

”PARTIAL LABOUR MARKET REFORMS IN EUROPE”

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”From insecurity to mobility: Towards an extended social security”

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DISCUSSION

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- 1. Do we have more job insecurity? ...and does it matter?**
- 2. Two-tier type reforms**
- 3. Reforming public employment services**
- 4. Reforming social security**
- 5. Protection *versus* Competition**
- 6. Reforming employment relations**

1. Do we have more job insecurity? ...and does it matter?

- CK Report: significant gross turnover rates in the LM
 - both in France and Italy LM flows are comparable to US and UK
 - high share of fix-term contracts (less than 25 years: FR=70%; IT=25%)
- The market needs flexibility (and competition!)
 - (shocks, fast changes, shorter product life-cycle, just-in-time prod., new techn.)
 - ✓ not feasible to increase protections or introduce further restrictions: *the market will find its “way out”* (secondary sector, irregular labour, underground economy, temporary/fix-term contract, etc.)
 - ✓ in **aggregate** some desired level of flexibility will be achieved;
 - ✓ there will always be some “fringe labour” to act as a buffer;
 - ✓ likely that **high heterogeneity** in “perception of JS” estimates:
 - HIGH: public sector, manufacturing, big firms, male adult;
 - LOW: service sector, small firms, young, female;

2. Two tier type reforms

- Reforms are at the “margin” to make them “politically” acceptable (ie. shift the burden on “marginal voters” = those who are less influential)
 - ✓ **protect** “insiders” in the labour market and in the product market (head-of-household, workers, retired, ...or anyone holding a “right”: job, pension, benefit; ...licence, barrier-to-entry, patent, etc.);
 - ✓ **guarantees are reduced** for the “outsiders” (secondary workers, unemployed, low-skilled, young entrants; small&new&young firms);
- Introduce a “**dual**” regime, arbitrarily (?) segmenting the economy between those who have the **entitlement to the “right”** and those who don't;
 - ✓ Distribution of “rights” is changed by the reform (ins-outs);
 - ✓ “rights” are unlikely to be randomly distributed among the people;
 - ✓ how is distributed the ‘surplus’ of the reform?
 - ✓ who benefits and who loses?

Two tier type reforms ...is it efficient? ... is it equitable?

Efficiency

- from a political point of view it *should be* considered efficient since the alternative would be “no” reform (opposition, strikes, etc.);
- from an economic point of view there *should be* efficiency gains (post-reform) - ie. **aggregate flexibility** is at the **desired level**, hence lower costs, higher profits, more empl. and less unempl., etc.;

Equity

- Is it only a matter of redistribution, from gainers (ins) to losers (outs)?
- Indeed, significant redistribution takes place within the household:
 - o intra-generation (head-household income → spouse and children)
 - o inter-generation (parents → bequests, property, education, etc.)
- Other markets where (post-reform) “rights” can be traded?

There are many reasons to doubt about both efficiency and equity of two-tier reforms:

- ✓ segmentation is a reflection of the **power of influence** and **lobbying activity** of the various groups;
 - ✓ segmentation increases “rents” originating from “status quo” and restriction to competition;
 - ✓ segmenting the market increases **transaction costs**;
 - ✓ **incomplete markets** make impossible to reach ‘desired’ outcomes;
 - ✓ there are efficiency losses in **bargaining** for redistribution;
 - ✓ increase in litigation, conflict, etc.;
 - ✓ increase in inequality and feeling of injustice;
- Inefficient and inequitable protect some “too much” and other “too little” (LT effects also on HC investment, training, housing, etc.);
 - Reforms should be comprehensive, equitable and universal policies should be preferred (ie. protection *in the market* where the failures occur and not *in the job*)

3. Reforming public employment services

- The guidelines of the CK proposal are in line with the Italian reform of public employment services (PES)
- ✓ from **state monopoly** on placement → to unified **Agencies** and **private intermediation**, however:
 - reform not yet fully operating;
 - **conflicting competencies** at various levels (Region, province);
 - **lack of information** and data on LM performance (SIL ?);
 - no real actions on **(mis)match** between supply and demand (*Borsalavoro?*);
 - inefficient management of funds for re-training (ie. social partners)
 - (too) many **restrictions to private actors**, and too little control;
 - some evaluation on the **efficacy of “actions”** is done but little feed back on policy design and implementation;
 - in practice, **no real sanctions for refusing a job**;
 - no serious concern to the **“North-South” divide**;
 - little att.n and resources to the **re-organisation of work** in PSE agencies
 - high **administrative inefficiency** in managing and monitoring activities

4. Reforming social security in Italy

...do we have a problem?

