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Dualism, the Crisis and Beyond

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- Dualism in European Labor Markets before the Crisis
- Job losses: how large (conditioning on output) and how dual?
- Why we need **now** an Exit Strategy from dualism

Dual track reforms

REFORMS OF EMPLOYMENT PROTECTION LEGISLATION 1980-2007

	Two-tier	Complete	Total	% Two-tier
Discrete	17	7	24	71%
Incremental	86	89	175	49%
Total	103	96	199	52%
Of which discrete	17%	7%	12%	

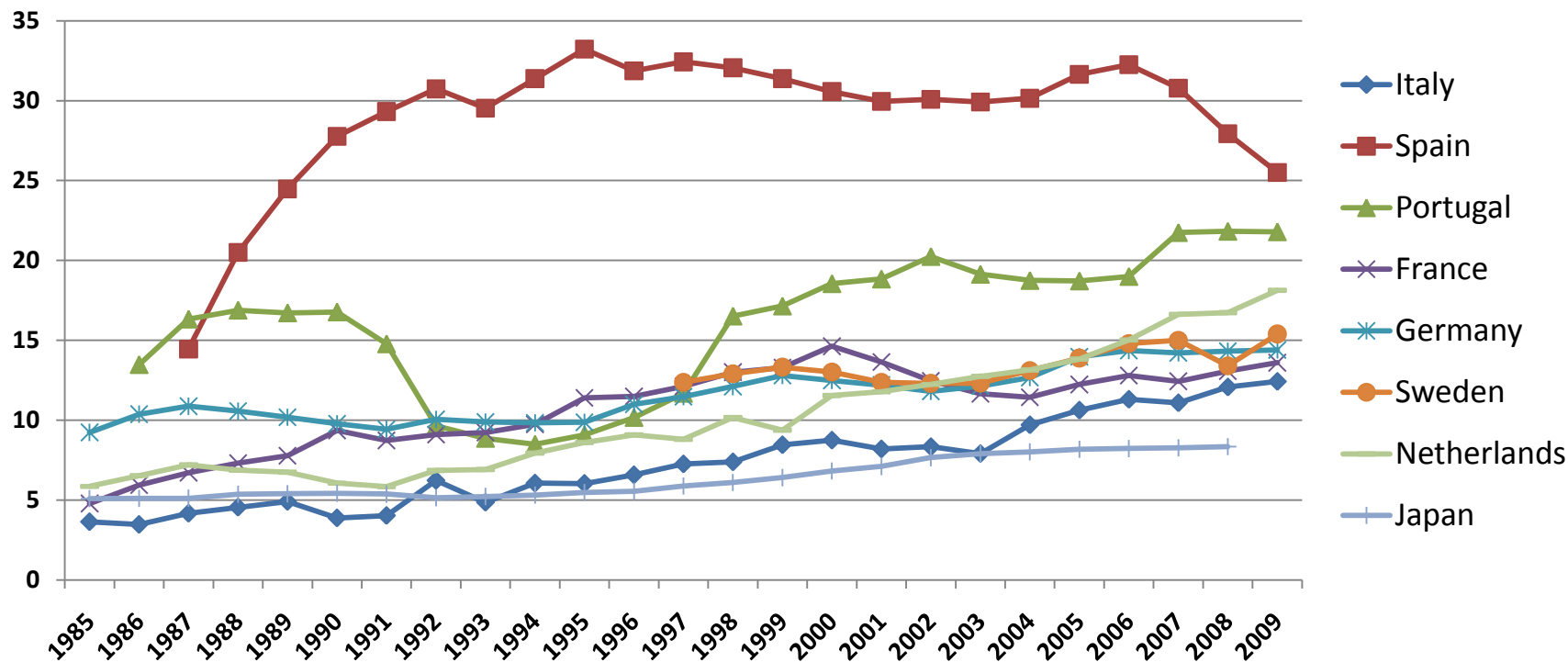
Source: Fondazione Rodolfo Debenedetti – IZA Reforms Database (February 2010 update)

- A reform is classified as two-tier the “target share” (i.e., the share of population potentially affected by the reform) is less than 50% of the potentially eligible population.
- A reform is discrete if it changes the value of the index by more than 1/10 of the cross-country stdev of the index in the initial year (1980).

