

Creating a Port of Entry to Stable Jobs

**OECD Policy Forum on Jobs for Youth
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The OECD JOBS for YOUTH study ^f **R** **D B**

- Very rich, thought provoking and informative synthesis report
- Based on 16 country reports drawing on national reviews carried out in the 2006-2010 period
- Good representation of different institutional environments (Belgium, Denmark, France, Greece, Netherlands, Poland, Slovak Republic, Spain and UK, Australia, Canada, Japan, Korea, Norway, New Zealand and US)

Key messages

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- Significant improvements in the youth labour market **prior** to the crisis...
- ...but persisting problems of labour market integration for some **disadvantaged youth**.
- The global crisis has **hit youth hard** and the short-term outlook for many youth is rather gloomy...
- ...with the youth unemployment rate likely to remain relatively high in the majority of OECD countries in the coming months (years?)

Who are the Disadvantaged youth? ^f **R** **D B**

1) The “youth left behind” (UNSKILLED)

- Cumulate disadvantages (no diploma; from immigrant/minority background; living in deprived areas) and at risk of dropping out not only of school but also of the labour market
- Proxy: **Persons neither in employment, nor in education or training (NEET) without upper secondary education.** 11 % of 15-29 having left education-year-olds in the OECD in 2005.

2) The “poorly integrated new entrants” (DUAL WORKERS)

- Often with diplomas but back-and-forth between temporary jobs and unemployment, even during periods of strong economic growth
- Proxy: (lower bound) in Europe in 2005-07: 8% of youth aged 15-29 having left education and found a temporary job were **not in a stable job** two years after.

Evidence of « scarring » effects for these groups

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Sizeable long-term effects of **unemployment** at labour market entry on **annual earnings** in France, Germany, Italy, Spain, the UK and the US:

UK a 1 % point increase in the unemployment rate at entry reduces earnings by almost 8%. This effect declines over time to just 2% ten years after entry and disappears thereafter. More persistent effect for highly educated.

US, the contemporaneous decline in earnings 2-3% and it dissipates within ten years of labour market entry. More persistent effect for the low-educated

France and **Spain**, negative contemporaneous effect of 2-3% on earnings; this effect persists up to 15 years after labour market entry.

Policy Recommendations

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- Set of recommendations tailored to specific disadvantages. Issues of timing.
- Measures for the unskilled
- Measures for dual workers
- Policies for the short-term (jobs crisis)
- Policies for the medium-term

Unskilled and dual

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- Get a diploma for the *unskilled*. Reduce disincentives to hire unskilled through **sub-minimum wages** for youth and/or **lower social security contributions** for low wages
- Remove barriers to the integration of *dual workers*. Continue efforts to **reduce** labour-market duality overall and in particular **the gap between regulations for temporary and permanent contracts**

Short-term and long-term

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- *Short-term:* extend coverage of unemployment benefits, but increase scope of activation schemes, employment and training pathways
- *Medium-term:* Improve education systems and transition from school to work (expand apprenticeship schemes)

Comments

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- More (scaring) evidence on scarring effects
 - The NEETs and Youth Unemployment : two sides of the same coin?
 - Jobs for youth: why improvements before the crisis and large losses during the recession?
 - How to “reduce the gap between regulations for temporary and permanent contracts”

More (scaring) on scarring

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- *Ellwood* (1982): poor start induces lower lifetime wages and lower employment opportunities
- *Mroz e Savage* (2006): unemployment at 22 implies earning 30 per cent lower at 25. At age 30-32 below -2-3 per cent
- *Kletzer and Fairlie* (1999): entry long-term unemployment implies wage losses over the lifetime of 8 per cent for men and 13 per cent for women
- *Gregg and Tomlinie* (2001): lifetime wage losses even larger (13 to 21 per cent)
- *Arulampalam* (2001): increase in risk of new job losses
- *Bell and Blanchflower* (2009) von *Wachter* (2009): health effect even 20 years after