Youth unemployment (<25)

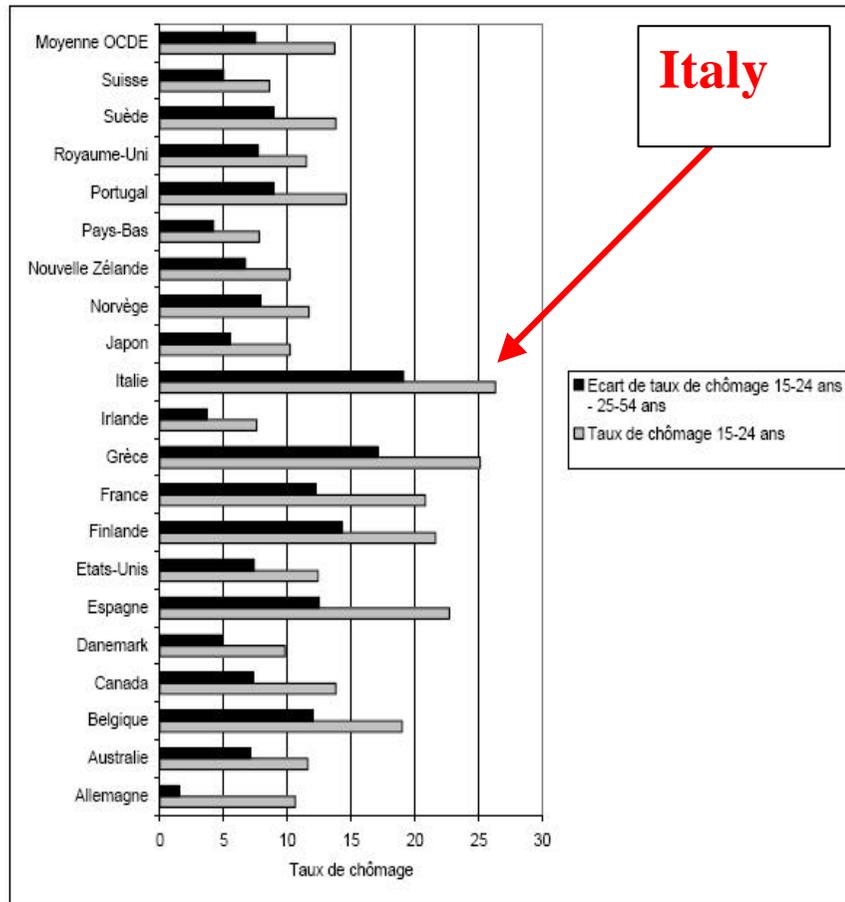


Figure 6: Taux de chômage des jeunes dans 19 pays de l'OCDE en 2003. Source: OCDE.

