

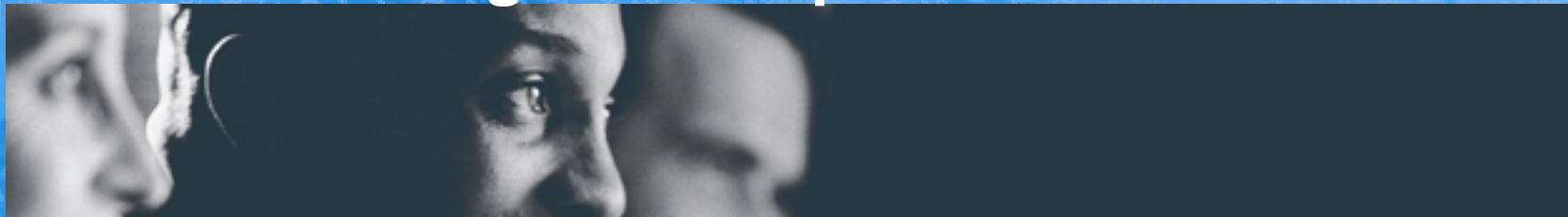


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RÉPUBLIQUE FRANÇAISE

Ministère de l'emploi,  
de la cohésion sociale  
et du logement



# Colloque La réévaluation de la stratégie de l'OCDE pour l'emploi : diagnostic, limites et enseignements pour la France



## Behind the Job Miracle

**Tito Boeri**

(Bocconi University and fRDB, IZA, and CEPR)

Centre de conférences internationales – 16 et 17 novembre 2006



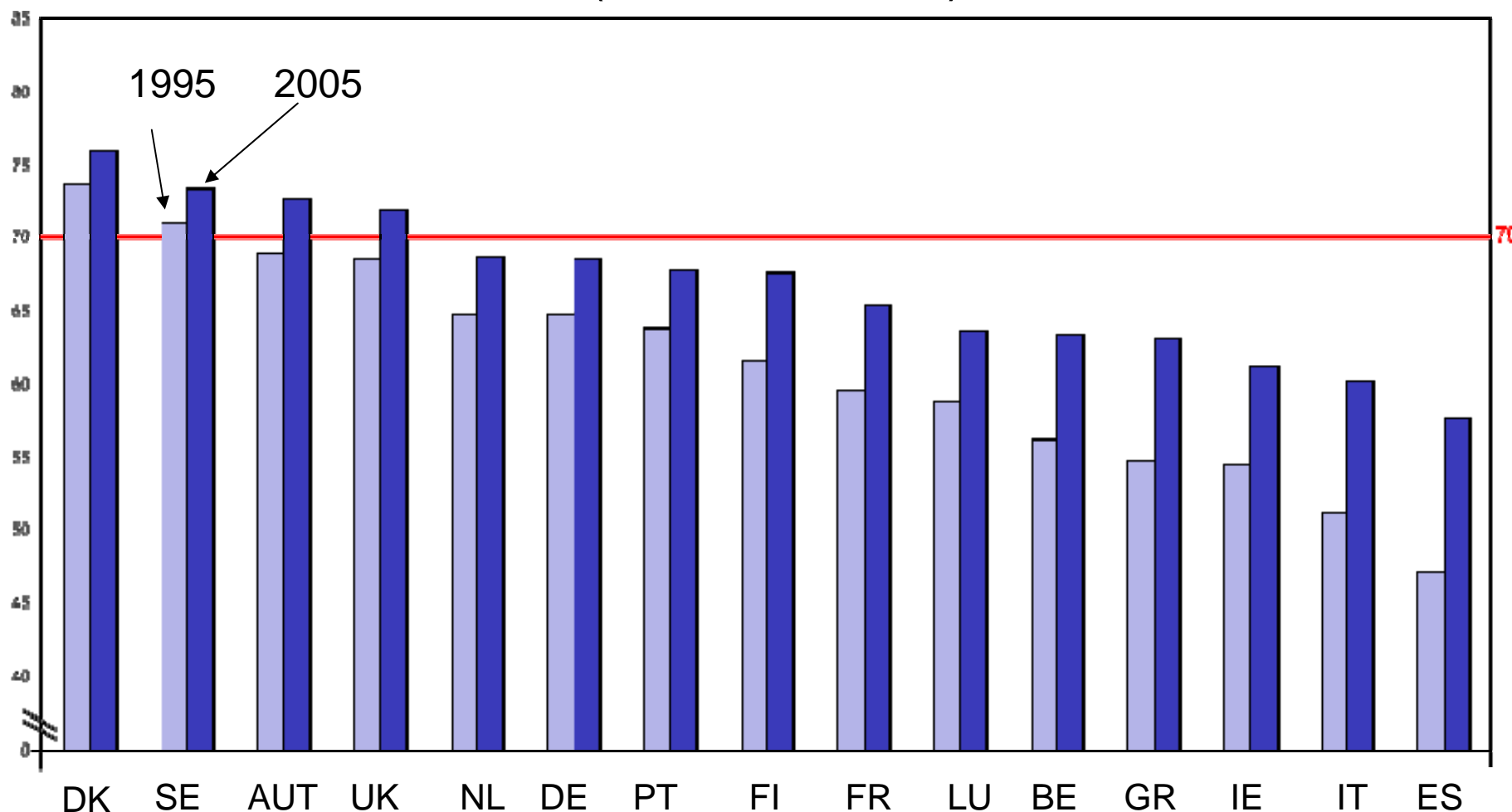
# 1994 OECD Jobs Study

- “The labour market has become particularly worrying in Europe...
- slow employment growth has always been a feature of the Efta and EC regions...
- there are indications that employment has been unusually weak vis-à-vis output growth...
- In the EC employment growth has been generally sluggish....”