Comments

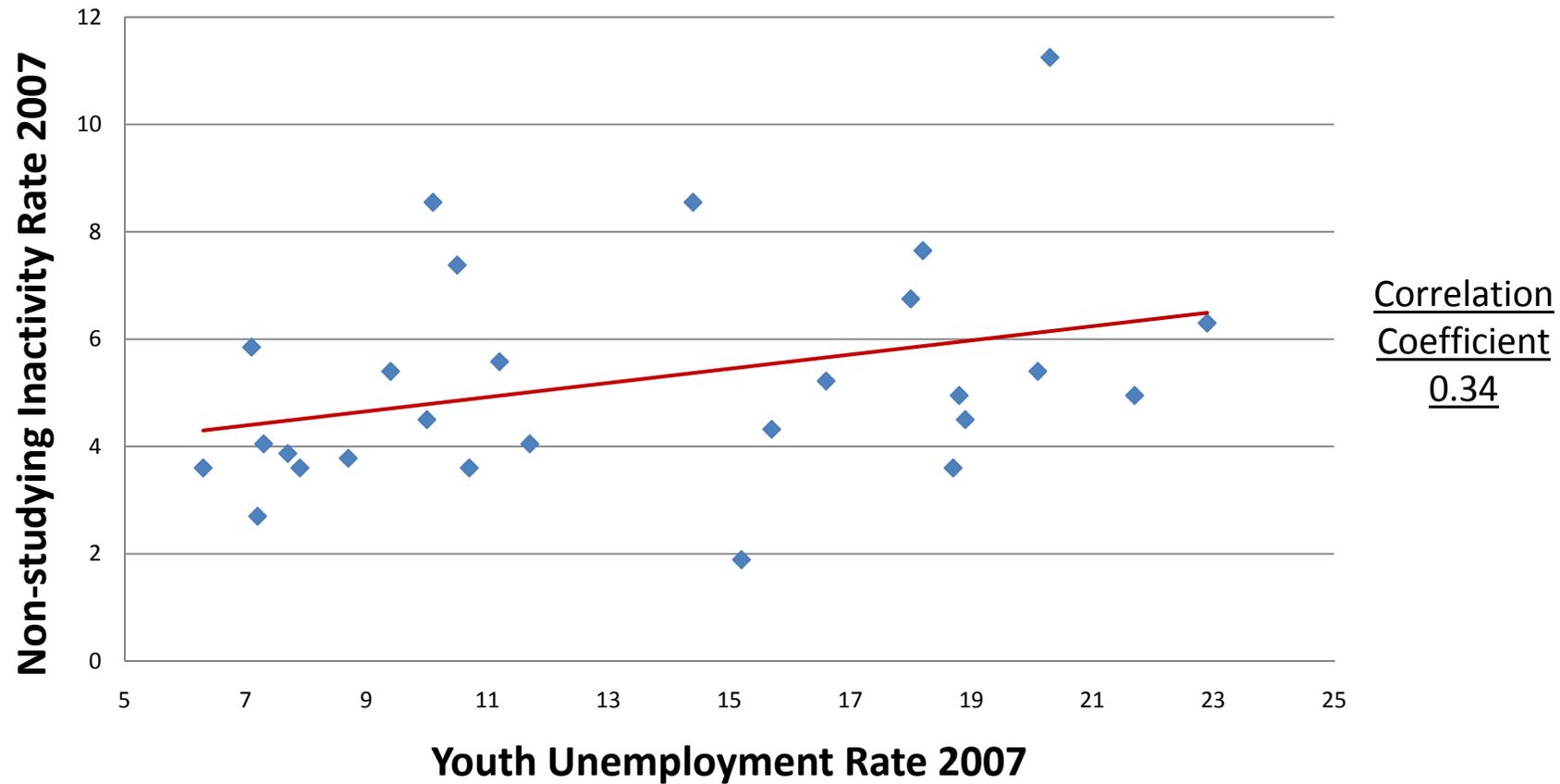
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Youth U and NEET: two sides of the same coin?

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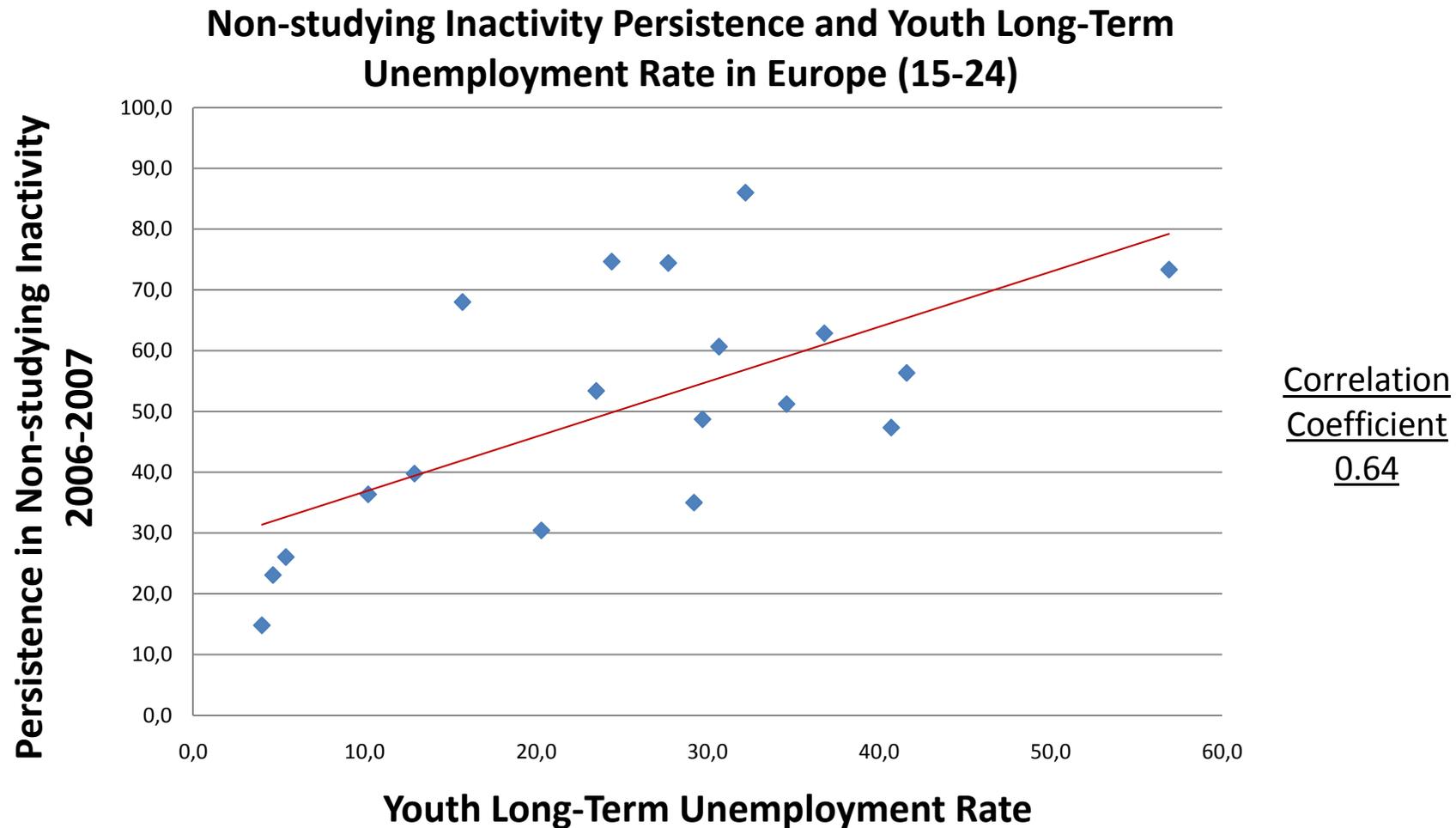
Youth Unemployment rate and Non-studying Inactivity rate (15-24)



