

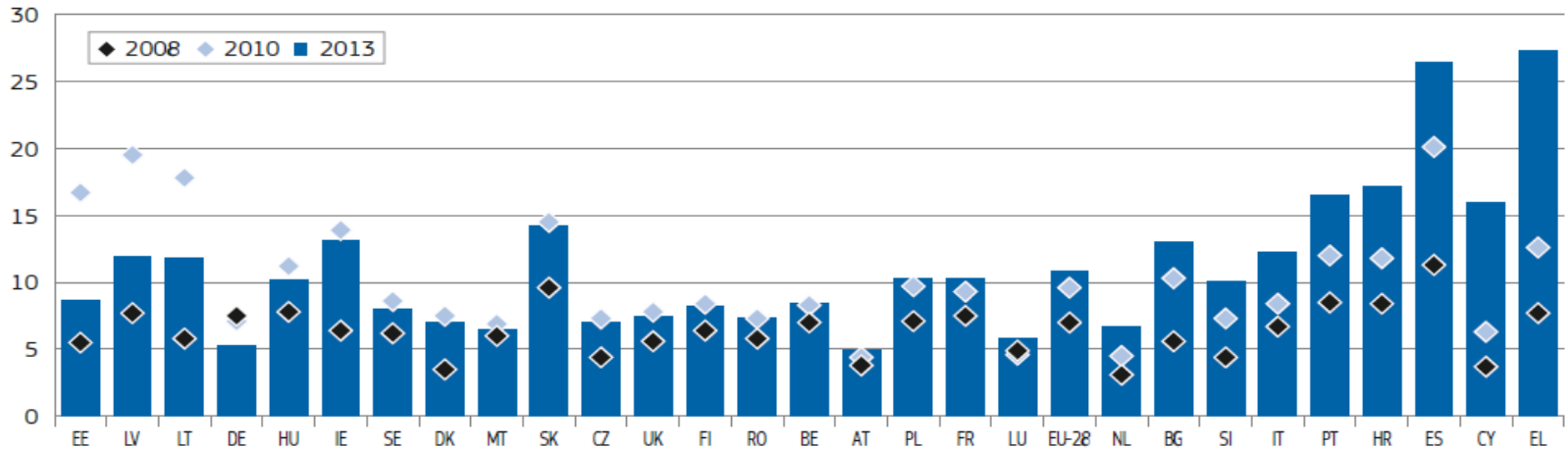
**Policy Panel on:
New Advances of Research on Labor Markets**

**4th WB-BE Research Conference: Growth, Productivity and Inequality
June 13-14, 2016**

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<http://dolado.blogspot.com>

Dual LM's have been high in the policy agenda during GR

Chart 4: Unemployment rates by EU Member States, 2008, 2010 and 2013 (% of active population, 15-74)



Source: Eurostat, une_rt_a.

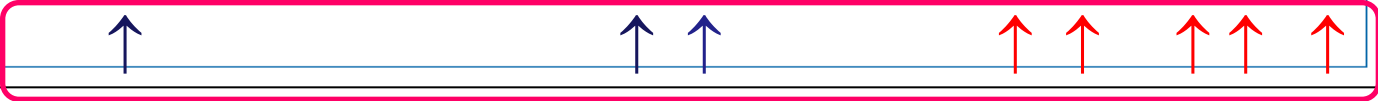
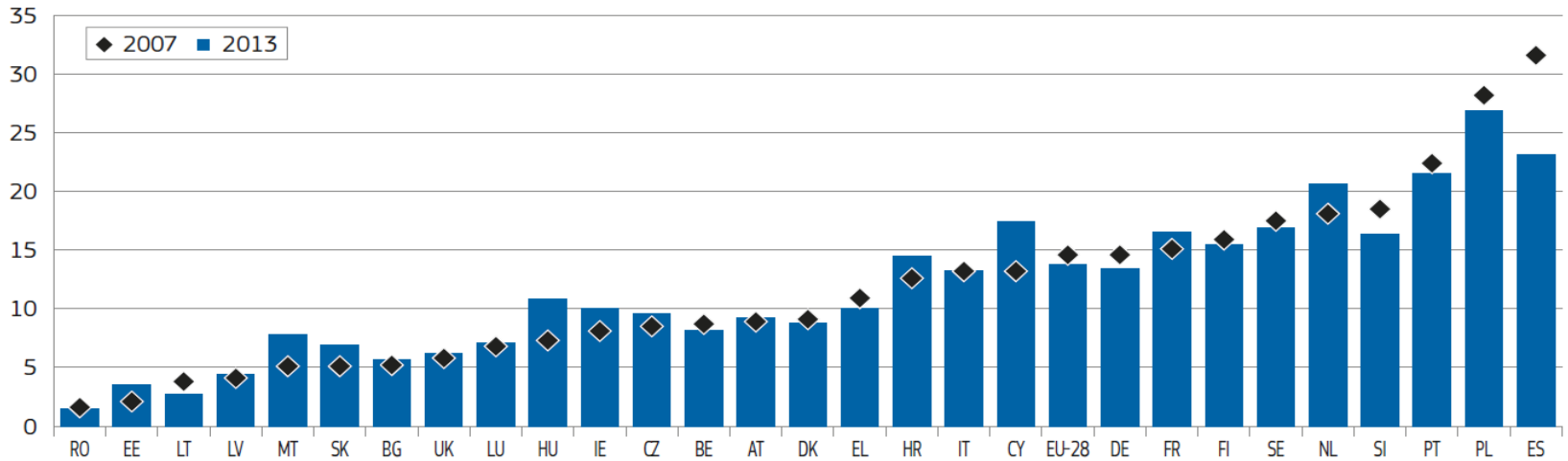