# Since then...

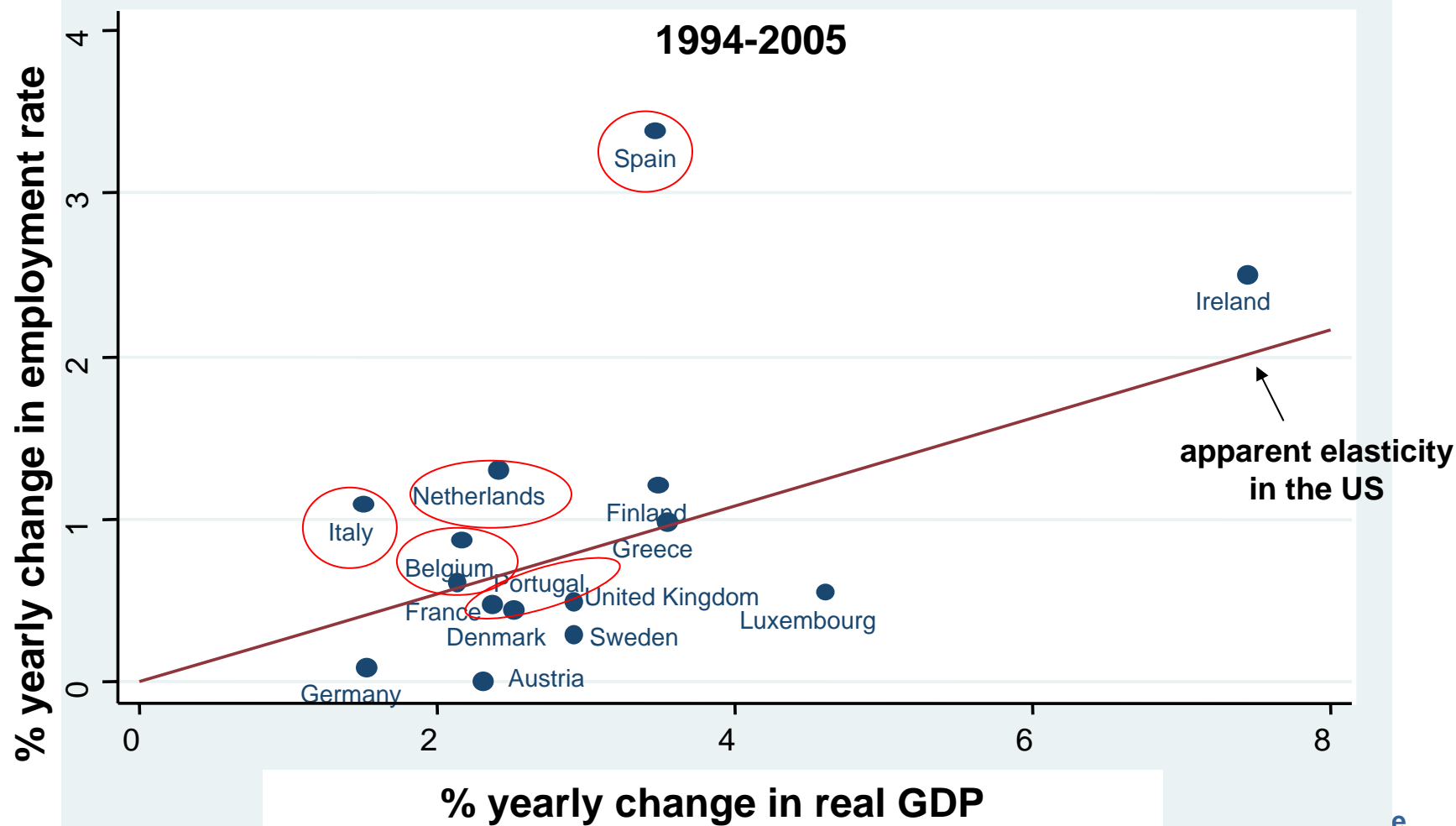
Employment to population rates and the distance from Lisbon  
(North-America)



Source: Eurostat



# From jobless growth to growthless job creation?





# Outline

- Why growthless job creation? Which type of jobs are they?
- The role of reforms of employment protection *at the margin*, changing rules only for new hires. Evidence on the *honeymoon effect*
- Issues of *sustainability* (also social and political). Strategies coping with the dualism: should we have a tenure-track?



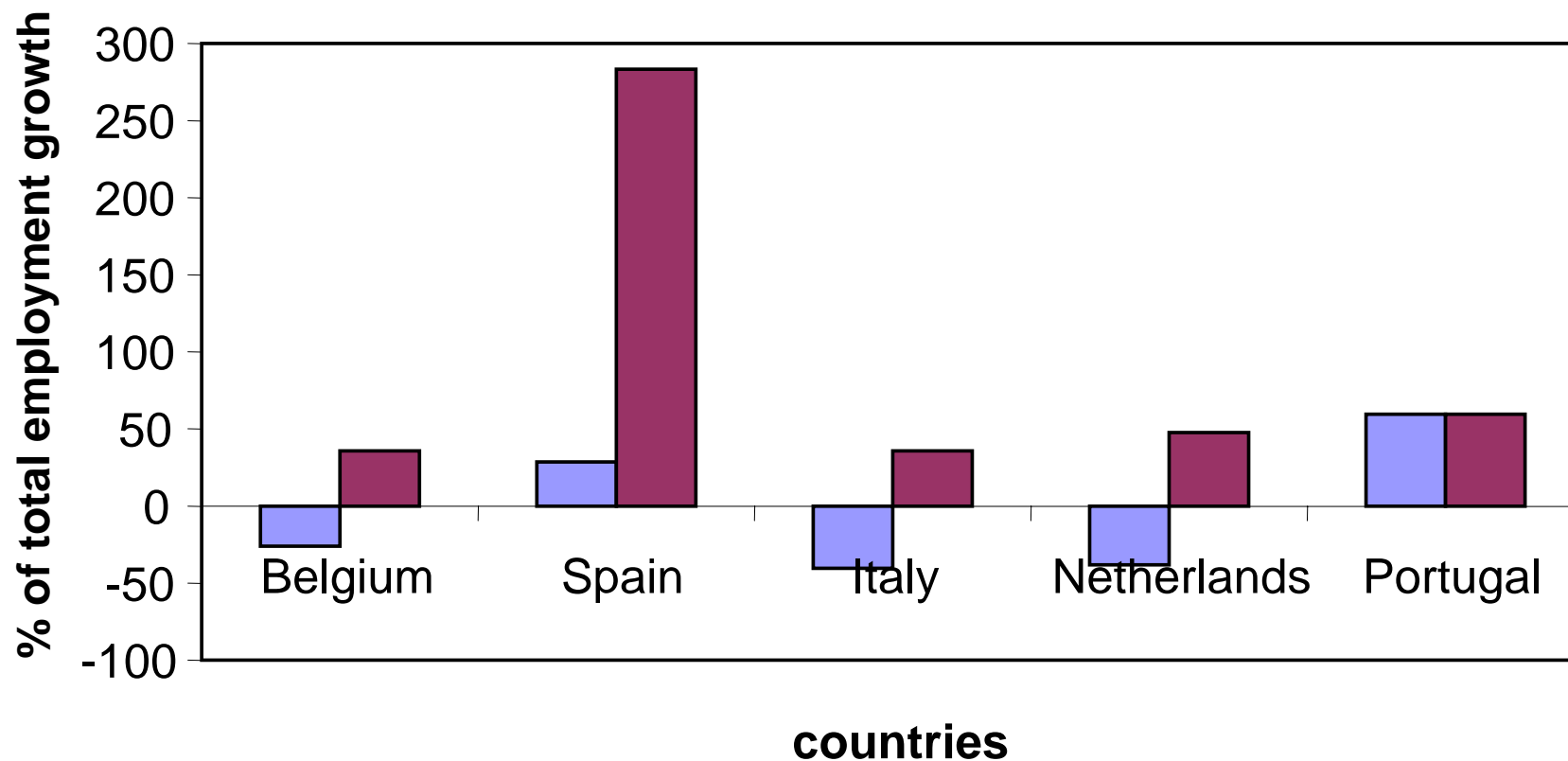
# Why growthless job creation?