Unemployment benefits

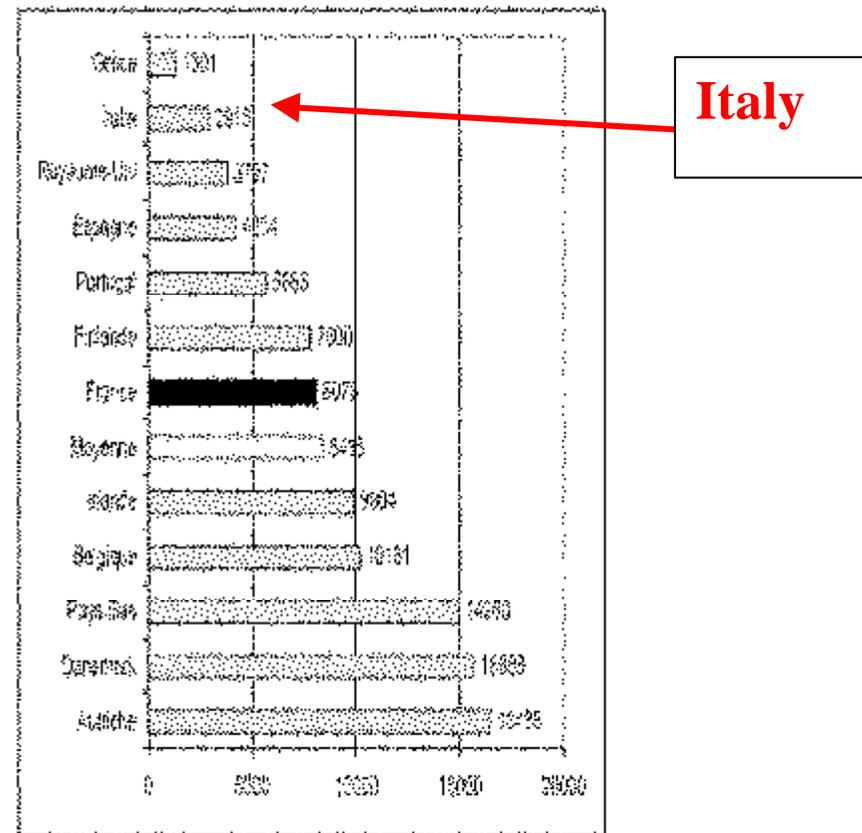
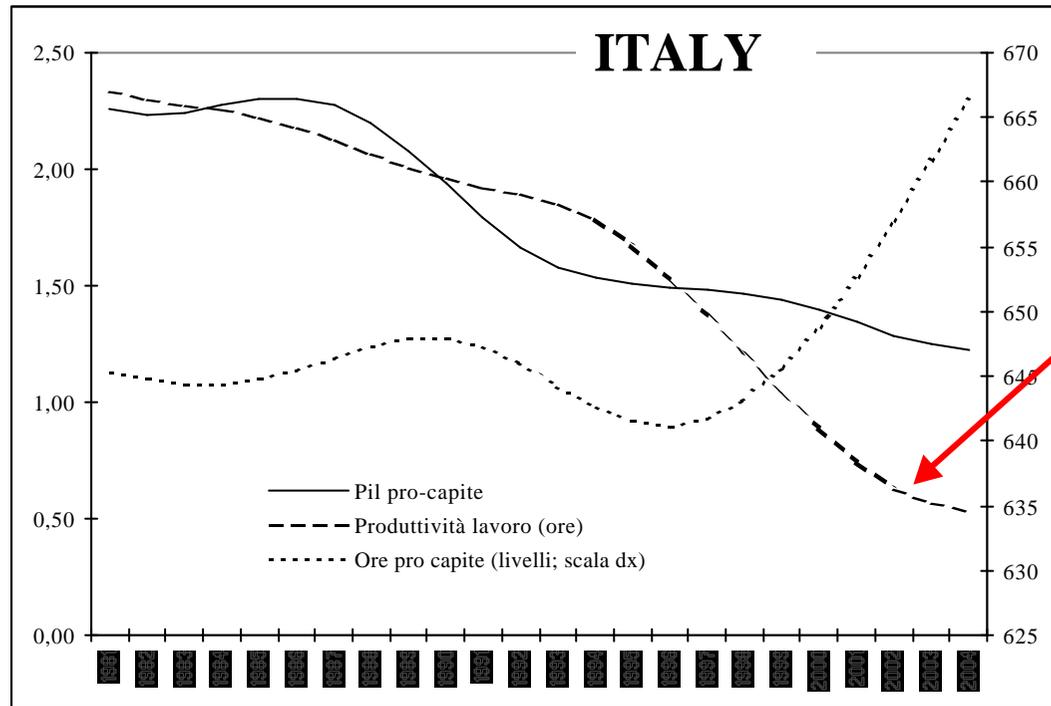


Figure 14: Dépense annuelle d'indemnisation du chômage par chômeur en euros pour l'année 2005. Source: OCDE.

5. Protection *versus* Competition



**Labour
productivity (hours)**

- CK report suggests **no strong trade-off** between productivity increase and employment creation (ie. growing firms higher productivity and job creation)
- Does it make sense to increase **labour market flexibility** without also restoring **competition in the product market** (ie. services)?
 - higher **wages** or higher **profit** *but* high price, low **agg. demand** and low **employment**

6. Reforming employment relations

- The CK report suggests a **single employment contract** with some provisions for “temporary jobs” and “employment termination”

The reform of labour contracts (in Italy):

- first step :

- ✓ introduction of fix-term contracts (CFLavoro, co.co.co, etc.):

- fiscal advantages (low soc sec contrib.)
- little regulation
- no indirect costs (no firing costs)

- ✓ significant increase of “atypical” contracts in both private and public sector;

- ✓ not in the intention of the legislator, but a (un)desired outcome (ie. firms abused);

- ✓ from “black” to “grey” labour;

- second step:

- ✓ re-regulation of labour contracts (progetto, staff-leasing, etc.):

- limited fiscal advantages (but heterogeneity in fiscal treatment between contr);

- higher regulation: many different type of contracts (sometime conflicting);

- indirect costs (hiring-firing costs);

- no flexibility according to local labour market conditions (CCNL *opting out* rule?)