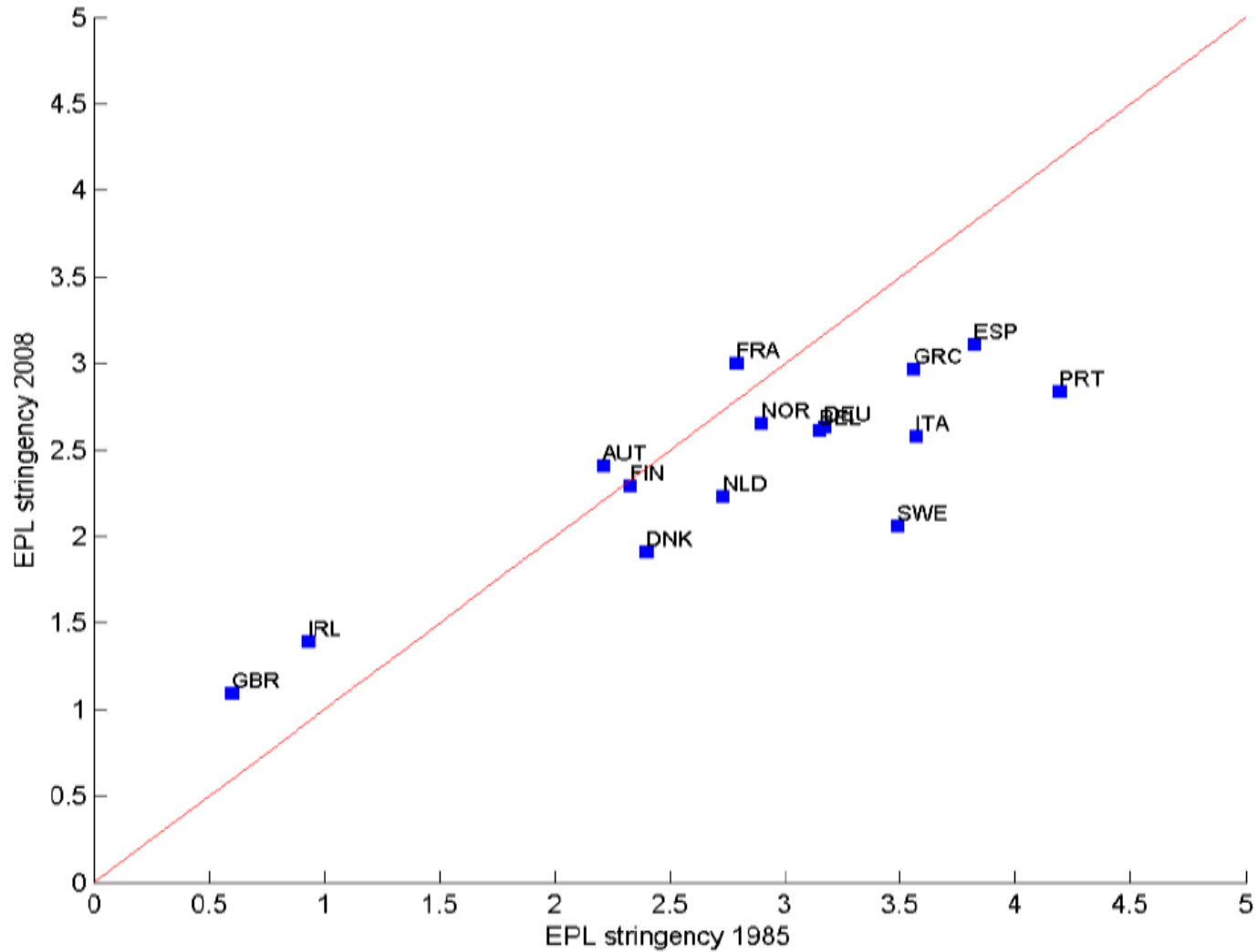
Chart 9: Temporary employment as percentage of the total number of employees



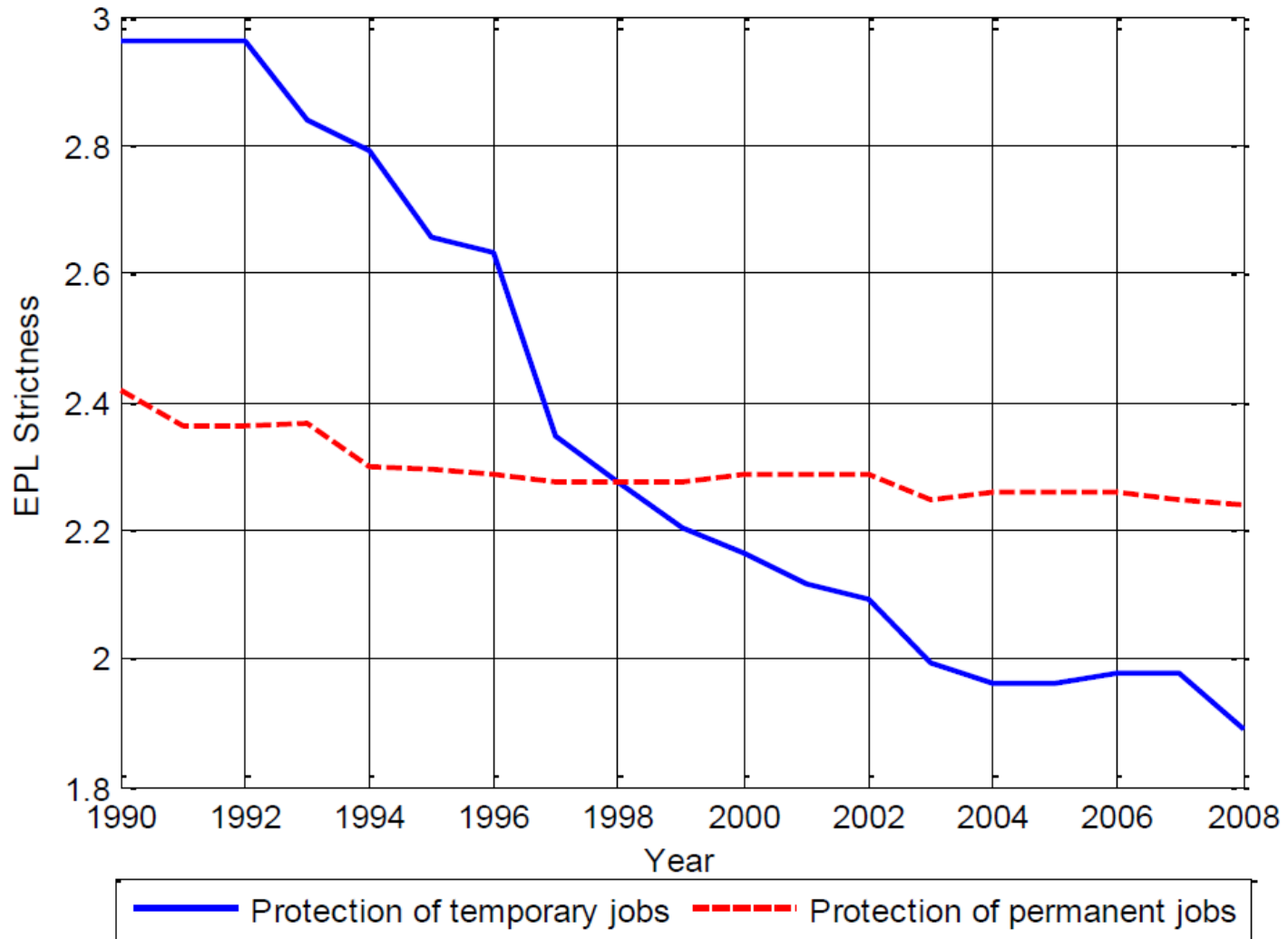
Source: Eurostat, EU-LFS [lfsa_etpgan].



