

f R

fondazione RODOLFO DEBENEDETTI

D B

Tito Boeri

# How to combine the Entry of Young People in the Labour Market with the Retention of Older Workers

Université de Genève, 13 Mars 2014

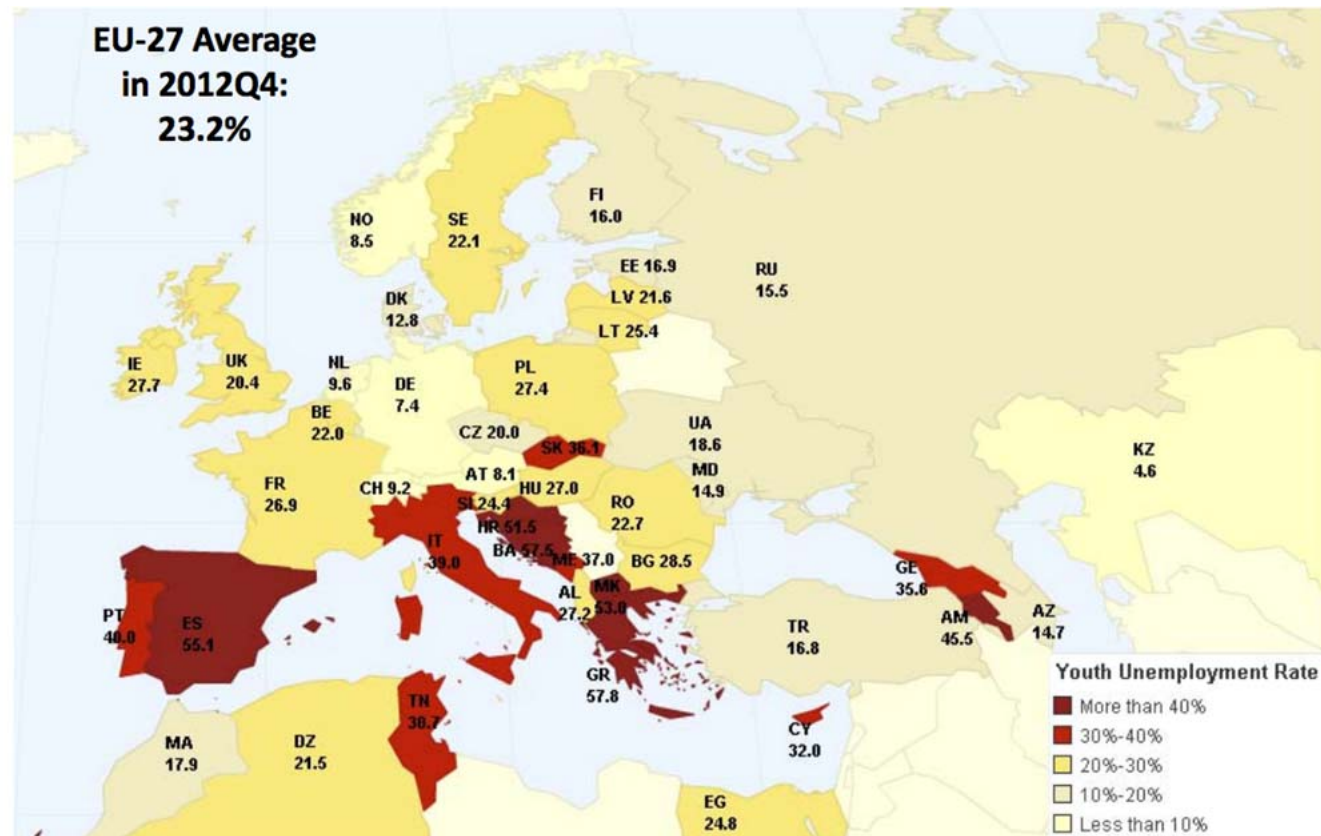
# Outline

f R  
D B

- **The labor market for the young**
- Young in/old out?
  - The Lump of Labour .... Fallacy
  - Skill complementarities, ageing and productivity
- Policies for young in/old in

# The Arch of Youth Unemployment

f R  
D B



Source: Eurostat , IMF Unemployment, youth total (% of total labor force ages 15-24)

# Should we worry about it?

f **R**  
**D B**

4

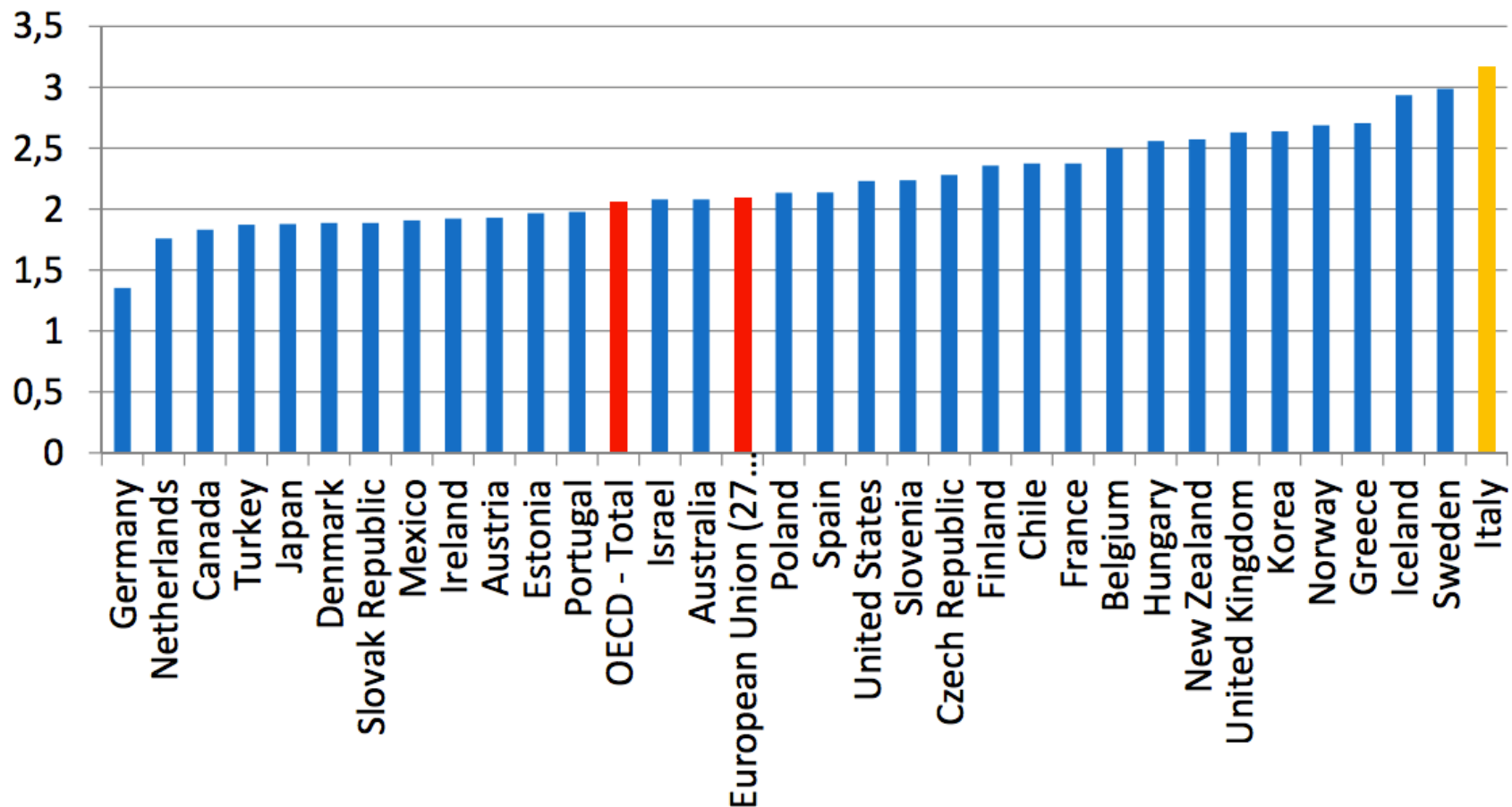
- Is it true that unemployment among young people does not carry so much social costs?
- Long duration unemployment can be very harmful
- It carries implications for wages and unemployment incidence in later life (the scarring effect of unemployment)
- It causes a lot of misery (from “happiness” studies)

f **R**  
**D B**

Everywhere higher than for other age groups but huge differences in degree

f R  
D B

ratio of youth to total unemployment. 2005-07



# Why is unemployment so much concentrated among young people?

f R  
D B

6

- The physiology of unemployment in a recession
- Structural problems: contractual dualism and skill mismatch in the transition from school to work

# A normal (imperfect) labor market

f R  
D B

7

- Search theory: labor market with frictions, good description of how it works for youngsters (job shopping)
- Youngsters need to collect more information about jobs and experiment
- Employers are less informed about them
- More turnover among young people (higher hirings and separations)

# During a Recession I

f R  
D B

8

- **Hiring side.** A hiring freeze. The least costly way to downsize. Even if hiring declines proportionally at all ages, it would hit more the youngsters because starting from higher levels of hiring.
- Moreover, school leavers can only enter the labor force. Expand education during recessions!