Source: OECD

Persistence in non-studying inactivity and Youth Long-Term Unemployment

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Source: EU-SILC and EUROSTAT

Comments

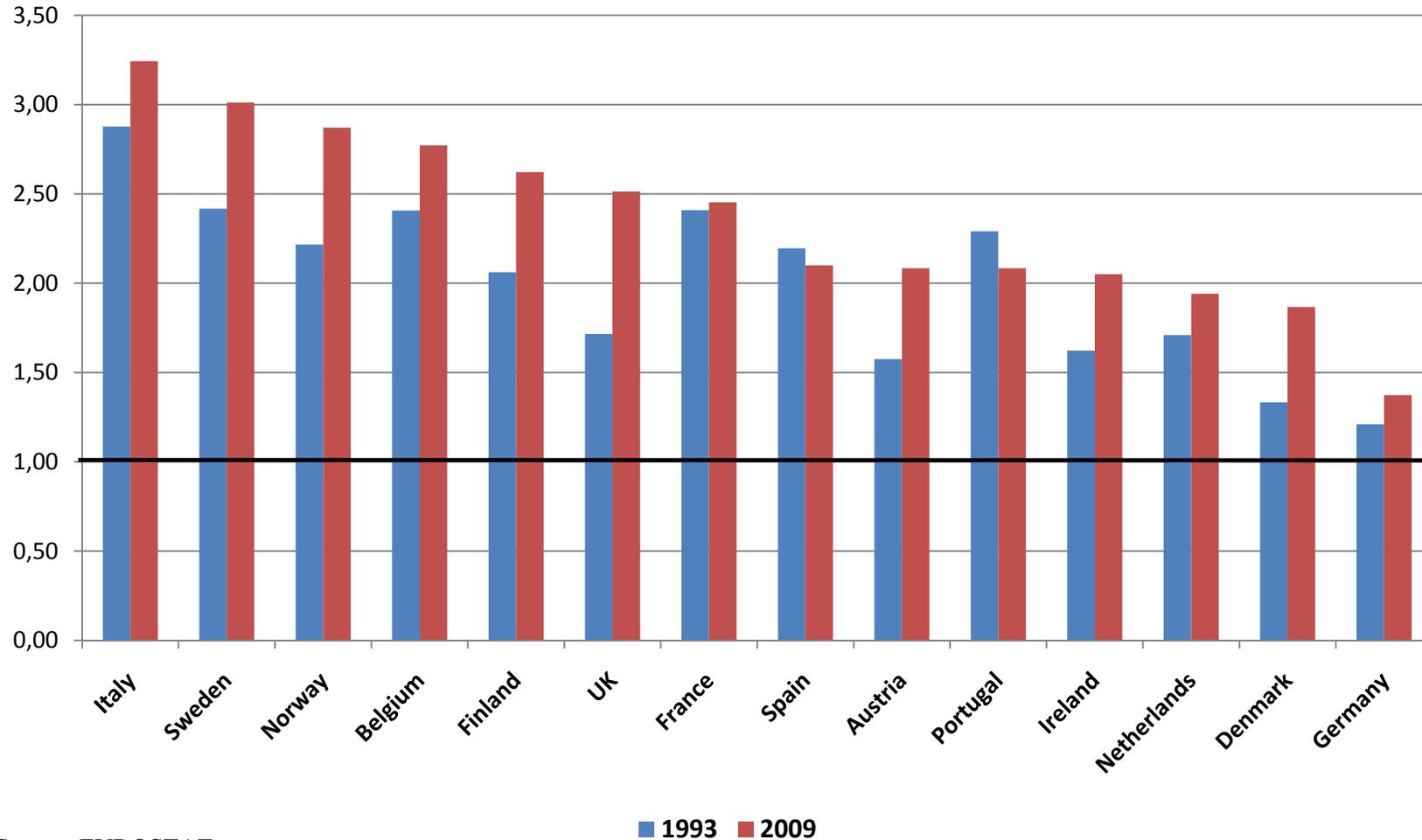
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Worse than the 1992 crisis

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Youth Unemployment Rate (15-24)/Total Unemployment

