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LABOUR MARKET DEVELOPMENTS
AND POLICY REFORMS

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Introduction

- What is the role of *structural* reforms (SRs) for good **labour market performance**?
 - Focus of labour market reforms was on **structural unemployment**
 - The crisis has brought about the social costs of economic downturns on LMs, *i.e.* **labour market resilience**
- 1. The role of structural reforms **prior** to the crisis for labour market performance
- 2. What is the role of temporary measures taken in **response** to the crisis?
- 3. A **new series of structural reforms** after the crisis



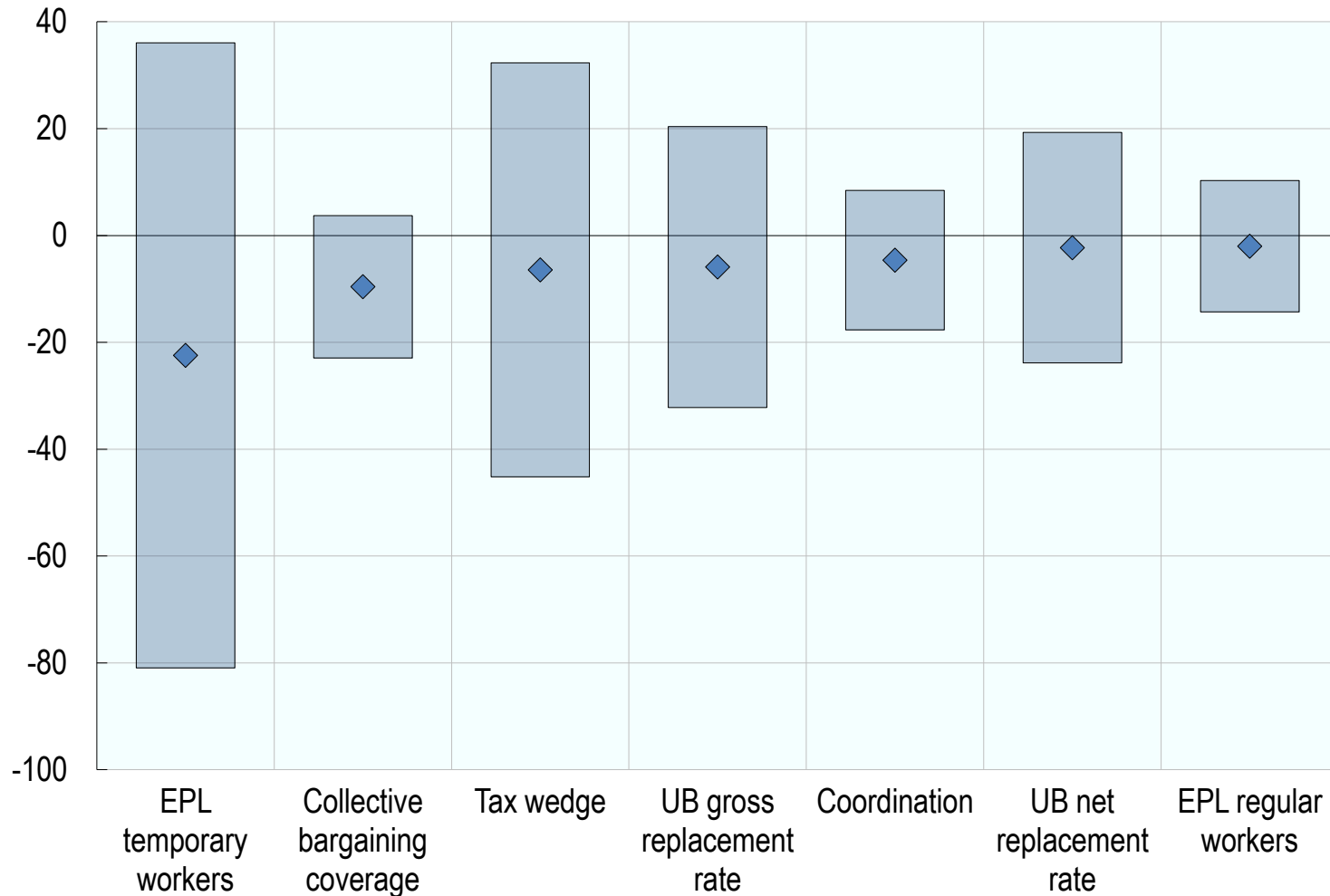
The main reform tendencies prior to the crisis...

- Strike a better balance between social safety and benefit dependency
 - Many countries have started to put effective **activation strategies** in place
 - **UB systems have been strengthened** in some countries, but tightened up in others
- Reinforce labour market flexibility
 - Provisions with respect to **temporary contracts** have been relaxed
 - **Working time flexibility** has tended to increase
 - Changes in the nature and importance of **collective wage bargaining** may have increased wage flexibility



... but far from uniform

Unweighted average of OECD countries in percentage change with 90% confidence interval



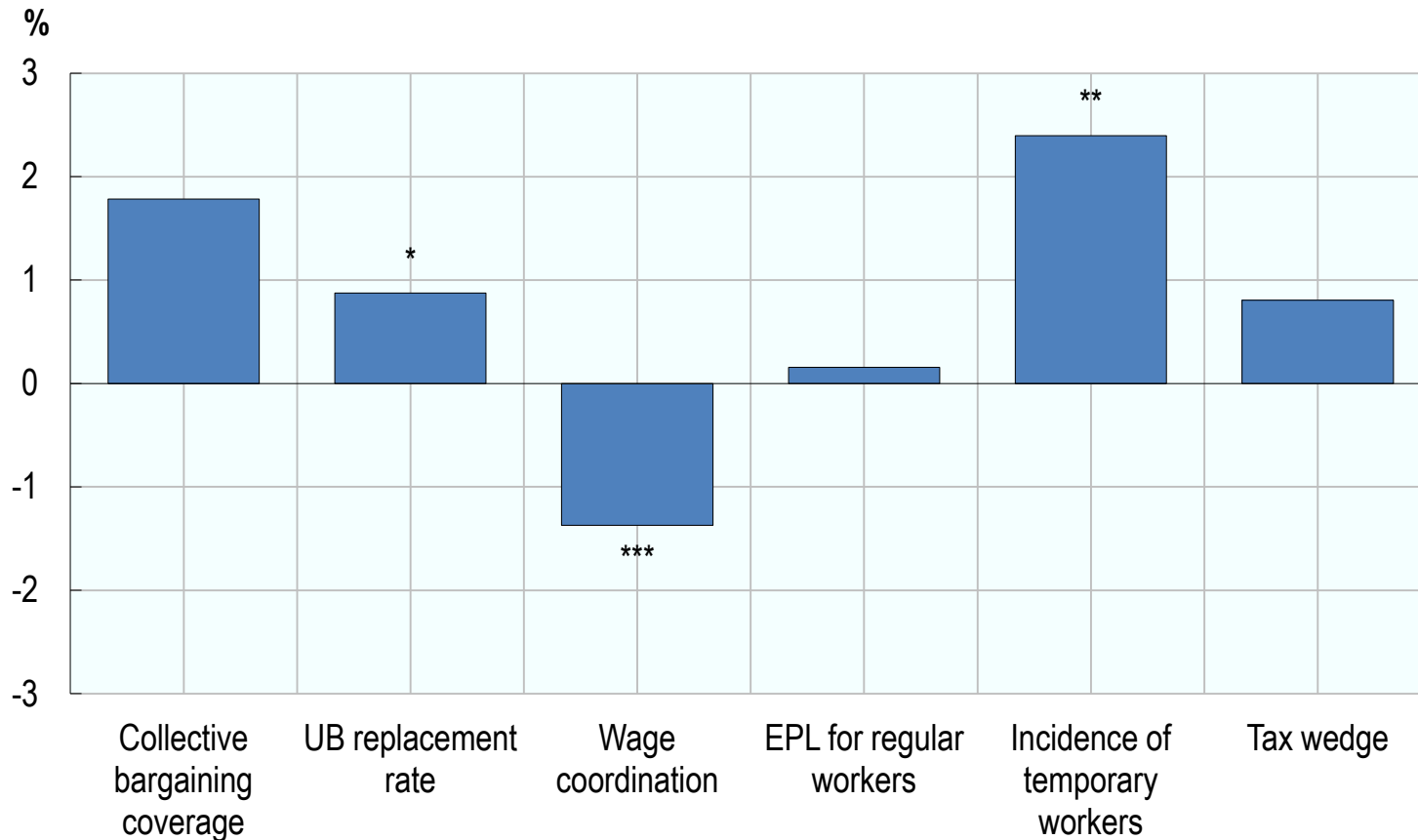
Diamonds refer to simple average changes across countries, while the shaded areas give the range of the average plus and minus one standard deviation. Institutions are shown in ascending order of the average change.

