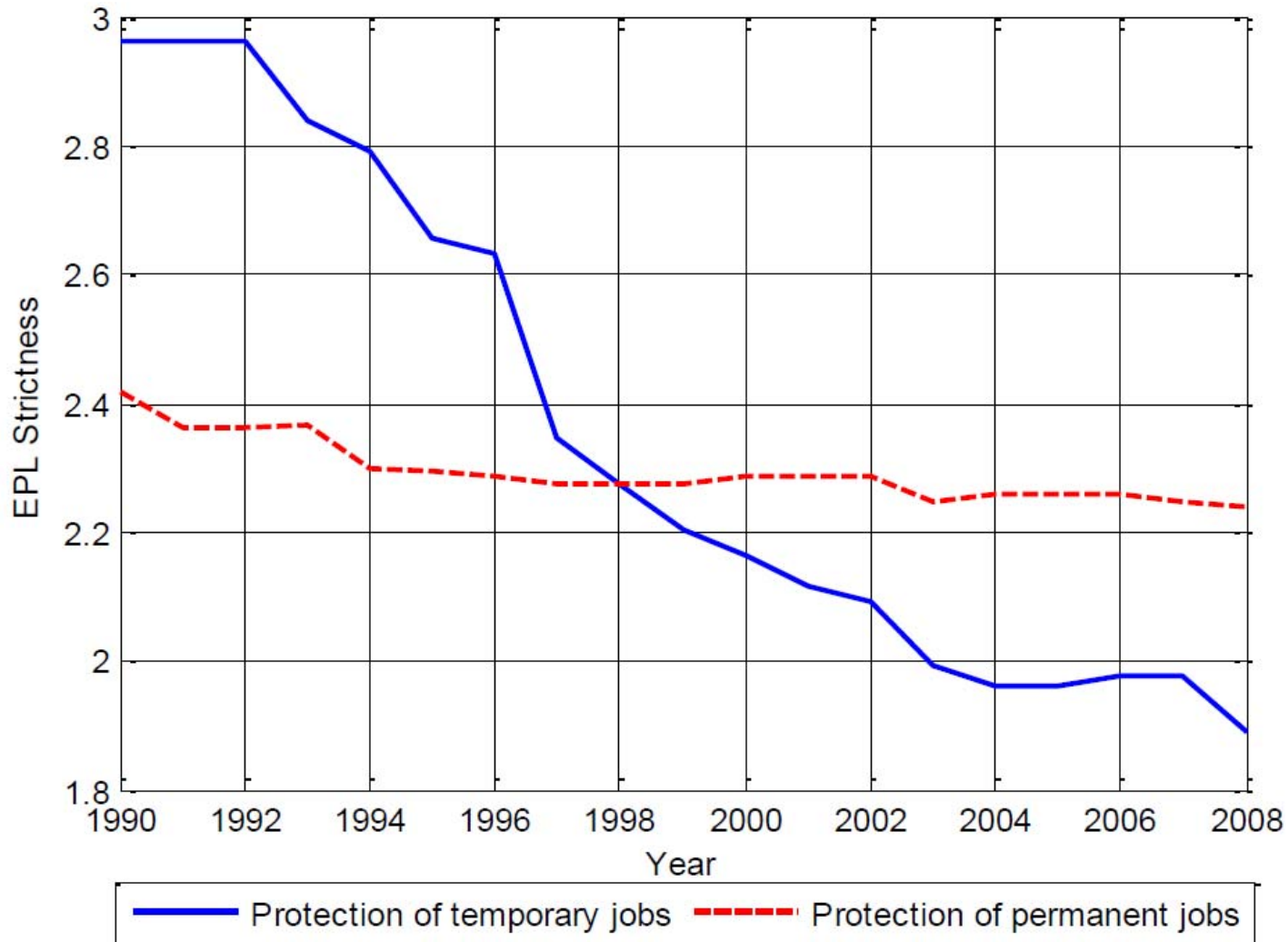
➤ France

- Immigration flows from colonies → Lower wages → May 1968 revolt
→ Min Wage (SMIC) → Stringent EPL → Two-tier LM reforms

➤ [Poland, Sweden, The Netherlands...]

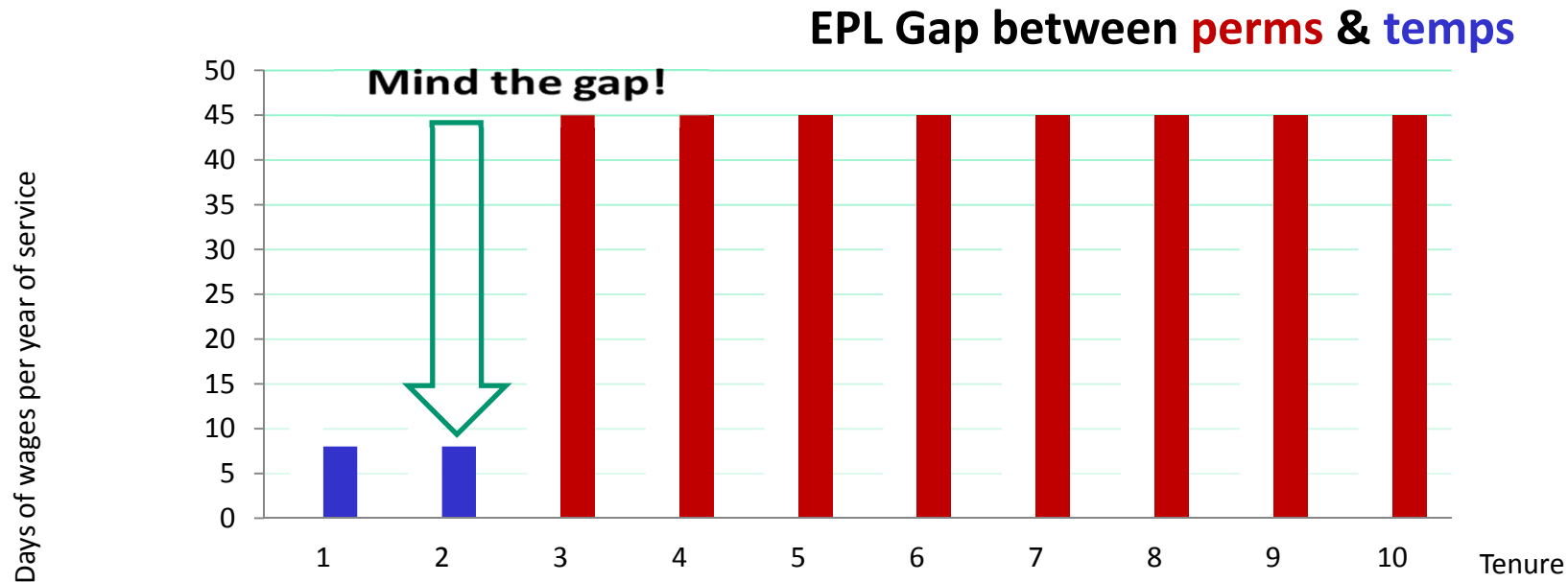
- Use of non-regular contracts (on-call, free-lance, ZHC, commercial law) to:
(i) foster JC under adverse macro conditions + (ii) facilitate LM incorporation of population groups with low LFP.

More flexibility through increasing EPL gap (<Great Recession)



Source: OECD (2008)

Spain as epitome of a dual LM (pre- Great Recession)



$$\text{EPL gap} = \text{Sev. Pay (PC)} + \text{Red Tape Costs} - \text{Sev. Pay (TC)}$$

Alternative strategies

- (PC) Hire 1 worker for 5 years under PC and then fire
- (TC) Hire 5 workers sequentially 1 year each under TC

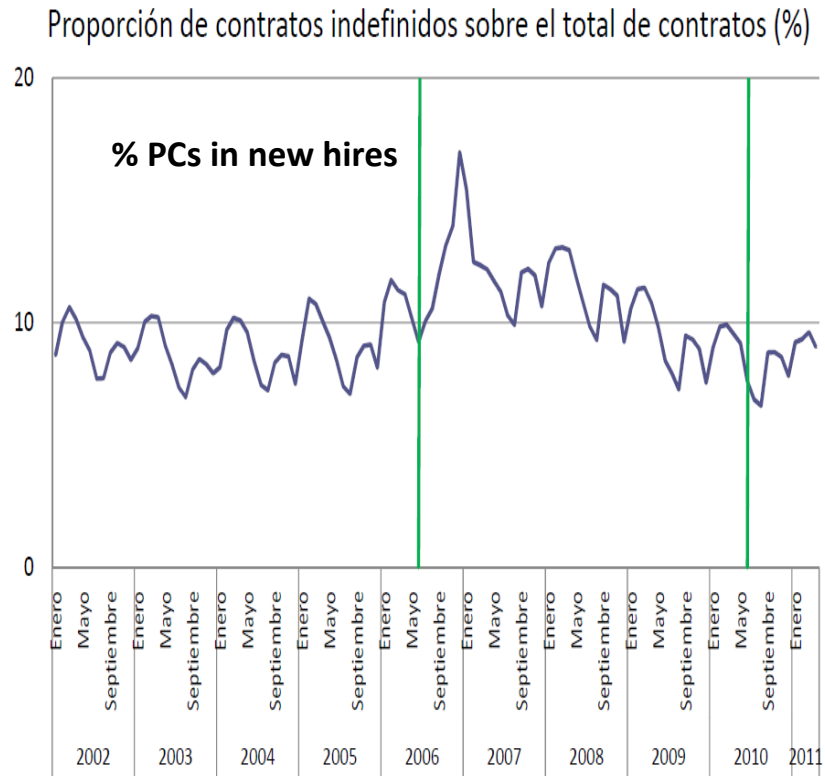
**EPL gap= 8.5
monthly wages**

Under wage flexibility, deferrable wages would offset the transfer from employer to employee (Lazear 1990: steeper wage-tenure profile) Otherwise....