# During a Recession II

f R  
D B

9

- **Layoffs side.** Even if firing declines proportionally at all ages, it would hit more the youngsters because of the higher levels to start with.
- Moreover employment protection is stronger on those with longer tenures

# Proportional Effects

f R  
D B

10

- Problem felt in high unemployment countries
- Young workers suffer much more in recession in high unemployment countries than in low unemployment ones
- When adult unemployment in Spain went up from 9% to 20%, youth unemployment went up to 40%!
- But when unemployment in Denmark went up from 4% to 7%, youth unemployment went up to just 14%

# Structural Problems

f R  
D B

11

- Contractual Dualism (temporary vs. permanent contracts)
- The transition from school to work : the educational mismatch in Europe, the skill mismatch in emerging economies

# Dualism of Labour Market

f R  
D B

12

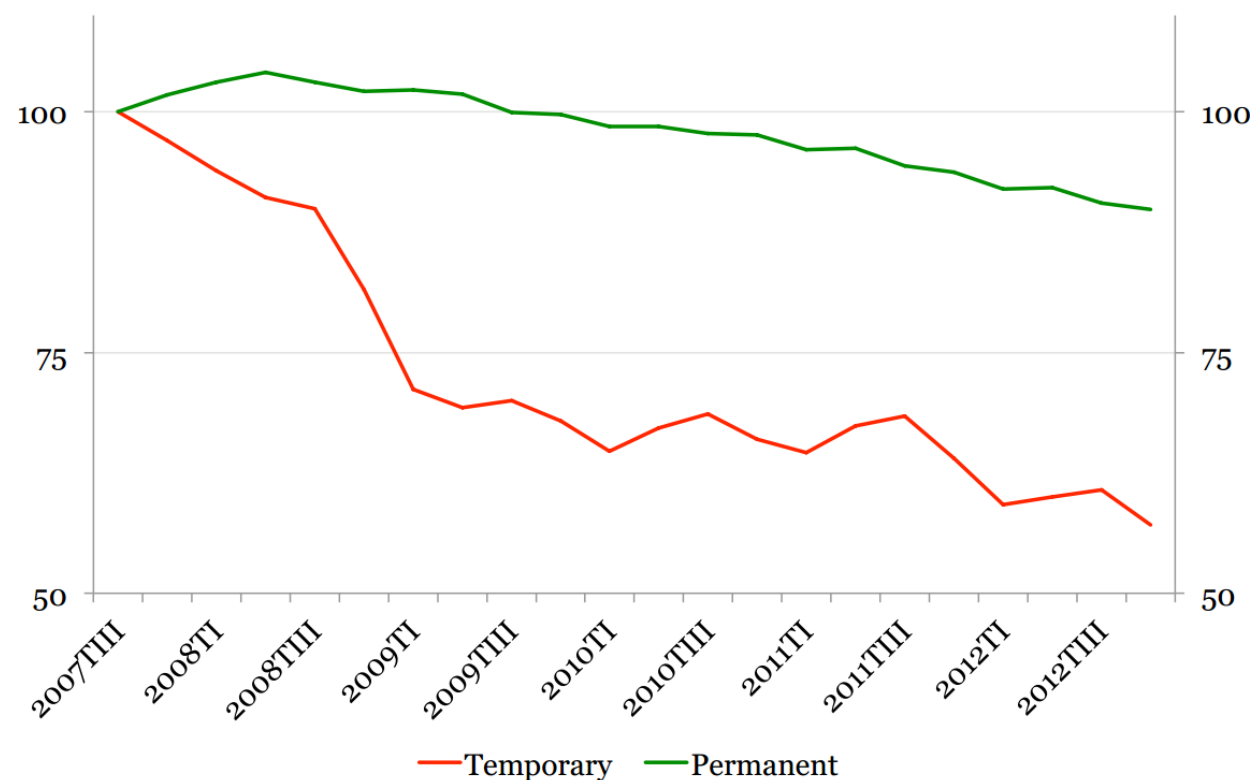
- Concentration of labor market risk on temporary jobs holders during recessions.
- Insulates permanent job holders from employment-wage adjustment
- Dualism increases the volatility of employment. Bad during recessions (large job losses), not so bad during upturns (job creating effects)

f R  
D B

# Concentration of risk. Spain

f **R**  
**D B**

Permanent and temporary private employment (2007Q3=100)



Source: INE, Labor Force Survey.

f **R**

fondazione **RODOLFO DEBENEDETTI**

**D B**

# Employment in dual markets

f **R**  
**D B**

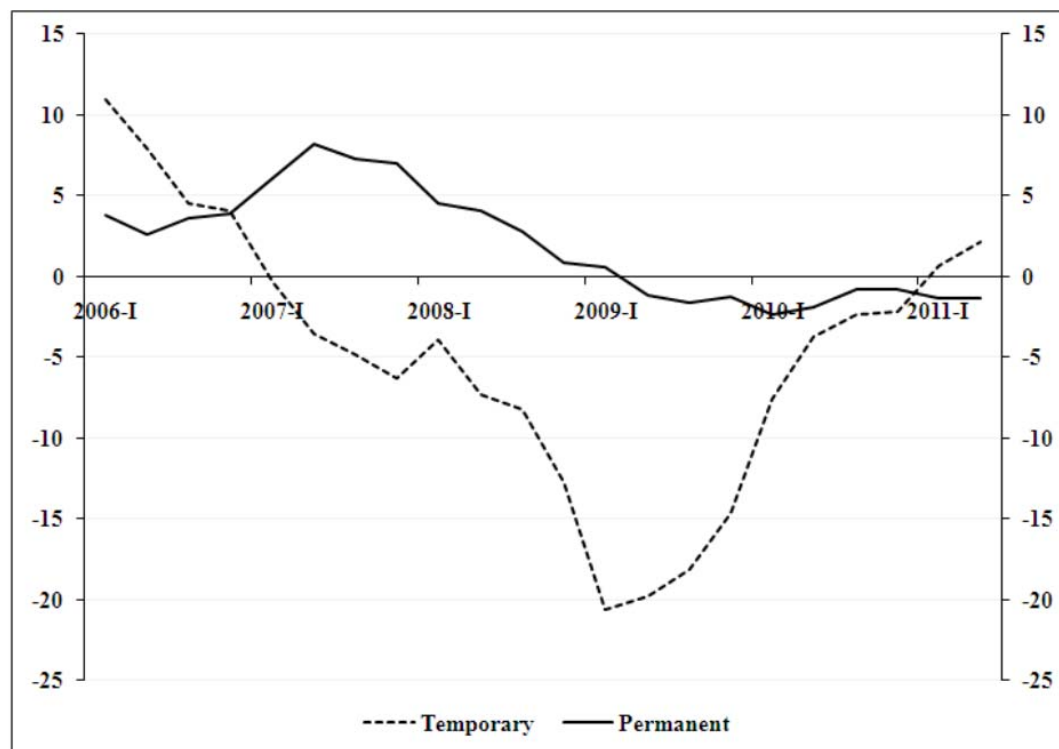
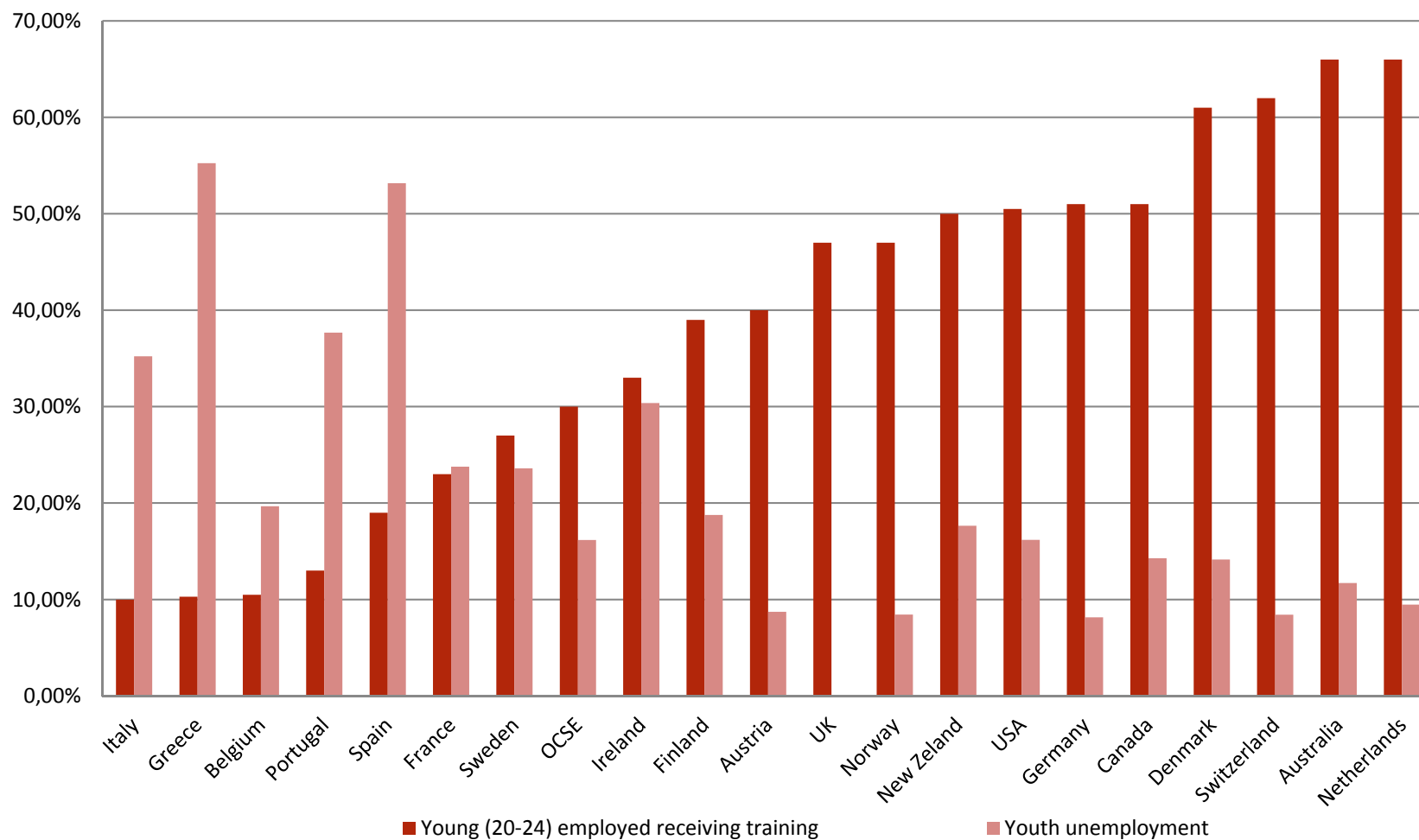