Source: OECD estimates.



The role of policies and institutions for the rate of structural unemployment

Effect of a one standard-deviation change of the indicated institution, percentage-point change

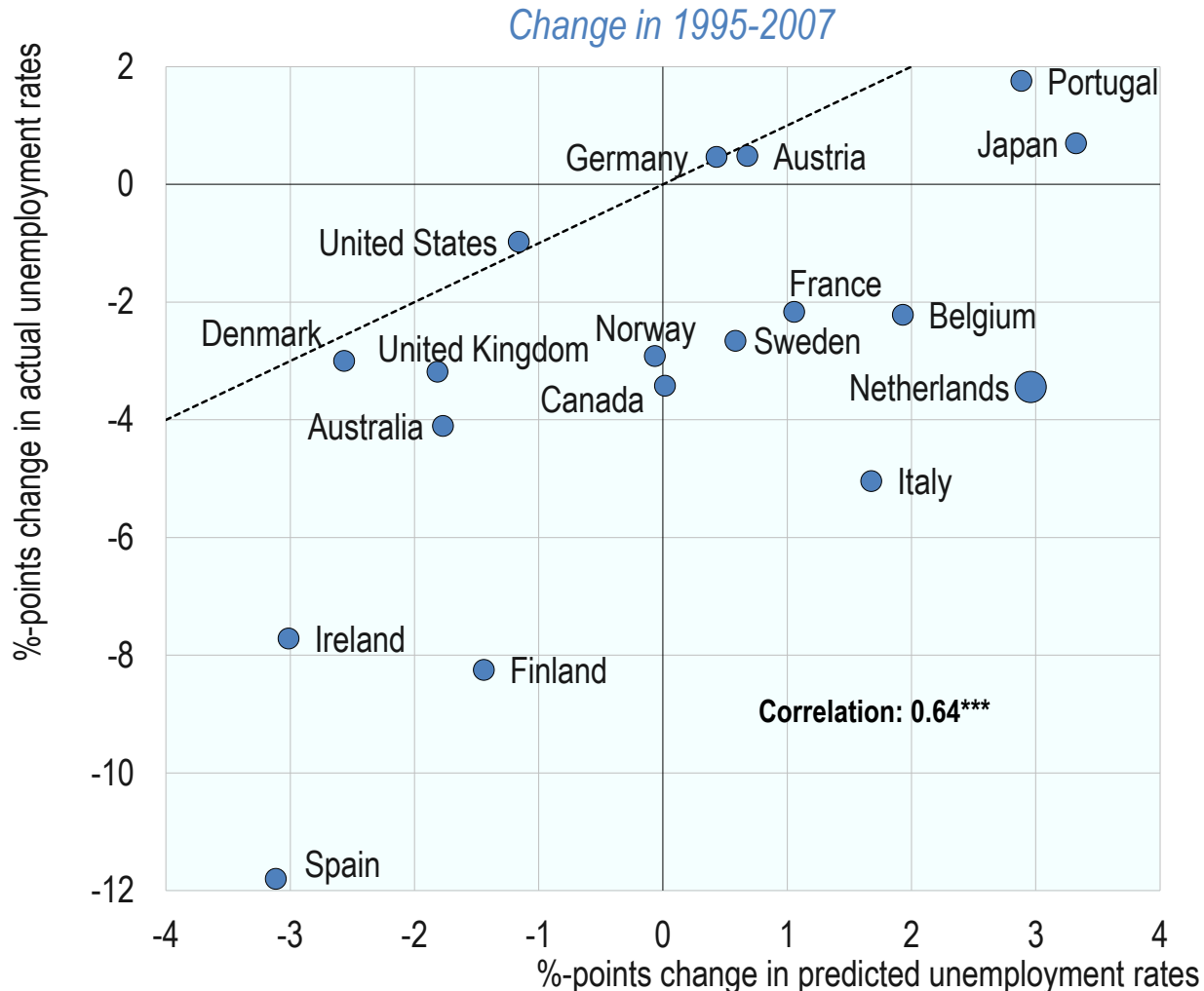


***, **, *: Statistically significant at the 1%, 5% and 10% level, respectively.

Source: OECD calculations.



Structural reforms account for a significant part of the change in labour market performance



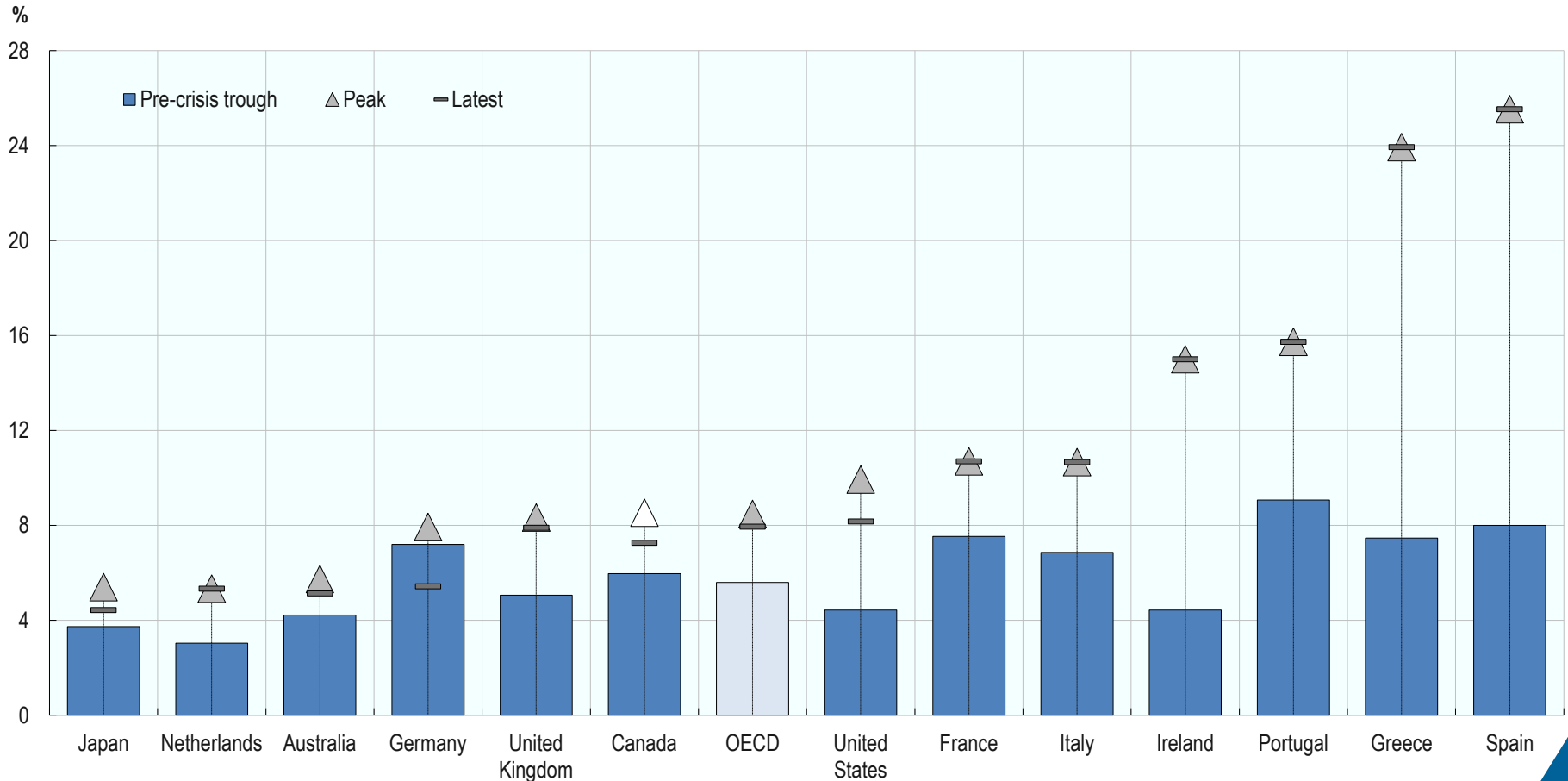
***, **, *: Statistically significant at the 1%, 5% and 10% level, respectively.

Source: OECD calculations.



The jobs crisis: Wide dispersion in unemployment rates and no sign of convergence

Unemployment rates before the crisis, at its peak and its latest value^a



Note: Countries are shown in ascending order by the unemployment rate at its peak.

a) Trough (peak) dates are defined as the start of the longest spell of consecutive increase (decrease) of the quarterly unemployment rates since 2007 Q4.