The rise (and fall) of temporary employment

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Temporary workers as a % of dependent employment



Source: OECD.stat - Labor force statistics; Eurostat LFS

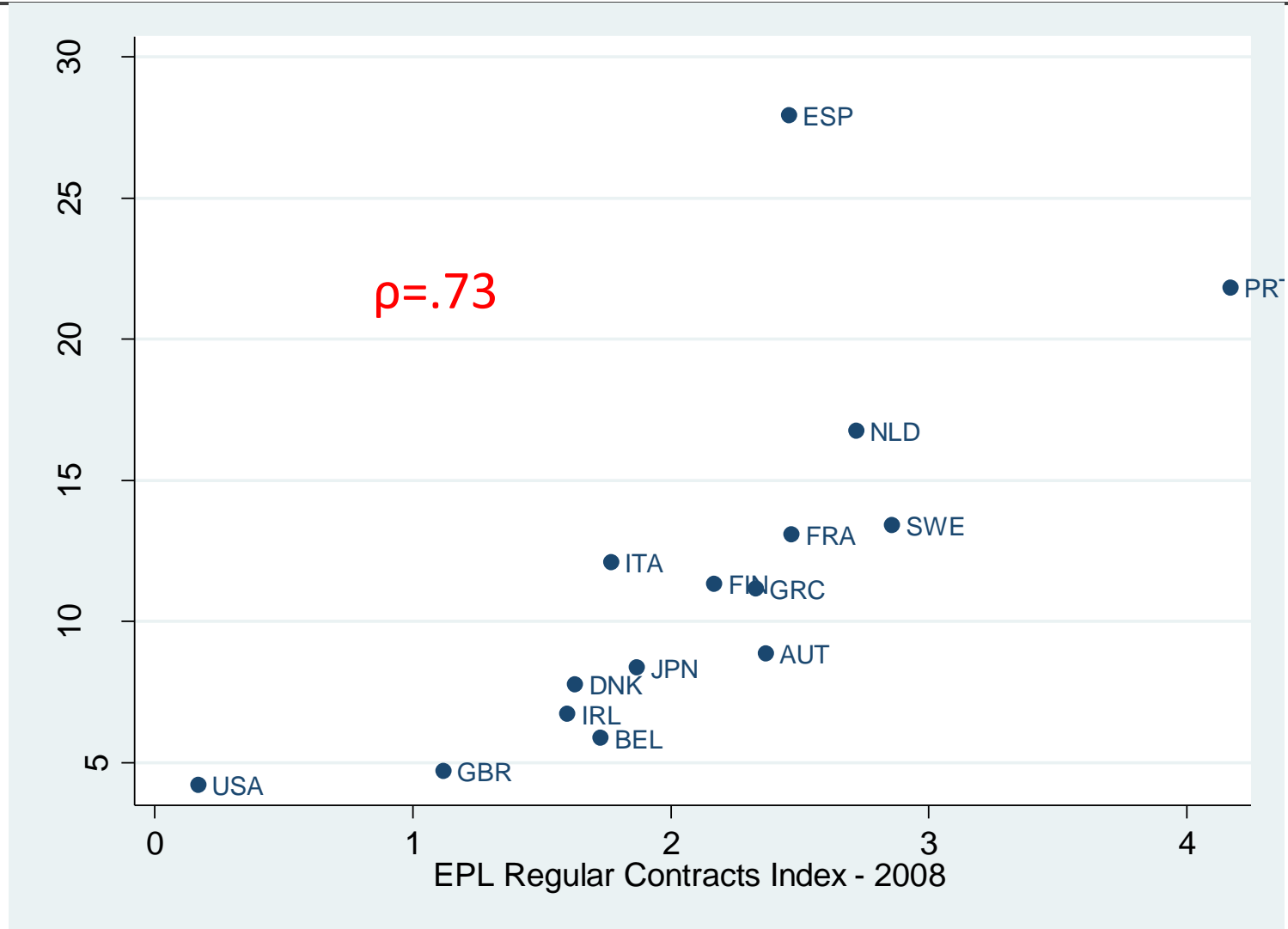
Alternative measures of dualism

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	a. Price based	b. Quantity based	c. Transition T-P
AUT	20.1	8.9	47.4
BEL	13.9	8.8	40.4
DEN	17.7	7.8	
FIN	19.0	12.4	22.7
FRA	28.9	13.7	13.6
GER	26.6	14.2	
GRE	10.3	12.9	31.3
IRL	17.8	9.0	46.3
ITA	24.1	13.4	31.2
LUX	27.6	6.9	41.0
NLD	35.4	16.6	
PTG	15.8	22.2	12.1
SPA	16.9	31.9	28.3
SWE	44.7	17.5	
UK	6.5	5.8	45.7