Revolving door !!

Dead ends vs. Stepping stones (% PC in JC and conversion rates)



** Datos de 2010

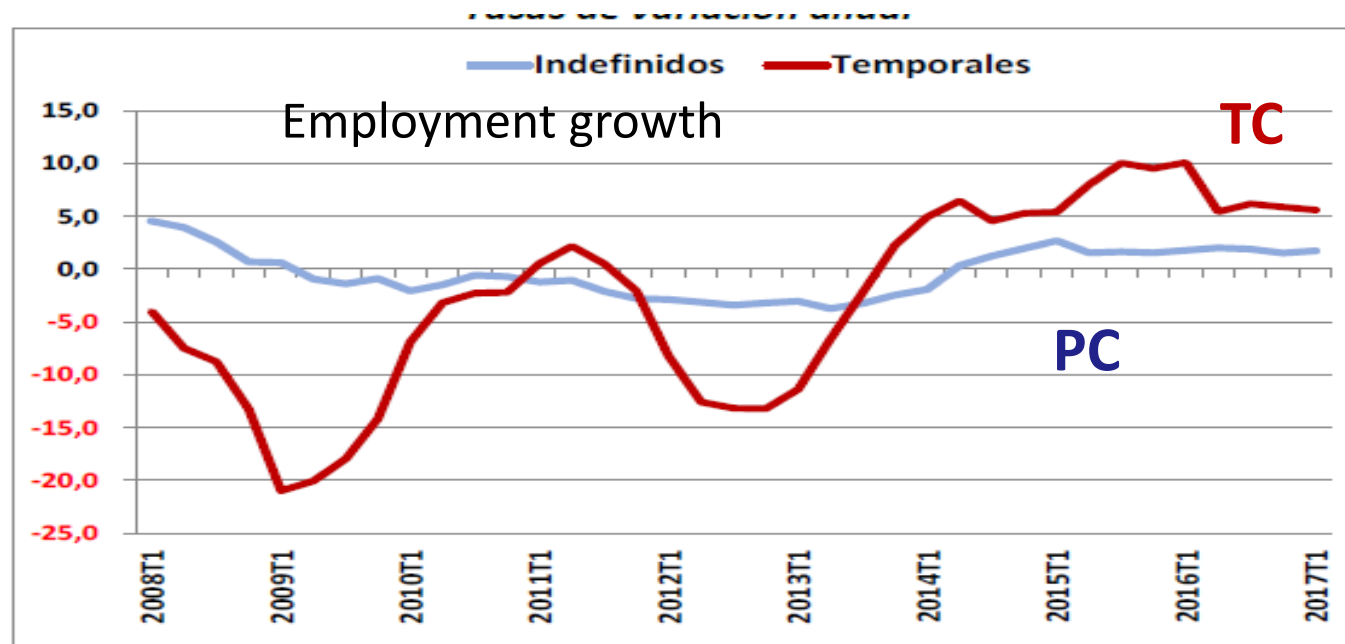
Letonia	56,8
Reino Unido *	55,3
Rumania *	51,9
Austria	47,6
Dinamarca	44,8
Estonia *	42,9
Noruego	41,9
Eslovenia	40,6
Suecia	40,5
Lituania *	39,8
Bélgica	37,7
Holanda	37,6
Rep. Checa	37,4
Irlanda *	37,4
Hungría	32,8
Luxemburgo *	31,6
Croacia	31,1
Eslovaquia *	30,8
Alemania *	28,7
Chipre *	27,9
Portugal *	27,3
Polonia	25,9
Finlandia *	23,9
UE 28 *	23,7
Bulgaria	22,3
Zona euro *	20,8
Italia *	19,6
Grecia *	16,9
Francia *	10,9
España	9,8

Temp-to-perm conversion rates

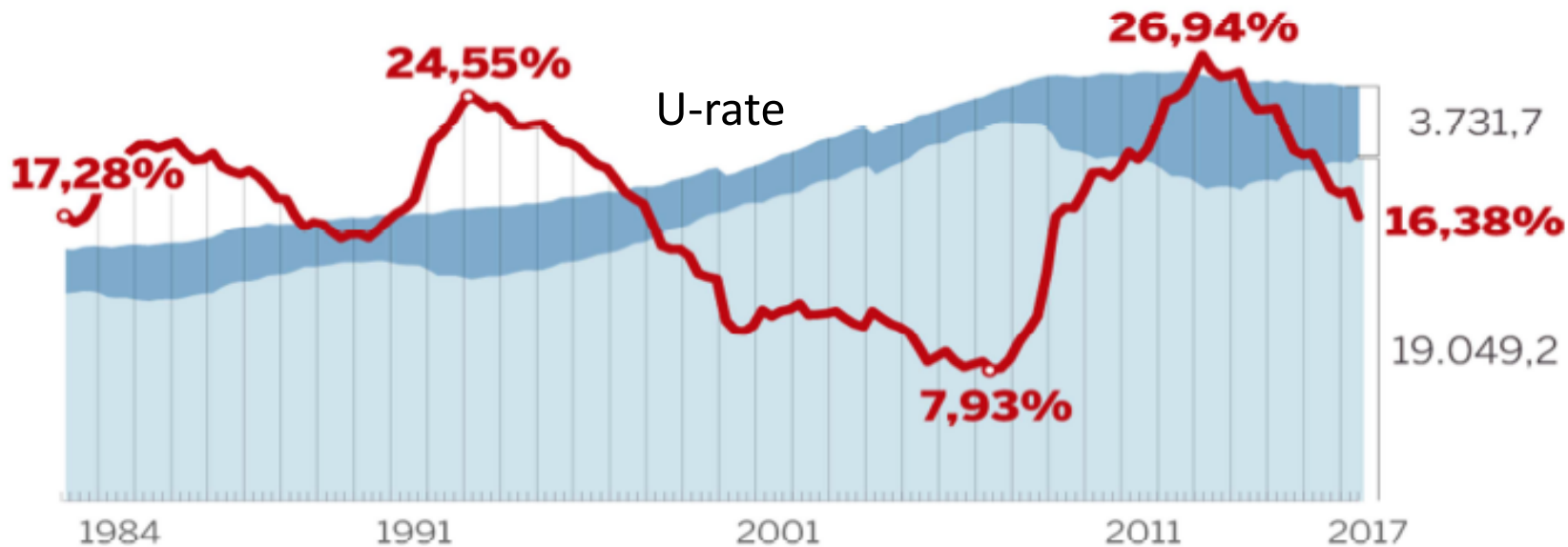
Reviewing the effects of EPL gap on LM outcomes

- Much higher Job Creation (JC) and Job Destruction (JD) of TCs
- Temps receive less training
- Wage pressure by PC workers (buffer effect of TCs)
- Specialization in sectors intensive in use of TC
- Job insecurity, low fertility, deferred parental leave (*Precariat*)
- Countercyclical earnings inequality

Spain: A bulimic LM (Employment growth, unemployment rate)