Two potential explanations:

1. *Productivity*: Reforms reducing unemployment benefits and minimum wages made more low-skilled workers marketable. *It implies increased employment of low skilled workers*
2. *Flexibility*: Employers exploit flexibility at the margin, hiring workers under temporary contracts. *It implies increased employment of temporary workers.*



# Contribution to employment growth of unskilled labour and temporary employment

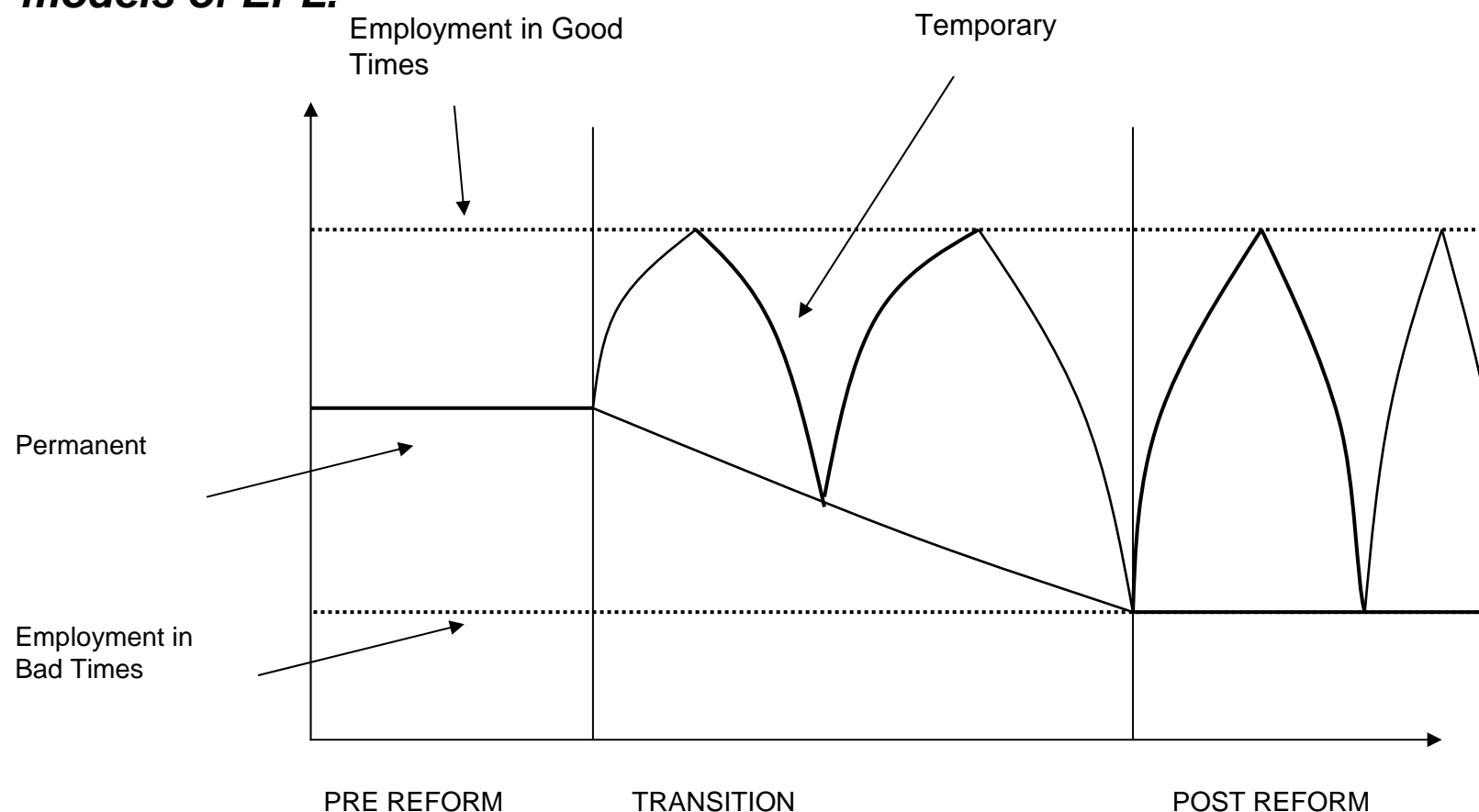


■ Workers with primary and low education ■ Temporary workers



# The mechanism: a Honey Moon Effect (2006 with Garibaldi)

***Under good times a “buffer stock” is built-up. Hiring of Temps. Under bad times temps are laid off. Average employment increases unlike standard models of EPL.***







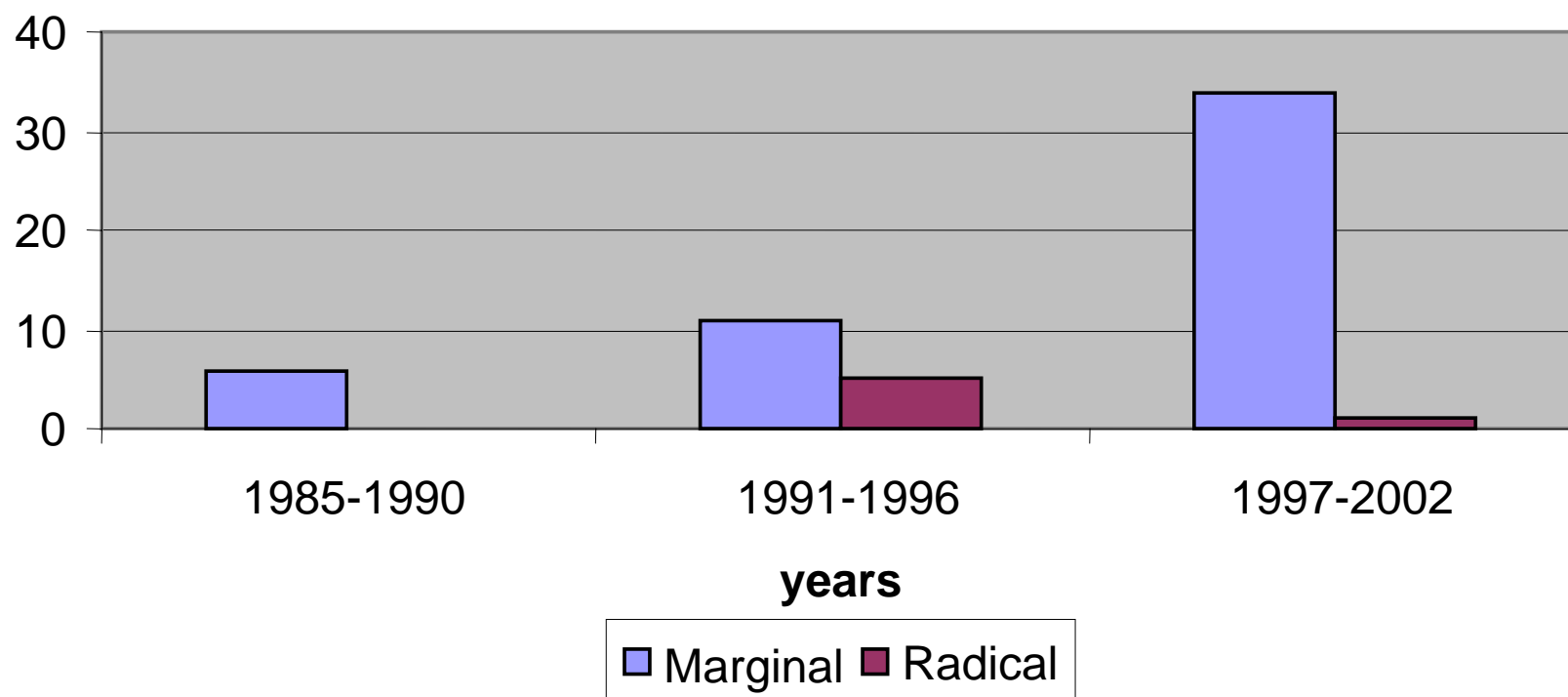
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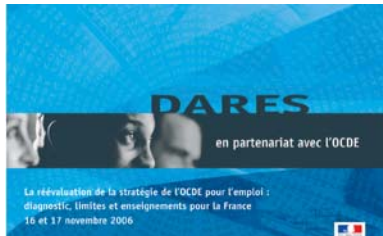
## More marginal reforms of employment protection