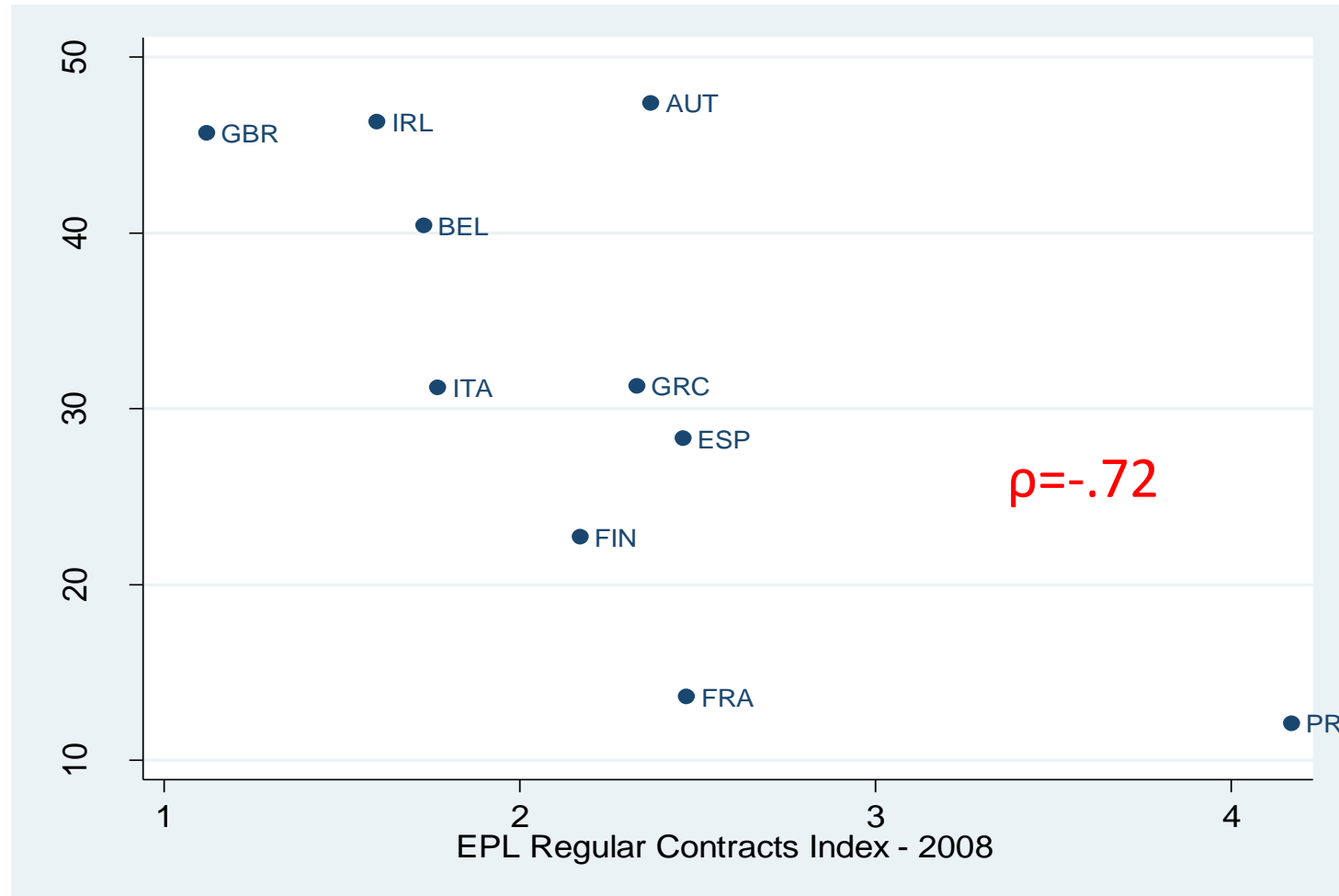
Sources: Eu-Silc, ECHP, EU-LFS

Increasing in strictness of EPL reg ^f R D B



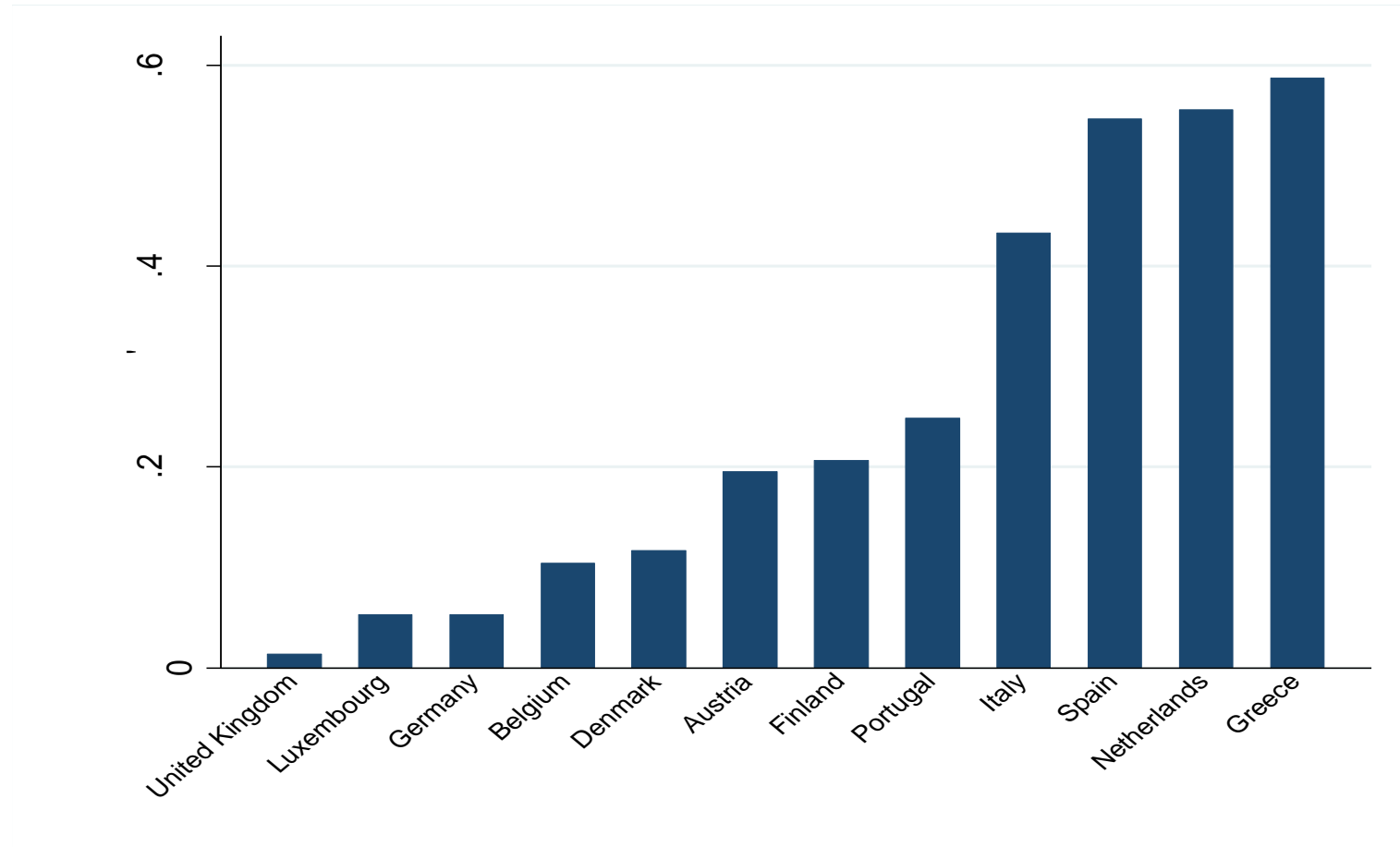
Conversion temp/perm and strictness of EPL