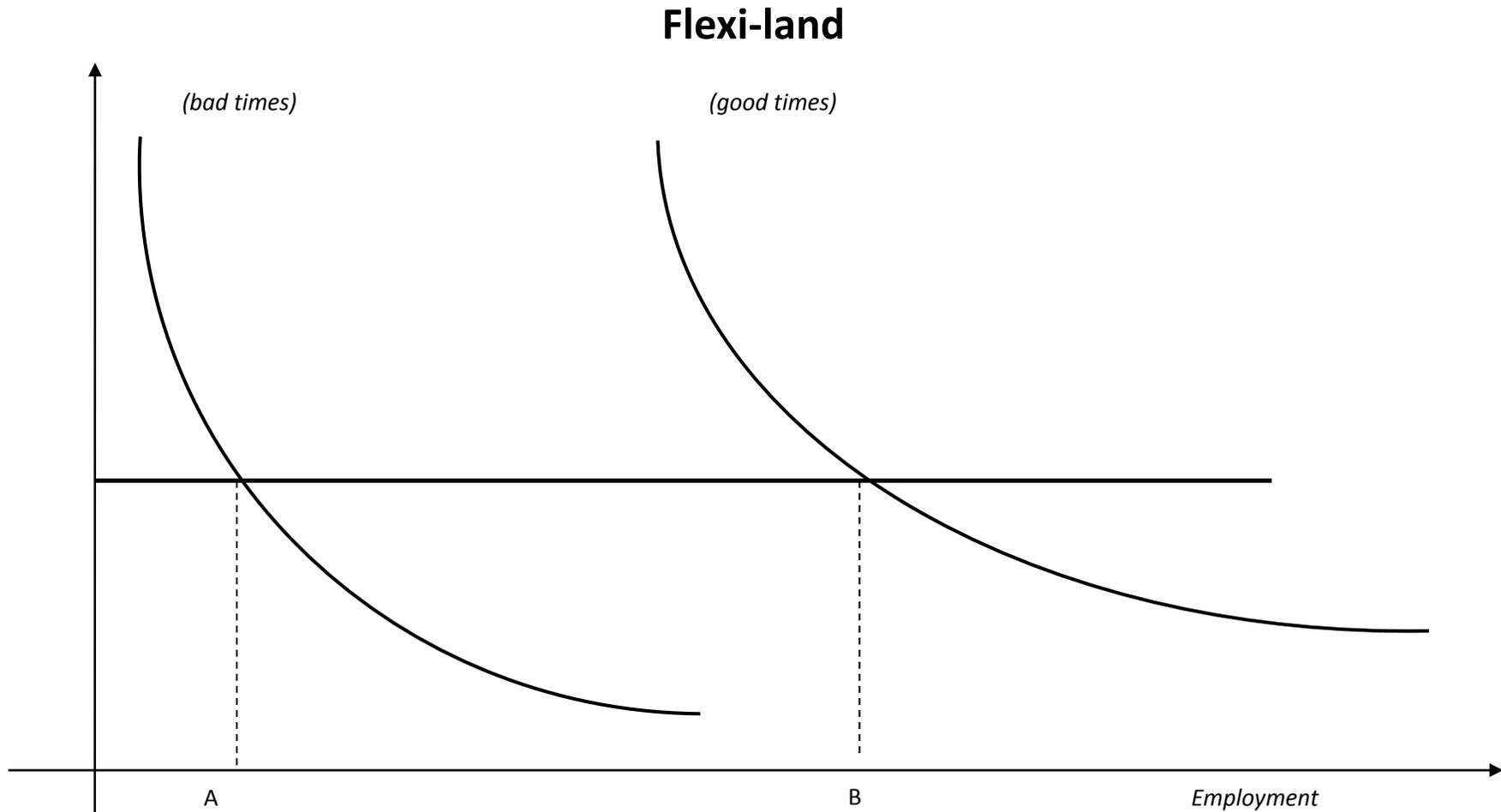


Source: EUROSTAT

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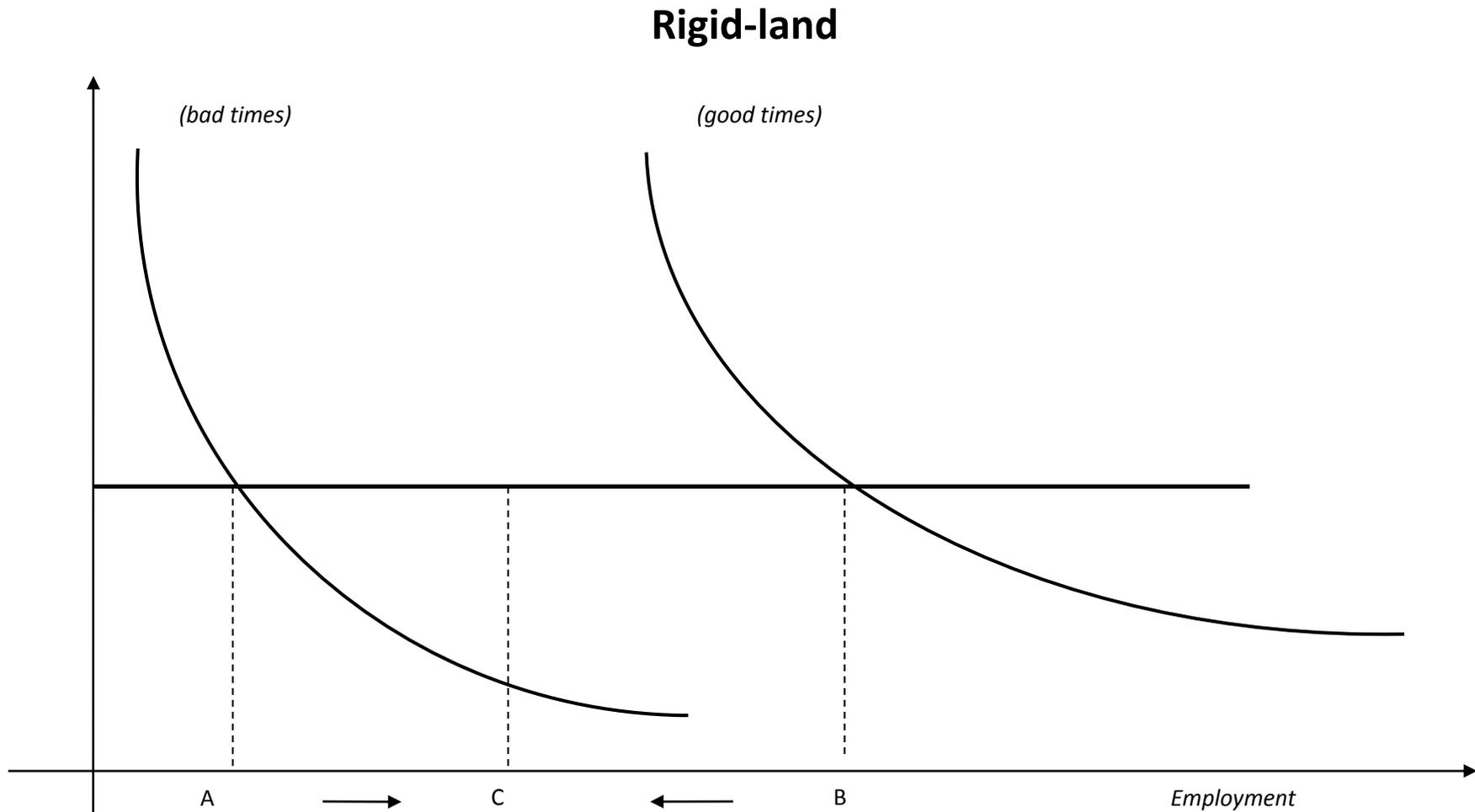
The Honey-Moon Effect