### Number of reforms reducing strictness of EPL

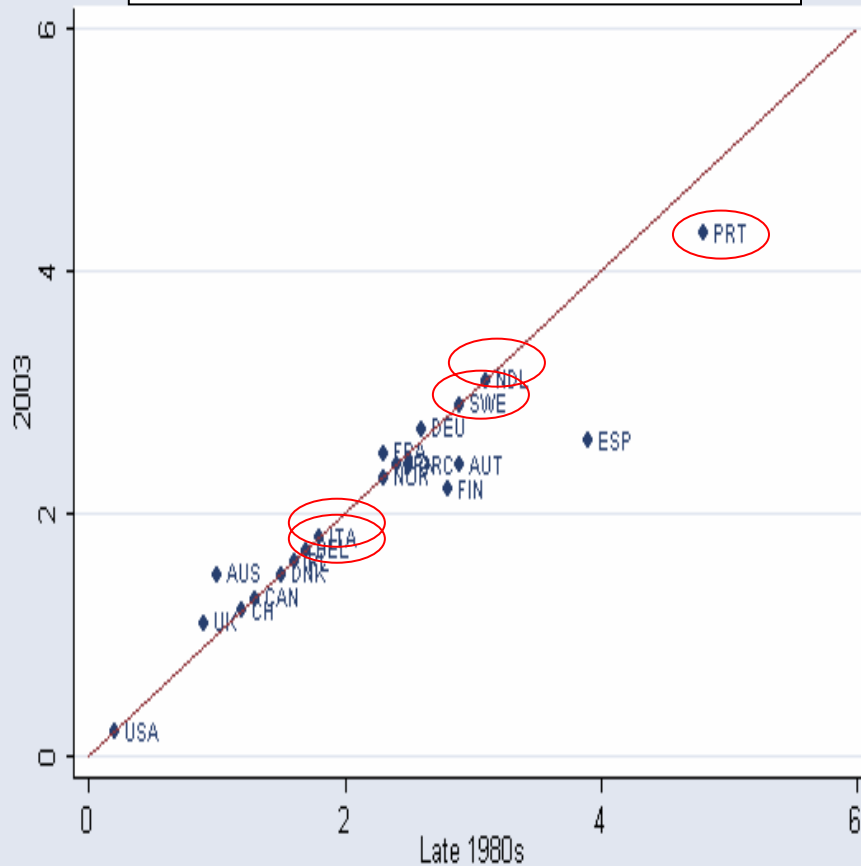


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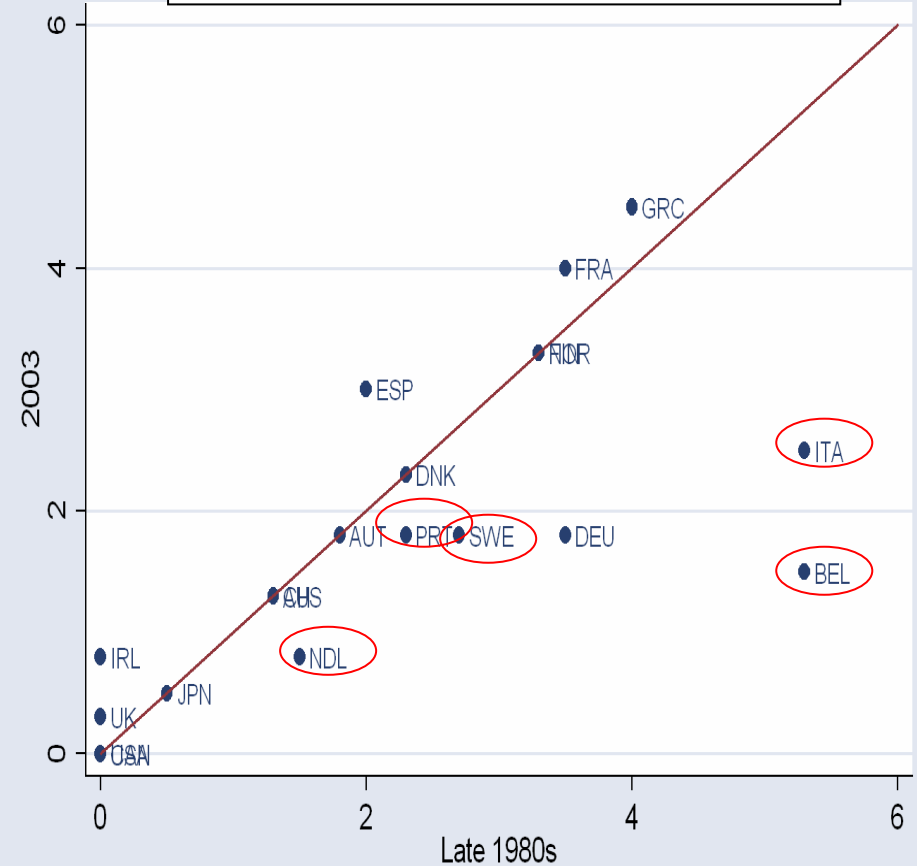
# Marginal reforms are two-tier reforms