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Dualism and on-the-job training

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Outline

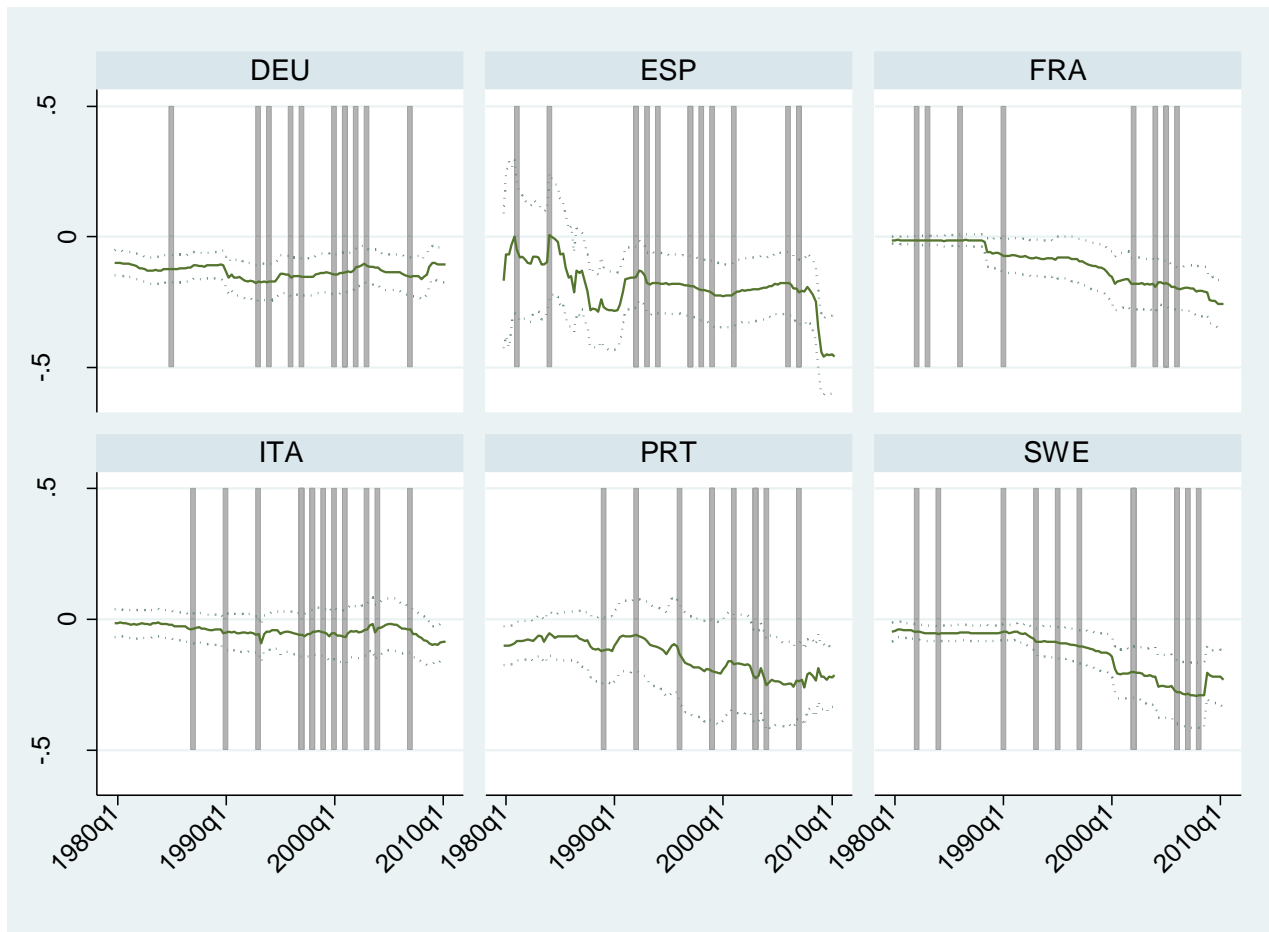
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Okun's law and Dualism

