

Two-tier after the crisis: skipping a generation?

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“The current crisis and the labor market”

IZA Employment Seminar

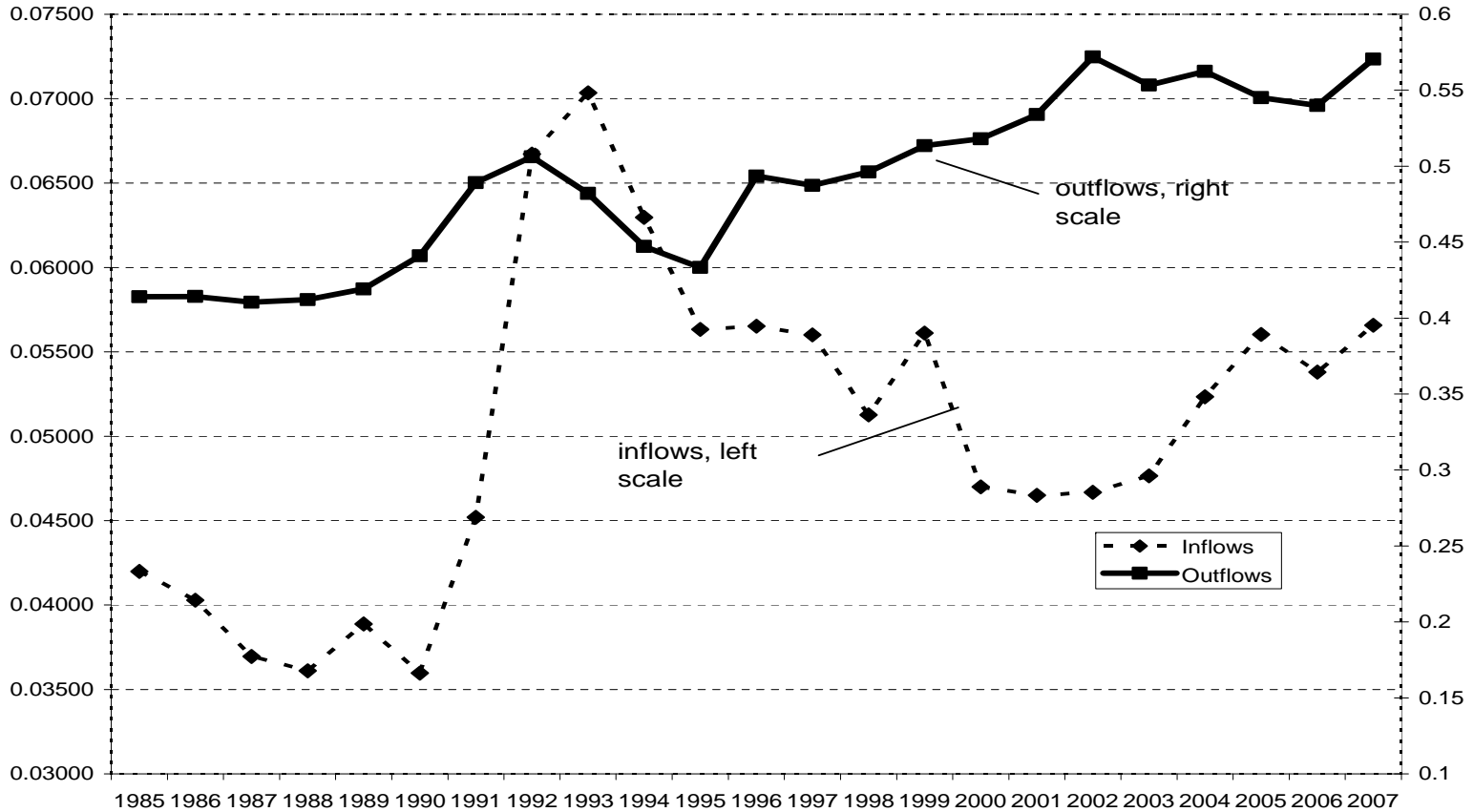
Brussels November 12 2009

Outline

- From a EU Miracle to a EU Nightmare
- How does the combination strict EPL - short-time work operate
- The age divide and human capital formation
- Policy implications: UBs and the tenure track

1994-2007

Unemployment declined with larger inflows/outflows



Decomposing contribution to U decline

Decade	Job Finding rate \1 ft	Separation rate \2 st	Change in unemployment \3 Δut	Contribution job finding cont ft/ Δut	Contribution separation cont st/ Δut
1985-95	0.4218	0.0537			
1996-05	0.5115	0.0522	2.04	0.85	0.15