Fuente: EPA. INE



Integrating results: A Narrative of Dual LM pre-post GR

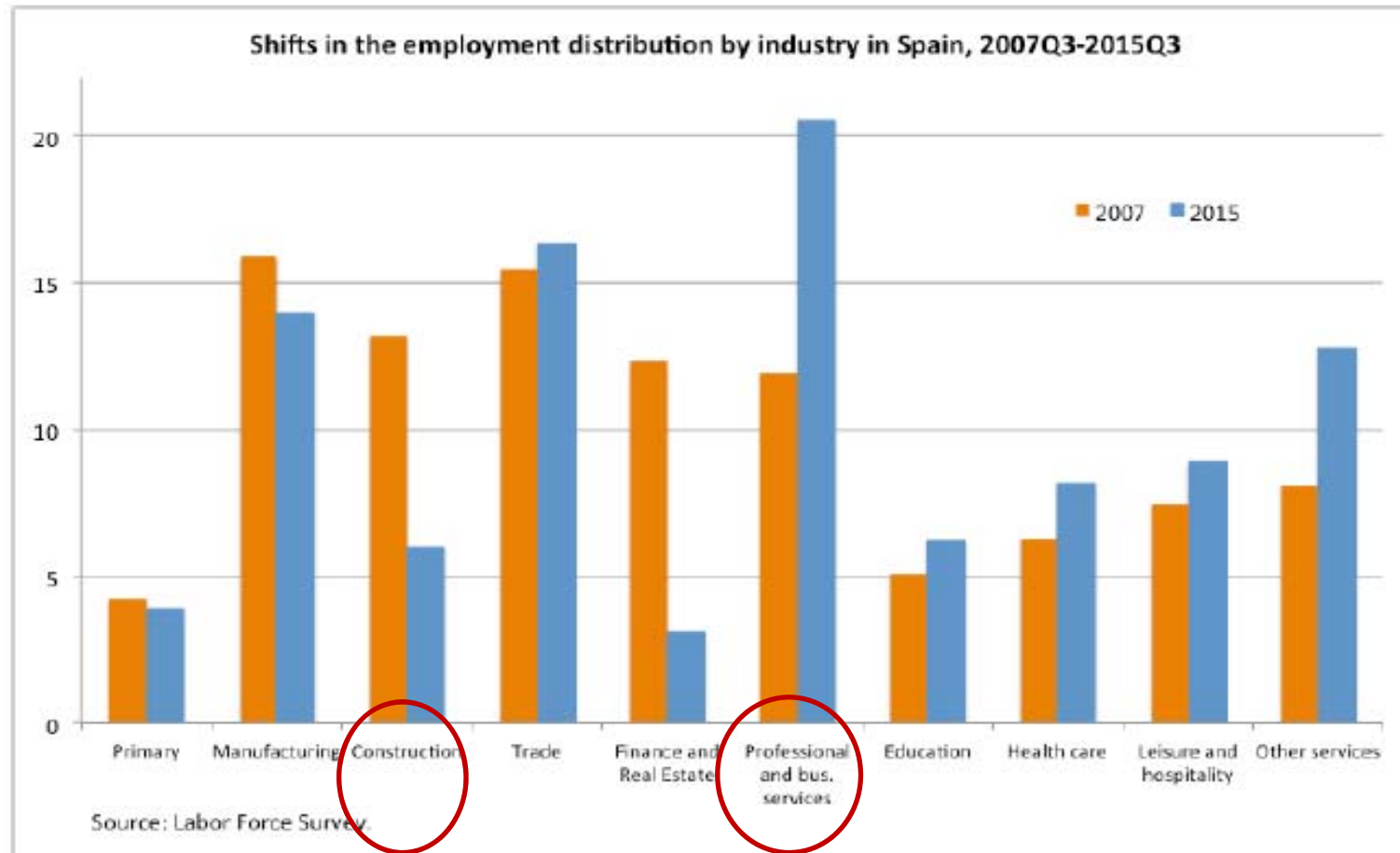
From Boom (1996-2007) to Bust (2008-2013...)...to Recovery

- Access EZ → ↓ real interest rate + easier access to credit → Investment boom in low value-added sectors (suitable for TC)
[→ Bubble → Burst]
- ↑ Wages Less-Skilled workers + Low productivity
- ↑ school dropout rates + Large immigration inflows (low fertility)

Growing imbalances

- Low TFP growth
- Large competitiveness loss
- Large Current Account deficit

Technology choices and relocation shocks in Spain

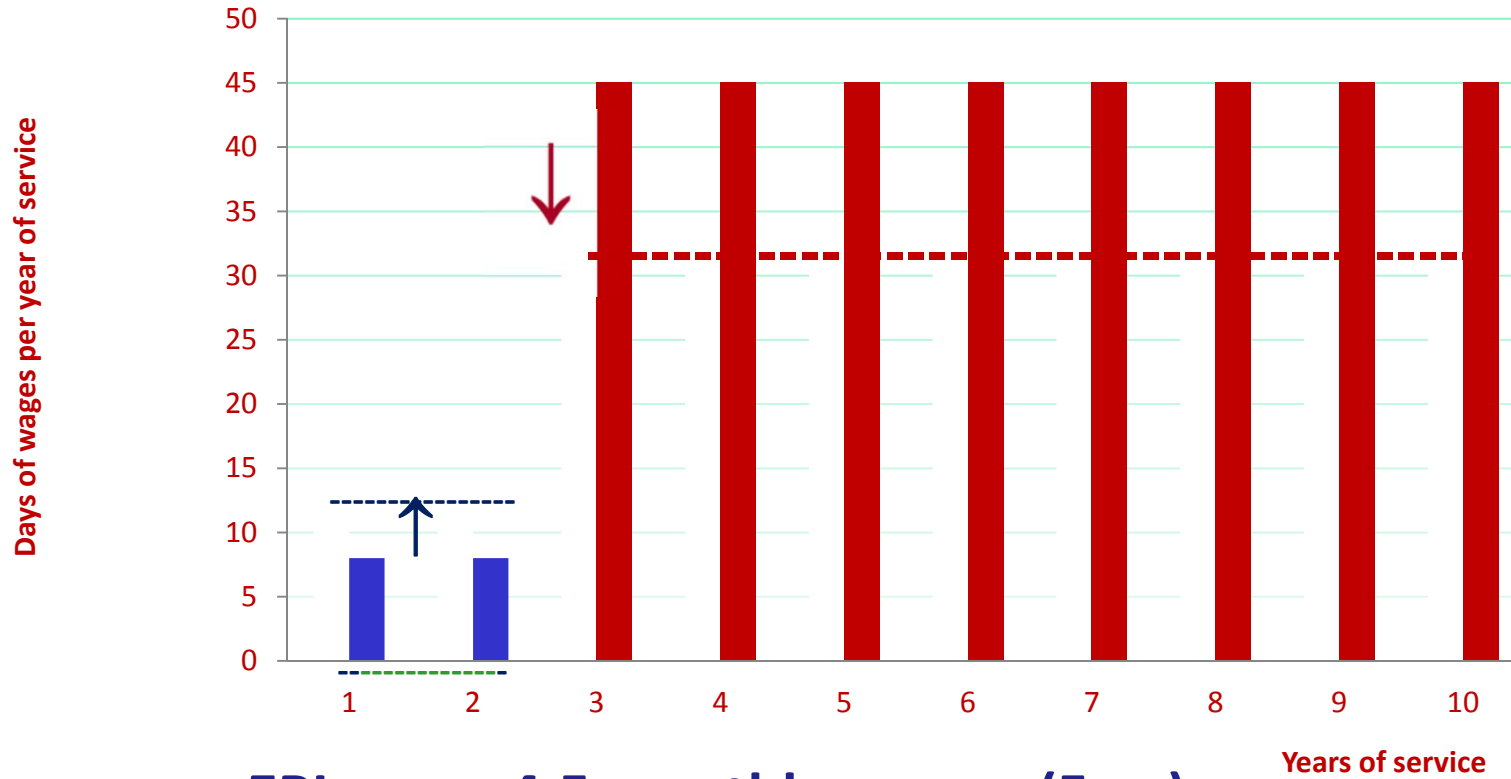


Recent EPL reforms (2010-) (+ Macron's French LM reform)

<i>Policy Area</i>	<i>Country</i>	<i>Year</i>	<i>Policy Changes</i>
<i>Notification Procedure</i>			
	Greece	2010	– Notice period reduced from maximum of 24 to maximum of 6 months
		2013	– Notice period reduced from maximum of 6 to maximum of 4 months
	Spain	2011	– Notice period reduced from 30 to 15 days
<i>Severance Pay</i>			
	Greece	2010	– Severance pay cut from 2–24 months' wages to 1–6 months (with prior notice) or 2–12 (without prior notice)
		2013	– Severance pay for workers with more than 17 years of service reduced from 24 to 12 months' wages.
	Spain	2012	– Simpler modalities for economic redundancies, compensated at 20 days per year
	Portugal	2012	– Cut and introduction of a ceiling to severance pay
		2013	– Introduction of dismissal compensation fund
	Italy	2012	– Introduction of a dismissal compensation fund
<i>Length of Trial Period</i>			
	Greece	2010	– Extension of the probation period from 2 to 12 months
<i>Unfair Dismissal: Definition, Compensation & Reinstatement</i>			
	Spain	2010	– Economic reasons become a justifiable reason for dismissal – Compensation for unfair dismissal reduced
		2011	– Definition of fair dismissal was extended – Obligation of reinstatement in the case of unfair dismissal is replaced by monetary sanctions
		2012	– Compensation for unfair dismissal is reduced from 45 days' wages for every year worked (up to a ceiling of 42 months' wages) to 33 days (with a ceiling of 24 months' wages)
	Portugal	2012	– Factors that justify dismissals broadened
	Italy	2012	– Restrictions to the right to reinstatement in case of unfair dismissal due to economic reasons
	Greece	2013	– Protection against unfair dismissal reduced.
<i>Definition of Collective Dismissal</i>			
	Spain	2012	– Collective dismissals are no longer dependent on authorisation from public authorities – Persistent or foreseen drops in sales/revenues (in three consecutive quarters) become a reason for fair dismissal
	Greece	2010	– Increase in the minimum threshold for collective dismissals from 2–3% to 10% of employees
	Portugal	2012	– Seniority is no longer a criteria for determining dismissals