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$$\Delta u_t = \alpha + \beta \Delta y_t + \varepsilon_t$$



Employment and output

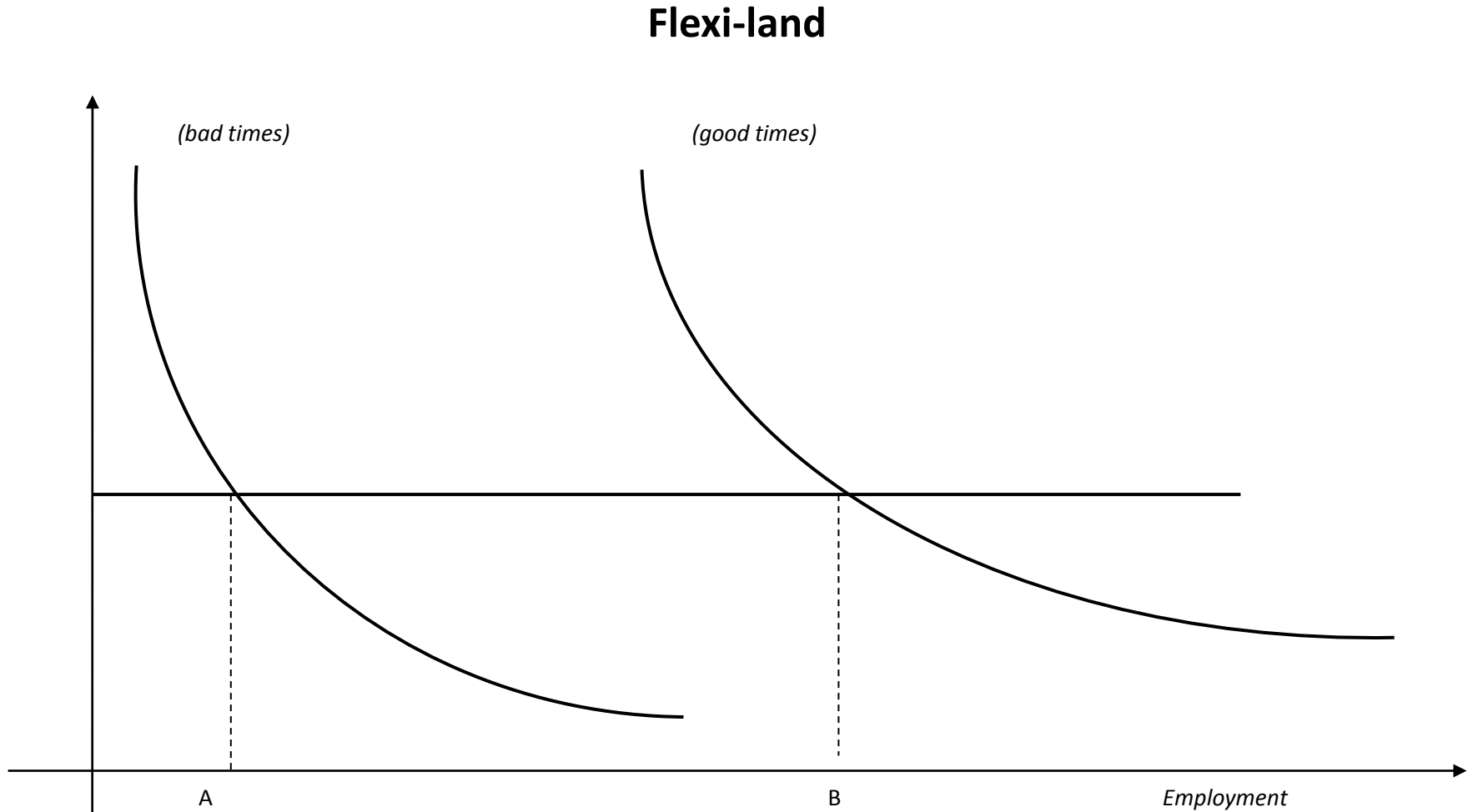
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$$\Delta e_t = \alpha + \beta \Delta y_t + \varepsilon_t$$