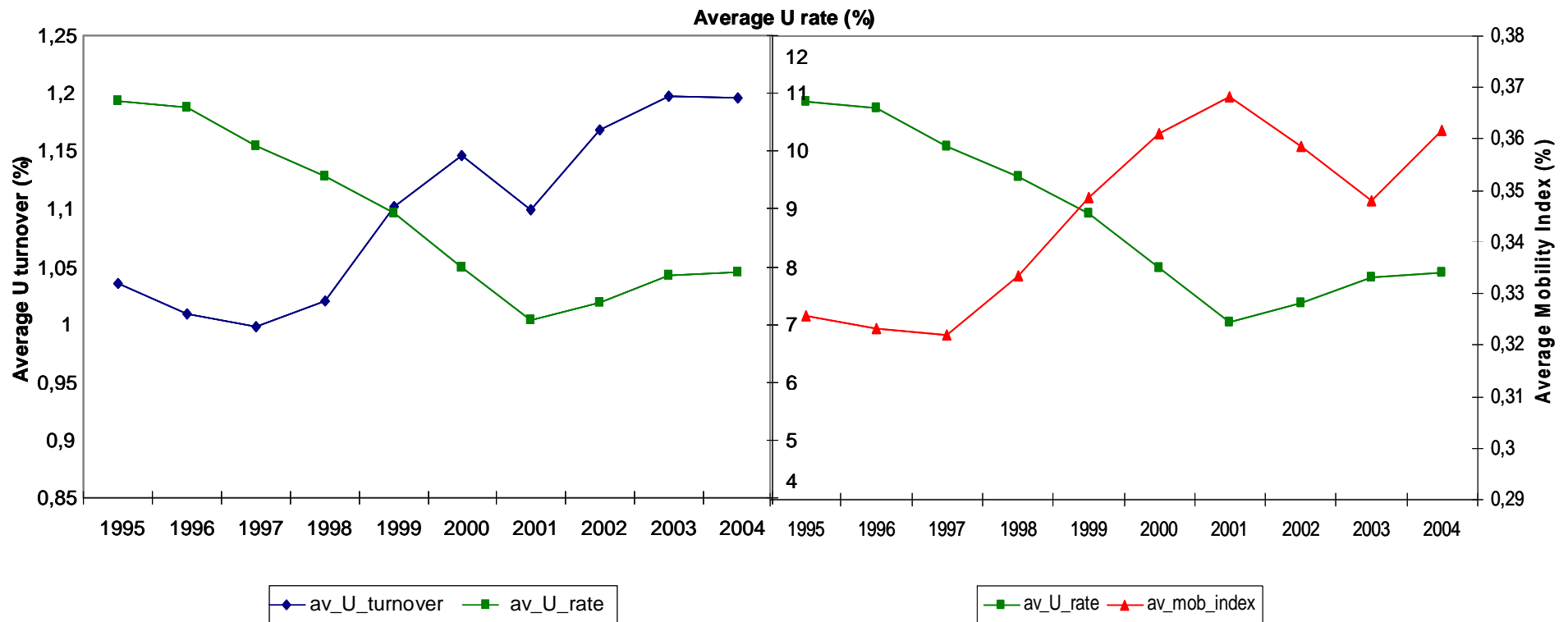
\1 Average job finding rate

\2 Average job separation rate

\3 Change in state unemployment $ut=st/(st+ft)$

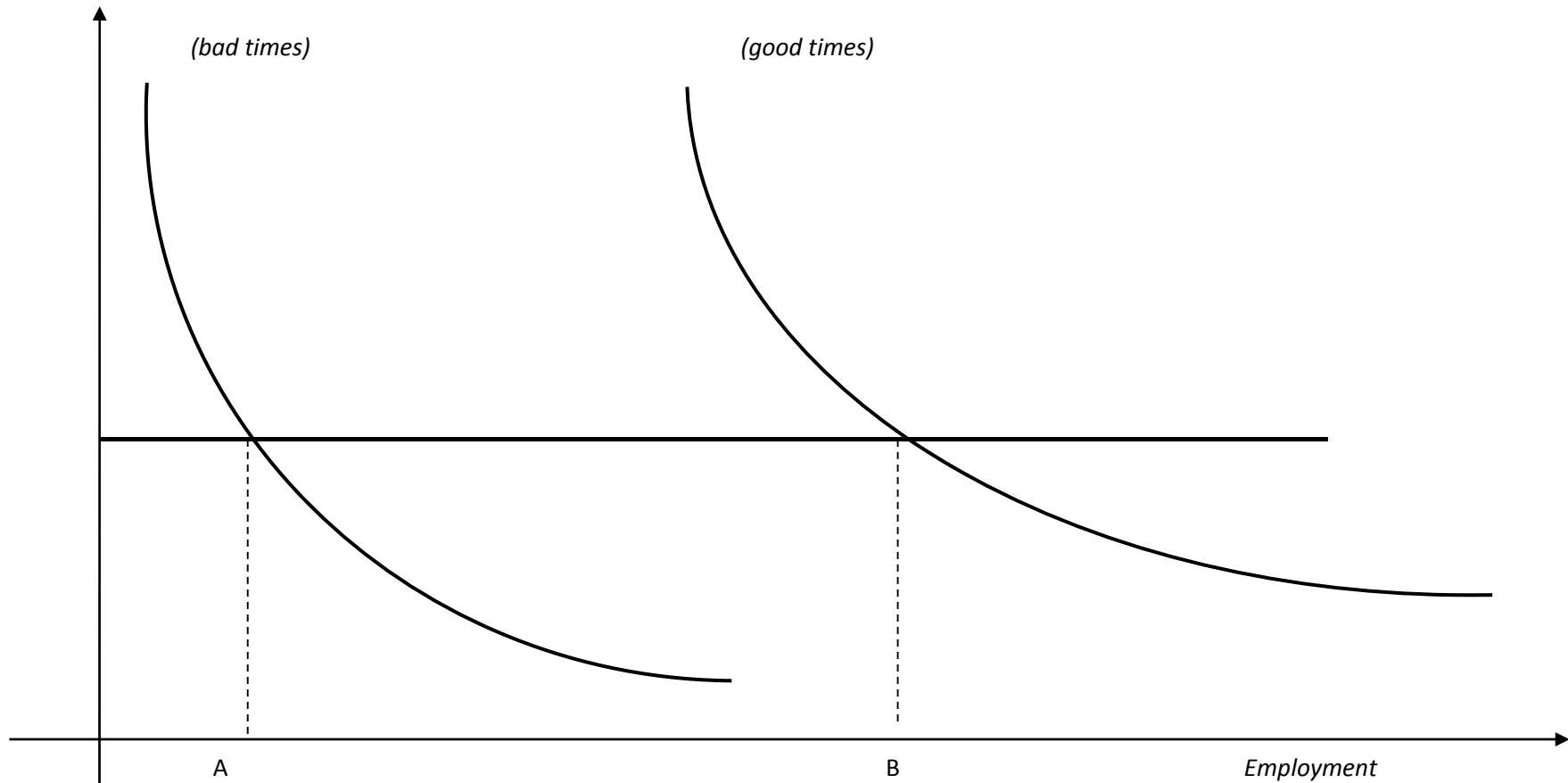
Source: Authors' calculation based on Pissarides and Petrongolo