Pre-crisis: Reduction of stringency in *overall* EPL



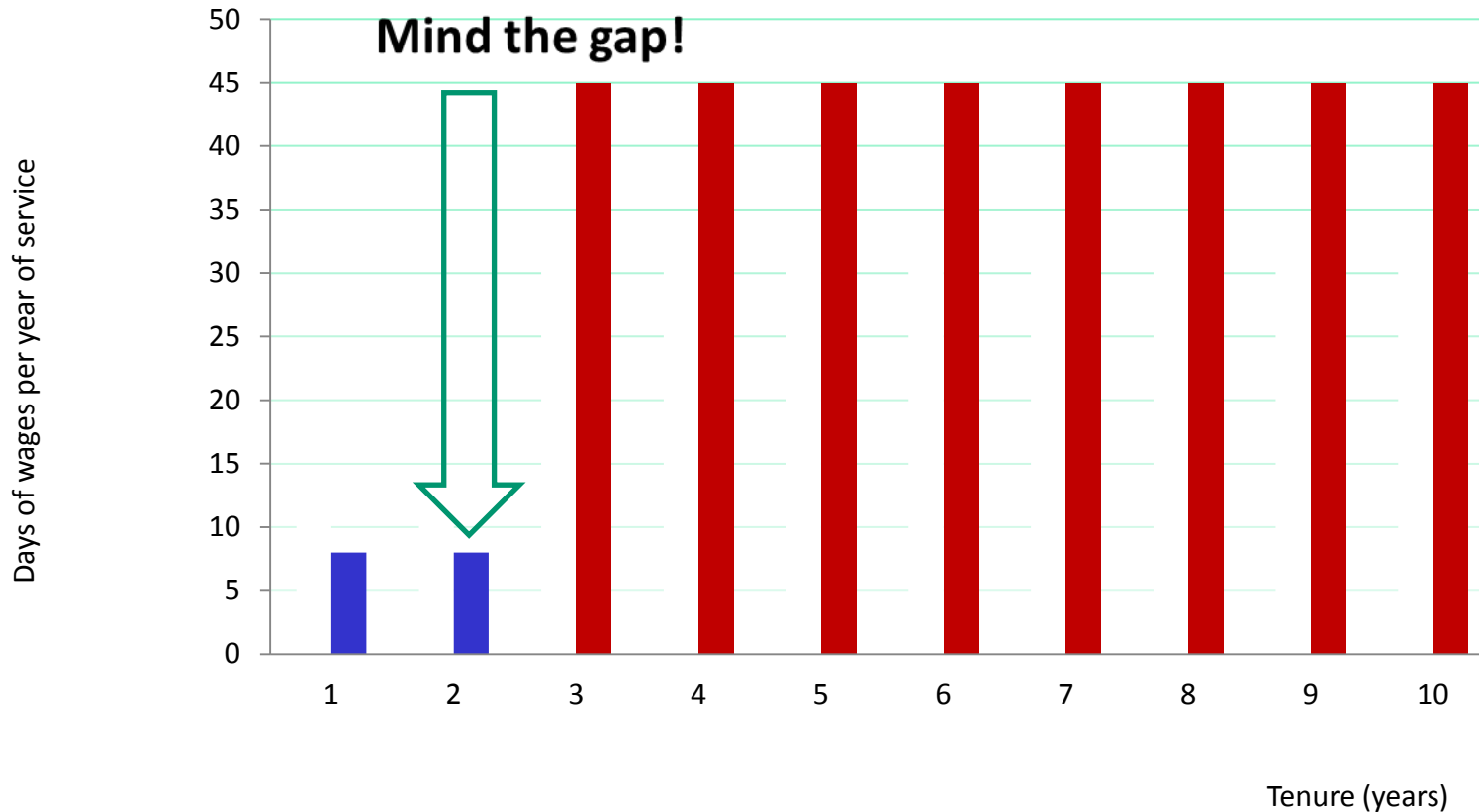
... mostly through increasing EPL gap



Source: OECD (2008)

Spain as an epitome of a dual LM (pre-crisis)

EPL Gap between **perms** & **temps**



EPL gap = Sev. Pay (PC) + Red Tape Costs - Sev. Pay (TC)

Alternative strategies

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

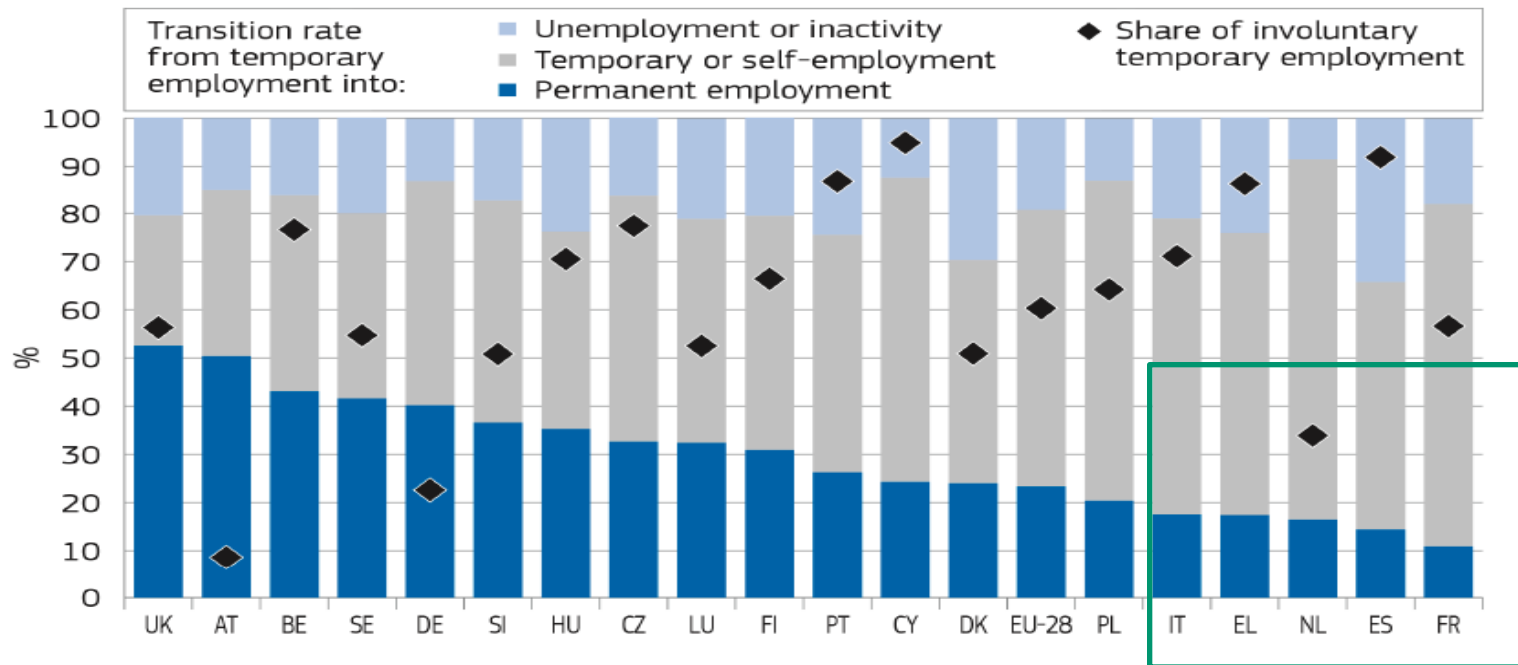
EPL gap= 8.1 monthly wages

NB: If wages were deferrable (and workers were risk neutral) they could offset the transfer from employer to employee (steeper wage-tenure)

Otherwise.... ⇒ **Revolving door !!**

Revolving door: wasteful turnover !!