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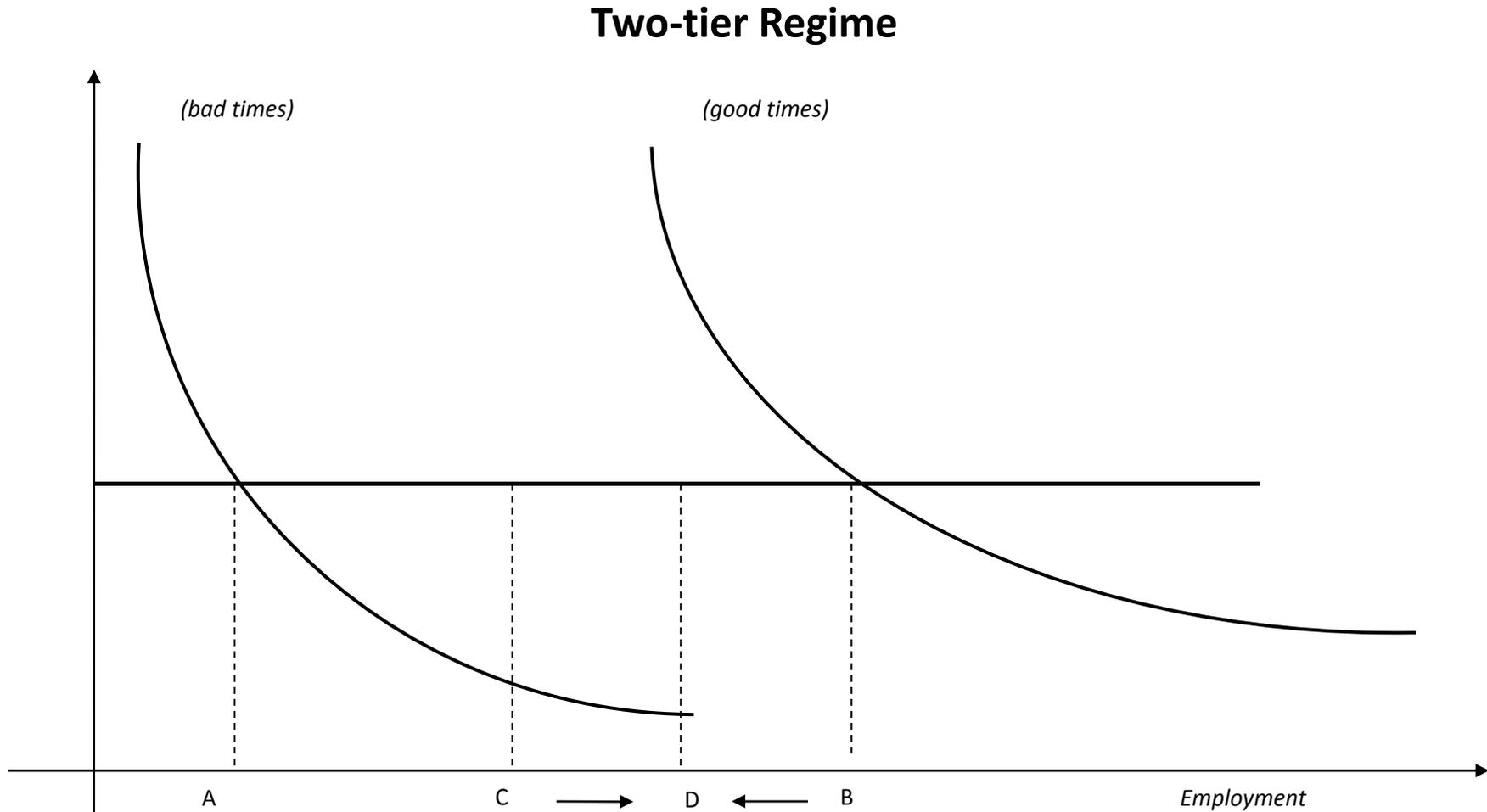
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The Honey-Moon Effect