Two Sides of Same Coin: Increase in mobility at declining unemployment



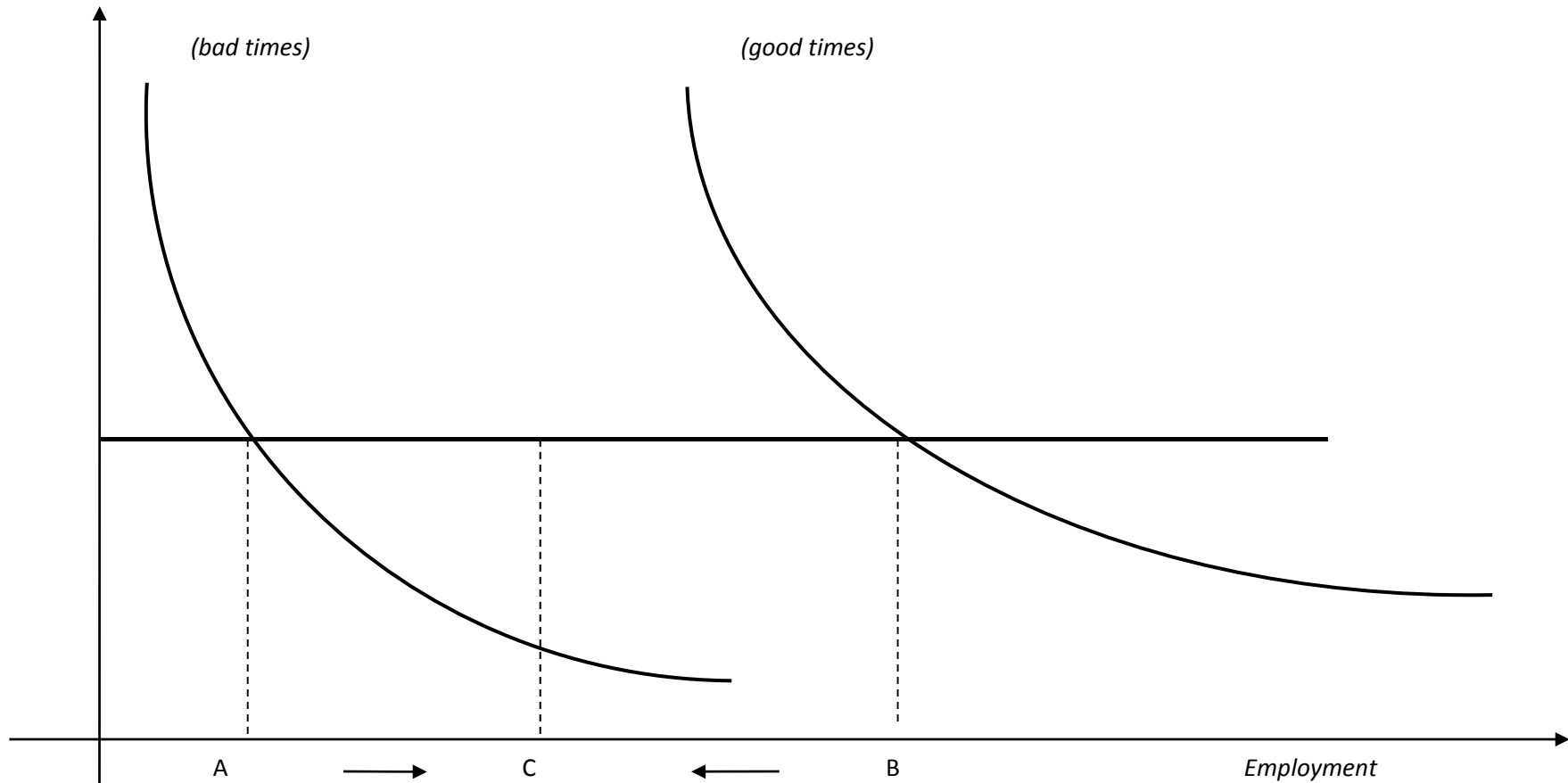
The Honeymoon Effect

Flexi-land



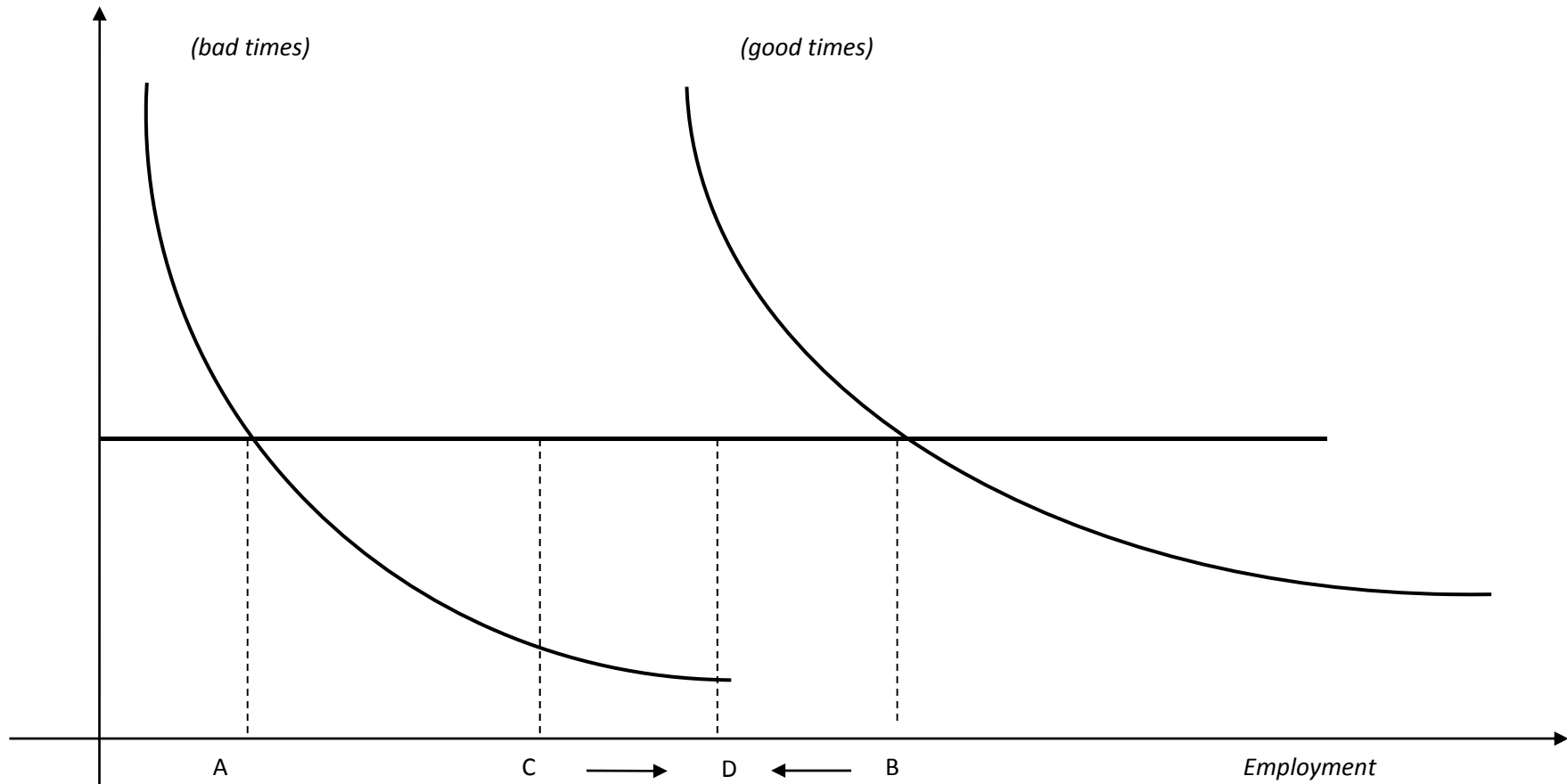
The Honeymoon Effect

Rigid-land



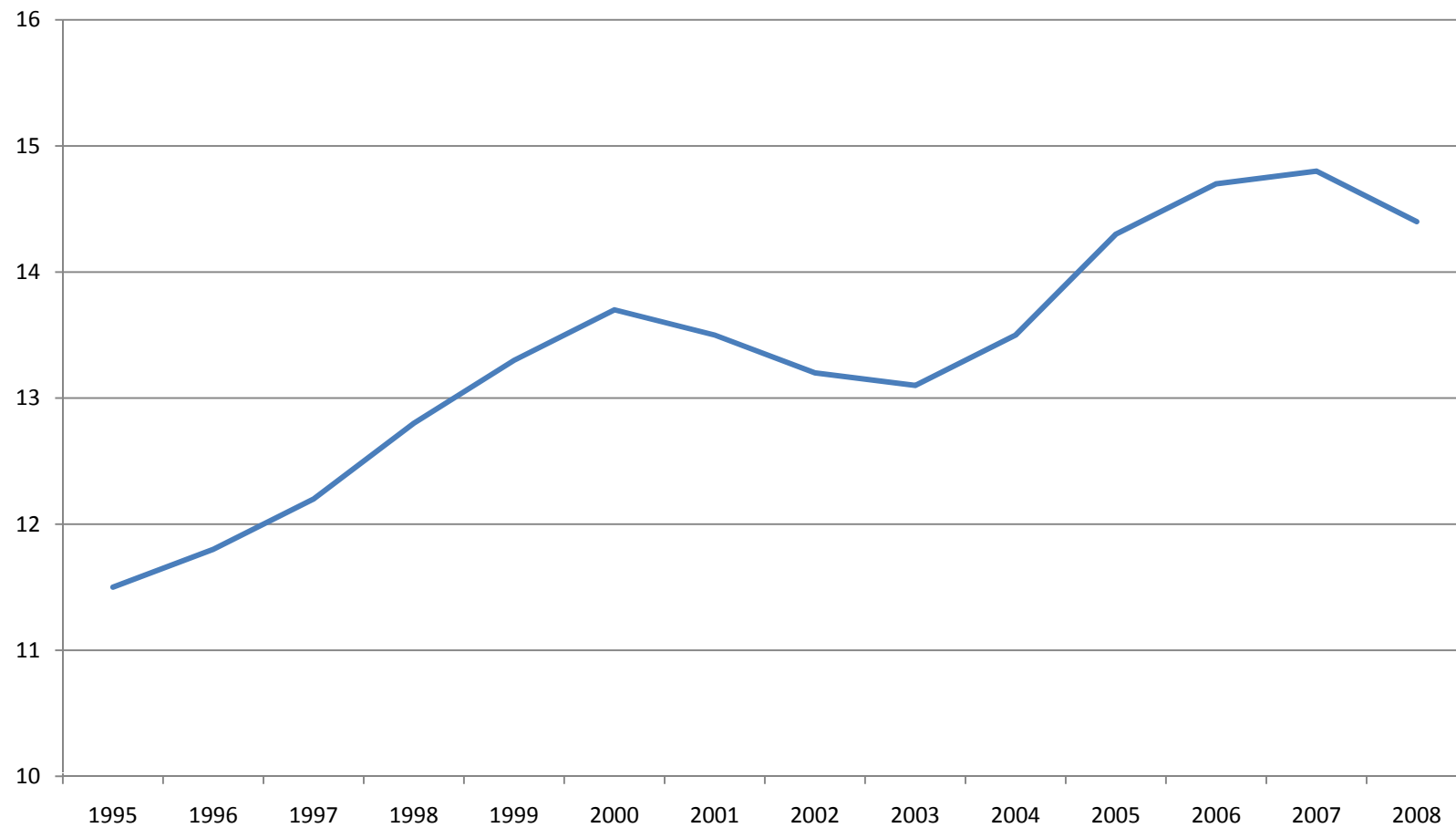
The Honeymoon Effect

Two-tier Regime



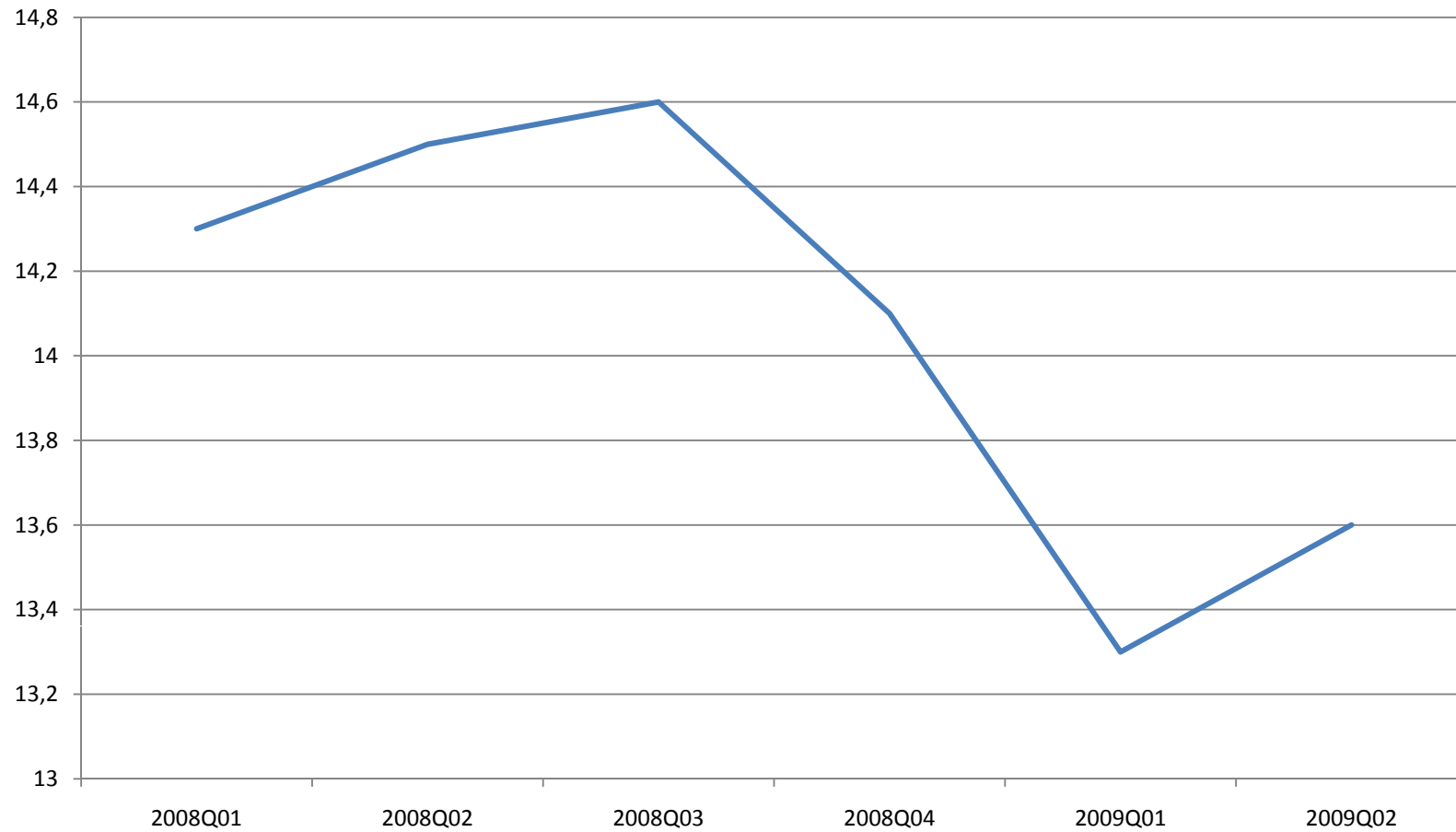
Temporary contracts: the rise....

Temporary employees % of total dependent employment
EU 15 1995 - 2008



.....and fall

**Temporary employees %
Quarterly data EU15**



Temporary Job Losses

	2008Q02	2009Q02	Delta 2009Q02-2008Q02	% 2009Q02-2008Q02
DE	4,954,800	4,853,800	-101,000	-2.04%
ES	4,952,500	3,971,500	-981,000	-19.81%
FR	3,297,800	3,091,600	-206,200	-6.25%
IT	2,443,100	2,214,300	-228,800	-9.37%
UK	1,349,800	1,395,700	45,900	3.40%