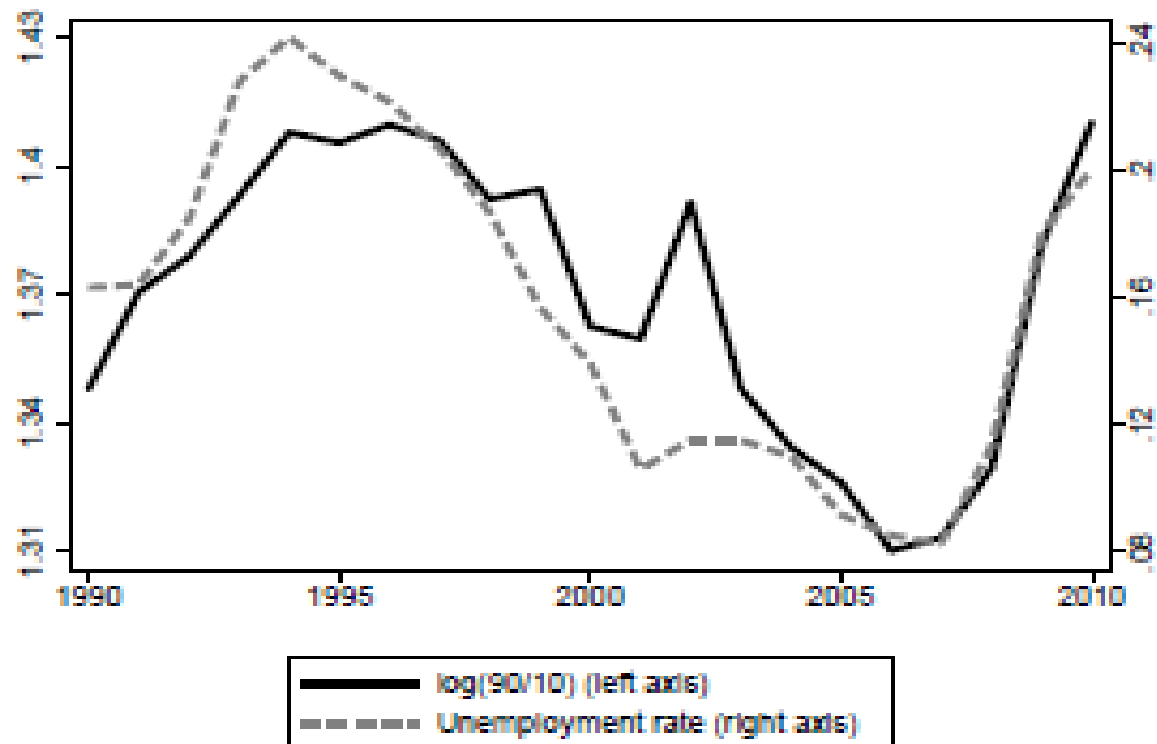
EPL gap (Spain post GR; EPL Reform 2012)

EPL Gap between perms & temps



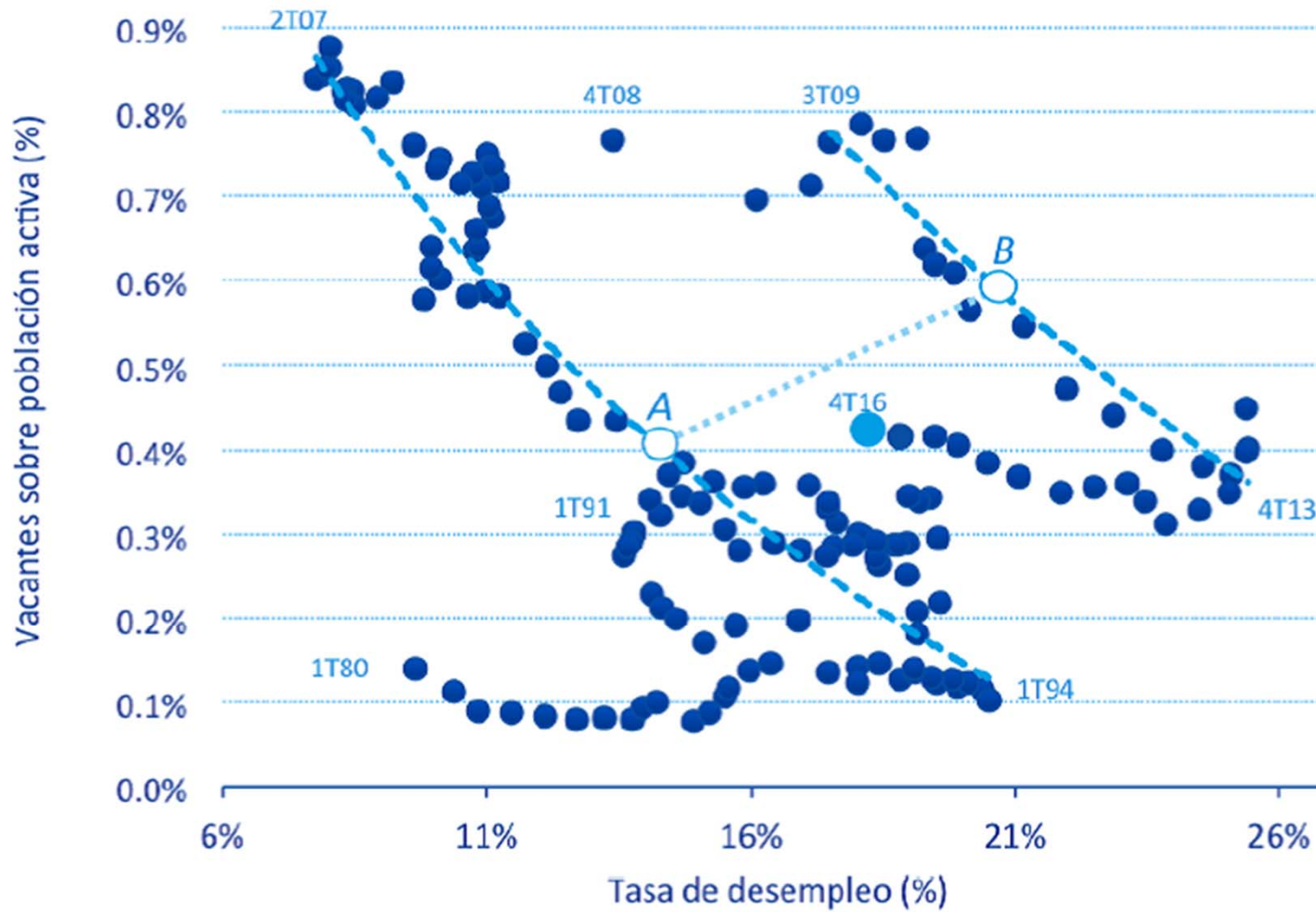
EPL gap= 4.5 monthly wages (5yrs)