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The issue

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- Dualism temporary-permanent contracts contributes to explaining the “significant improvements in the youth labour market observed **prior** to the crisis”. However, it also increases job losses during recessions and make them concentrated on young workers.
 - Dualism increases the volatility of employment. Bad during recessions (large job losses), not so bad during upturns (honeymoon, job creating effect)
 - Phasing out temporary contracts now could give us the worse of all possible worlds (large job losses during the recession without large job gains during the recovery)
 - Need of smart reforms

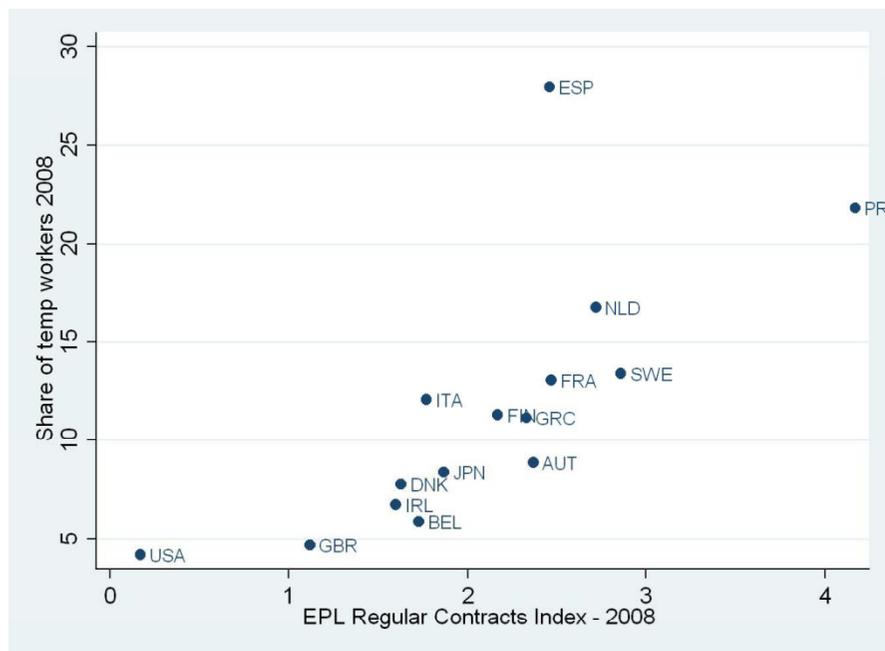
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Dualism is stronger in countries with f **R** stricter protection on regular contracts **D** **B**

$$\rho = 0,81$$



Strictness of EPL for Permanent Contracts and Share of Temporary Contracts in Total (Dependent) Employment

$$\rho = -0,72$$



Strictness of EPL for Permanent Contracts and Transition Probability from Temporary to Permanent Contracts

Dualism involves lower wages for dual workers at all skills and tenures

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$$\log w_i = \alpha + \beta_1 \text{EDU}_i + \beta_2 \text{EDU}_i^2 + \gamma_1 \text{TEN}_i + \gamma_2 \text{TEN}_i^2 + \mu \text{PERM}_i + \varepsilon_i$$

	Premium temporary-permanent μ	St.Err.	Obs.
Austria	20.1***	0.023	9867
Belgium	13.9***	0.017	7948
Denmark	17.7***	0.015	8009
Finland	19.0***	0.011	8940
France	28.9***	0.016	15260
Germany	26.6***	0.010	25448
Greece	20.2***	0.013	6978
Ireland	17.8**	0.069	1583
Italy	24.1***	0.008	30177
Luxembourg	27.6***	0.018	7889
Netherlands	35.4***	0.021	15845
Portugal	15.8***	0.016	7550
Spain	16.9***	0.007	22626
Sweden	44.7***	0.036	5412
United Kingdom	6.5*	0.037	7000