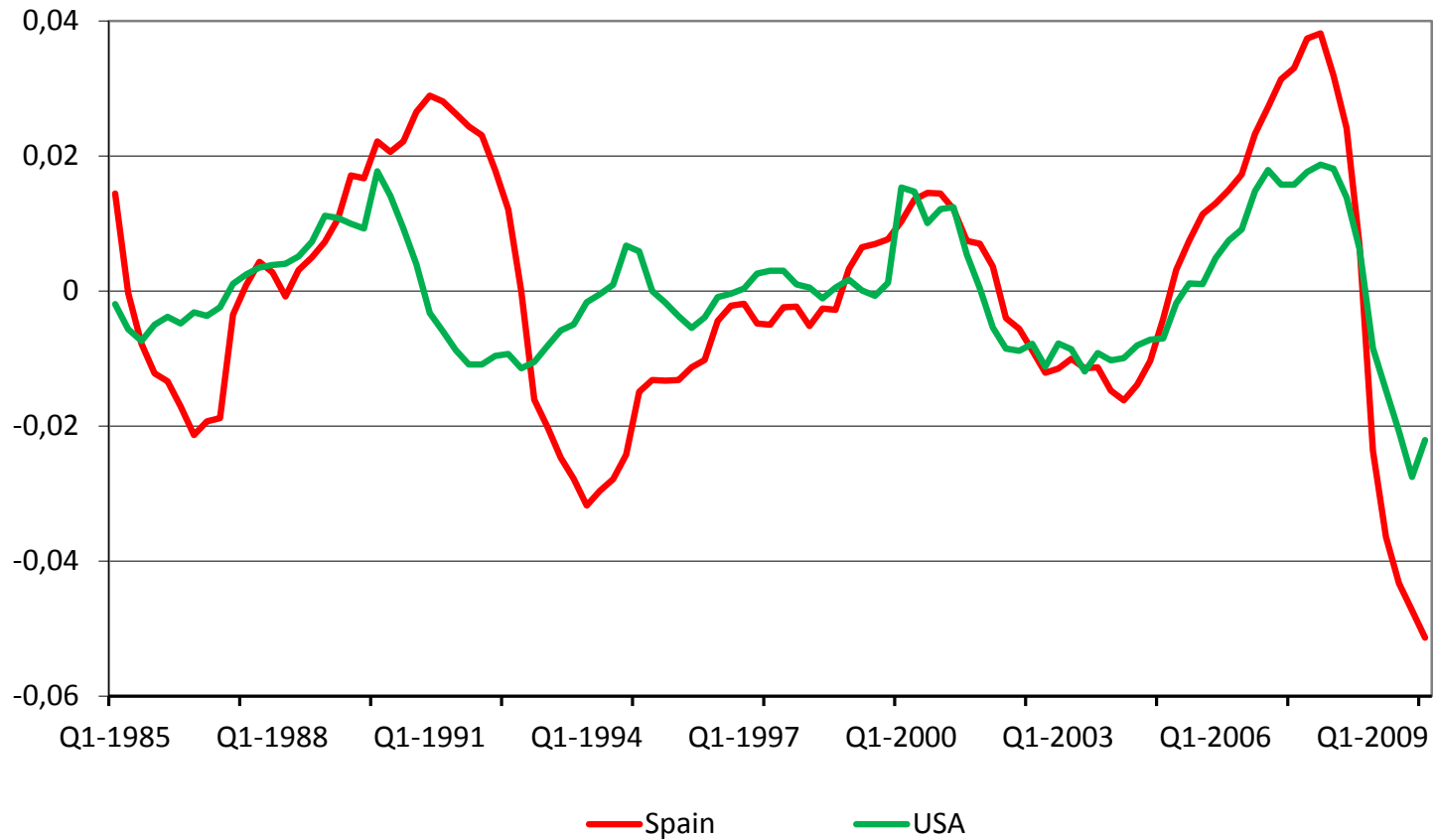
Chart 10: Transition rates from temporary to permanent employment, temporary or self-employment and unemployment or inactivity (2011/12) and share of involuntary temporary employment (2012)



Source: Eurostat, EU-LFS (lfsa_etgar) and EU-SILC (ilc_lvhl32). Exception to the reference year: Sweden (2010/2011 instead of 2011/2012).

Dilemma: LM flexibility or rigidity ? → Both in excess

Volatility of HP-Cyclical Employment: Spain vs. US



Spanish bulimia : Huge JC followed by huge JD

Unemployment: A structural problem



Consequences of dualism

- Low Training in TC
- Low future pensions of youth employed in precarious jobs
- Scarring effects of youth unemployment
 - Low lifetime wages
 - Low future employment opportunities
 - Low fertility
 - Low mobility