Figure 8: Permanent and temporary employment growth in Spain (annual change, %)

f **R**  
**D B**

# Young employees receiving training and youth unemployment

f R  
D B



# Outline

f R  
D B

- The labor market for the young
- **Young in/old out?**
  - **The Lump of Labour .... Fallacy**
  - Skill complementarities, ageing and productivity
- Policy issues:



# Are old/young substitutes?

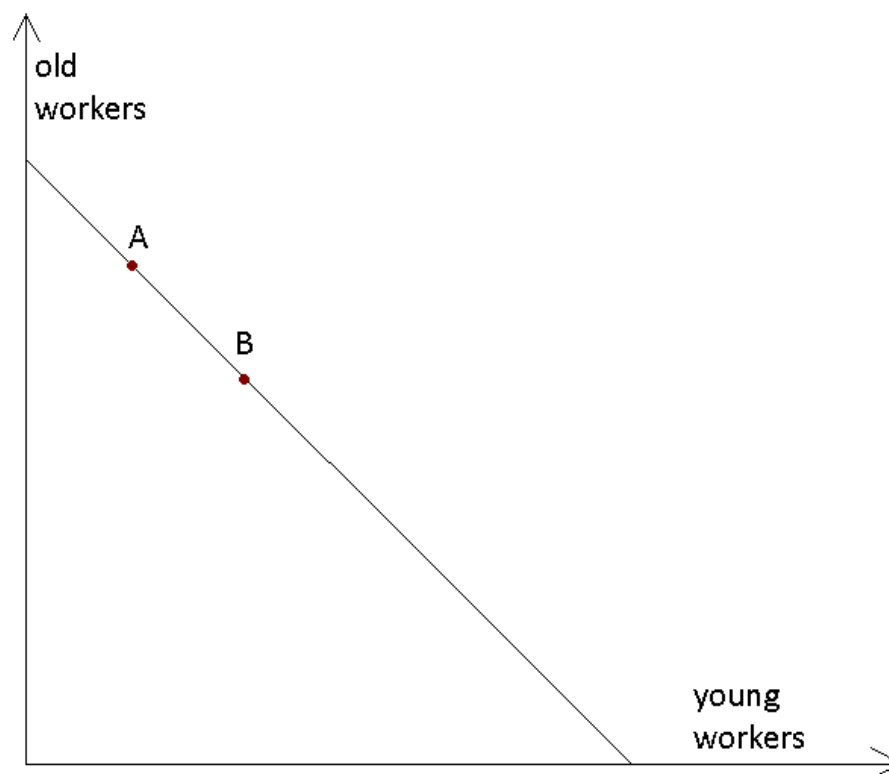
f **R**  
**D B**

- In the '70s/'80s, many attempts to increase the demand of young workers by promoting early retirement
- Based on the idea that old/young workers are highly substitutable.
- In Europe, we can observe a certain renaissance of this view (Italy and France)

# Behind the Lump of Labor

f R  
D B

Perfect substitutability

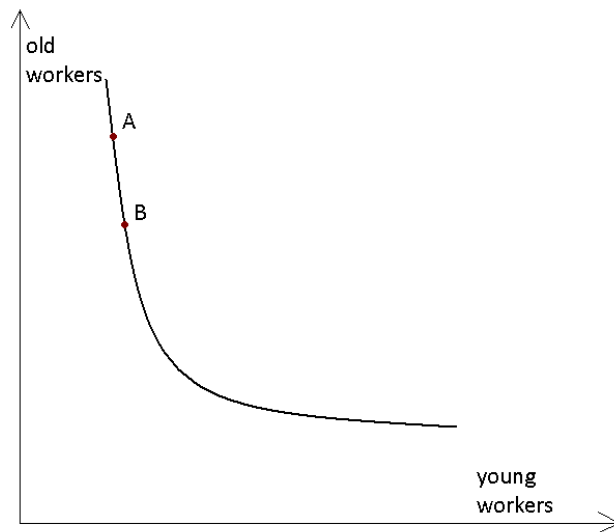


f R  
D B

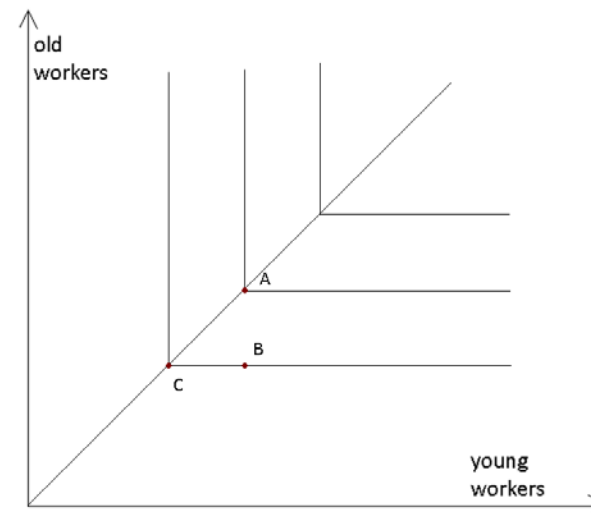
# Are we sure about it?

f **R**  
**D B**

They may be **imperfect substitutes**



...or even **complements**



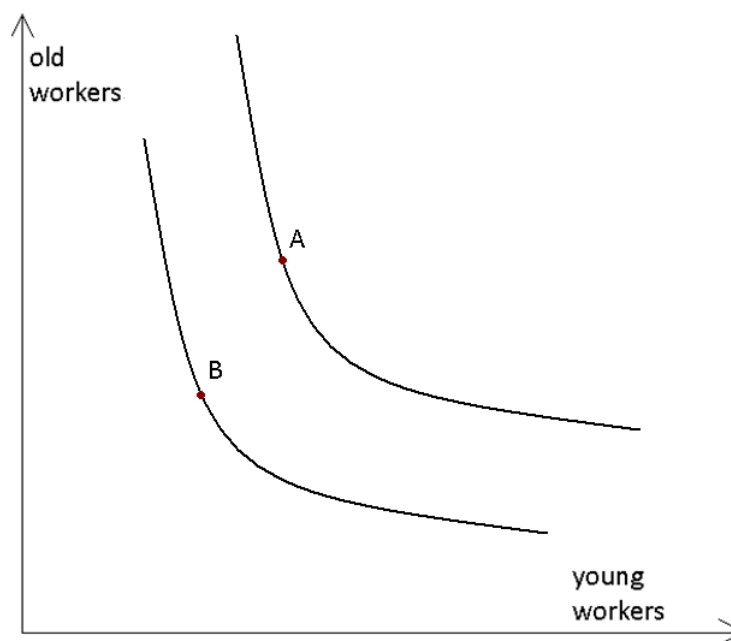
f **R**  
**D B**

# A Lump of Labor Fallacy?

f **R**  
**D B**

3 potential reasons in addition to skill complementarities

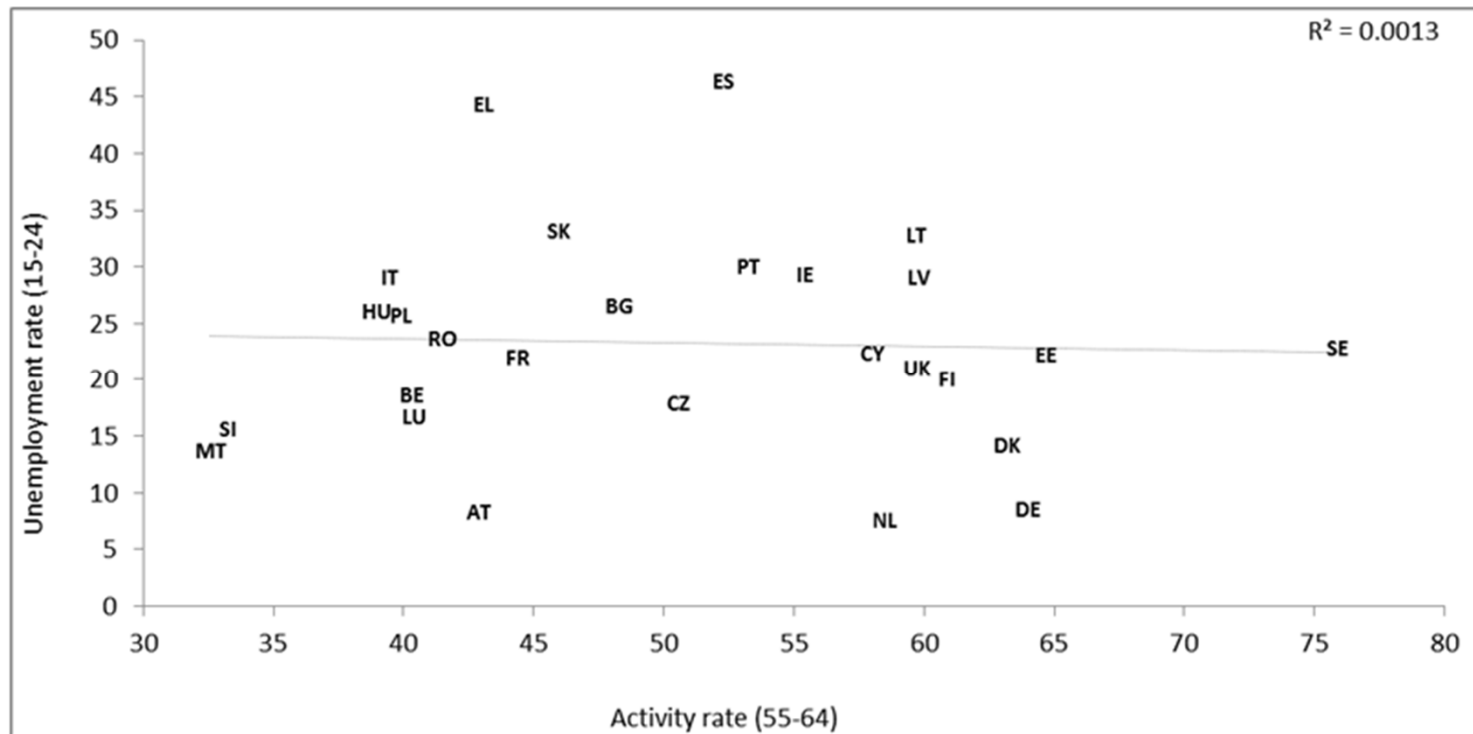
1. Turnover costs
2. Payroll taxes and increased labor costs
3. Fixed costs for young workers