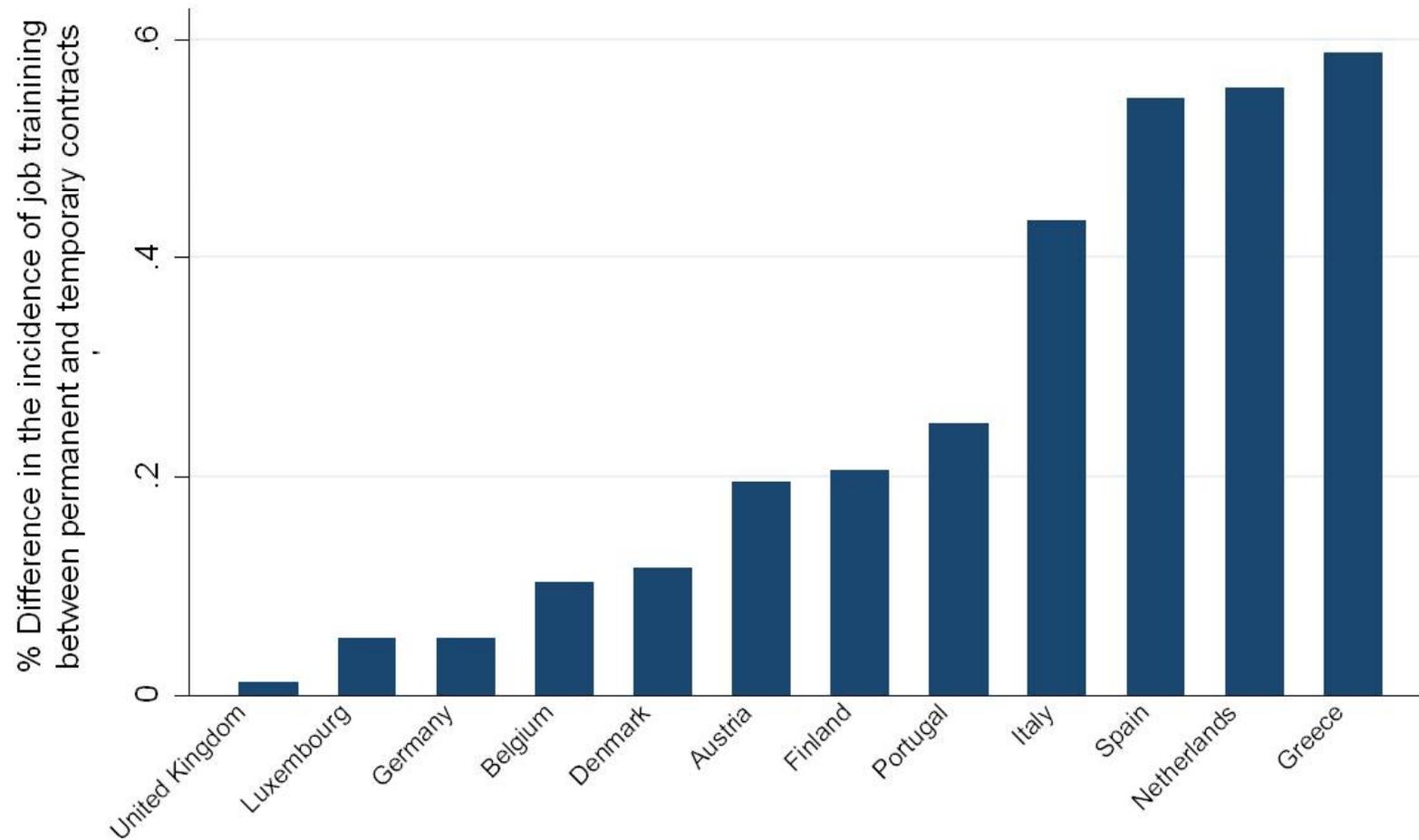
Source: EU-SILC and ECHP

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Dualism = less on-the-job training

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Source: ECHP

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Most serious problems still to come: f R

Dual markets and future pensions D B

The dualism is likely to deeply affect future pension entitlements of the youngsters by three main channels:

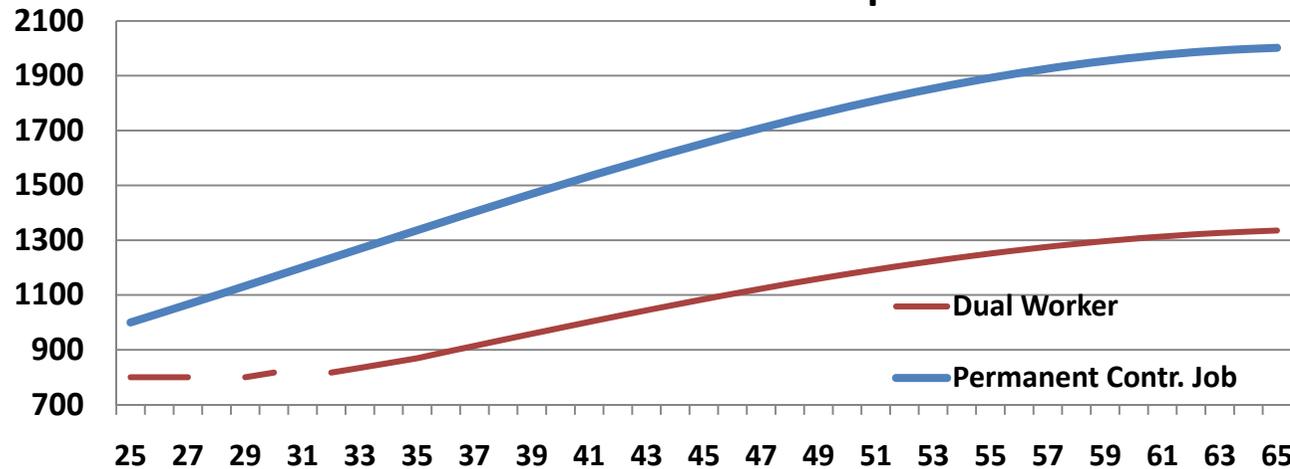
- Workers with temporary contract earn, ceteris paribus, less than workers with open-ended contracts
- They experience more frequent career breaks
- They are generally not covered by unemployment insurance

The problem of adequacy is related to the dualism of labour markets, not to pension rules by themselves.