Earnings inequality



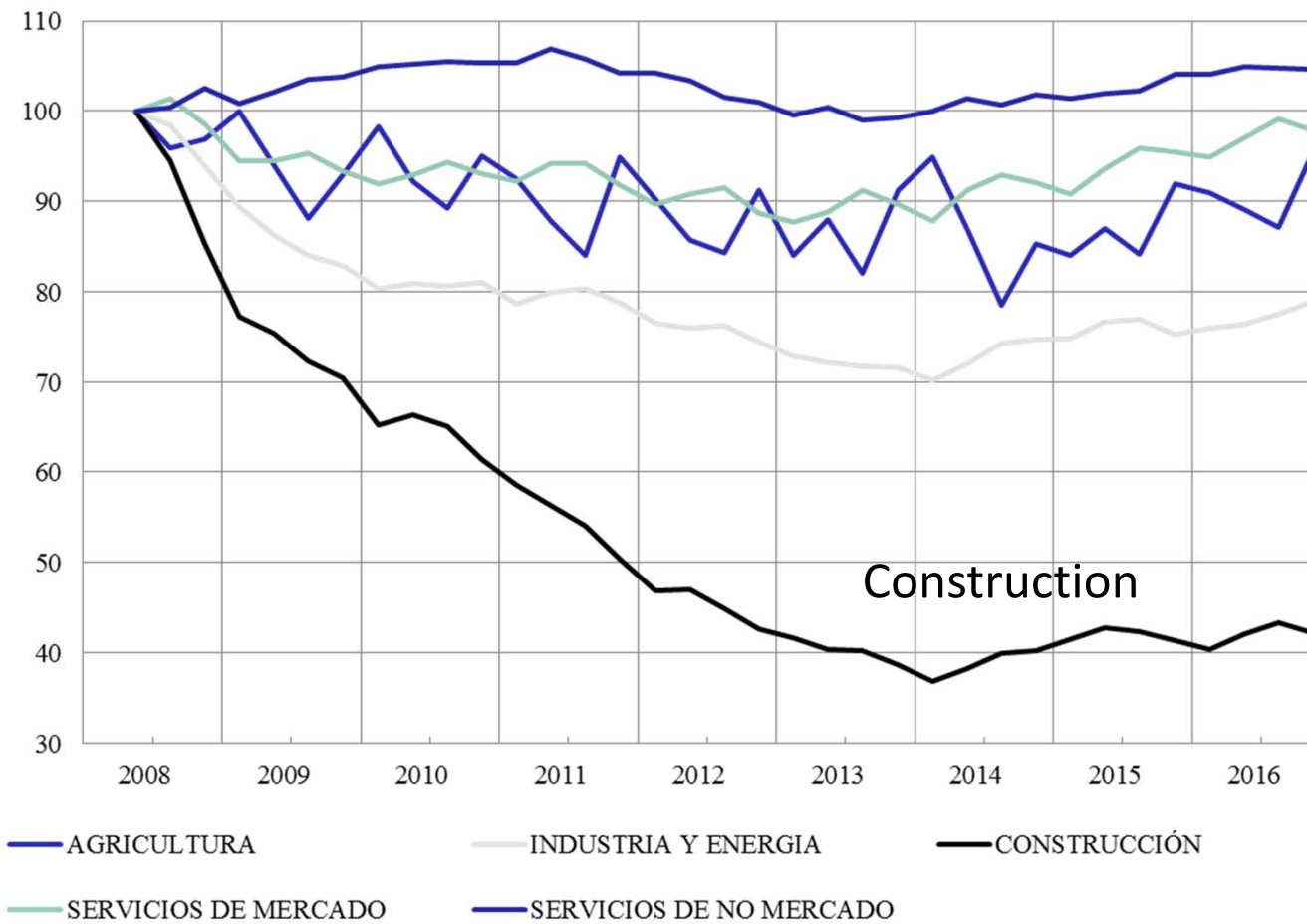
Mismatch: Beveridge curve

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Employment by Industry (2008Q2=100)



Dismantling Dual LMs

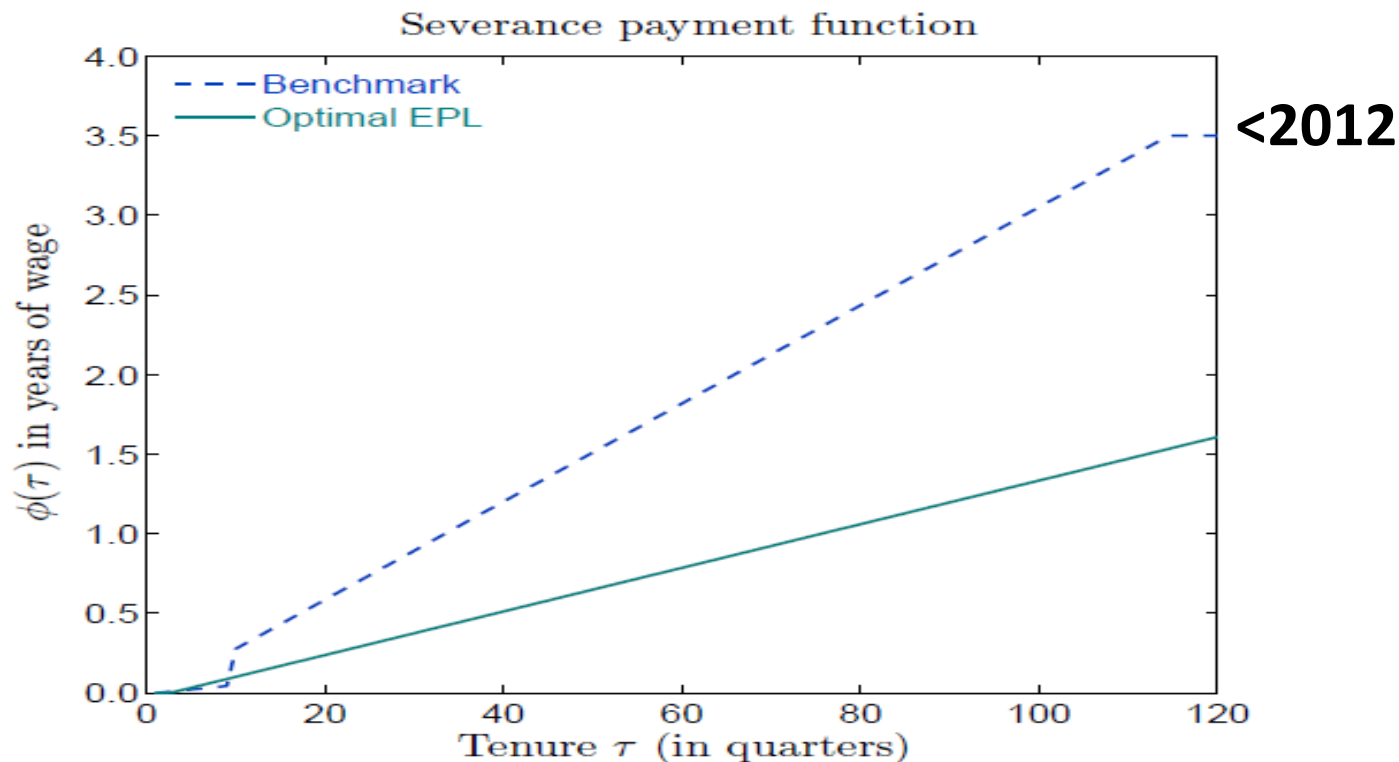
- **Collective Bargaining decentralization → Higher wage flexibility**
(Lazear's offsetting transfer effect)
- **Strengthening TC regulations or Reducing restrictive EPL (PC)**
- **Long entry phases w/o severance pay (stepping stone)**
- **Single/ unified open-ended contract (SOEC)**

Andres et al. (2009), Cahuc & Kramarz (2005), Boeri & Garibaldi (2008), Blanchard & Tirole (2008), Bentolila & Jansen (2010), (P) Ichino (2014), Conde-Ruiz et al. (2011), Cahuc (2012), Boeri et al. (2016), Jobs Act, etc.

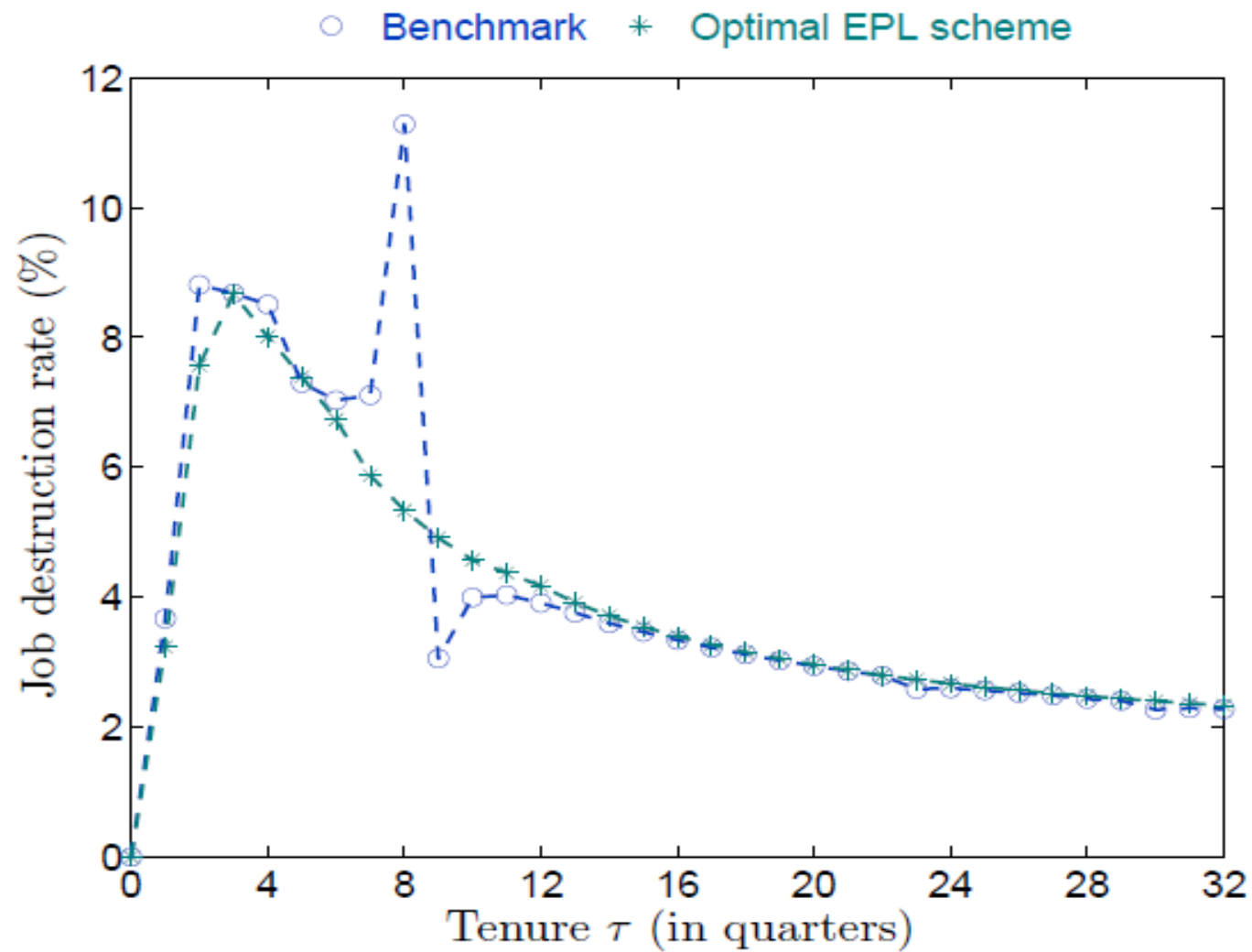
Designing a unified EPL scheme (Spain)