f **R**  
**D B**

# A Cross-Country perspective

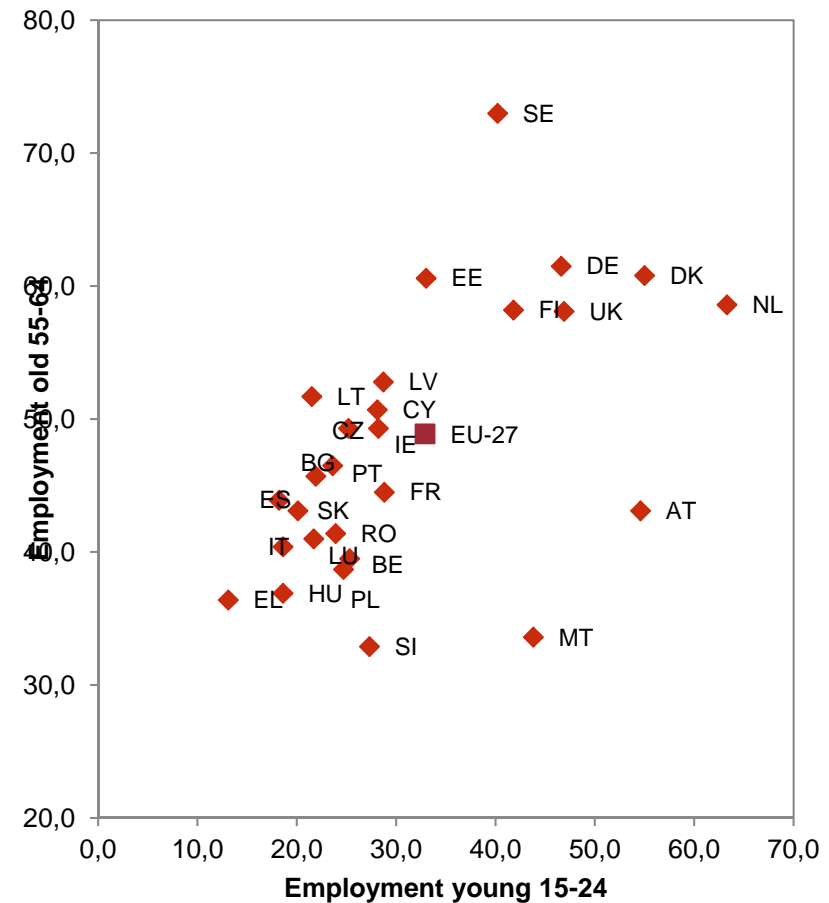
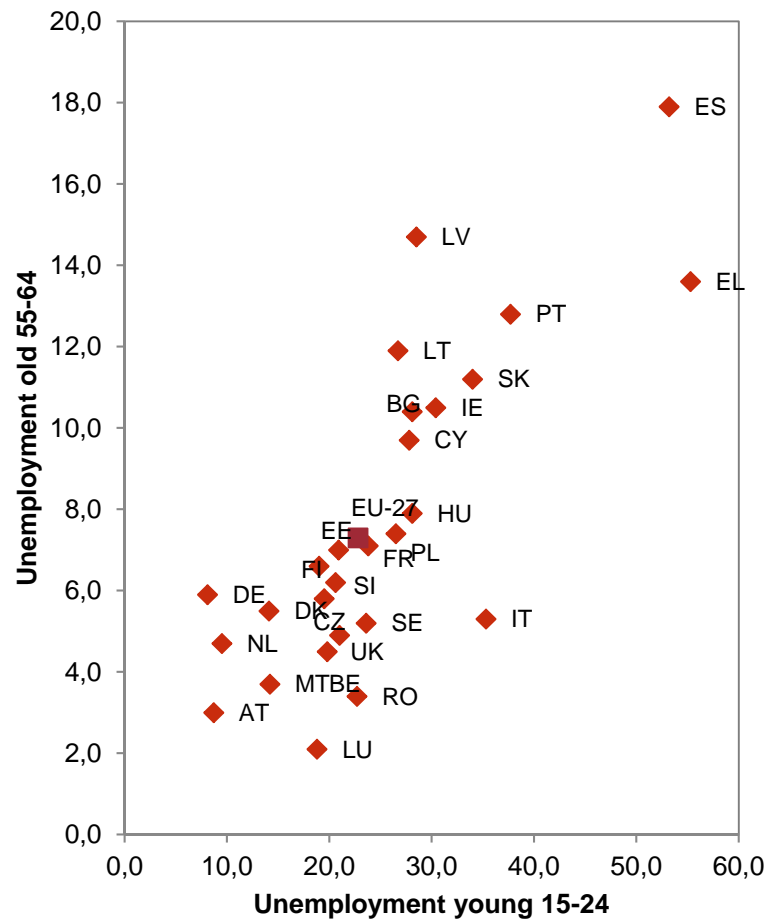
f R  
D B



f R

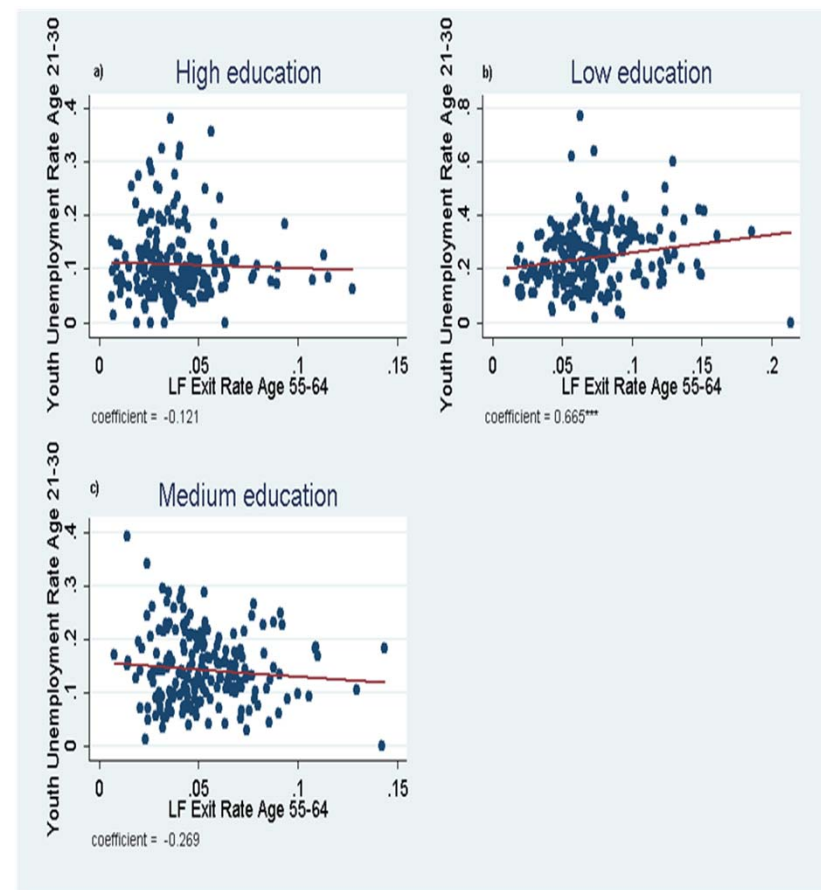
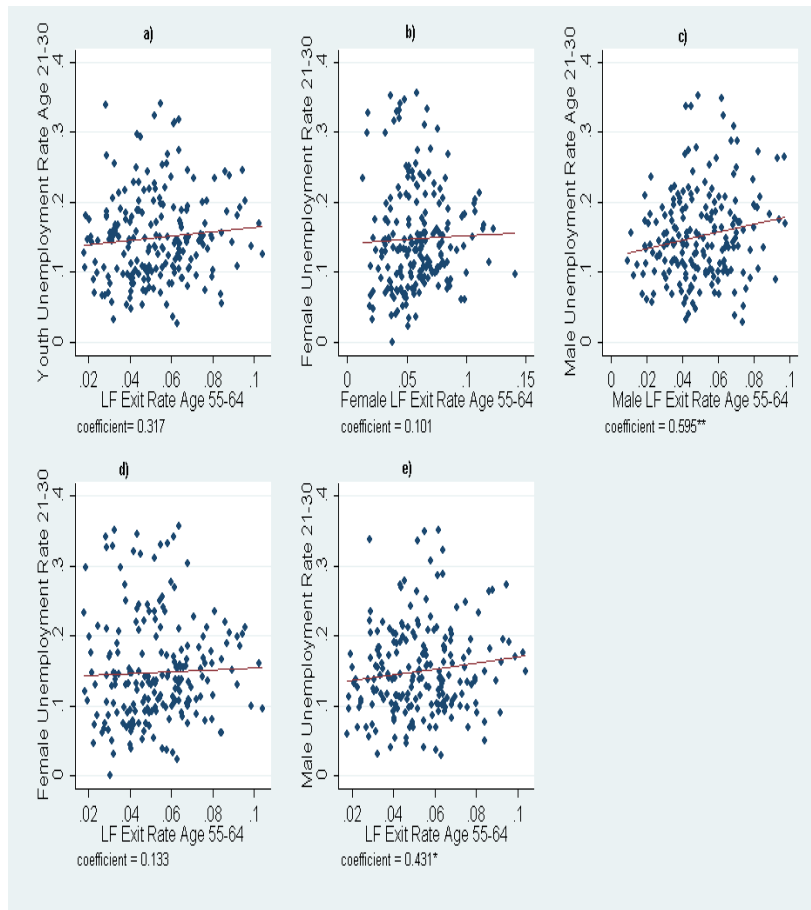
# Looking at specific age groups

f R  
D B



# Looking at Flows

f R  
D B



# Summarizing on flows

f R  
D B

- No relation for women
- Strong **Positive** correlation for men and for low-educated

This contradicts the lump of labour

Most likely explanation:

Early retirement increases the cost of financing the pension system, this results into higher contributions, which in turn increase youth unemployment.