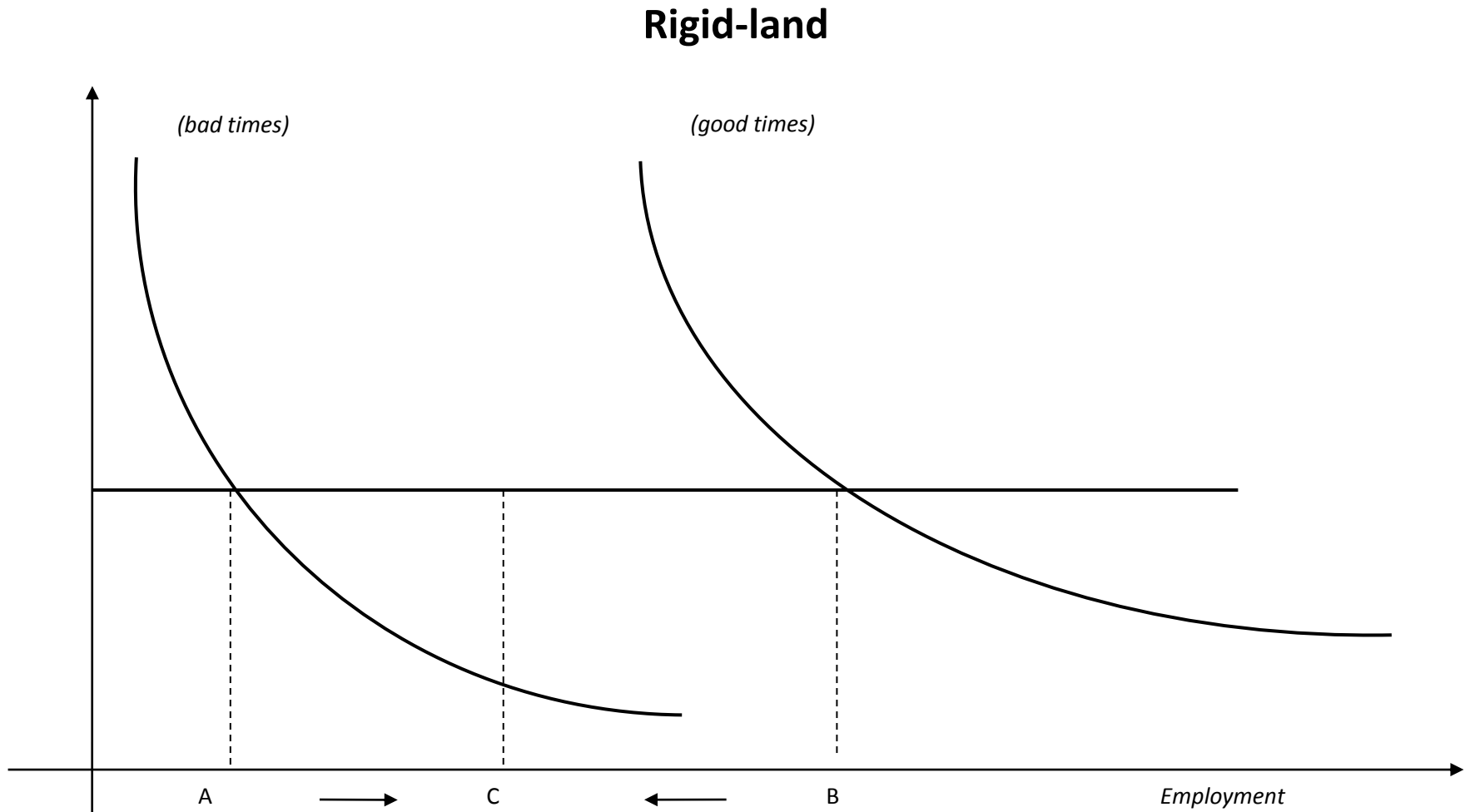
The Honeymoon Effect

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The Honeymoon Effect