TEMPs and overall Job Losses

Temporary Employment

	2009Q02-2008Q02 %
DE	-2.04%
ES	-19.81%
FR	-6.25%
IT	-9.37%
UK	3.40%

Total Employment

	2009Q2-2008Q2 %
DE	0.45%
ES	-7.25%
FR	-0.34%
IT	-1.60%
UK	-2.04%

Outline

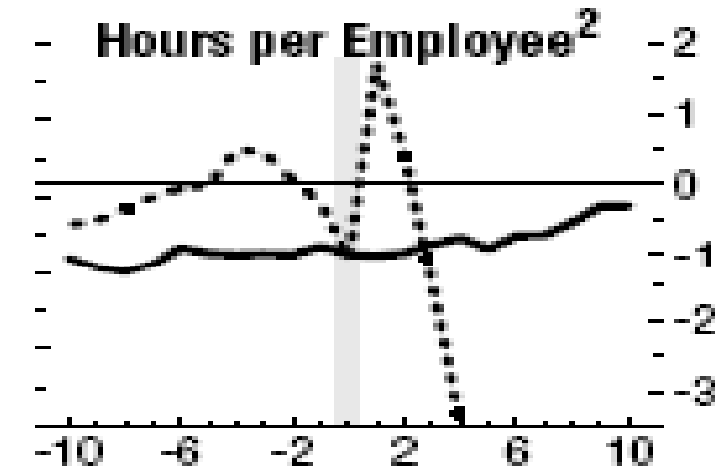
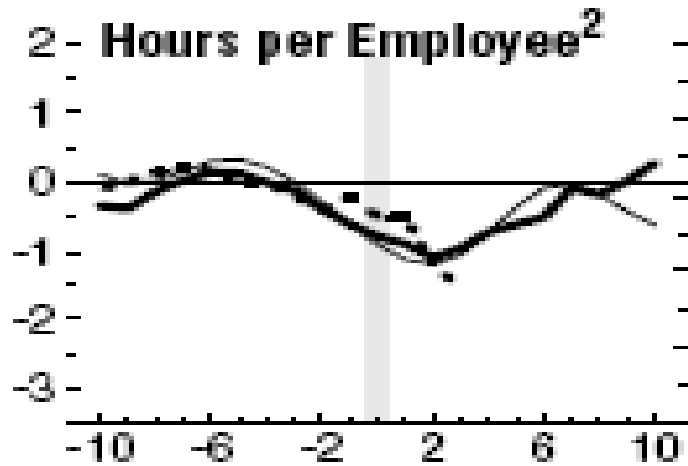
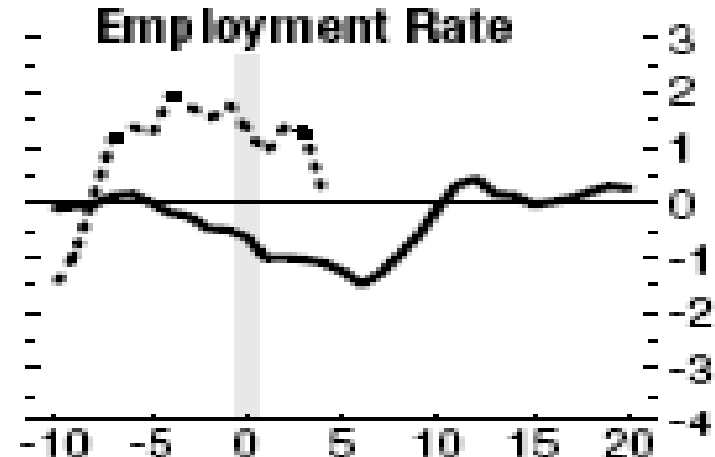
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- The generational divide
- The tenure track

US and Germany

— Previous - - - Current — 2001



US and Germany (2)

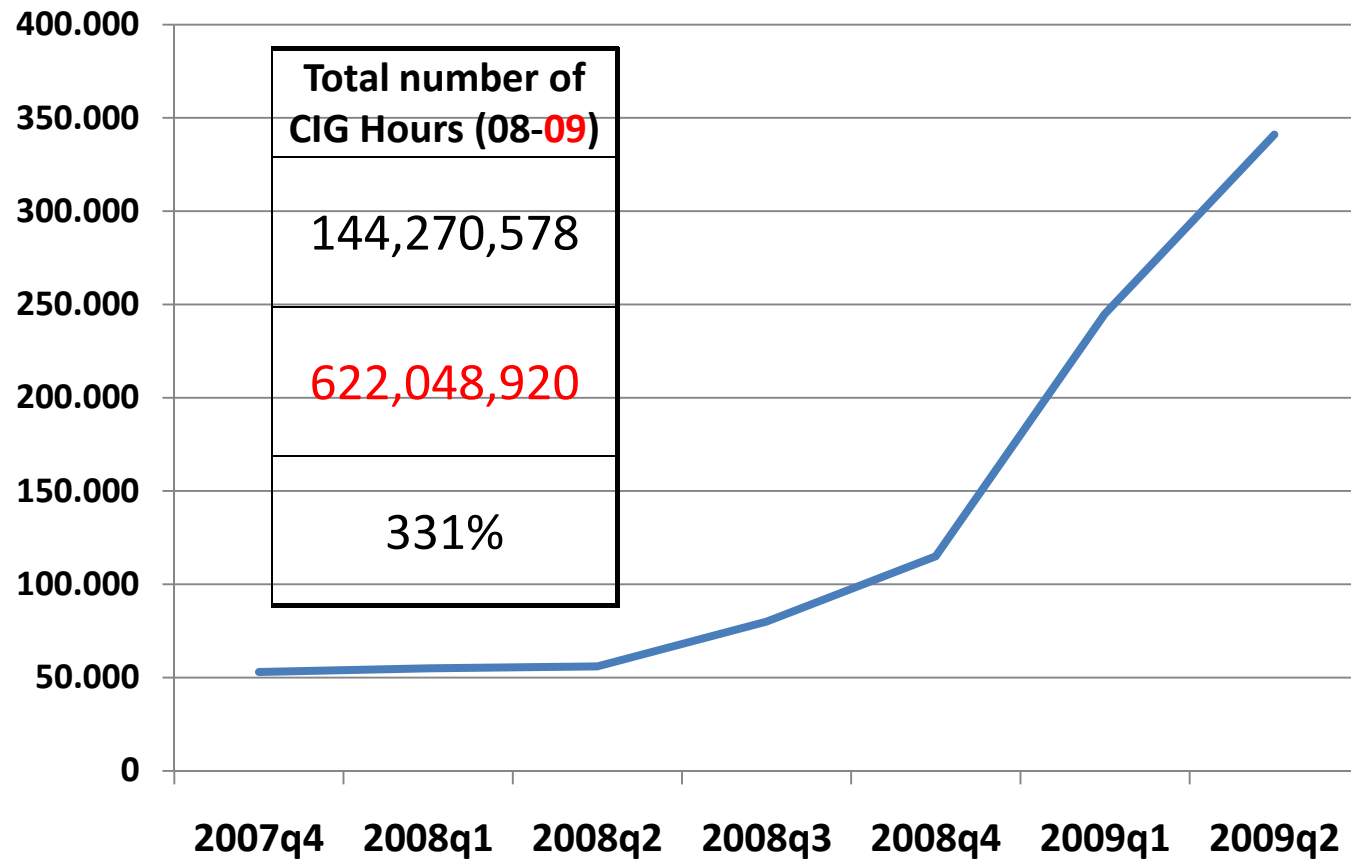


Freezing workers into firms (Italy- CIG)

ITALY	2007q4	2008q1	2008q2	2008q3	2008q4	2009q1	2009q2
Total Workers	53,000	55,000	56,000	80,000	115,000	245,000	341,000
Percentage Increase		3.77%	1.82%	42.86%	43.75%	113.04%	39.18%

ITALY	Total number of Frozen Hours
2008 (January-September)	144,270,578
2009 (January-September)	622,048,920
Percentage Increase	331%