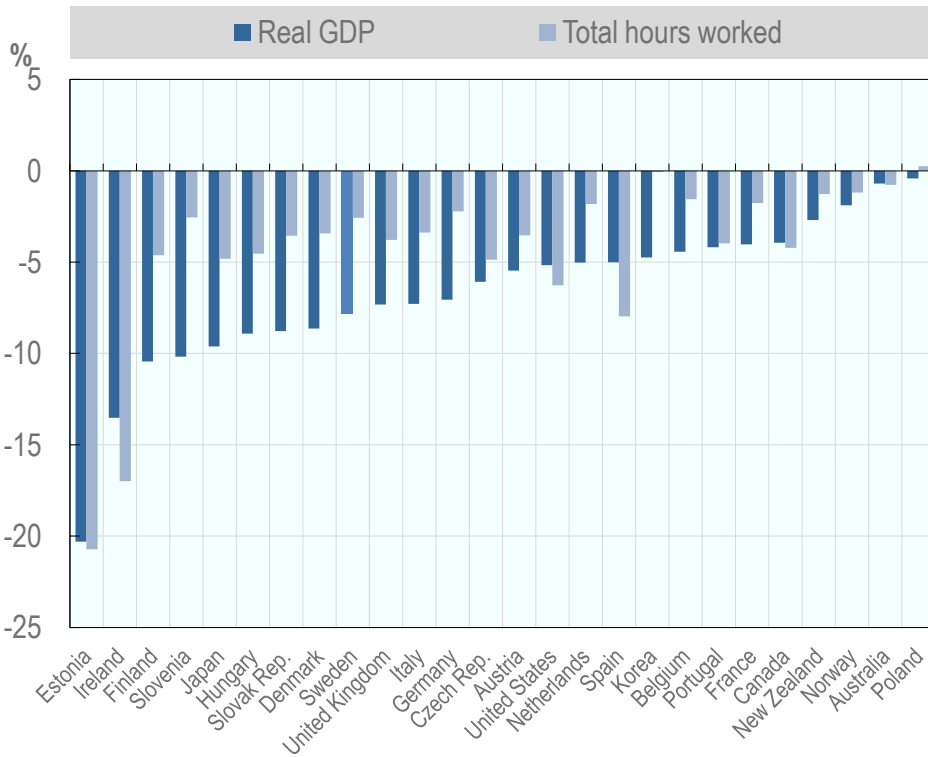
Source: OECD calculations based on the *OECD Short-Term Indicators Database*.



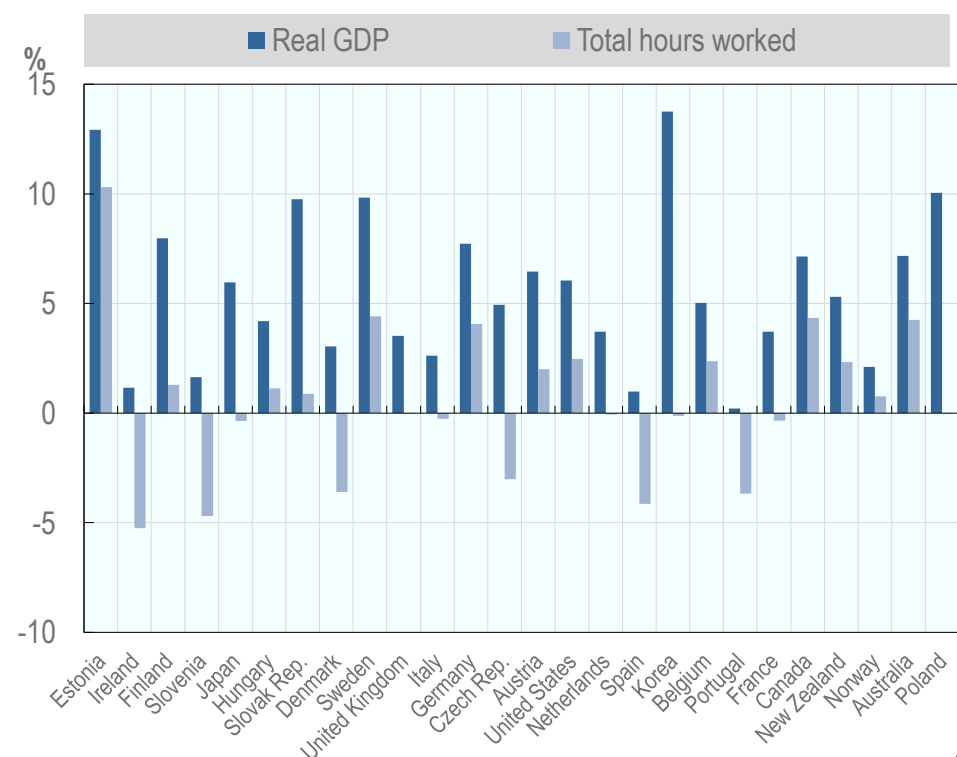
Different patterns of LM adjustment in the downturn and the recovery phase

Percentage change between the real GDP peak and between trough and the real GDP trough to the latest available quarter

2008-09 recession



Recovery



Countries ordered from left to right in terms of drops in GDP during the 2008-09 recession.

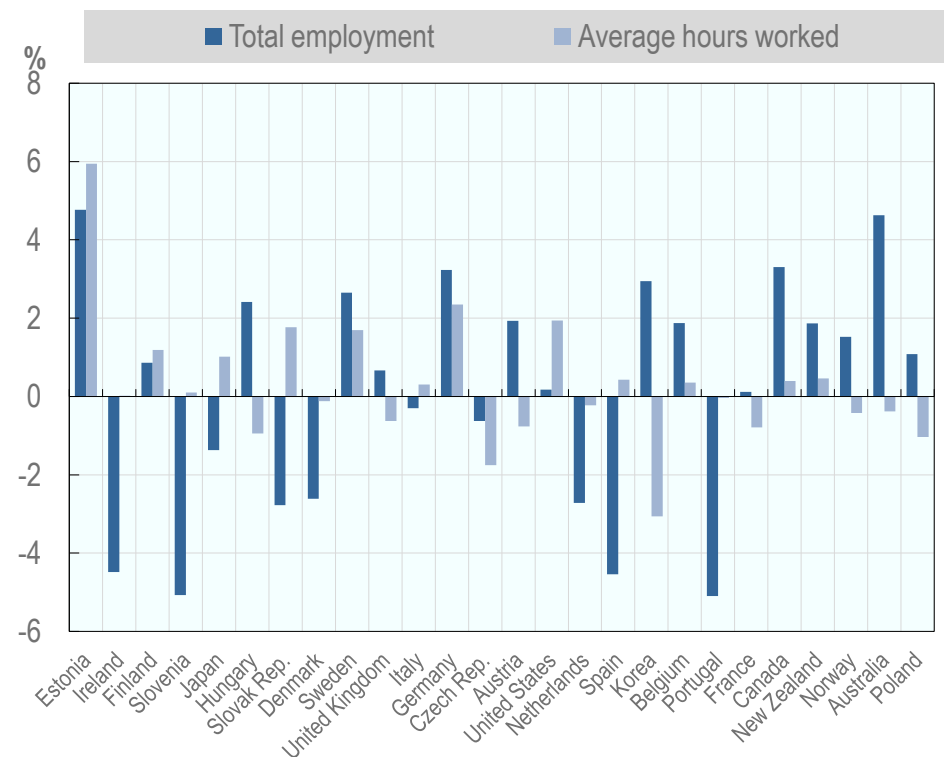
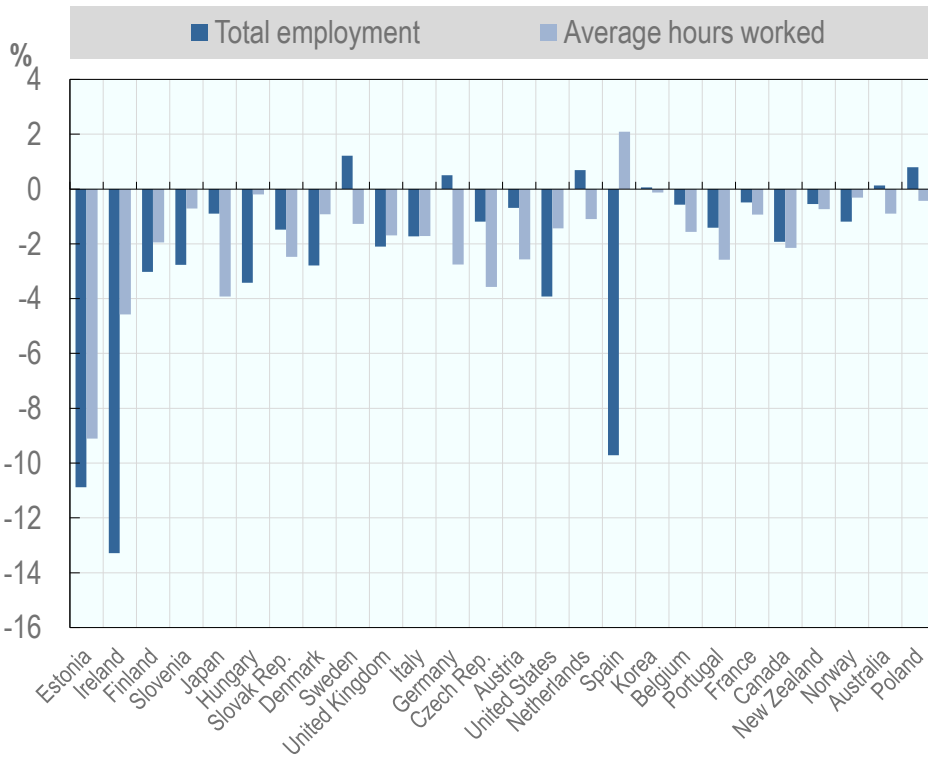