Youth unemployment & NEETs

Figure 1 Youth (15-24) unemployment rates

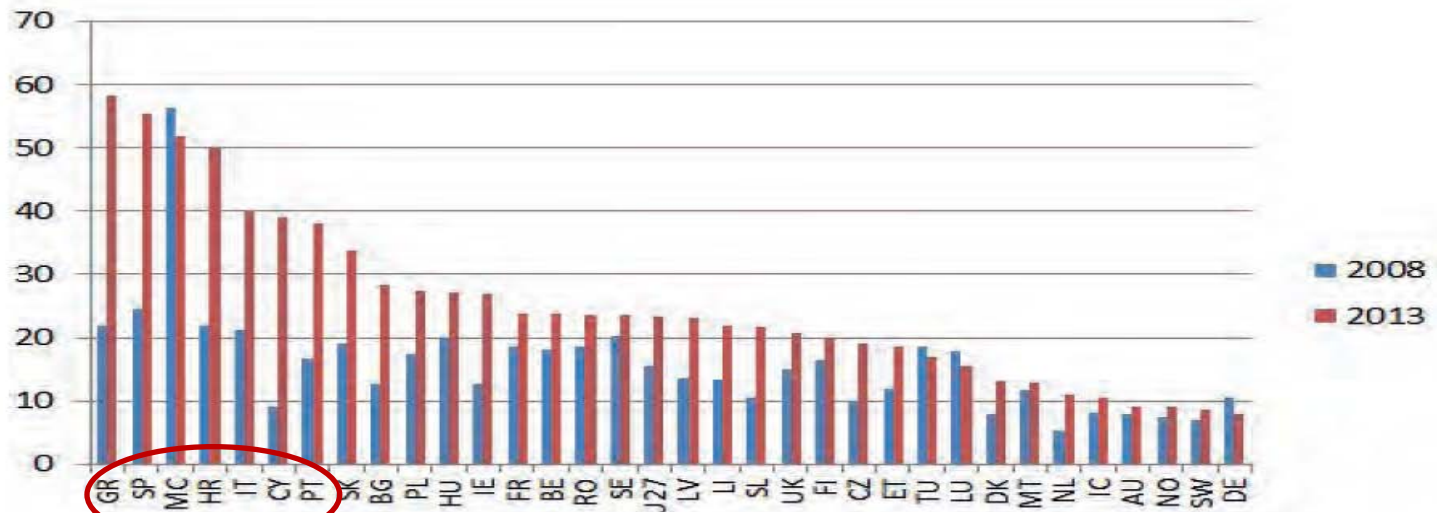
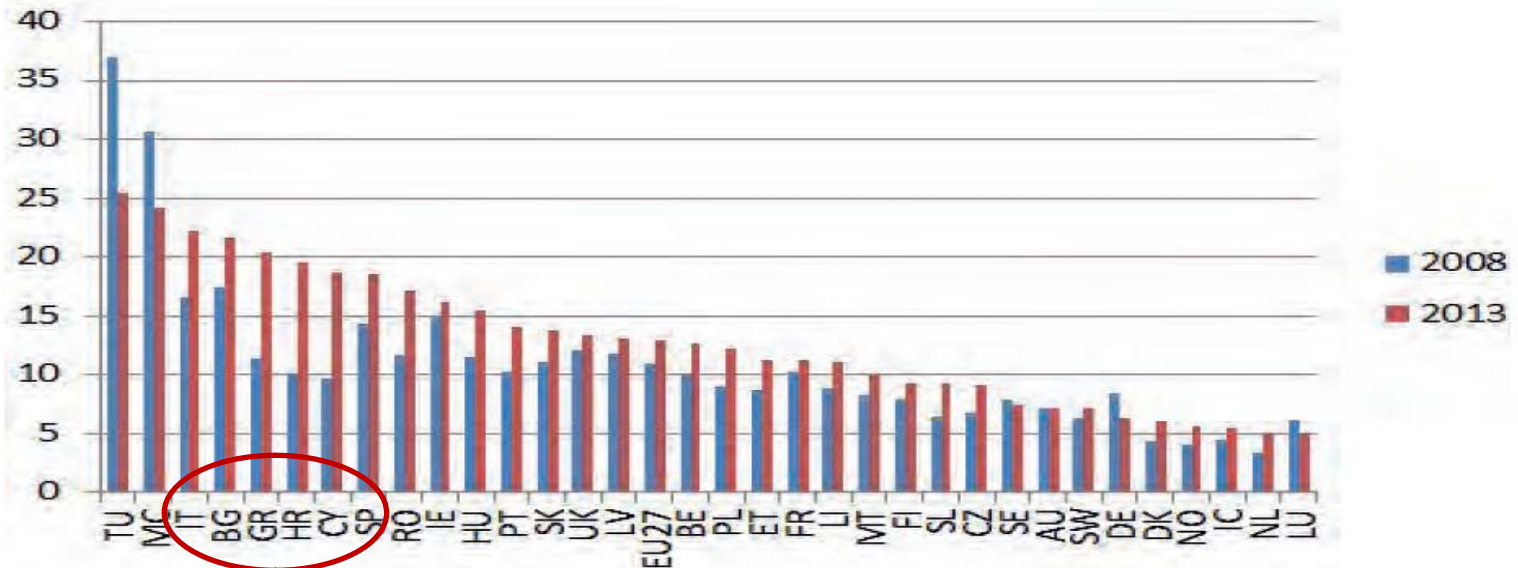


Figure 3 NEET rates (15-24)

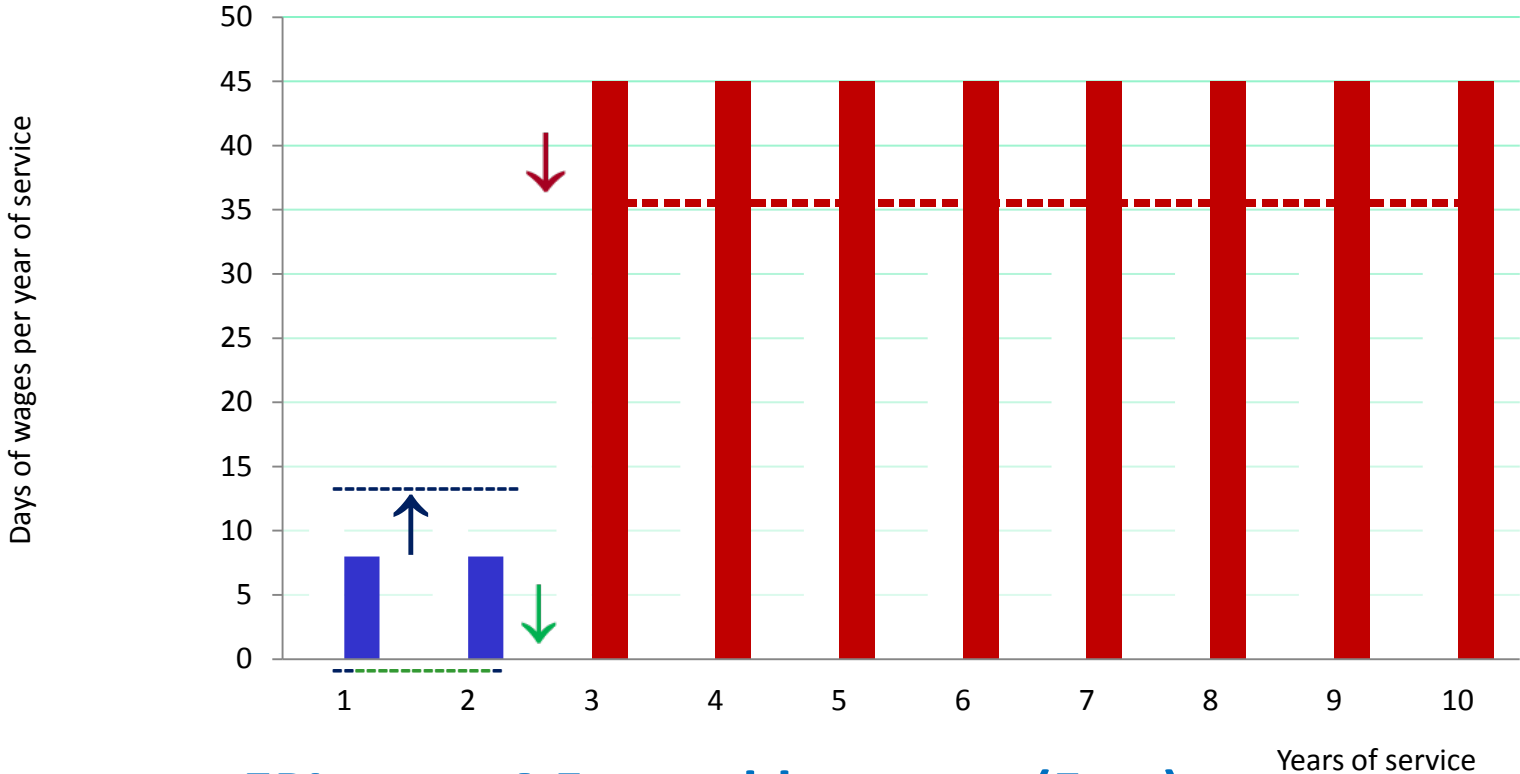


Redressing LM Dualism: Recent EPL reforms

<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 Gap between **perms** & **temps**