Pension simulations for youngs: ITALY

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Labour Market Prospects



Dual worker career:

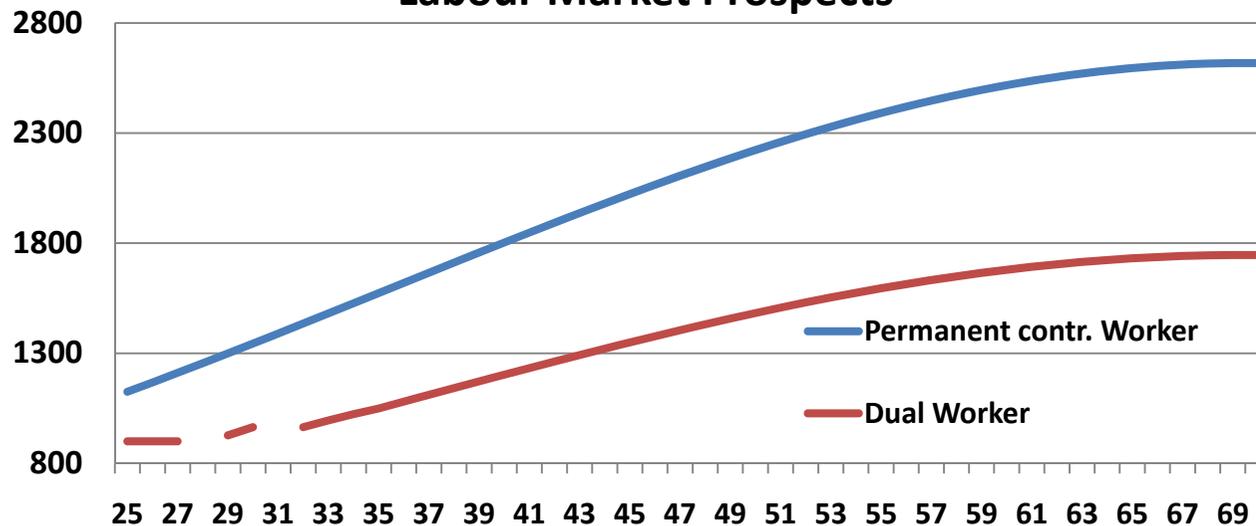
- 25-28 y.o.: Temporary Job (Co.co.pro.)
- 29: Unemployed
- 29-31: Fixed Term Job
- 32: Unemployed
- 33-35: Fixed Term Job
- 35-65: Permanent Job

Growth Rate (g)	Retirement Age	Transformation Coefficients (2010)	Dual Worker		Permanent Contr. Worker	
			Monthly Pension	Replacement Rate	Monthly Pension	Replacement Rate
1.5%	67	0.0562	1052	79%	1677	84%
	65	0.0562	996	75%	1591	79%
	60	0.04798	690	53%	1112	57%
1.2%	67	0.0562	1015	76%	1576	79%
	65	0.0562	943	71%	1502	75%
	60	0.04798	658	50%	1058	54%
1.0%	67	0.0562	953	71%	1513	75%
	65	0.0562	910	68%	1446	72%
	60	0.04798	638	49%	1023	52%

Pension simulations for youngs: SWEDEN

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Labour Market Prospects



Dual worker career:

25-28 y.o.: Temporary Job (Co.co.pro.)

29: Unemployed

29-31: Fixed Term Job

32: Unemployed

33-35: Fixed Term Job

35-65: Permanent Job

Growth Rate (g)	Retirement Age	Transformation Coefficients (2009)	Dual Worker		Permanent Contr. Worker	
			Monthly Pension	Replacement Rate	Monthly Pension	Replacement Rate
2.0%	65	0.0621	957	46%	1508	48%
	67	0.0678	1147	55%	1804	56%
	70	0.0784	1506	71%	2365	72%
1.5%	65	0.0621	811	47%	1256	48%
	67	0.0678	964	55%	1490	57%
	70	0.0784	1249	72%	1927	74%

The costs of Dualism: a Summary

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Early differences in labor market career matter for pension benefits:

- Dualism implies -59% of pensions upon retirement in Italy and -56% in Sweden
- Stronger differences for low retirement ages
- All this without taking into account of scarring effects

Moreover:

- More volatility, more job losses during recessions with automatic stabilizers not operating efficiently
- Reduced Human Capital Investment: less on-the-job training for dual Workers

Ways out: Contrato Unico, Contratto Unico di Inserimento, Contrat Unique

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Proposals developed in Spain (100 academic economists, draft bill), France (Blanchard-Tirole, Cahuc-Kramarz) and Italy (Boeri and Garibaldi, draft bill): tenure track to stable jobs with protection increasing with tenure.

Common philosophy, but structure tailored to country-specific regulations.

Il Contratto Unico di Inserimento

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Italian draft bill differentiates entry through experimentation from genuinely fixed term jobs. Open ended contract with two phases:

- *Entry Phase* (up to the third year): the worker has the right to severance payments proportional to tenure (independently of firm size): dismissal without just cause requires up to six months in severance payments (5 days of severance every month). Entry phase lasts three years
- *Stability Phase* (from third year onward): current legislation (for dismissal without just cause: reinstatement right in firms above 15 employees and six months severance in small firms)
- Fixed term contracts and de-facto dual workers (yet self employed in the books) only with high salaries and higher contributions to unemployment benefits. Employers must pay for higher flexibility

A Graded Tenure Path

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