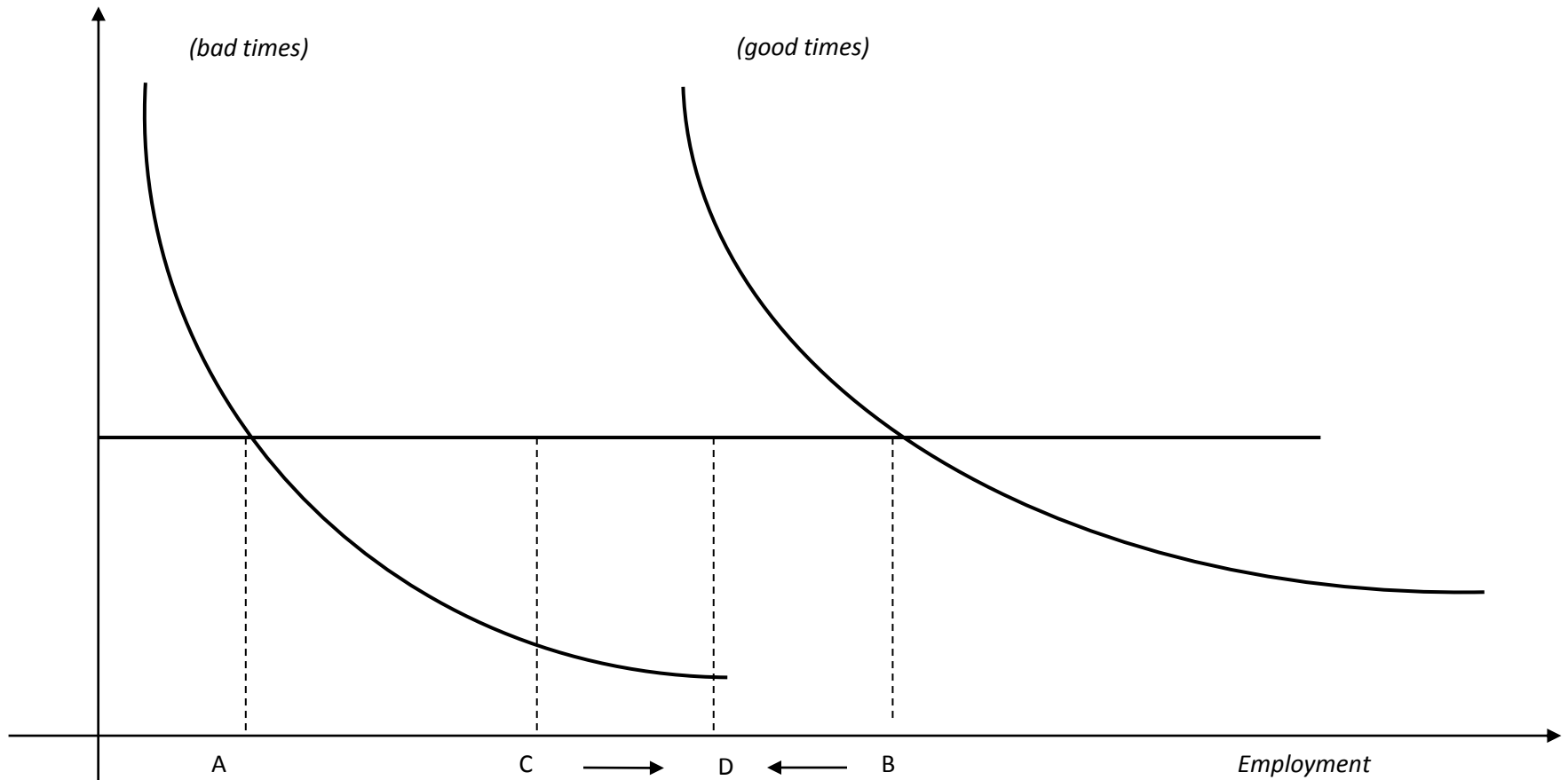
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The Honeymoon Effect