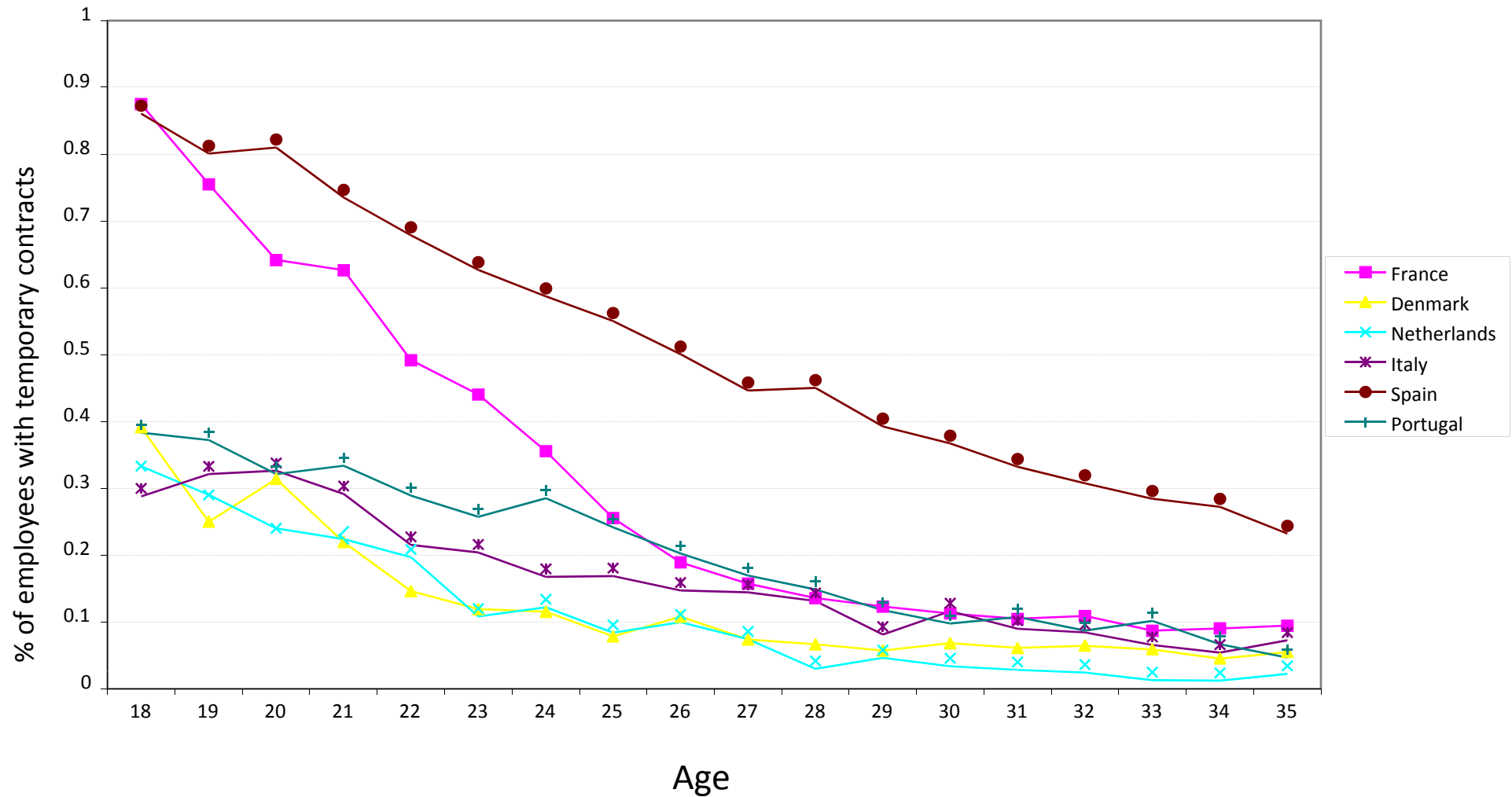
Freezing workers (Italy- CIG)



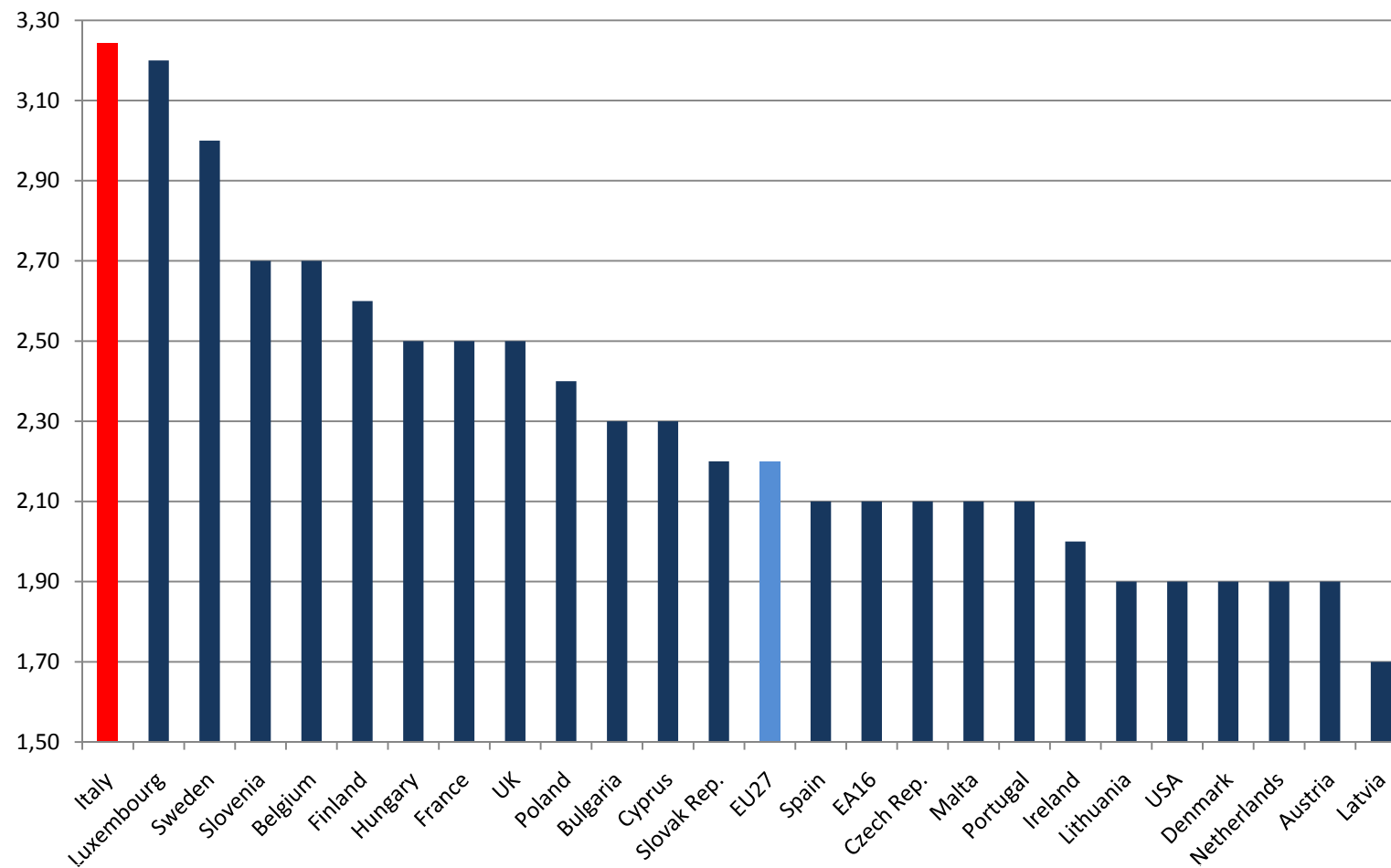
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- **The age divide and human capital formation**
- The tenure track