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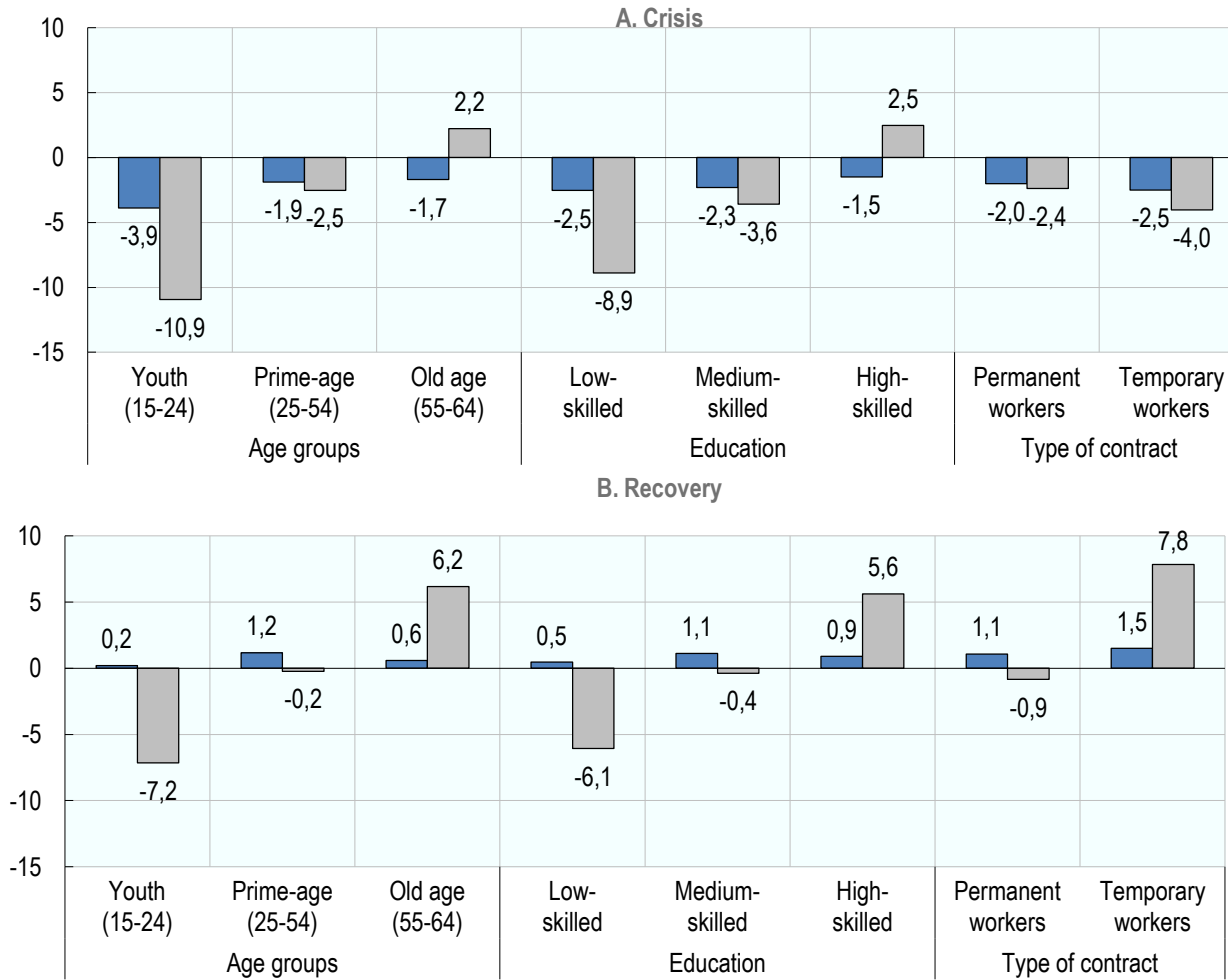
Countries ordered from left to right in terms of drops in GDP during the 2008-09 recession.



The jobs crisis: different effects across socio-demographic groups

Percentage change^{a,b}

■ Average hours worked □ Employment



a) Unweighted average of the following countries: Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

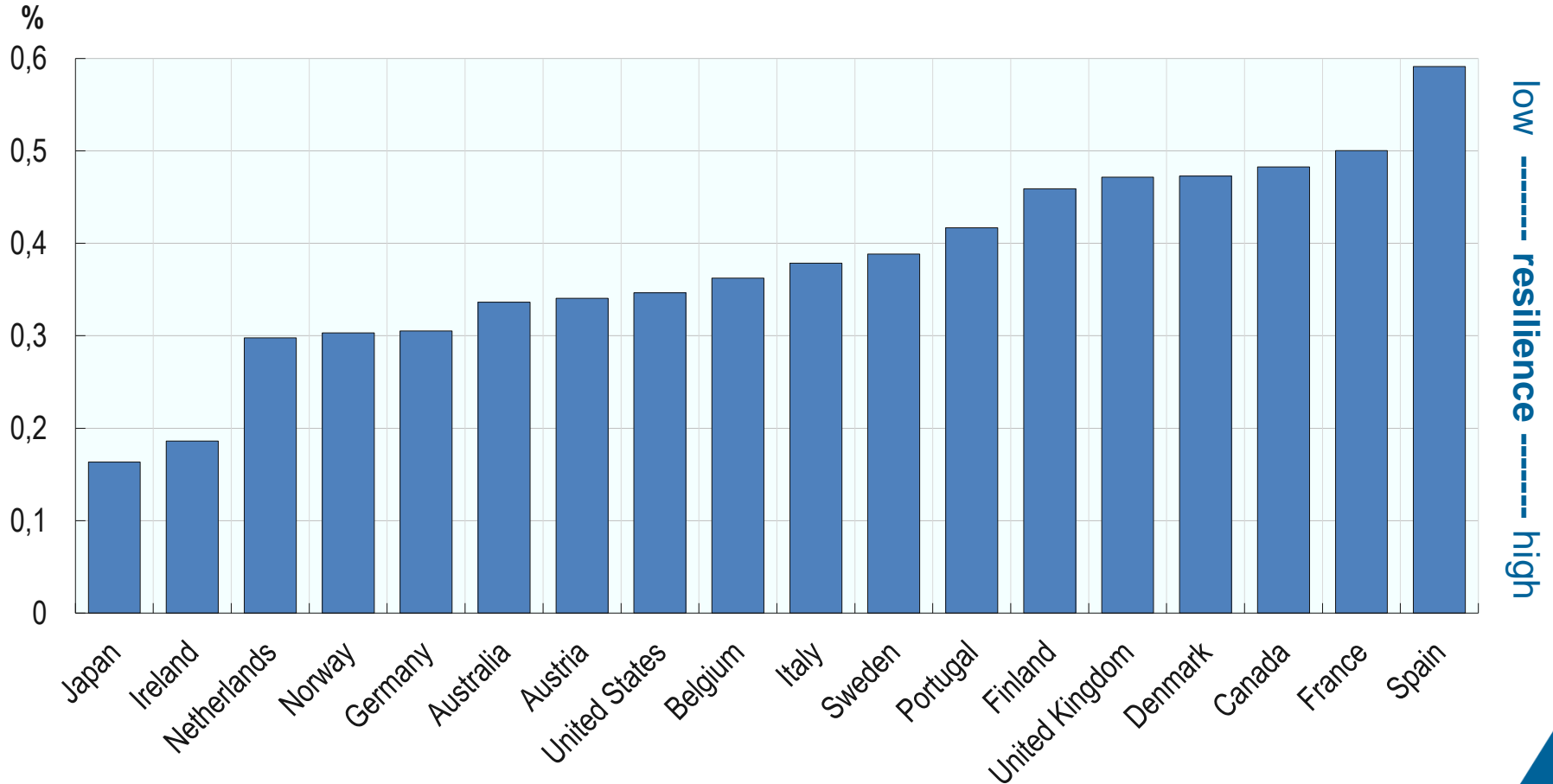
b) The crisis is defined from the peak in real GDP to its trough, whereas the recovery is defined from the trough in real GDP to 2011 Q2. Peak (trough) dates are defined as the start of the longest spell of consecutive decreases (increases) in real GDP since 2006 Q1.