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Two-tier Regime



Outline

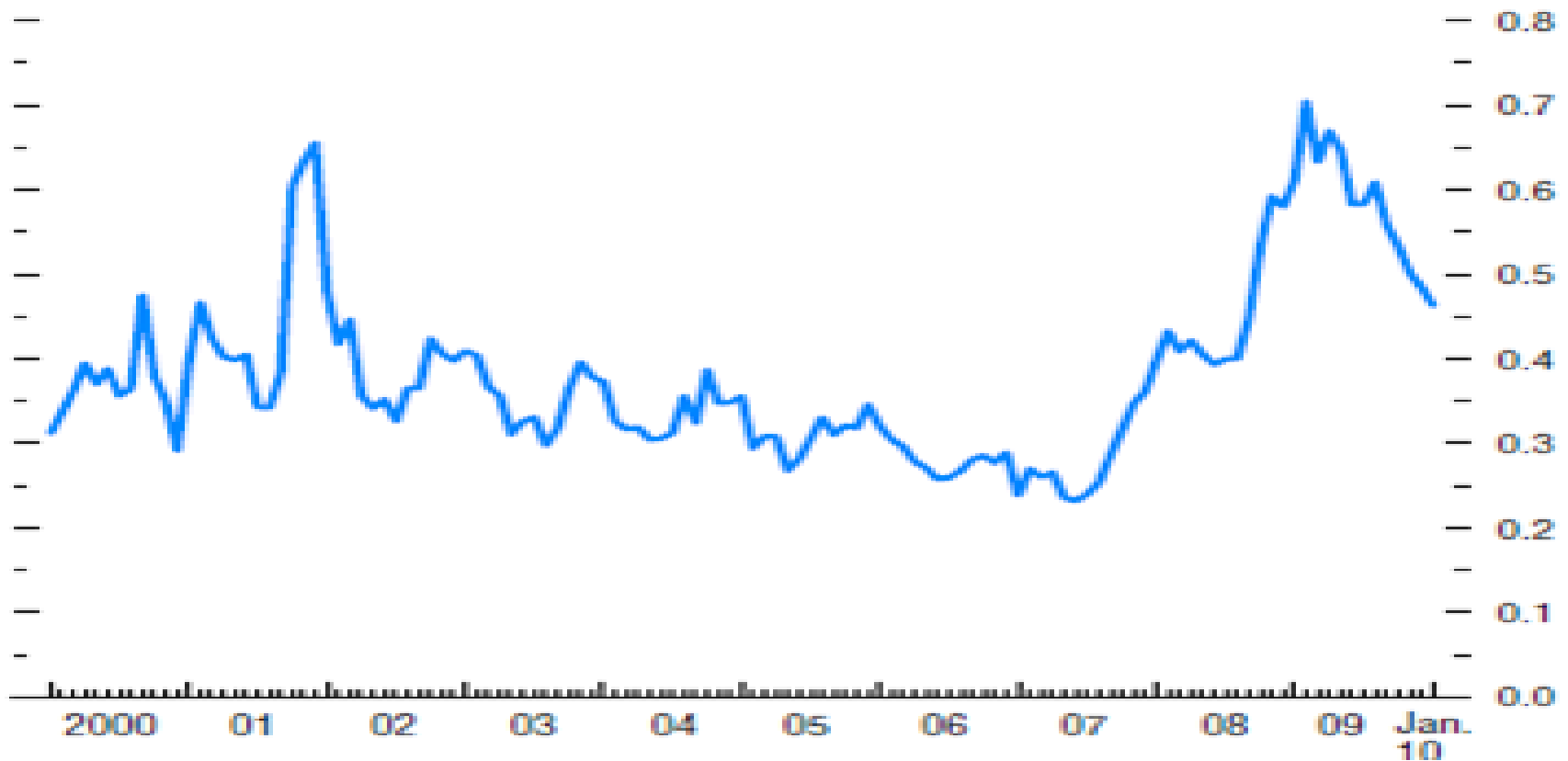
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Uncertainty is the enemy of long-term investment

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DISPERSION OF GDP CONSENSUS FORECASTS



Fonte: Consensus Forecasts, IMF Staff Calculations

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16

Risk of Loss of Generations

- The '90's crisis in Japan and Sweden:
 - Japan : firms increased the relative share of “periferic” labor force with negative effects on on-the job training
 - Sweden: in the recovery from the crisis temporary work increased to become larger than before the crisis (from 10% in 1990 to 16% at the end of the 1990's).
- After the crisis, the risk is to end up with more temporary workers and less on-the-job training

We need smart reforms

- Removing temporary contracts would mean reducing also employment creation in the recovery after having experienced the negative side of dualism.
- Better to go beyond dualism, working on employers' incentives
- Flexibility is important in the entry phase. Problem of asymmetric information
- Tenure tracks to stable jobs

Summarizing

- Dualism is a consequence of dual-track reforms
- It is stronger in countries with strict EPL for regular contracts.
- It has increased the unemployment response during the crisis (more job losses than without dualism) and reduced the coverage of UBs (instead of flexicurity we had flexi-insecurity)
- Reforms should be smart reducing dualism without reducing employment growth in the recovery (the sweet side of dualism, the honeymoon).