Dolado J, Lale E, and N Siassi (2017), “From Dual to Unified Employment Protection: Transition and Steady State”

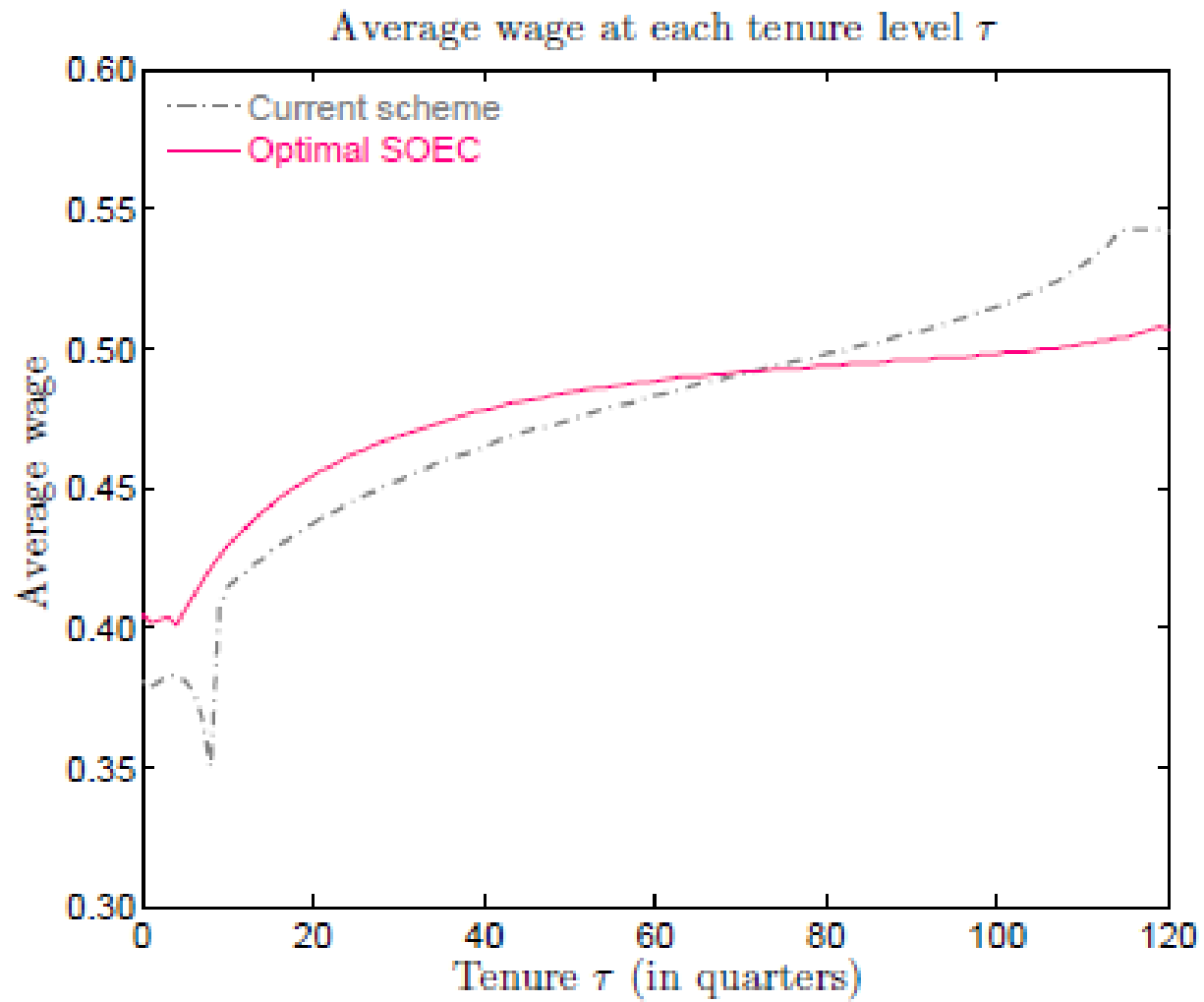
Risk averse workers+ Young (liquidity constrained, high search effort) & Older workers (high reservation wage, low search effort) + UI financed by payroll taxes



Job destruction: No revolving door



Smother Wage profiles



Political support

B. Political support

All workers	87.06	64.14	21.01	1.91
Young workers	99.98	73.41	25.48	1.09
Older workers	26.25	20.54	0.00	5.71

2012 LM reform

Welfare gain: 1.08% vs. 1.52% (Unified EPL)

Political support 65.4% vs. 87.06%

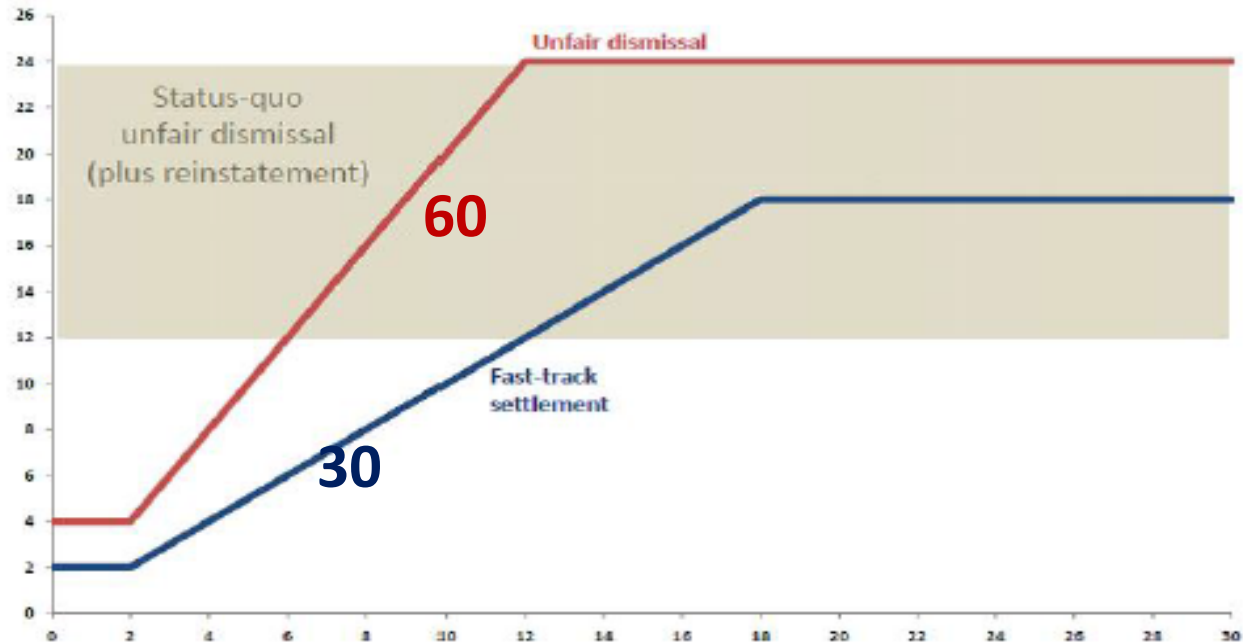
Robustness exercises

Table 5. Optimal EPL scheme and welfare effects under alternative calibrations

	Severance pay function		Welfare effect	
	τ_s (in months) (1)	ρ_s (in d.w.y.s.) (2)	Steady state (3)	Transition path (4)
Benchmark	5	20	1.522	0.849
Lower UI benefits	2	17	1.825	1.007
Higher UI benefits	8	24	1.232	0.673
Red-tape costs	6	16	1.564	0.886
Quits vs. layoffs	12	28	0.637	0.276

NOTE: Each row displays the parameters of the optimal EPL (Columns 1 and 2), the welfare effect as measured by the steady-state lifetime utility of new labour-market entrants (Column 3) and the welfare effects on average across workers in the period when the reform is introduced (Column 4).