Source: OECD estimates based on national quarterly national accounts and the European Union Labour Force Survey (EULFS).



LM resilience: Differences in policies and institutions account for large differences in labour market resilience

Implied average impact of a 1% decline in real GDP on the unemployment rate during the first sixteen quarters



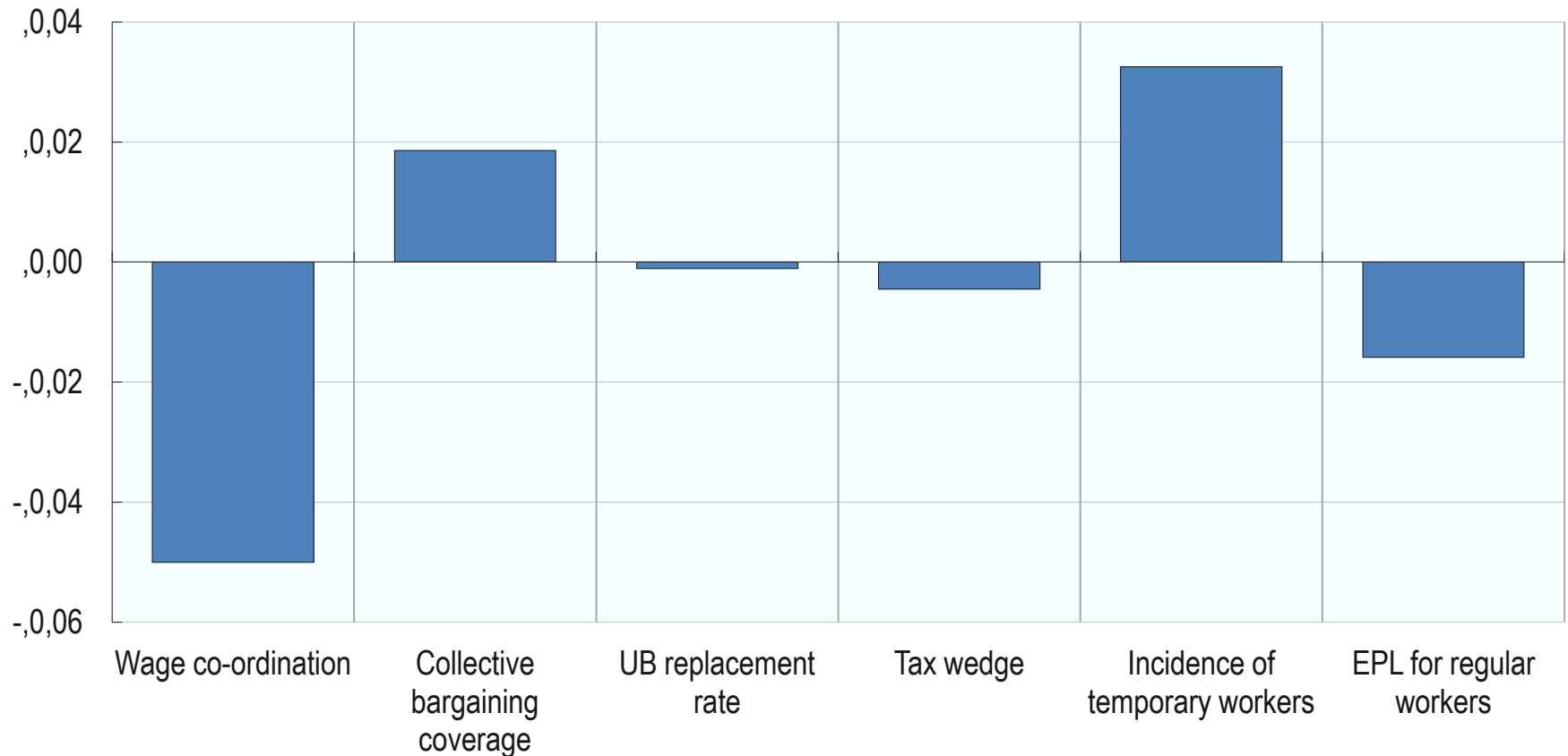
Note: Countries ordered by ascending order of the implied percentage change in the unemployment rates.

Source: OECD's calculations.



The role of policies and institutions for labour market resilience

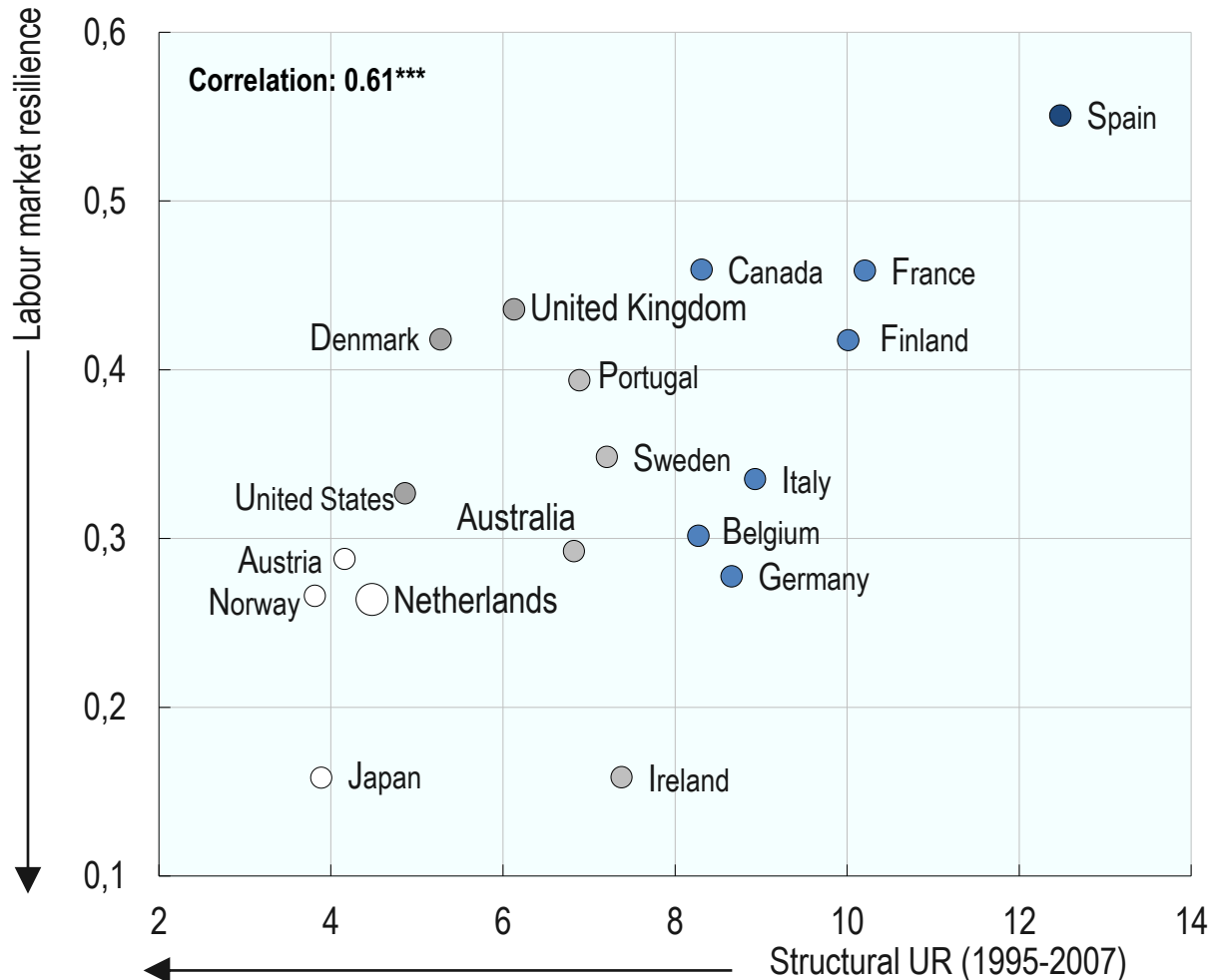
Implied impact of a one standard-deviation change in a specific policy or institution on the average impact over the first sixteen quarters of a 1 % reduction in GDP on the unemployment rate



Source: OECD estimates.