## Radical reforms



## Marginal reforms





# Employment Growth Increased *After* the Reforms

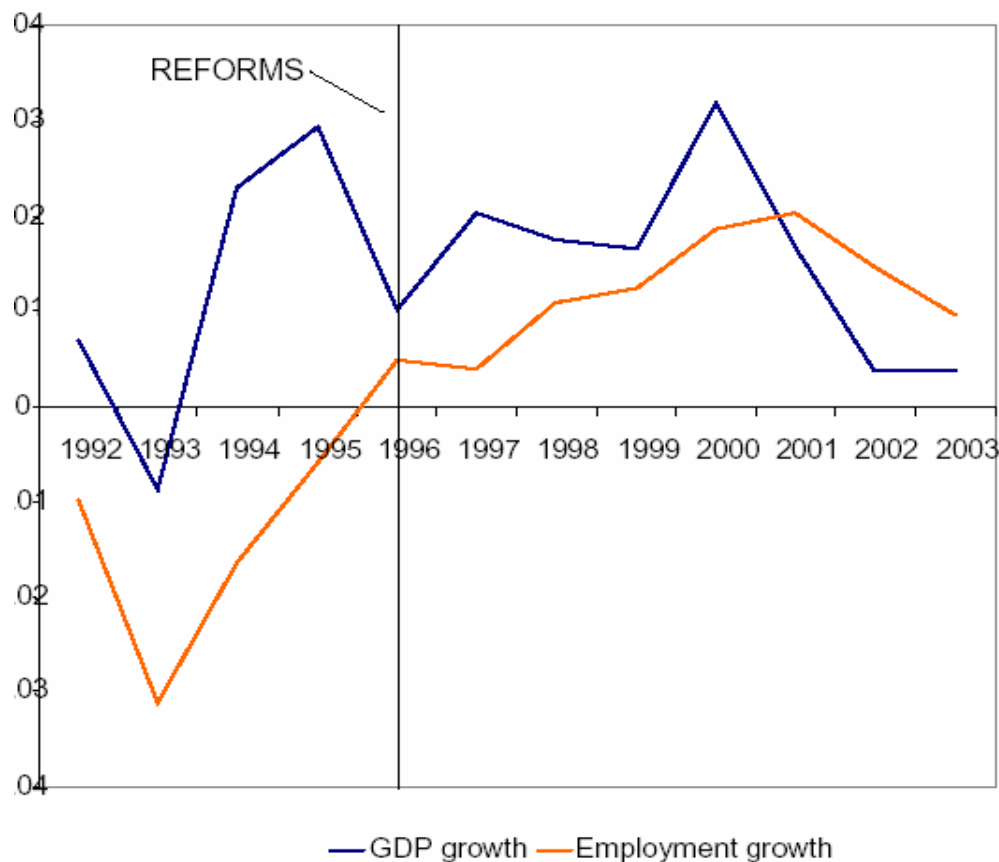
	Pre Reform		Post Reform	
	Period	Average Growth	Period	Average Growth
Belgium	92-96	0,91	97-04	0,98
Spain	81-85	..	85-04	3,07
Italy	92-96	-0,24	97-04	1,29
Netherlands	92-97	1,11	98-04	1,09
Portugal	92-95	-0,3	97-04	1,7
Sweden	95-96	-0,77	97-04	1,19

Source: European Commission and FRDB database

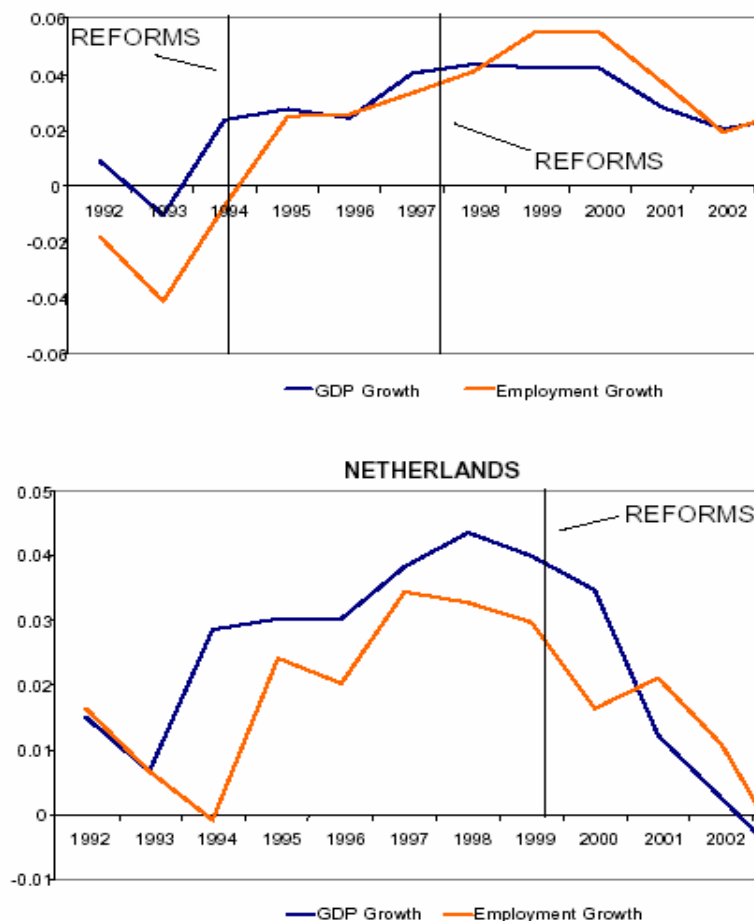


# Reforms and the switch from jobless growth to growthless job creation

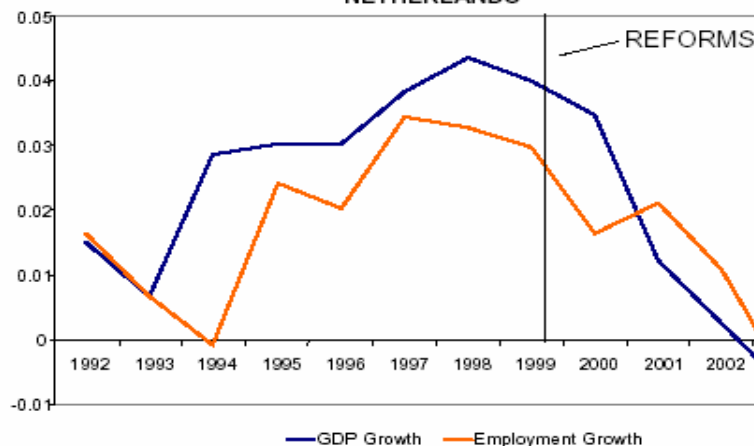
ITALY



SPAIN



NETHERLANDS



Source: OECD Data

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# Summarising

1. Aggregate Employment increased after the reforms
2. The employment content of growth increased (involving a declining labour productivity growth)
3. The contribution to employment growth of temporary contracts (mainly, but not only, fixed-term contracts) varied between 35% to more than one-hundred per cent (it occurred even in countries where regular contracts declined)



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- The role of reforms of employment protection at the margin, changing rules only for new hires. Evidence on the honeymoon effect
- Issues of *sustainability* (segregation, unemployment and longevity risks). Strategies coping with the dualism: should we have a tenure-track?