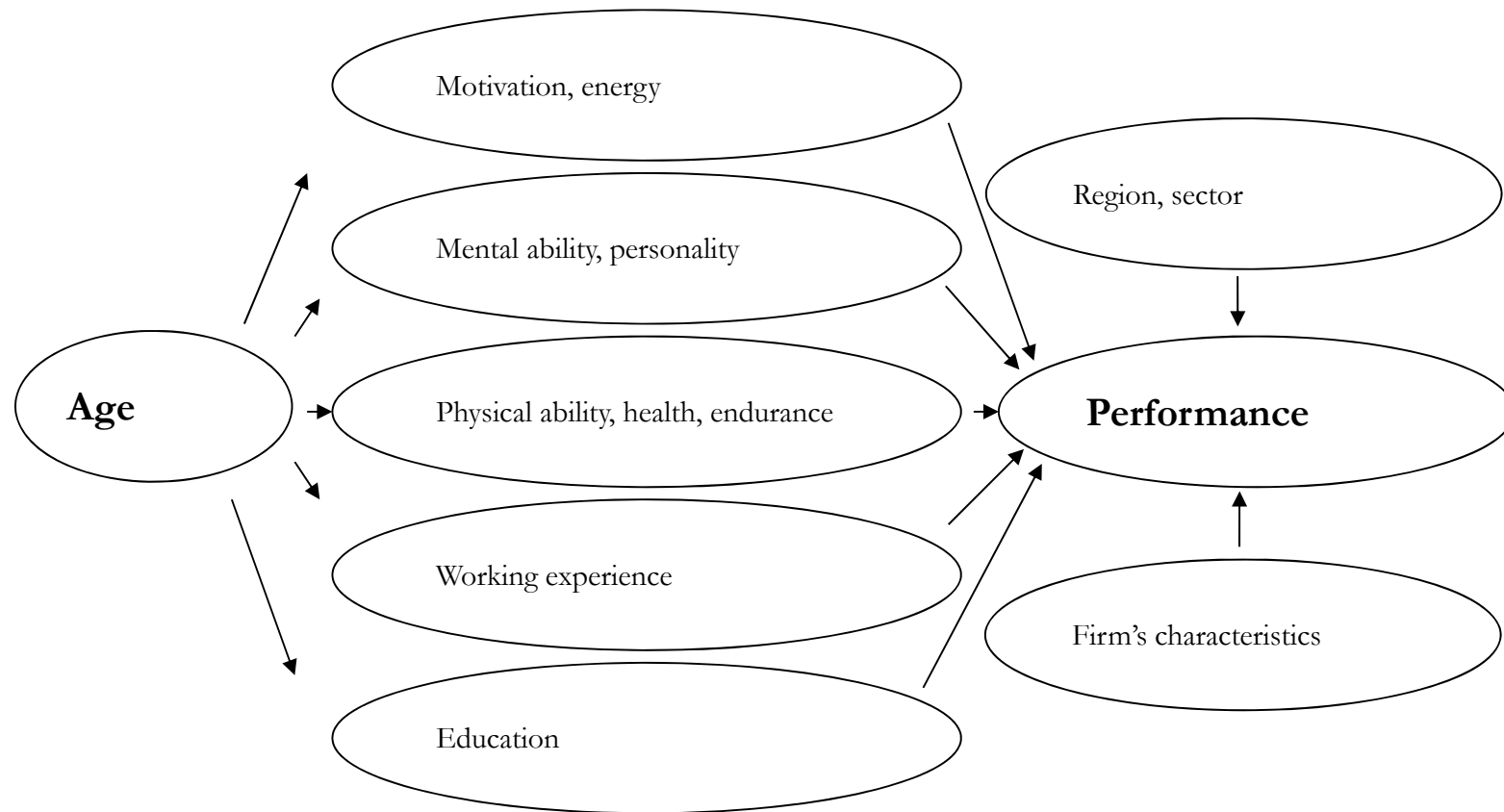


# What determines individual productivity? D B

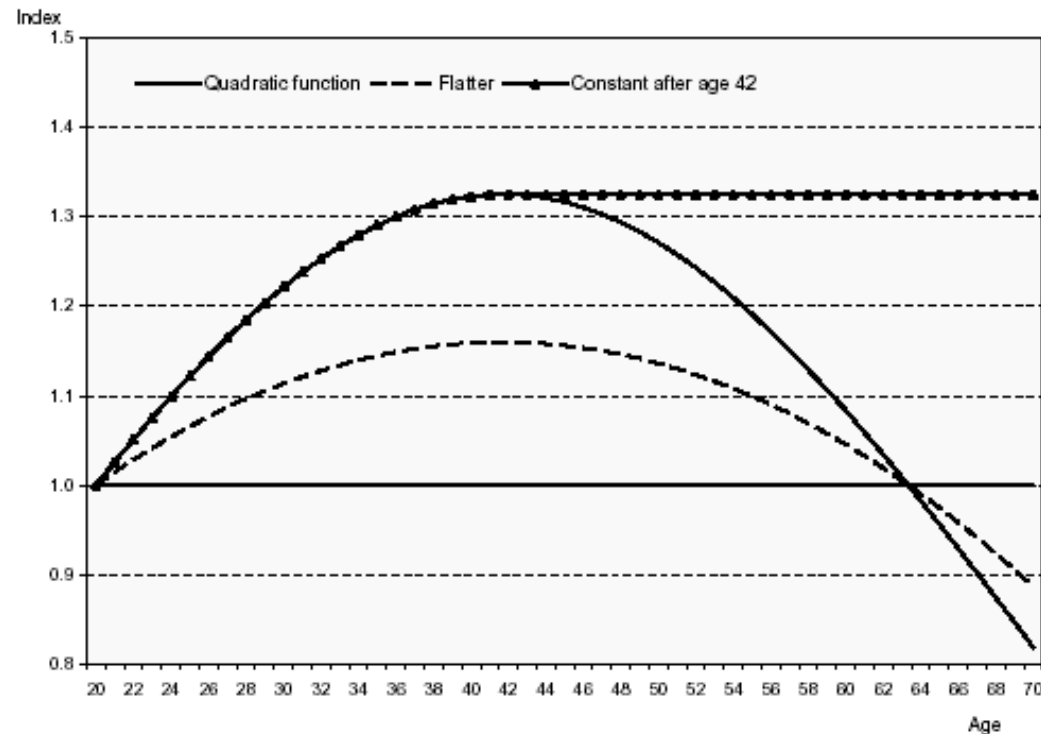
- Physical strenght; age ↓
- Experience; age ↑
- Mental Ability:
  - ▣ “Crystalyzed”: verbal ability (eg. vocabulary); age ↔
  - ▣ “Fluid”: speed, memory; age ↓

## AGGREGATE EFFECT?

# How does Age affects Performance?



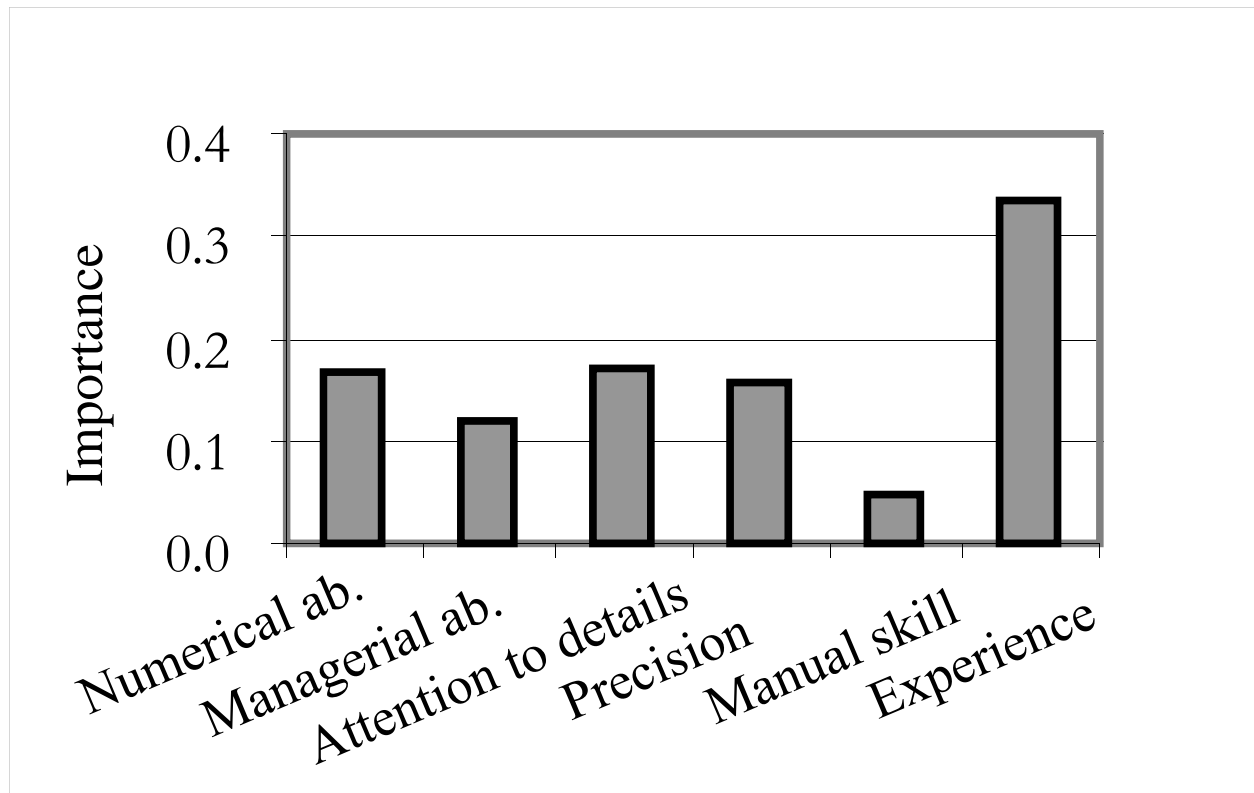
# Different Age-Productivity profiles<sup>f</sup> **R** are theoretically possible **D B**



Source : OECD calculations.