Policies & institutions conducive to good structural LM outcomes may also contribute to LM resilience



Note: Structural unemployment rates are calculated by adjusting the unemployment rate for the state of the business cycle.
LM resilience = avg. unemployment impact of output shock (over four years)



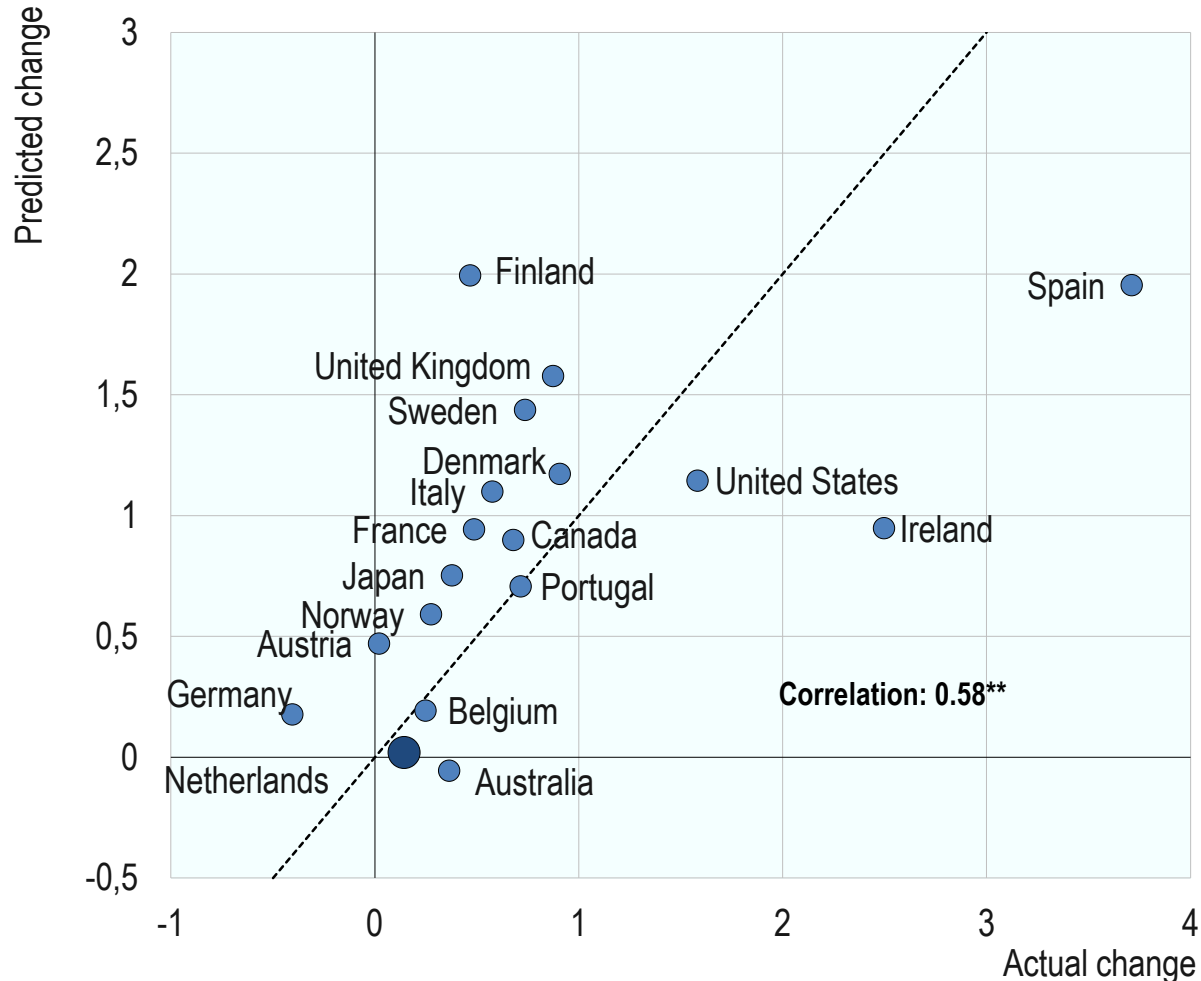
Policies with similar implications for structural LM performance and LM resilience

- **Coordinated wage bargaining** institutions can contribute to both
 - Enhance **structural** outcomes by taking account of the potentially negative effects of bargaining on employment
 - Contribute to **resilience** by facilitating wage adjustments relative to employment
- Institutions favouring temporary contracts, e.g. stringent **employment protection** for regular workers, can hamper both by
 - Increasing frictional unemployment & reducing job quality
 - Increasing unemployment response to shocks



Comparing the actual and predicted evolution in unemployment across countries over 2007 Q4 - 2011 Q4

(predicted and actual average annual changes in the unemployment rate, percentage-points)



Source: OECD calculations.



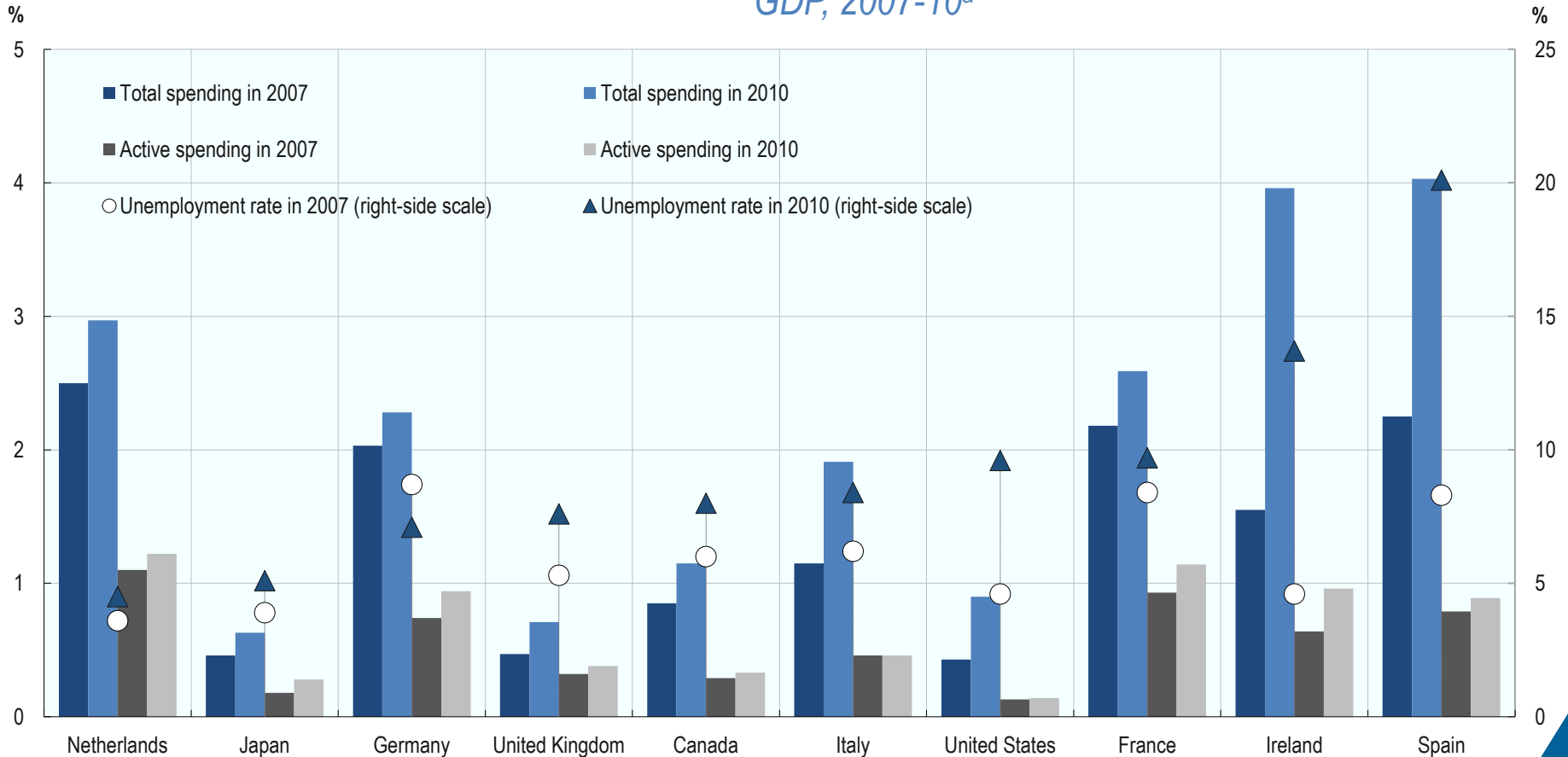
Policy developments since the start of the crisis

- **Temporary measures** in response to the jobs crisis
 - Increased resources for active labour market policies
 - Measures to encourage short-time working
 - **Structural labour market reforms** spurred by the fiscal crisis
 - Employment protection for regular workers has been reduced and collective bargaining decentralised
- > These factors may account for some of the forecast errors in the previous slide



Spending on labour market programmes was relatively low in 2007 in most countries where unemployment subsequently rose sharply

Harmonised unemployment rates and labour market programme spending as a percentage of GDP, 2007-10^a



Note: Countries are shown in ascending order of the unemployment rate in 2010.

a) 2009 for the United Kingdom.