Temporary contracts by age



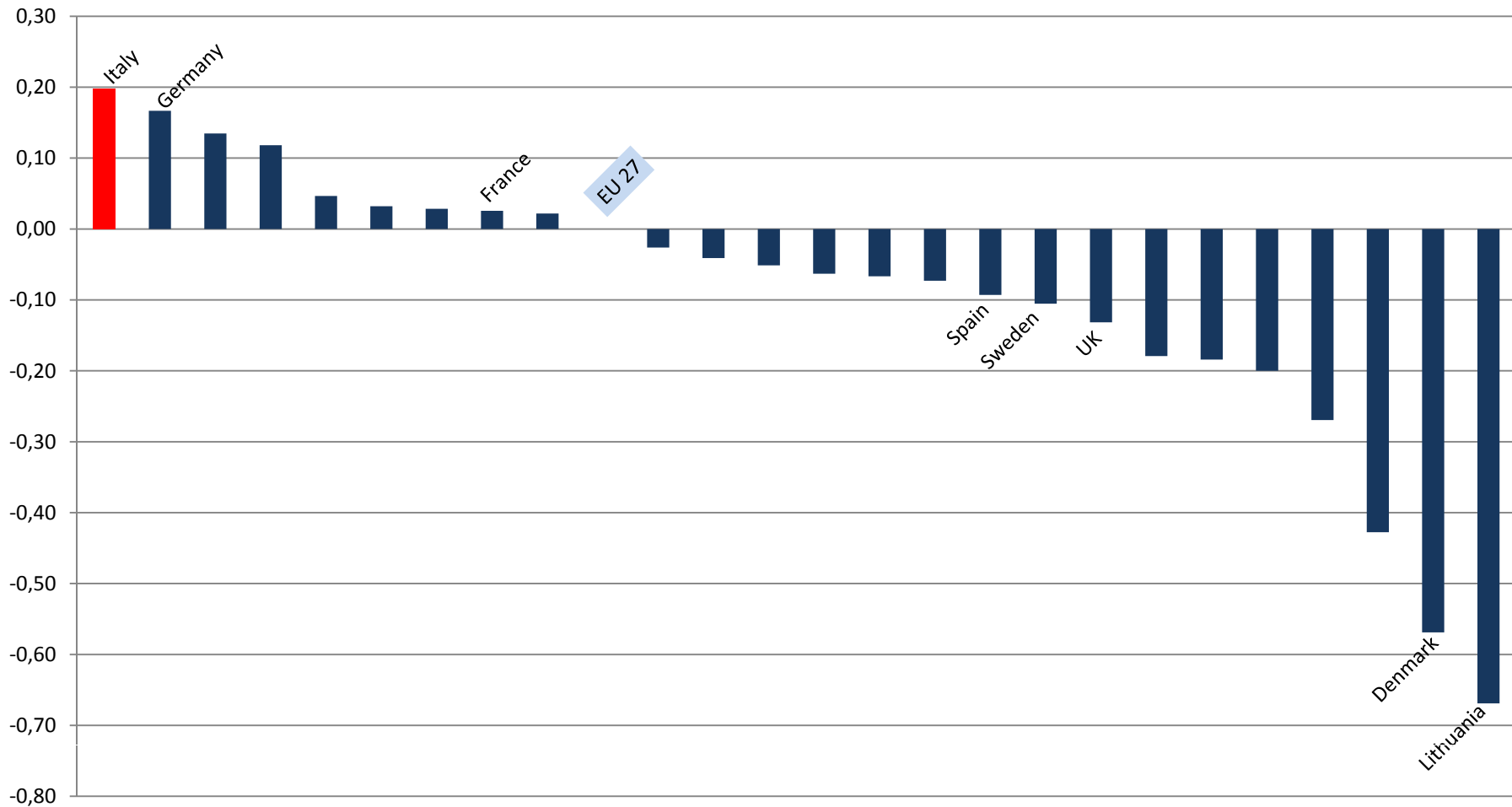
Relative risk of unemployment <25 vs. tot. (July 09)



Fonte: Eurostat

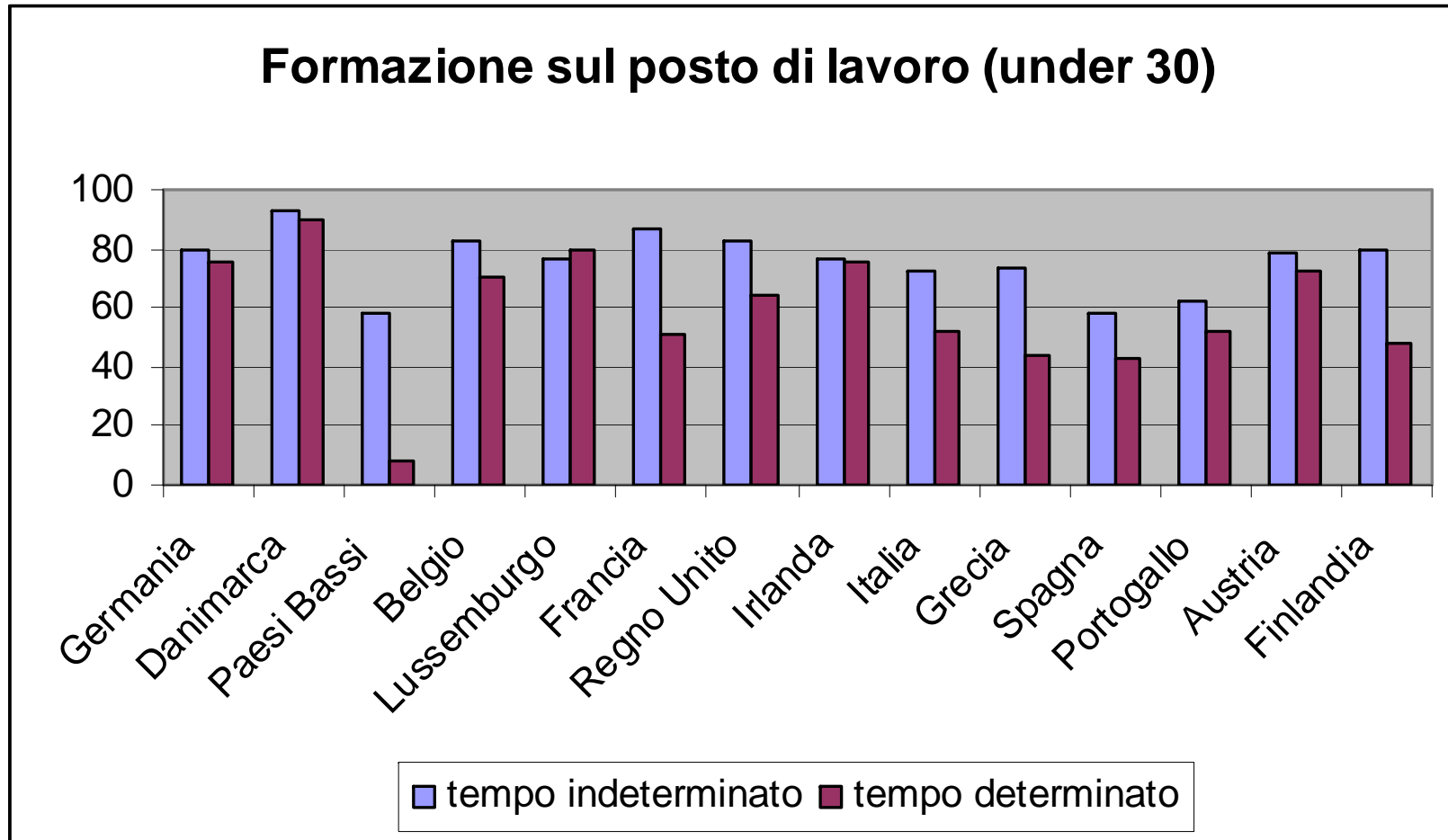
Increased in short-time work, strict EPL countries