# Importance of different abilities in determining Individual Productivity

f **R**  
**D B**



f **R**  
**D B**

# Long-run trends

f R  
D B

- **Supply:** better health, better mental performance, longevity
- **Demand:** physical strenght is less important, shorter working day.
- **Preliminary conclusions:**
  - ▣ Both age and cohort effects on skills
  - ▣ Aging affects productivity through different channels....

f R  
D B

# Empirical evidence

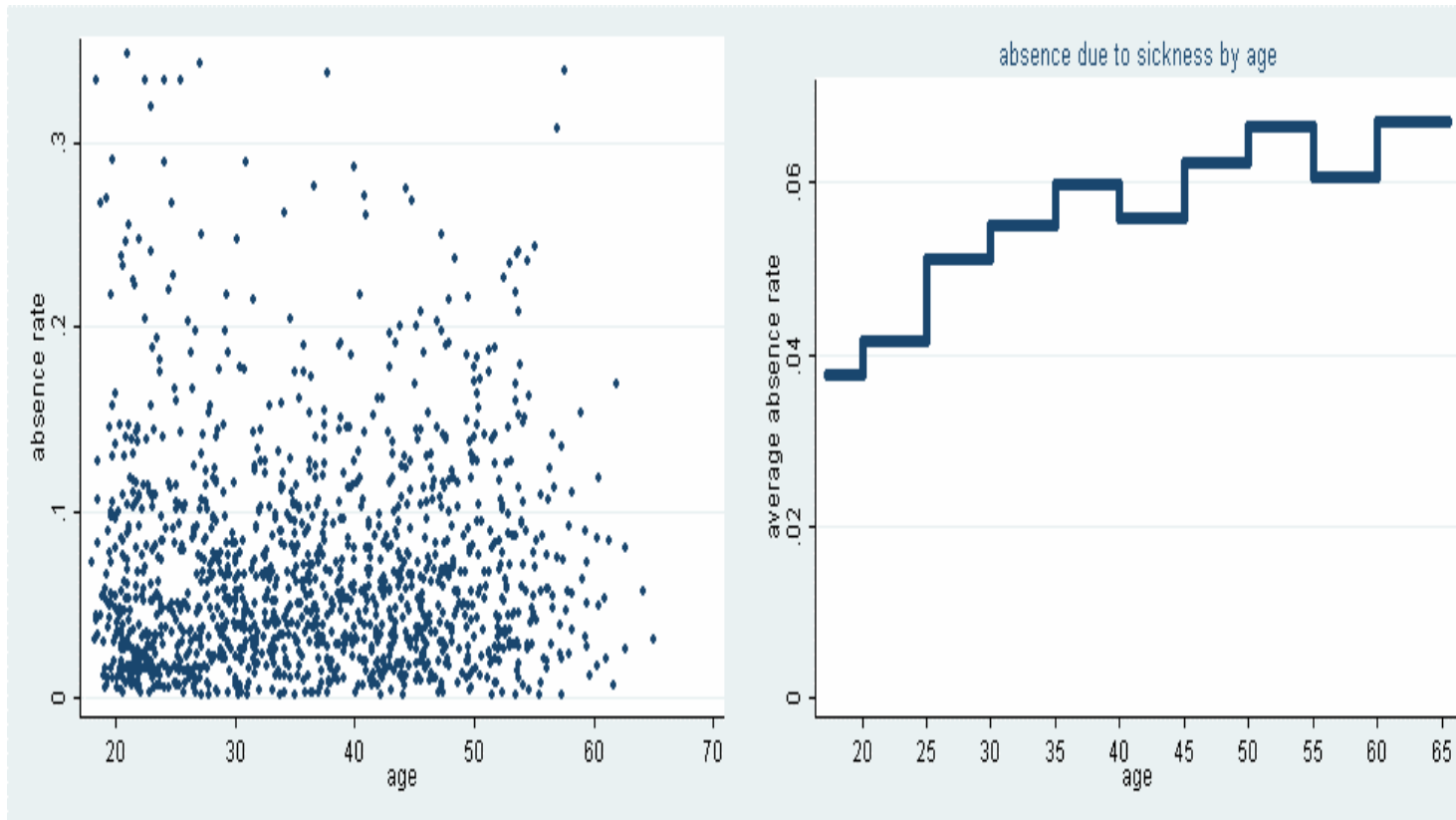
- It's hard to access data on individual productivity, possible measures:
  - ▣ Manager evaluation of employees
  - ▣ Self-evaluation of employees
  - ▣ Direct measures of productivity
  - ▣ More frequently absenteeism data

Firm-level or team-level productivity easier to measure, but need of data matching employees and employers

# Absenteism – data

- Germany: car assembling plant – each day of the period 2003.2004
- Finland: Quality of Working Life Survey (QWLS) 2003