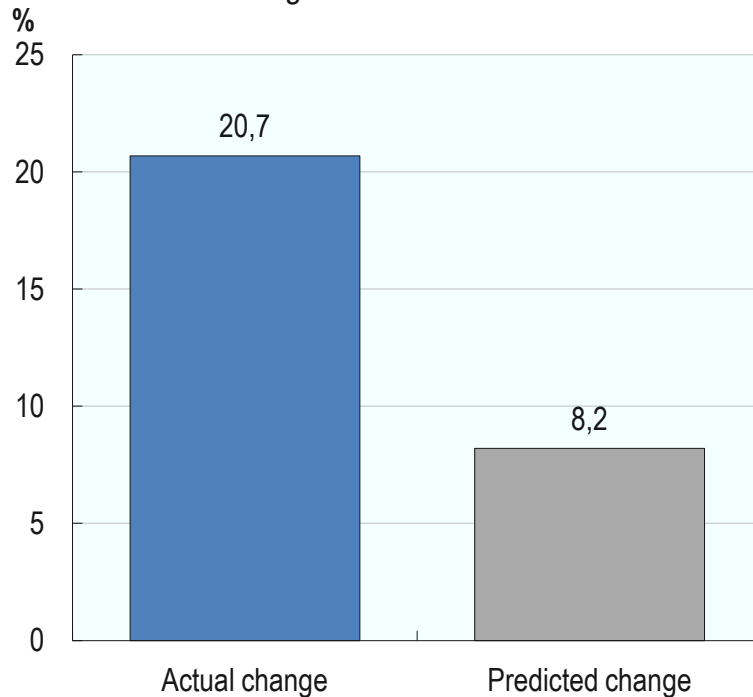
Source: OECD calculations based on the *OECD Main Economic Indicators* and *OECD Labour Market Programmes Databases*.



The responsiveness of ALMPs spending to cyclical changes in unemployment tends to be very low

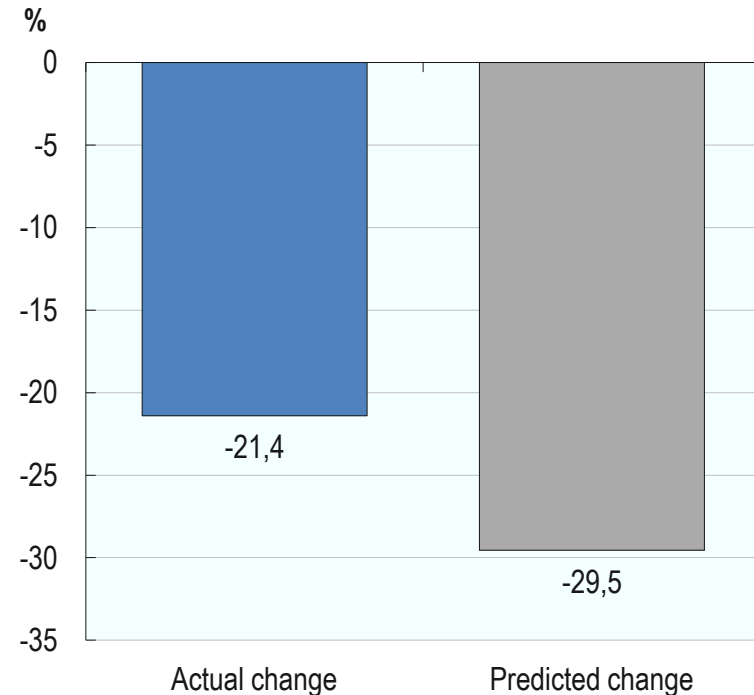
Actual and predicted change in ALMP spending since the start of the crisis^{a,b}

% change between 2007 and 2010



Actual and predicted change in ALMP resources per unemployed persons^b

% change between 2007 and 2010



a) The predicted change in ALMP spending is obtained by taking the difference between the out-of-sample prediction for 2010 from the model described in footnote a) and the prediction for 2007.

b) For Panels B and C, the data refer to weighted averages of the countries included in Panel A but excluding Korea and the United Kingdom because of missing data on ALMP spending for 2010.

Source: OECD estimates based on the *OECD Labour Market Programmes* and *OECD Main Economic Indicators Databases*.



Providing an adequate safety nets while minimising benefit dependency

- The jobs crisis led to **longer average unemployment spells**
 - Where unemployment benefit durations are short, temporary extension during the crisis helps reducing the poverty risk among the long-term unemployed. Extension of benefits in e.g. Canada and especially the United States (with some changes also in Finland, Japan, Portugal)
- Increasing numbers of **ineligible jobseekers** due to the increase in non-standard work in some countries
 - Some countries have extended coverage, e.g. Finland, France, Italy, Japan
- **Extensions should be temporary** and targeted to the most vulnerable with enforcement of job-search requirements
- **The crisis can also be an opportunity to reform unemployment benefits** to provide a more adequate safety nets to vulnerable groups, conditional on job search, and participation in ALMPs



How to adjust activation strategy during the crisis

- **Threats to previously successful strategies:**
 - While generally launched to combat high unemployment, their recent successes in the context of buoyant LD → **activation is facing a hard test**
 - Risk for intensity of interventions in the unemployment spell (job search controls; in-depth interviews; action plan follow-up...) to decrease
 - Vacancy flows decline, resulting in a lower number of direct referrals.
- **Overriding goal: prevent job losers from becoming disconnected from the labour market. Consequently:**
 - **Administrative capacity** to scale up LM programmes and possible role of private providers
 - **How to reach out those who are not (no longer) eligible for first-tier income support schemes**
 - **Automatic vs. discretionary adjustments:** while spending for passive LM policies increases automatically in downturns, this is not the case for ALMPs, with a few exceptions.



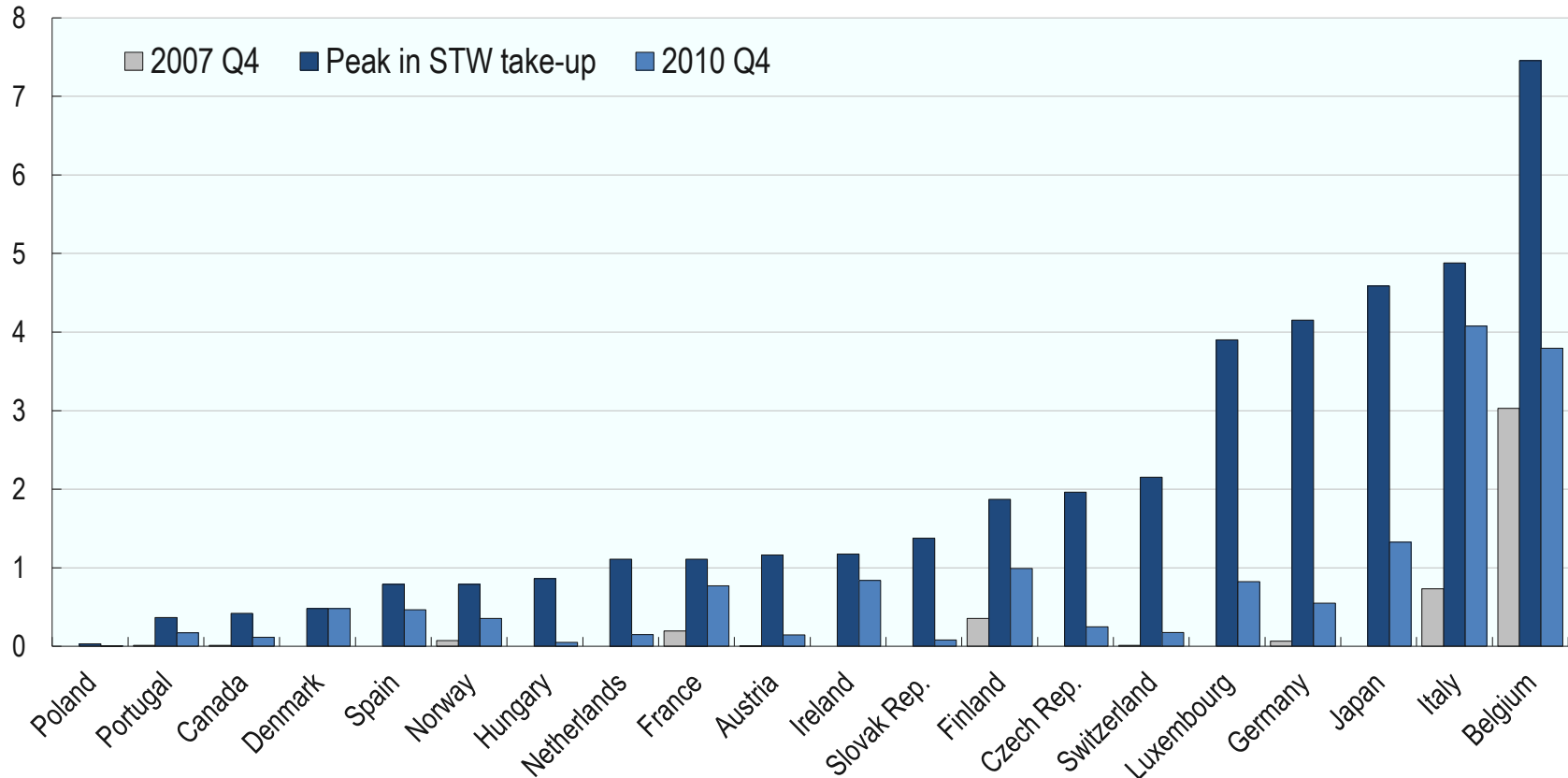
Supporting labour demand: from protecting existing jobs to boosting job creation