EPL gap= 4.5 monthly wages (5yrs)

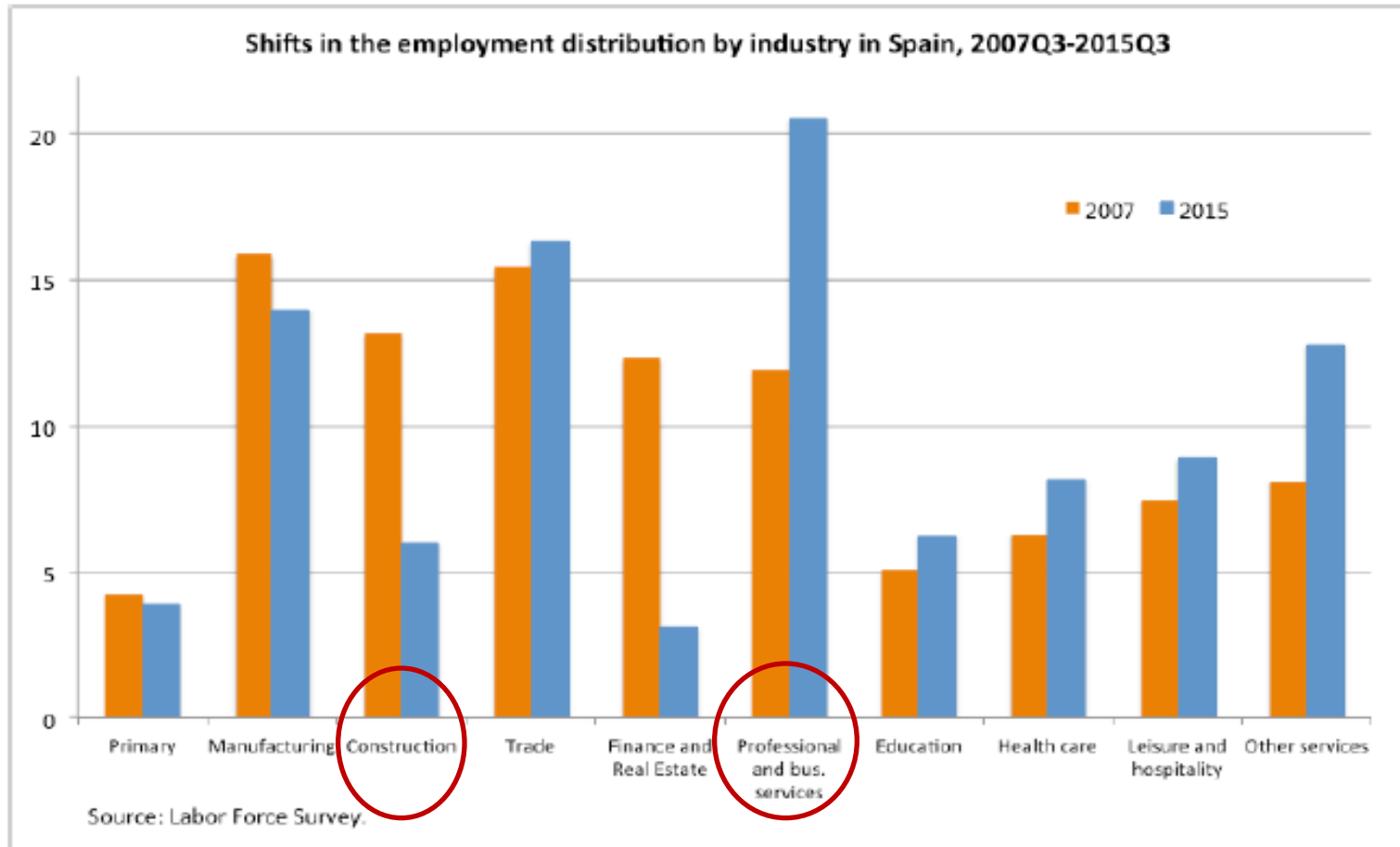
Dismantling Dual EPL

- **Strengthening TC regulations w/o changes in EPL (PC)/
Reducing overly restrictive EPL (PC) w/o changes in EPL (TC)**
- **Long entry phases (stepping stone)**
- **Single/ unified open- ended contract (SOEC):**