# Sustainability issues with two-tier regimes

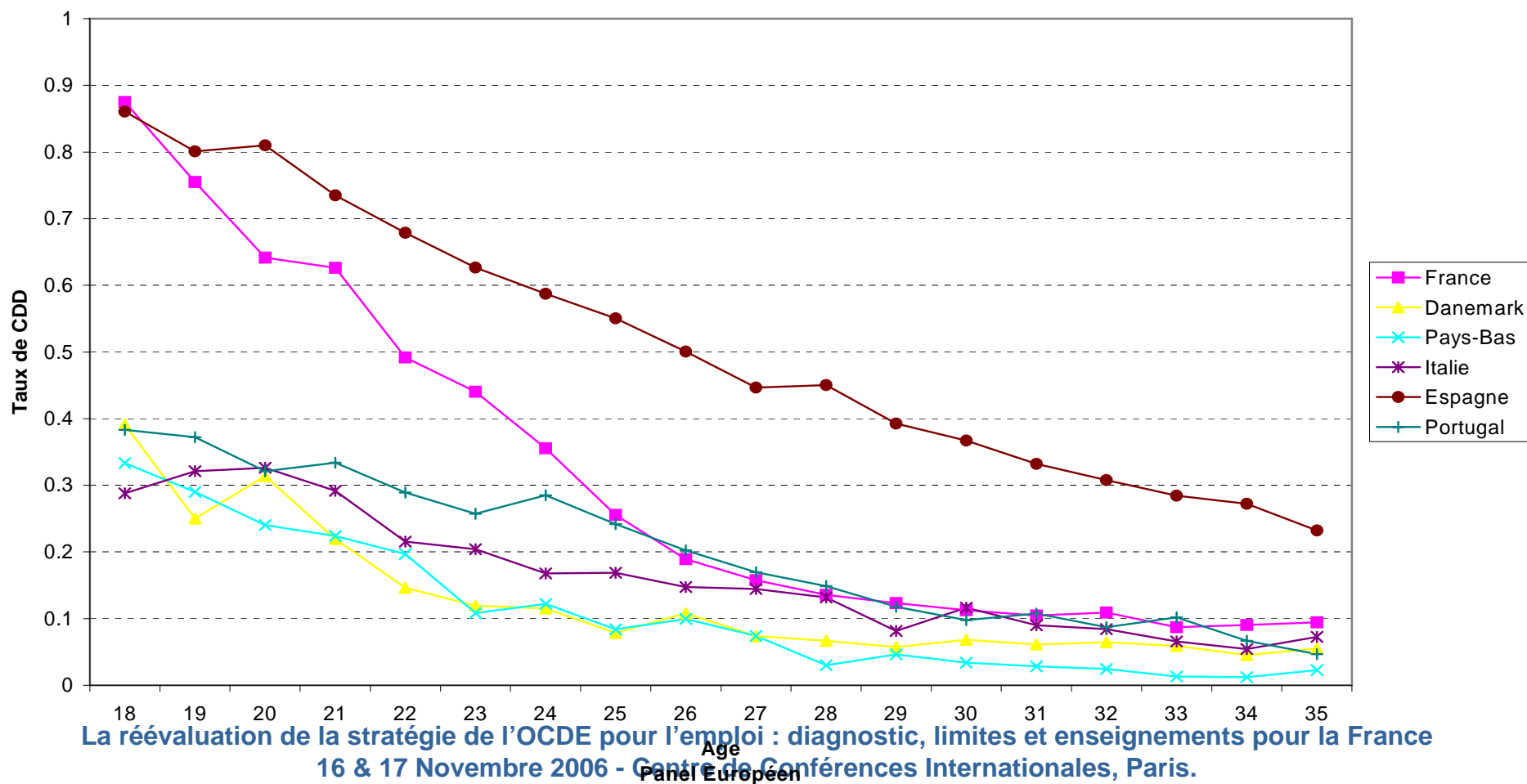
- **Segregation:** low flows from temporary to regular contracts; no career prospects and low human capital investment
- **Unemployment risk:** buffer stock, high job instability
- **Longevity risk:** do temporary workers acquire enough pension rights?





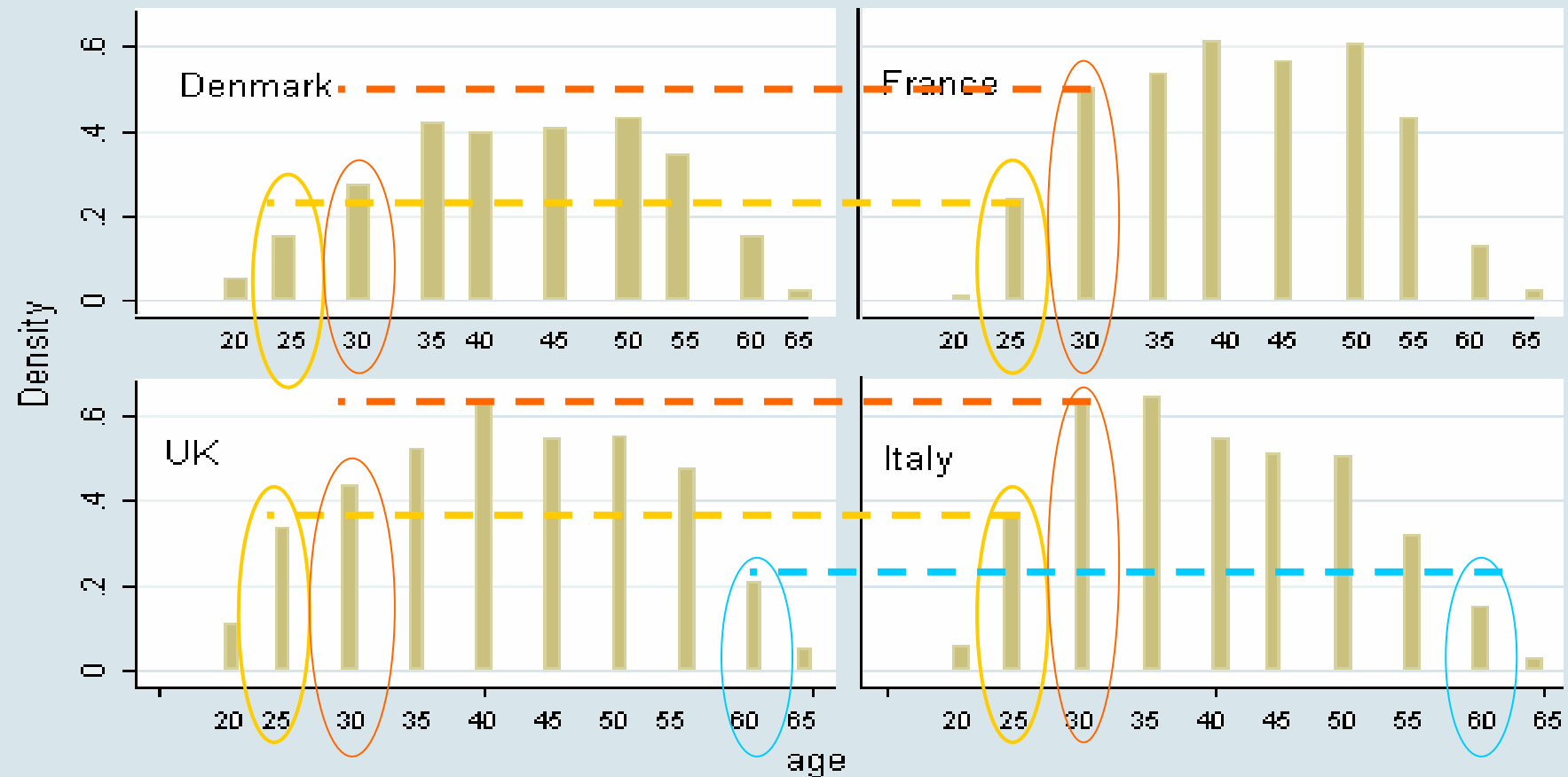
Fixed-term contracts are for young workers  
 Probability of moving to permanent contract  
 about .10 in Italy