- **Unified contract (Jobs Act in Italy)**
Red-tape costs ? Court litigation ?

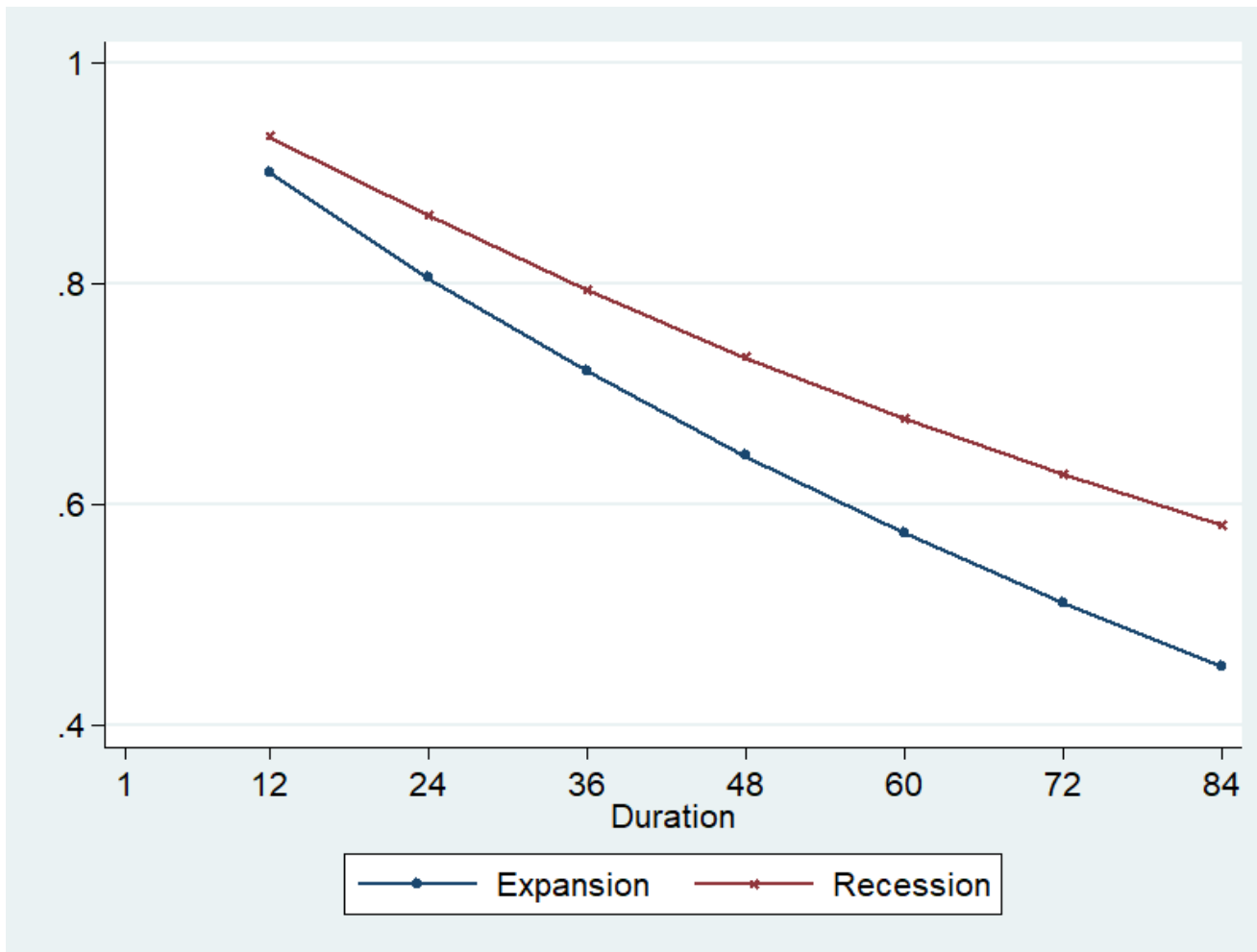


- **Combination of Severance Pay & Contribution to Mutual Fund (Austrian backpack)**
- **Combination of Severance Pay & Experience rating (bonus/malus)**

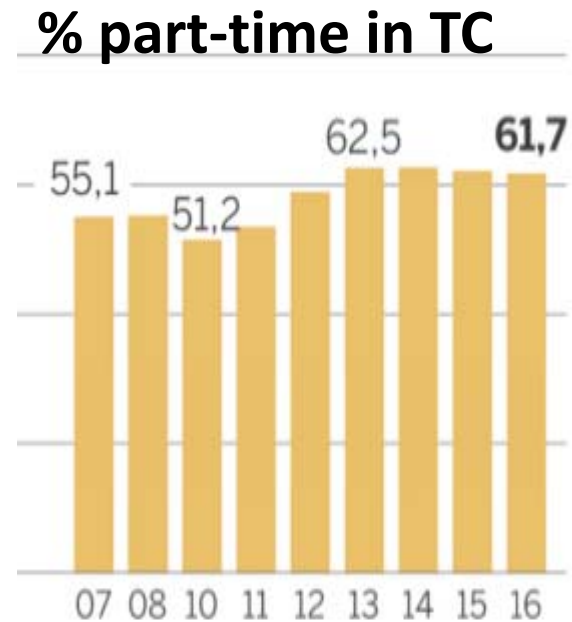
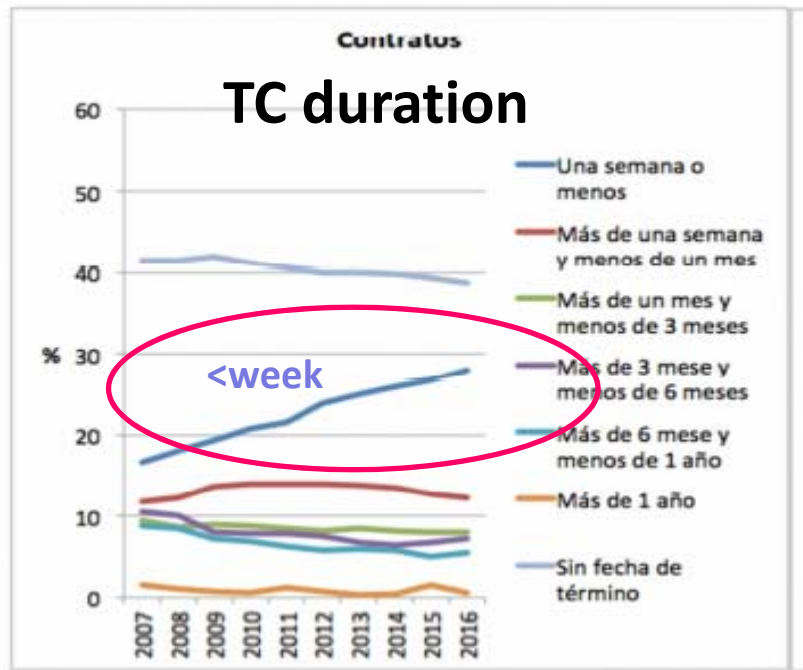
Has higher wage flexibility fully offset the EPL gap?