# Individual absenteeism and Age <sup>f R</sup> (Car Assembling Plant in Germany) <sup>D B</sup>

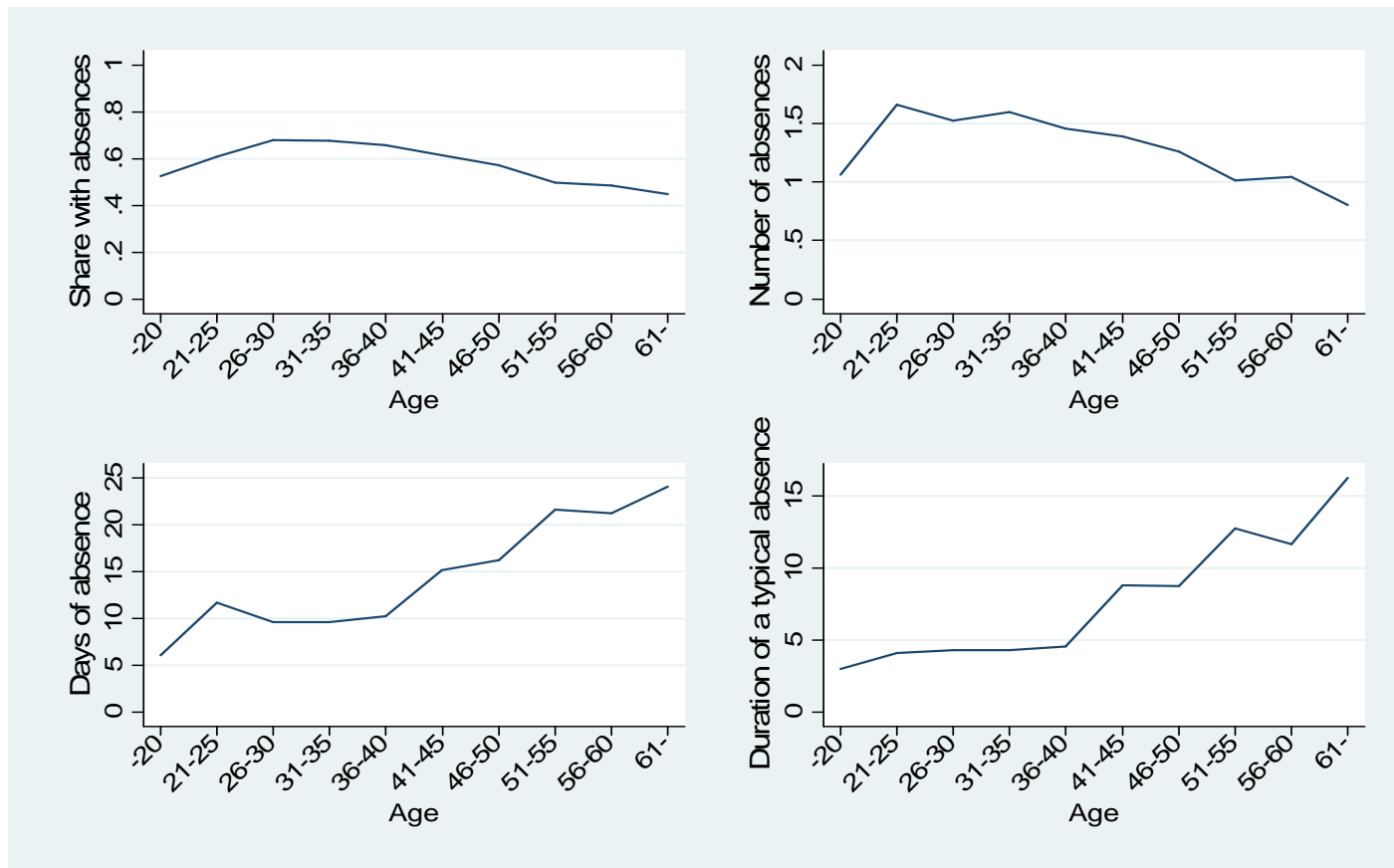


f R



# Absenteism and Age, Finland

f **R**  
**D B**



f **R**  
**D B**

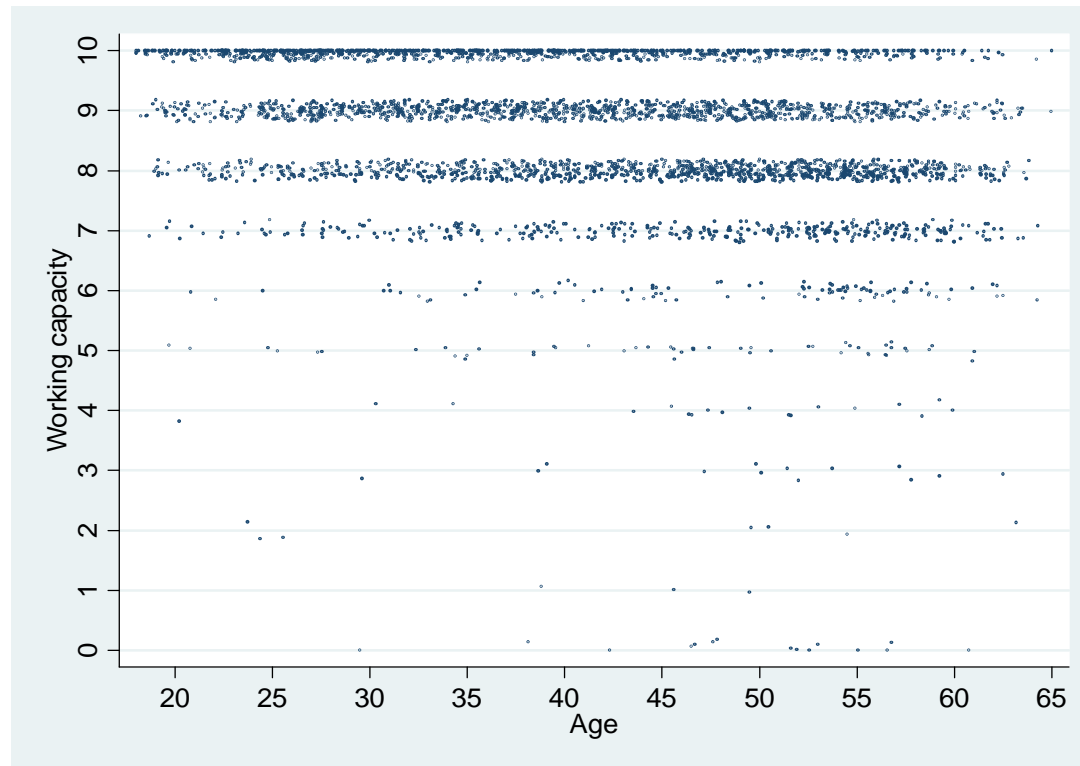
# Absenteism - conclusions

- Age has negative effect on frequency, positive effect on spell. **Aggregate positive effect** on absenteeism
- More heterogeneity in age leads to an increase in absenteeism

# Self evaluation of working ability

f **R**  
**D B**

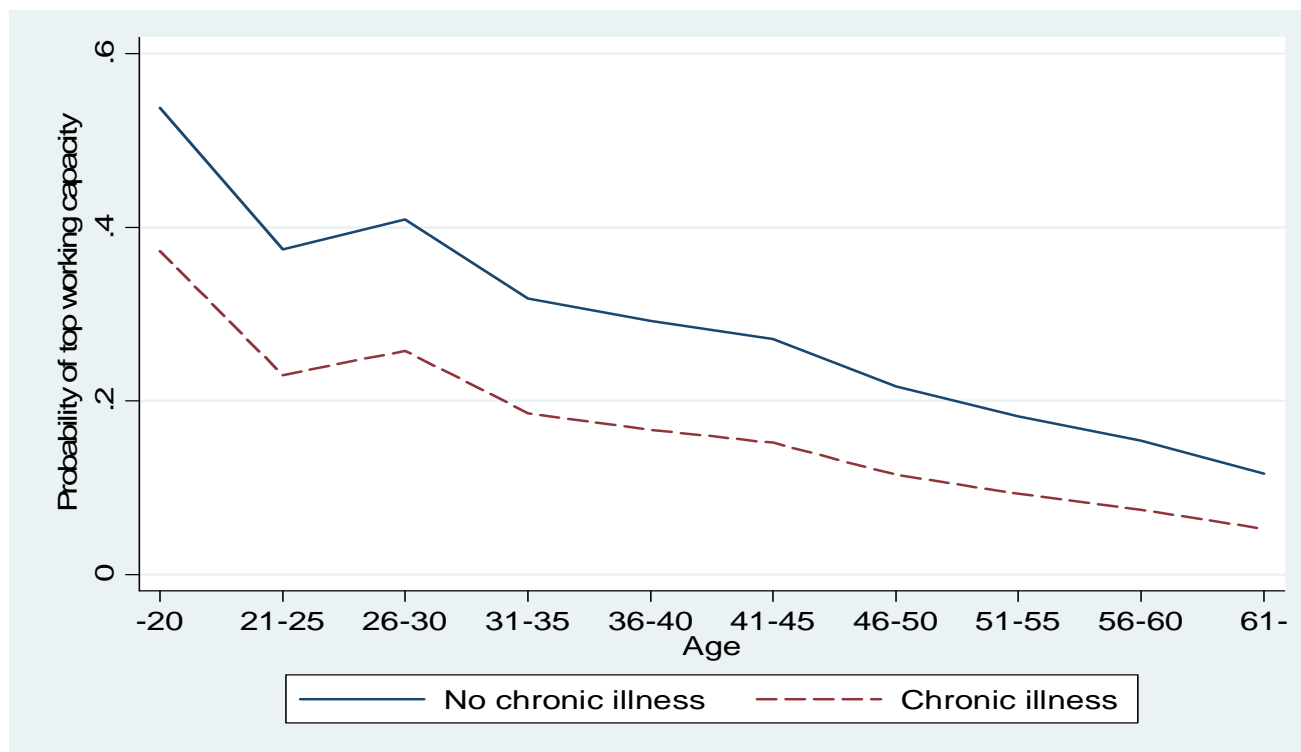
How would you evaluate your working ability from 0 to 10?