- Many countries have introduced **measures to support labour demand during the crisis:**
 - Subsidies for the reduction in working time (e.g., 22 OECD countries);
 - Reductions in non-wage labour costs (e.g., 16 OECD countries);
 - Hiring subsidies and work experience, generally targeted at disadvantaged groups (e.g. 15 OECD countries).
- **In the (very weak) recovery with high and persistent unemployment important to shift from STWs to (net) hiring subsidies**
 - By protecting job matches, STWs have reduced socially and economically inefficient job losses ...
 - ...but risk increasing dualism (U highly concentrated on already disadvantaged groups and new entrants)...
 -and slow-down efficiency-enhancing labour reallocation
 - Hiring subsidies may help promoting employment for disadvantaged groups, but have to be well targeted and with strict conditions for employers.



The use of short-time work during the global crisis

Average monthly short-time work take-up rate, percentage of dependent employment, 2007 Q4-2010 Q4



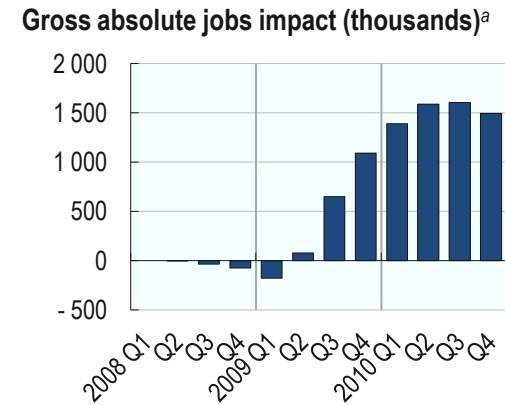
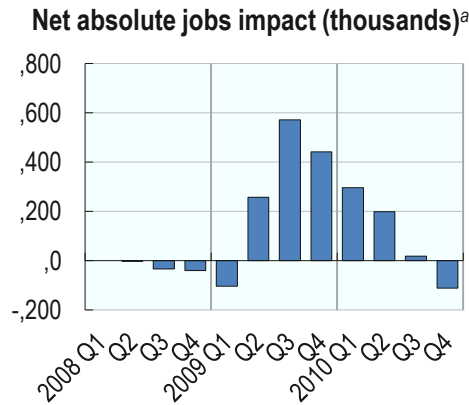
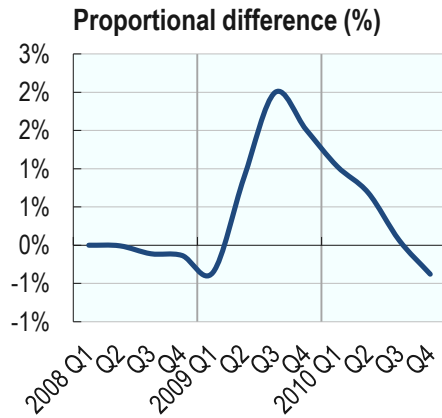
Note: Countries shown in ascending order of STW take-up rate at its peak.

Source: OECD calculations based on administrative data provided by the National authorities and *OECD Main Economic Indicators Database*.

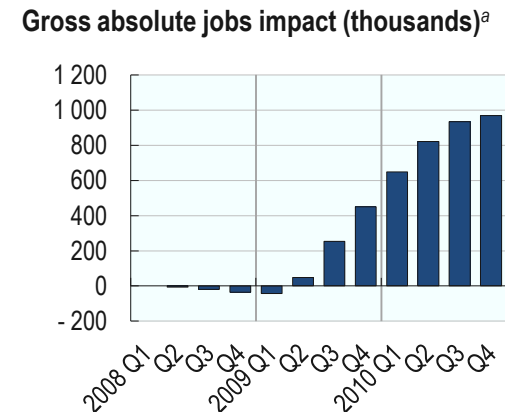
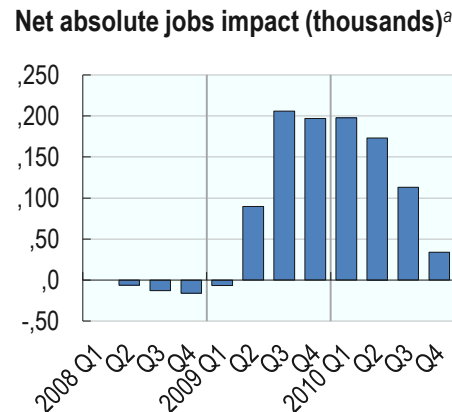
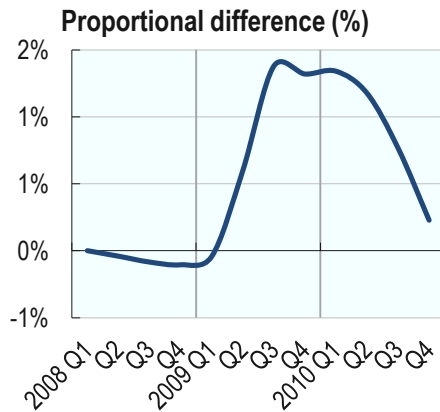


Estimated preserved jobs for permanent workers due to the short-time work schemes

Germany



Italy



STW: Short-time work schemes.

a) Net impact refers to the difference in employment that can be attributed to STW. Gross impact refers to the cumulative impact since the start of the crisis.

Source: OECD estimates.



A key structural reform response: **employment protection legislation**

- Concentrated in Spain, Greece, Portugal, Italy;
- Motivations:
 - Concern that **growing LM segmentation** between temporary and permanent workers has hurt job prospects for youth and other new entrants; is a factor behind low productivity growth
 - **Strong pressures from international financial markets** for EP reforms to help boost medium-term growth prospects
 - Troika made **EP reform an integral part** of the Greek, Portuguese bailouts; endorsed the Spanish 2011-2012 reforms; the Irish exception



RECENT/PROPOSED REFORMS TO EP (cont.)

- Main focus is on reducing regulation on permanent contracts, contrast with “two-tier” reforms of the 1990s and early 2000s:
 - Reduction in up-front severance costs (GRC, PRT) and compensation for unfair dismissal (PRT, ESP, ITA)
 - Expansion of definition of fair dismissal (PRT, ESP), alongside improvements in functioning of courts (ESP, ITA) should allow firms to make dismissals for economic reasons more easily
 - GRC and ESP extended the trial period for new hires, likely to be an important measure for encouraging hiring of youth
- Different approaches to the gap between temporary and permanent workers: GRC and PRT also reduced regulation on temporary contracts, while ESP and ITA increased it
- GRC, PRT and ESP also reduced scope, cost or complexity of collective dismissals
- Two important implementation issues:
 - No grandfathering of entitlements
 - Depends on how courts interpret the new rules (ITA, ESP).



COMPARISON OF RECENT/PROPOSED EP REFORMS

	GRC	PRT	ESP	ITA
Reduce severance pay for permanent contracts	X	X		
Reduce red tape for individual dismissals		X		X
Extend probation period for new hires	X		X	
Expand the definition of fair dismissal		X	X	
Improve functioning of courts in dismissal cases			X	X
Reduce compensation for unfair dismissal		X	X	
Reduce regulation on collective dismissals	X	X	X	
Reduce regulation on non-permanent contracts	X	X		
Increase regulation on non-permanent contracts			X	X



Concluding remarks

- Over the past two decades, many OECD countries have introduced reforms to **“activate”** the unemployed and foster **labour market flexibility**
 - Significant differences across countries, but fairly widespread decline in unemployment...
 - ...although large dualism in countries with flexibility at the margin
- ...then the **crisis hit**, with rapidly rising, and increasingly, persistent unemployment
- Policies and institutions that conduce for good structural outcomes may also be good **for labour market resilience**
 - Coordinated wage bargaining
 - Incidence of temporary work
- Comprehensive approach needs to secure a **new “flexicurity-type balance”** which includes:
 - Reasonably generous social safety net
 - Backed by effective activation regime
- Several different routes to reform of EP as part of a comprehensive reform package
- Very important to assess the impacts of the recent reforms



Thank you

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