Positive effect: ↑ Hazard rates of Temps to first PC

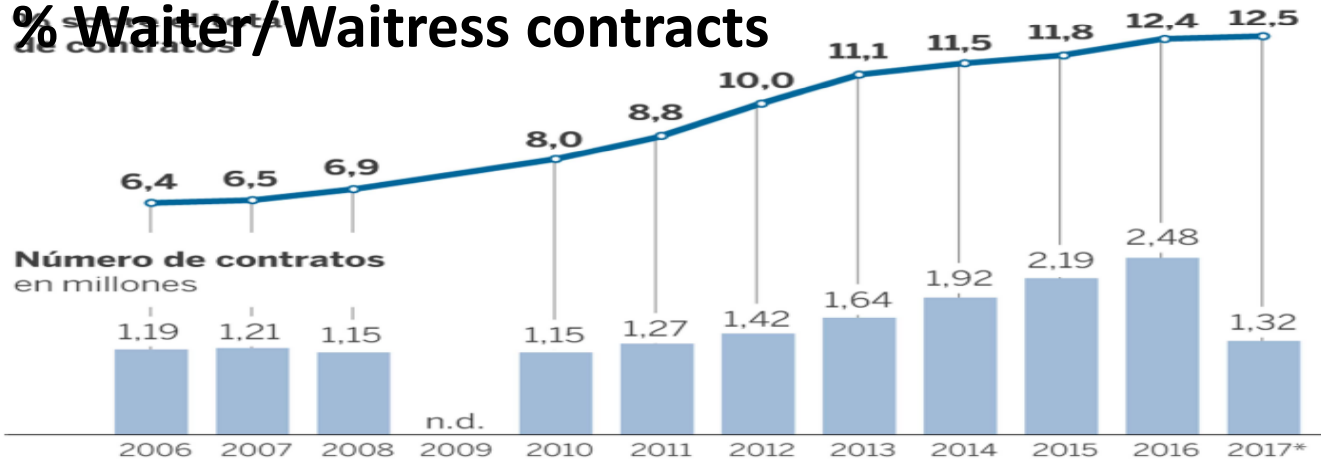


Negative effect: Rise of the Working Poor

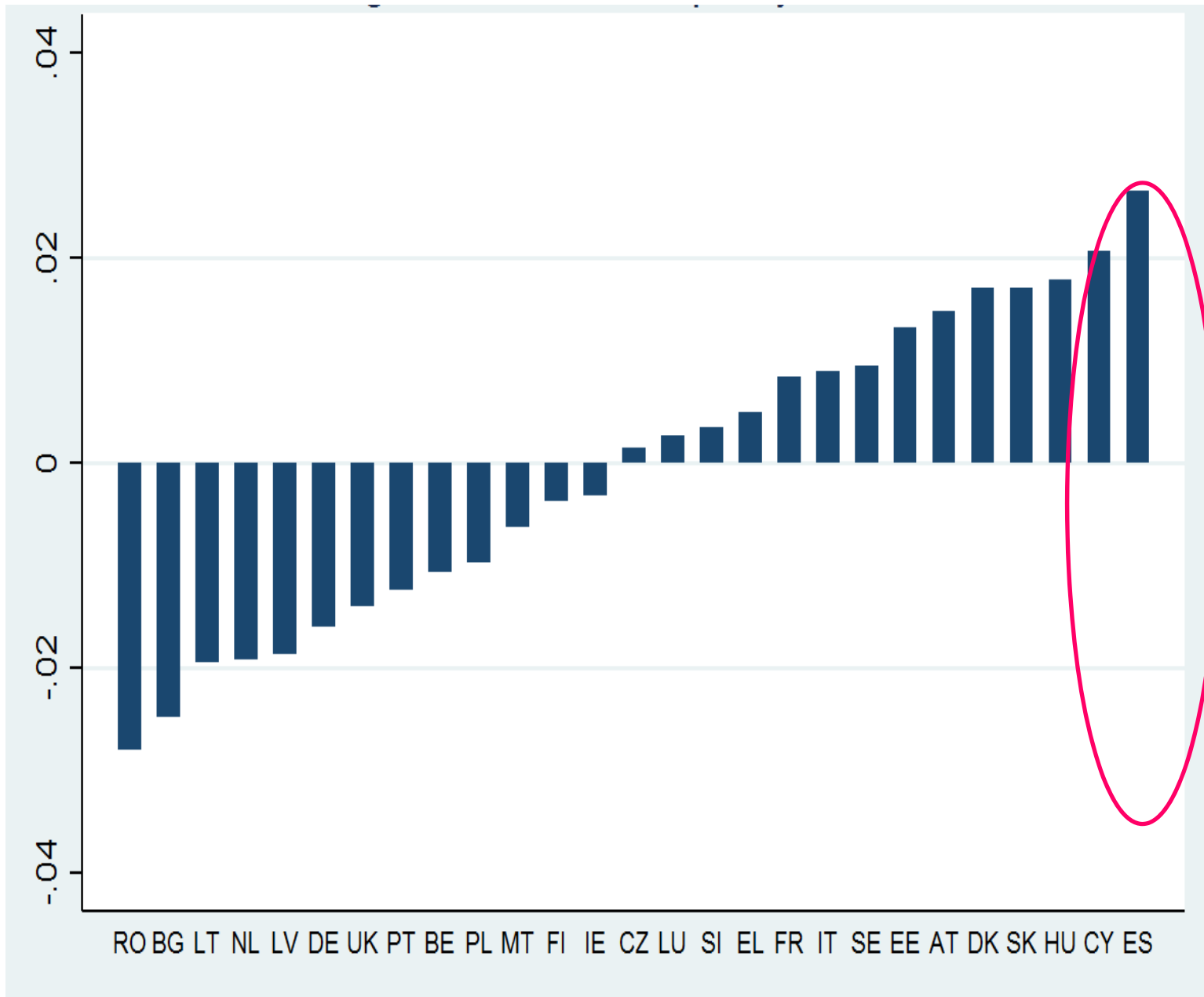


CONTRATOS DE CAMAREROS

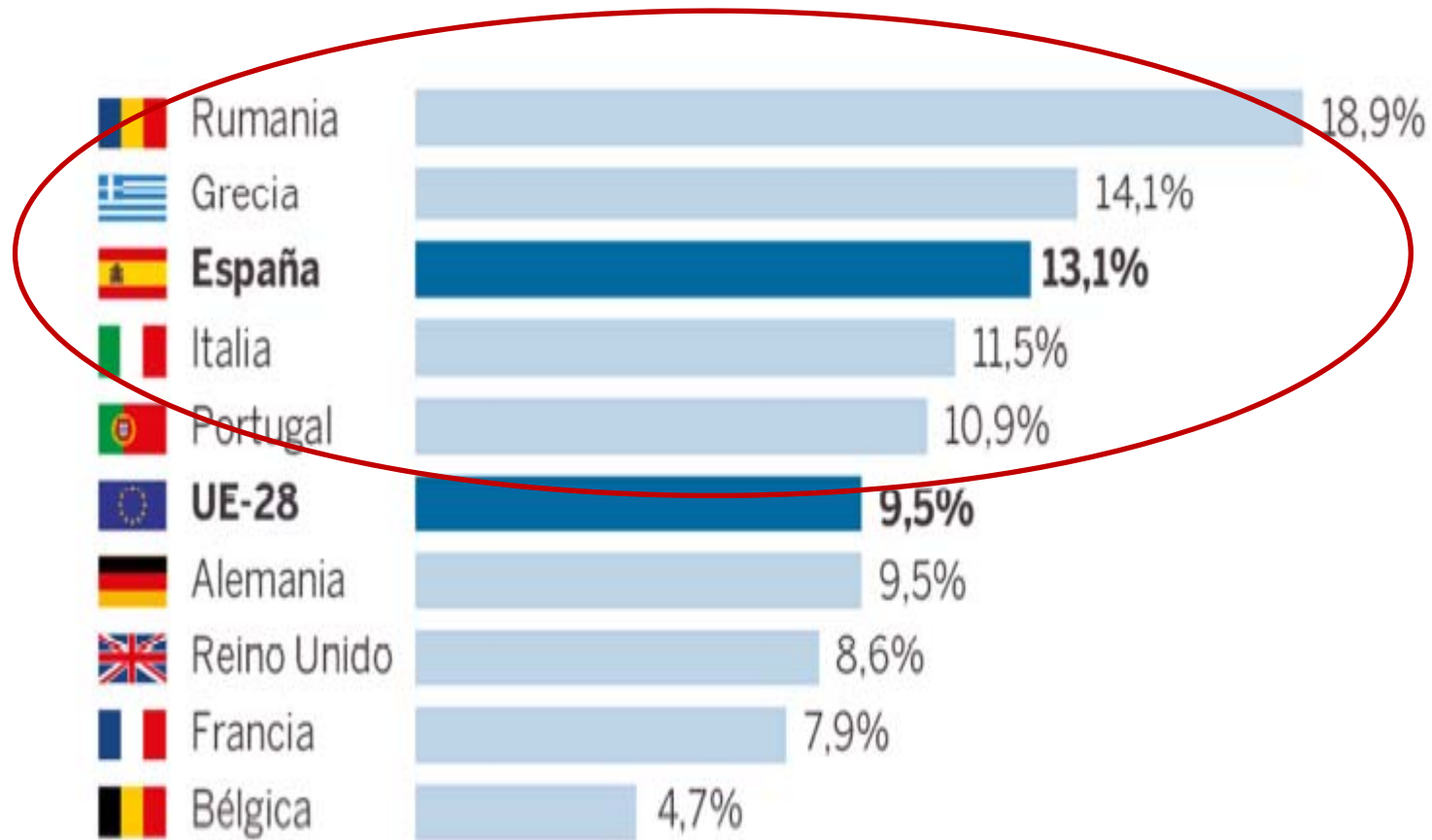
% Waiter/Waitress contracts



Inequality: Changes in Gini coefficient (earnings) 2012-2016



Poverty Risk: % households with earnings < 60% median earnings



(2016)

The EPL gap is still alive and kicking: From Bubble to Bubble ?



Thanks for your attention