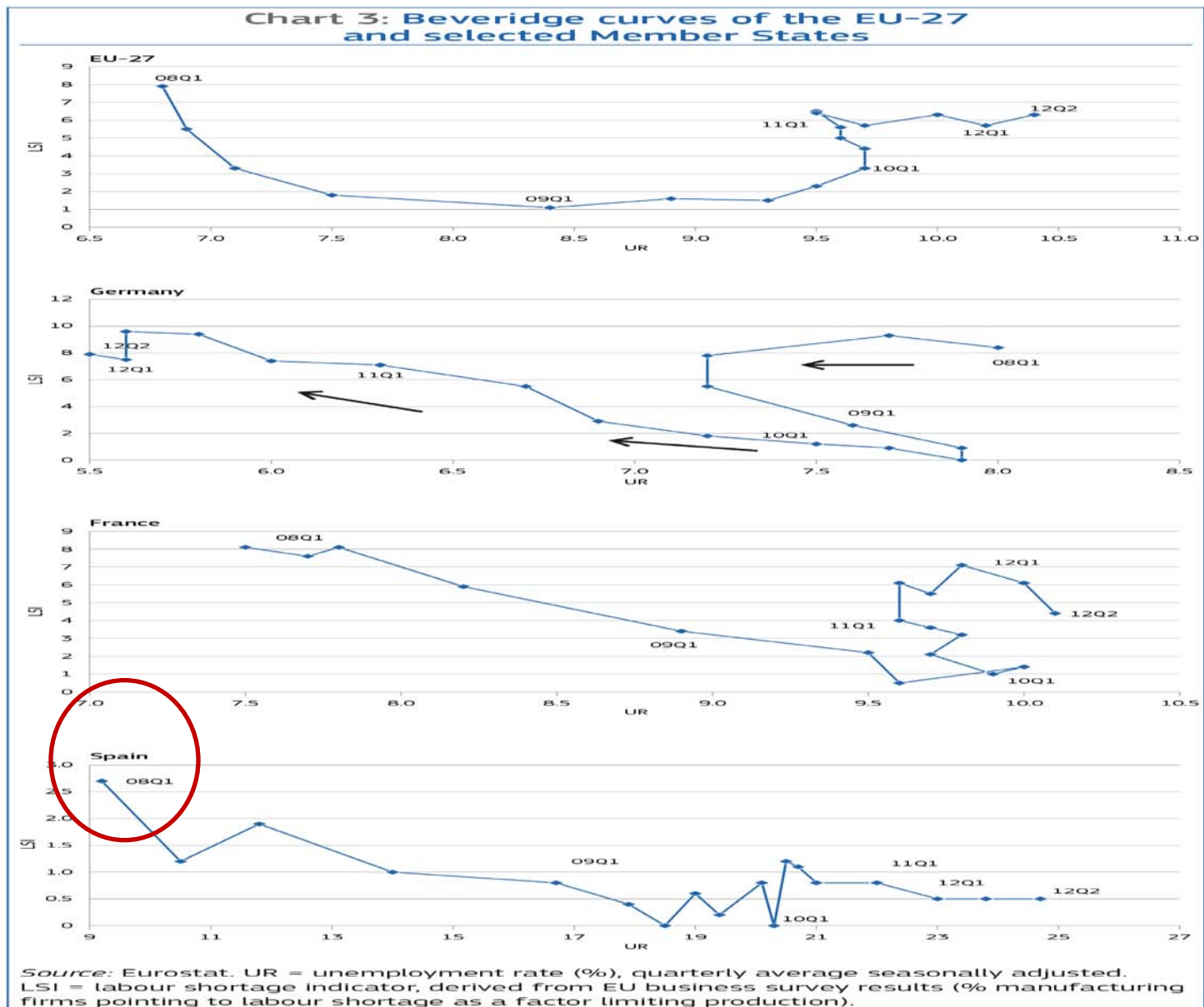
Andres et al. (2009), Cahuc & Kramarz (2005), Boeri & Garibaldi (2008), Bentolila & Jansen (2010), (P) Ichino (2014), Conde-Ruiz et al. (2011), Cahuc (2012), Boeri et al. (2013), Dolado (2015), [Jobs Act](#), etc.]

Pending research issues

➤ Technology choices in dual LM and relocation shocks



Long-lasting effects on Mismatch: Beveridge curve



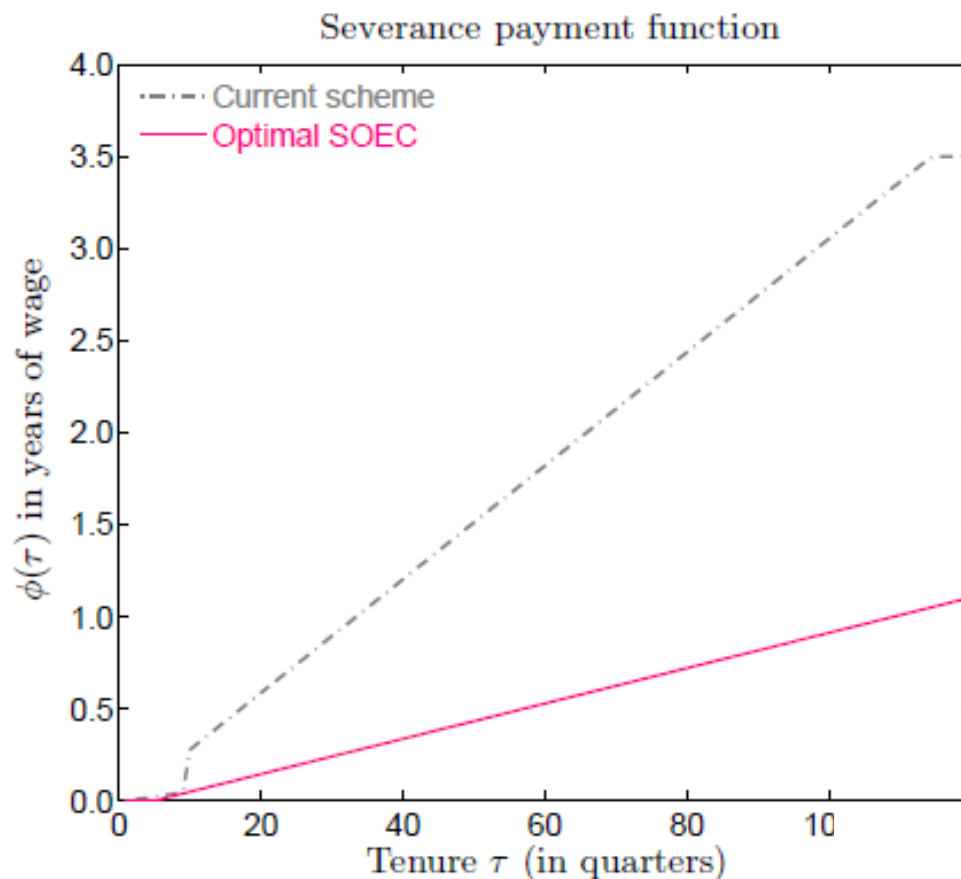
➤ **Collective Bargaining decentralization → Higher wage flexibility**

(Lazear's offsetting transfer effect ?)

Can we observe an increasing in temp-to-perm conversion rate for those workers close to minimum wages?

➤ Specificities in the design of Unified Contract

Dolado, Lale & Siassi (2016): Risk aversion+ Young (liquidity constraints) & Older workers (annuities) + UI financed by payroll taxes



$$\phi(\tau) = \max \{ \alpha_s + \rho_s \times \tau ; 0 \},$$

Decomposition of welfare gains

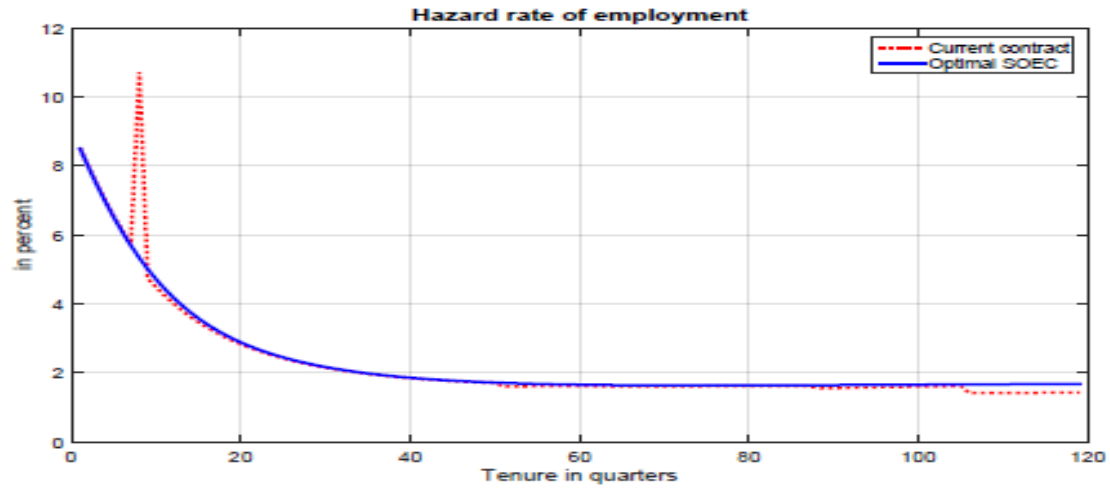
Table 3. Steady-state comparisons of various SOEC