f **R**  
**D B**

# Maximum working ability and effect of chronic illness

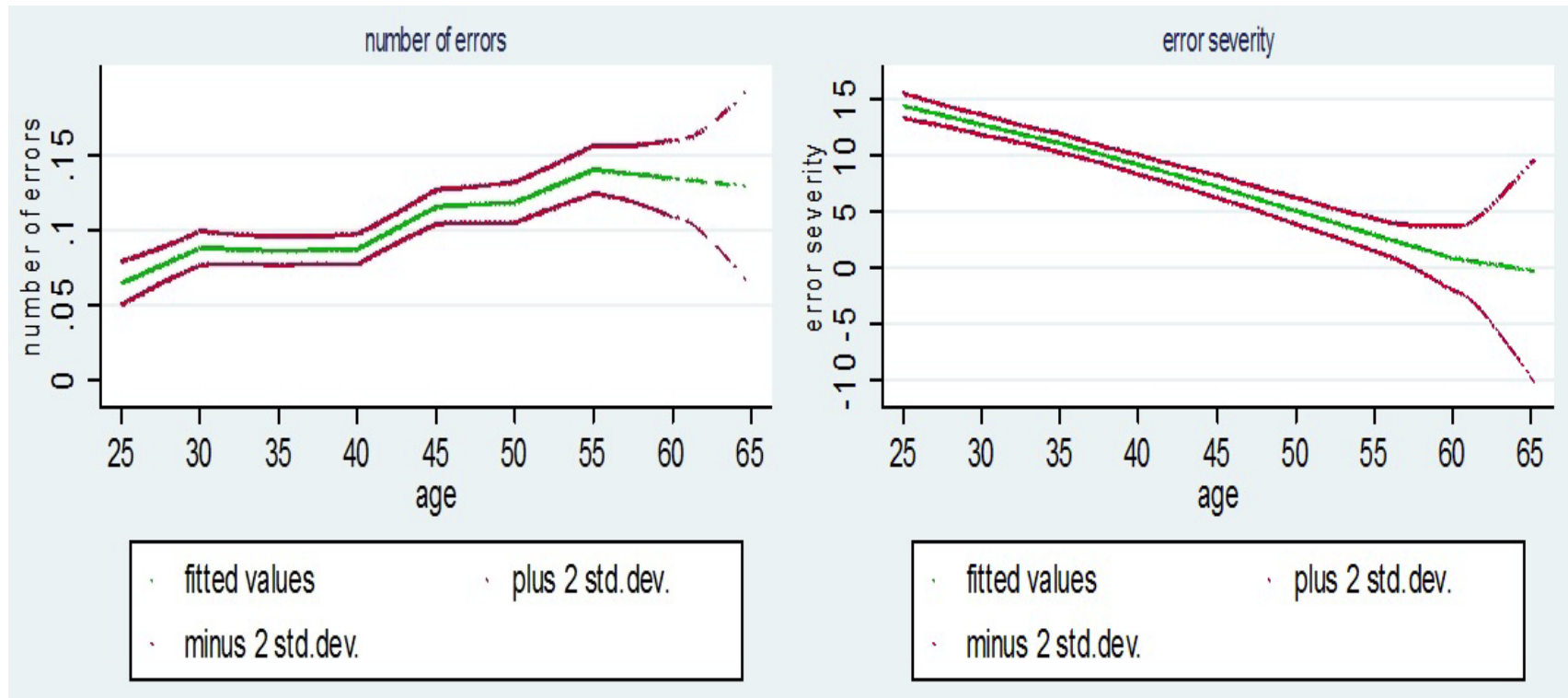
f **R**  
**D B**



f **R**  
**D B**

# Age and errors

f R  
D B

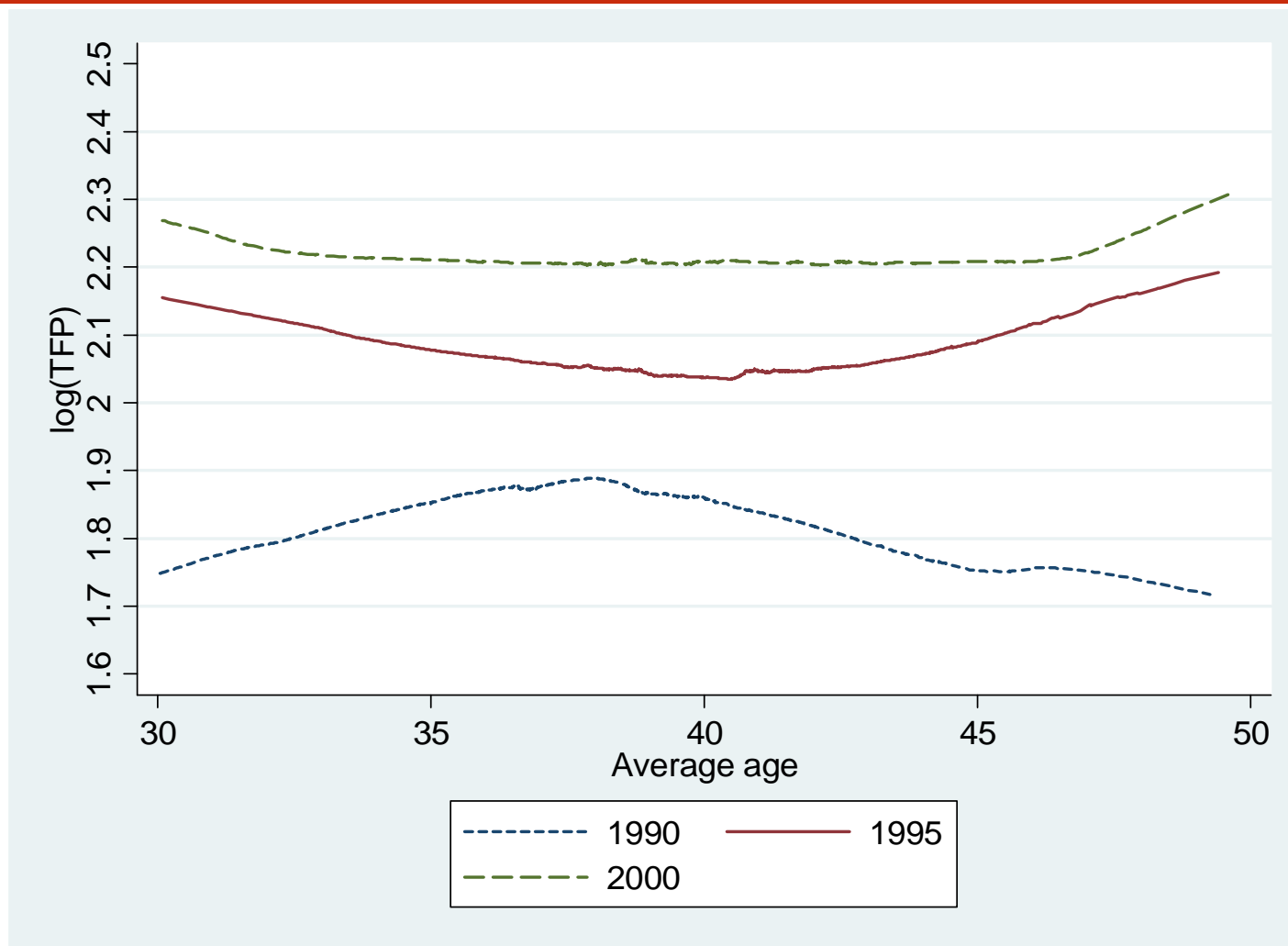


Axel Börsch-Supan and Matthias Weiss, (2011) on productivity by age for team workers in a Mercedes Benz production plan in south Germany.

f R  
D B

# The relation between age and productivity changes over time

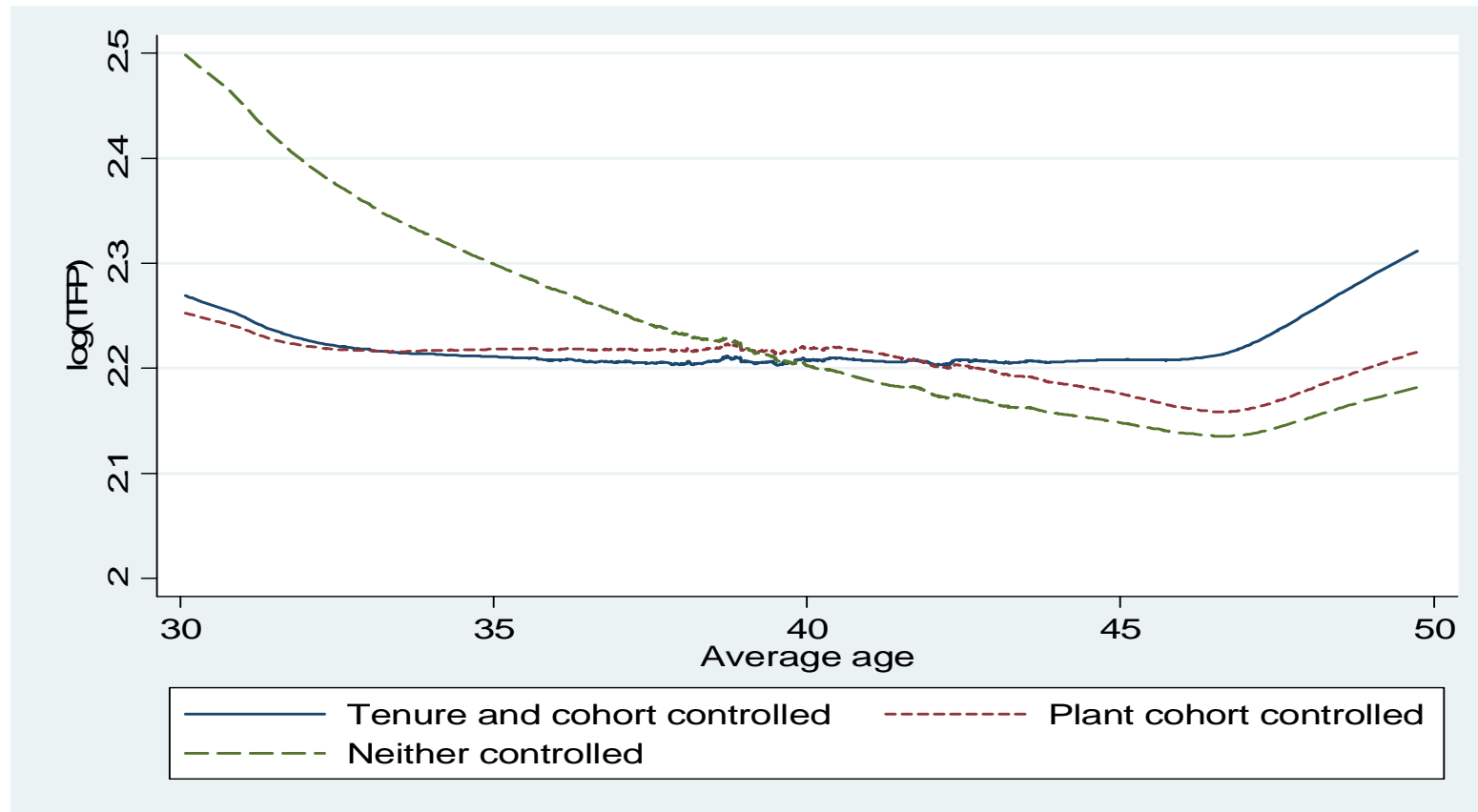
f **R**  
**D B**



f **R**  
**D B**

# Results for plants and effect of tenure

f **R**  
**D B**



f **R**  
**D B**

# Working ability – conclusions

- **Age** ↑      **Working Quality** ↓
- Decrease is not dramatic, 0.3 points in 10 years
- Faster decrease for workers that are required physical strength
- Technological Innovation: Age becomes less important



# Conclusions

- ❑ **Complex and multidimensional** relation between age and productivity
- ❑ This relation **changes over time** and is affected by other factors
- ❑ Absenteeism↑
- ❑ Working Quality↓
- ❑ Productivity ↓
- ❑ Heterogeneity of age?

# Outline

f R  
D B

- The labor market for the young
- Young in/old out?
  - The Lump of Labour .... Fallacy
  - Skill complementarities, ageing and productivity
- Policies for young in/old in

# Things to Do

- Training
  - ▣ Early retirement reduces incentives to investments in human capital (Montizaan et al., 2010). Allow for lifetime learning
- Wage Policies
  - ▣ Reduce automatic tenure wage adjustment
- Human resources management
  - ▣ Simpler to prevent firing of elderly than promote their hiring; but high dismissal costs deter hiring of older workers (Schnazelberger et al.)
- Employment Protection Legislation
  - ▣ Tenure-related severance pay better than deadweight firing cost

# Things not to do: “*Contrat de Génération*” in France

f R  
D B

An older partner (over 55) is associated to a young worker (under 26) in order to facilitate the handover

- Firms below 300 employees: for each couple the government offers fiscal incentives
- Firms above 300 employees are obliged to activate, through collective, sector-level or firm-level agreements, these contracts in order to avoid sanctions

f R  
D B

# *“Staffetta Generazionale”* in Italy <sup>f</sup> **R** **D B**

- ❑ Workers over 60 years are allowed to switch from full-time to part-time (more leisure but less wage, about 40% of reduction)
- ❑ Firms can use the money they save to hire new workers (either PT or FT) that may be put under the supervision of the elderly facilitating the handover.
- ❑ Since wage is increasing with tenure, 40% of the wage of the elderly may suffice for a FT wage for a young worker.
- ❑ The reform is expected to be “zero cost”

# Will it work?

f R  
D B

- **Past experiences** from the '70s and '80s have demonstrated that this “substitution” policy is not effective
- Increasing exit rate of elderly may have **perverse effects** on youth unemployment and worsen the situation, especially for low educated workers
- The reform **may not be “zero cost”**, workers are generally (at least partially) compensated for their loss in wage

f R  
D B

# Summarizing

f R  
D B

- We can have young-in/old-in provided that we allow for
  - ▣ Decentralization of bargaining: wages, working hours and organization determined simultaneously
  - ▣ Flexible retirement age (within contributory systems, this does not create problems of sustainability)
  - ▣ Support to on-the-job training starting with the transition from school to work; better matching.

f R  
D B