Unemployment <25y/tot.
(basis points, delta 2008 - 2009)



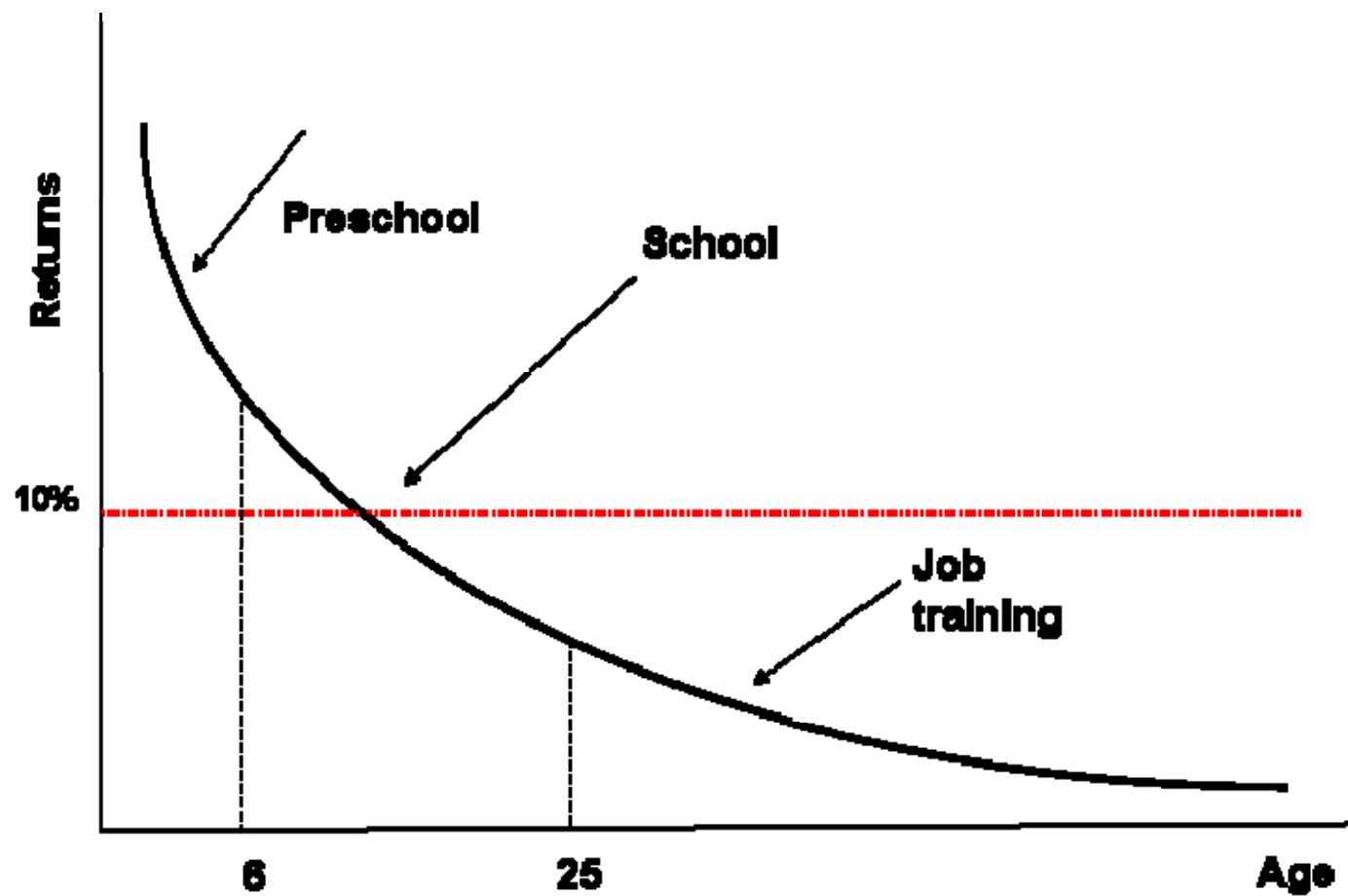
Fonte: Eurostat

On-the job training by contract type



Source: ECHP

Returns to on-the-job training and age



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- **Policy implications: UBs and the tenure track**

Issues

- Depending on the nature of the shocks, different combinations of policy instruments
- EPL and short-time work may work if also shock is “short-time”, transient

Otherwise

1. No restructuring
2. No investment in human capital
3. Lost generations – lost pensions

Strong pressures to go back. Example of Japan

The legacy of two-tier reforms

EPL	Complete	Two-tier	Total	Of which two-tier
Discrete	1	12	13	92%
Incremental	54	45	99	45%
Total	55	57	112	51%
Of which discrete	2%	21%	12%	

UB	Complete	Two-tier	Total	Of which two-tier
Discrete	5	6	11	55%
Incremental	77	51	128	40%
Total	82	57	139	41%
Of which Discrete	6%	11%	9%	

Reforms for all times level the playing field

- **Tenure track** to stable employment: all hirings are from the beginning on open-ended contracts offering tenured job security. Constraints to fixed-term contracts. Only genuinely temporary jobs
- Unemployment benefits covering **also short-tenured jobs**
- **Orange envelopes** making people aware of future pensions

The orange envelope



You can receive a pension from more than one source

Besides their national pension, many people also receive a pension from elsewhere. This may be an occupational pension from their employer or perhaps a pension from their own private pension saving. This money is not described here, but it makes your total pension higher.

If you draw your national pension from

age 61: With 0% growth you receive SEK 8,800 per month With 2% growth you receive SEK 13,000 per month

age 65: With 0% growth you receive SEK 11,600 per month With 2% growth you receive SEK 18,400 per month

age 70: With 0% growth you receive SEK 16,700 per month With 2% growth you receive SEK 29,300 per month

Example: Your national pension at age 65 and zero per cent growth consists of: SEK 9,400 income pension (incl. any supplementary pension) and SEK 2,200 premium pension (for the calculation assumptions for premium pension, see *Forecast* in the Glossary).

Make your own forecast on the internet

Go to www.pension.nu and use the amounts below, which come from pages 2 and 5 of this annual statement:

SEK 702,476

SEK 18,385

Would you like more information?

Visit www.pension.nu (the Insurance Office) or www.ppm.nu (the Premium Pension Authority). You can also phone the Insurance Office's help line on 020 – 524 524.