		Slope ρ_s (in d.w.y.s.)								
		0	4	8	12	14	16	20	45	60
Initial eligibility										
τ_s (in months)	0	0.956	1.439	1.573	1.589	1.571	1.508	1.365	-0.437	-2.014
	6	0.956	1.431	1.599	1.665	1.666	1.643	1.572	0.265	-0.980
	12	0.956	1.408	1.585	1.668	1.681	1.680	1.630	0.584	-0.443
	18	0.956	1.385	1.565	1.652	1.671	1.680	1.651	0.801	-0.086
	24	0.956	1.365	1.540	1.636	1.655	1.669	1.658	0.950	0.176
	30	0.956	1.343	1.516	1.612	1.638	1.654	1.654	1.062	0.379
	36	0.956	1.324	1.496	1.588	1.617	1.636	1.644	1.148	0.544

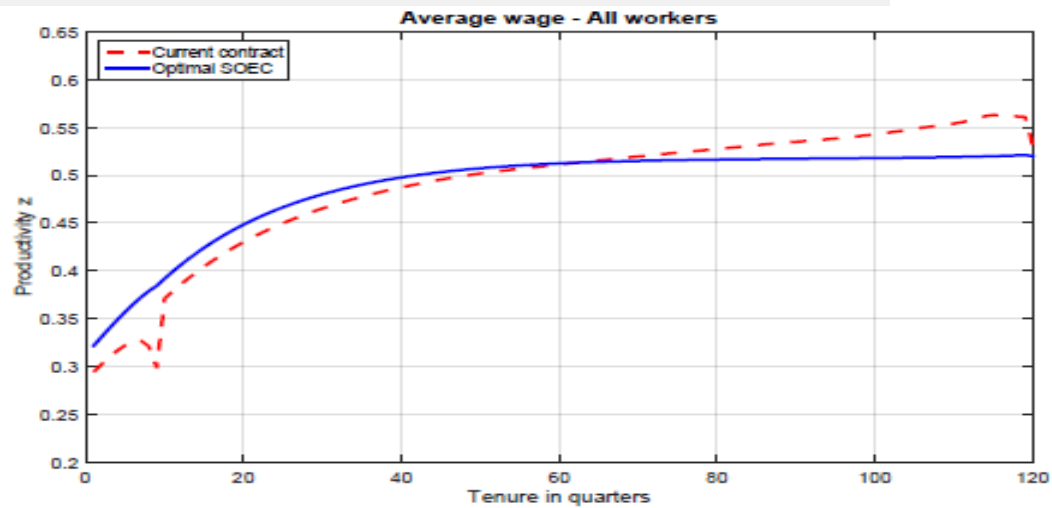
NOTE: An entry in the table is the percentage change in lifetime consumption of new labour-market entrants.

Total effect	Decomposition			
	Remove wall	Adjust slope	Tightness θ	Payroll κ
1.681	0.429	0.091	0.693	0.470
	(25.5)	(5.4)	(41.2)	(27.9)

Job destruction



Average wage - all workers



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: 0.86% vs. 1.68% (SOEC)

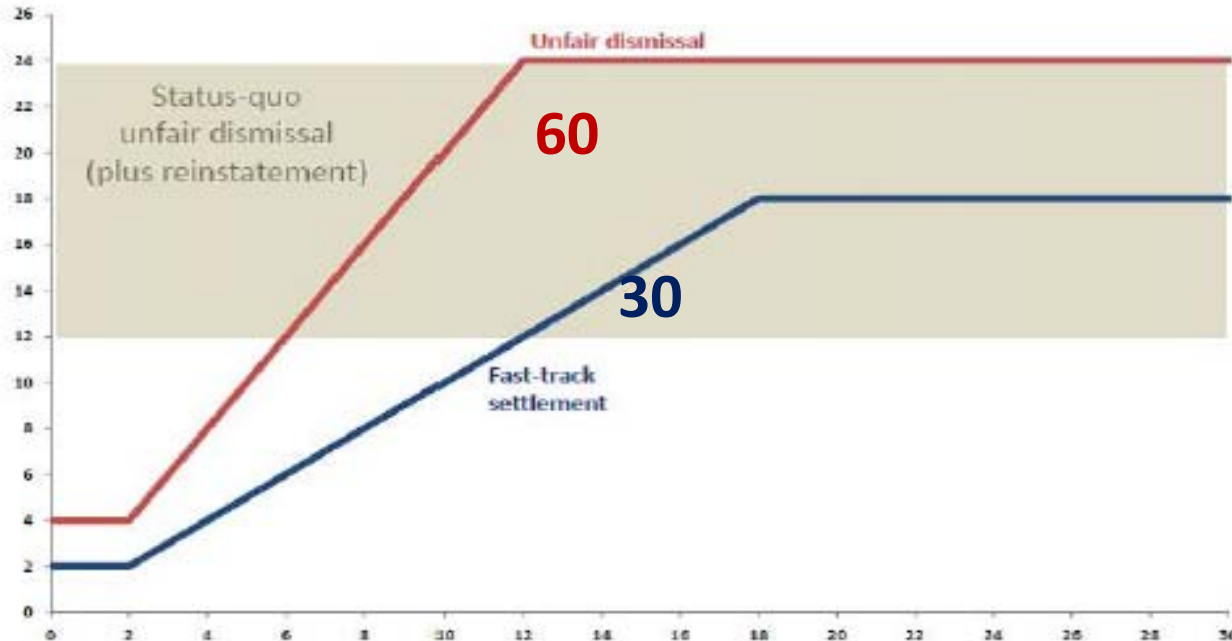
Political support 65.4% vs. 87.06%

Table 6. Optimal SOEC and welfare effects under

	Severance pay function	
	τ_s (in months) (1)	ρ_s (in d.w.y.s.) (2)
Benchmark	12	14
Lower UI benefits	6	10
Higher UI benefits	18	20
Red-tape costs	18	17
Quits vs. layoffs	18	15

➤ How large are red-tape costs ? Economics of court litigation ?

■ Unified contract (Jobs Act in Italy)



■ Combination of Severance Pay & Contribution Mutual Fund

■ Combination of Severance Pay & Experience rating

Before/After the JOBS ACT