Part de contrats précaires, parmi tous les contrats





# Perceived “Job insecurity”. Concentrated among young people

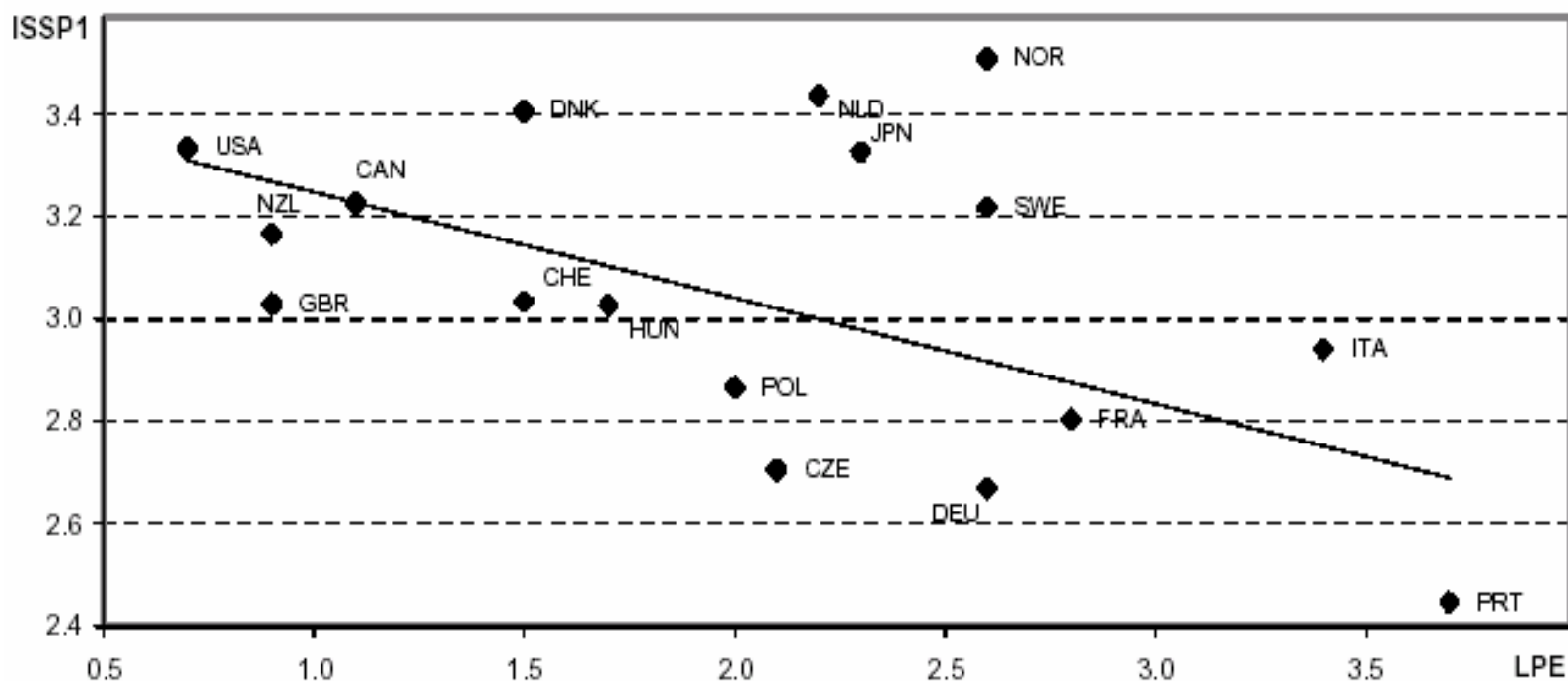


Graphs by country



# This explains why at the aggregate EPL is *negatively* correlated with fear of job loss

Feeling of job security

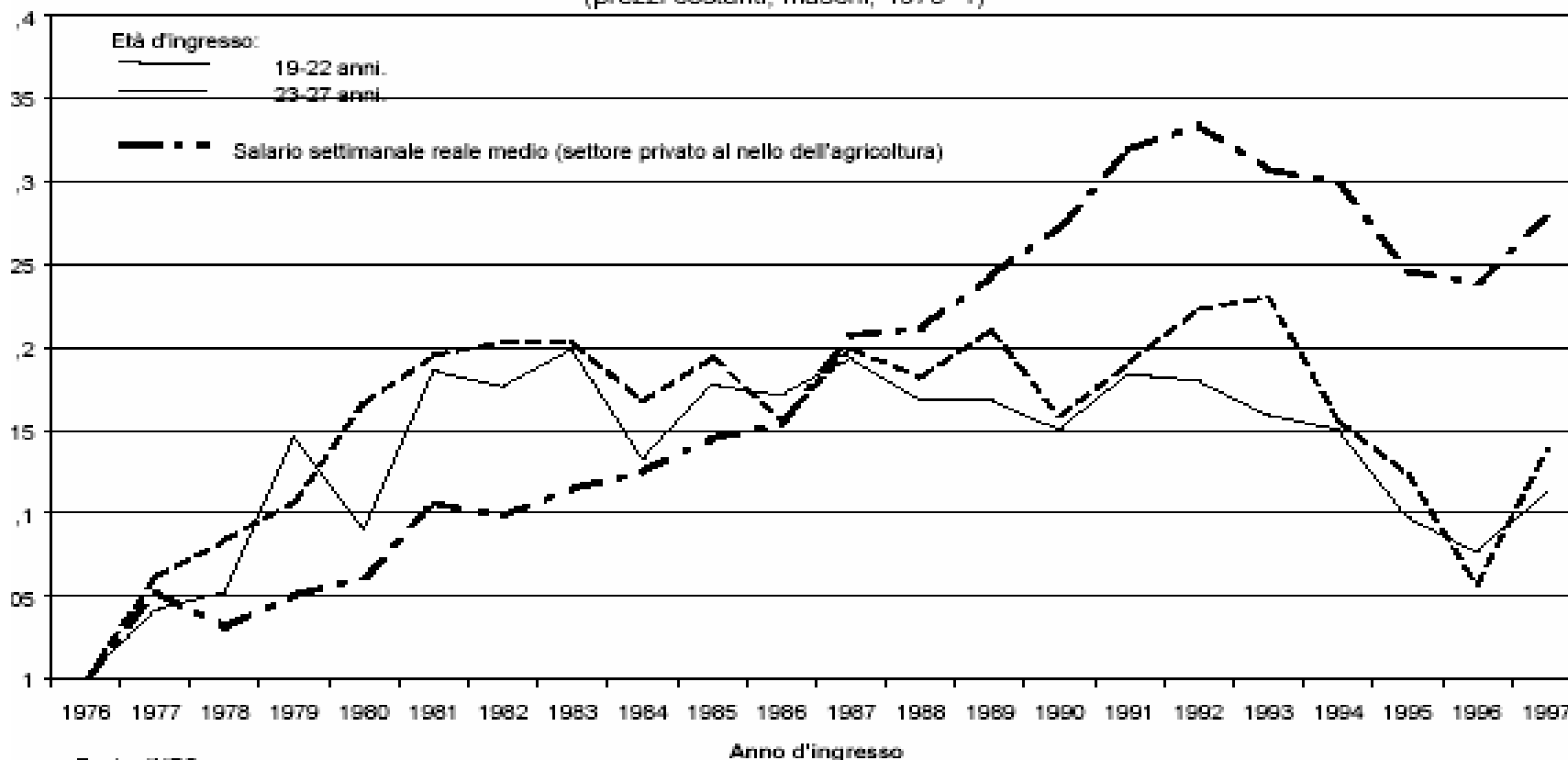


Horizontal axis: increasing in strictness of EPL;  
Vertical axis: increasing in perceived security. A paradox!



# Entry wage in relation with the average wage: Italy 1976-97

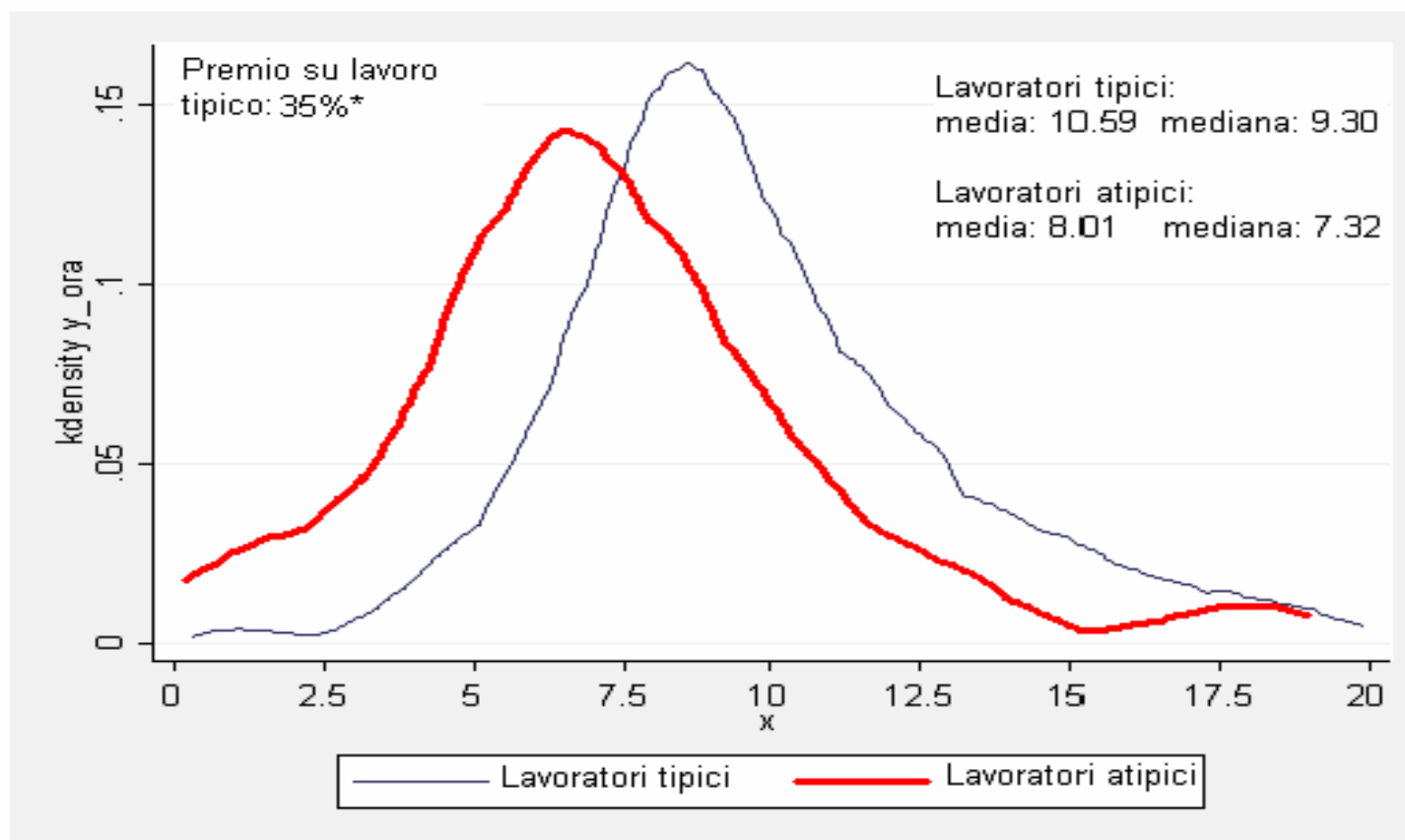
Salario settimanale d'ingresso e retribuzioni unitarie medie.  
(prezzi costanti; maschi; 1976=1)



Fonte: INPS.



# Wage distribution of permanent and temporary contracts



Note: \* controllando per età, genere e livello di istruzione.



# Longevity risk: the annual pension of a “co.co.co\*“ in Italy

	<b>Pensione annua (Euro 2005)</b>	<b>in % all'ultimo salario</b>
	<b>Anzianità=40</b>	<b>Anzianità=40</b>
<b>Co.co.co \ progetto Dipendente (salario d'ingresso 1000 euro)</b>	4945	41%
	11100	62%

\*Tasso di sostituzione

Note: Assuming GDP yearly growth rate of 1,5 and typical wage tenure profile

\*(begin working in 1996, at the age of 24 years, monthly net wage 800 €, retire at 65 years after 40 years of work).

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## A “tenure track”?

- Gradual buildup of protection. To be adapted to national regulations for regular contracts
- Example. Italy: 3 steps within a permanent contract :
  - probationary period (6 months)
  - “engagement” (from the sixth month to the third year)
  - tenure (after 36 months)
- maximum duration of a fixed- term contract: 2 years
- higher contributions to UBs for FTCs



# Conclusions

- More jobs because temporary jobs?
- Effects of two-tier reforms in line with transitional dynamics of standard model of labor demand with attrition and EPL reform. Also wage discount is important
- Policy issues: complexity, sustainability and segregation can be dealt with by creating tenure-track