

# Causes of labour market duality

Comments

*Clemente Pignatti*

*ILO Research Department*

Institute for Structural Research – Warsaw, September 2014

# Discussion (i)

## Tenure Related Severance Payments (Pietro Garibaldi)

- In case of wage deferral, mandatory severance pay can improve efficiency even if (i) wages are flexible and (ii) workers are risk neutral
- Analysis in a specific model where (i) workers need to invest in job training and (ii) firms cannot commit not to fire a worker
- The model allows to explain two neglected factors:
  - Discretion of judges
  - Increase of severance payment with tenure
- Policy relevance: introduction of an insertion contract
- Policy relevance: the Work Security Act (2014) in the Netherlands separates competencies for economic and disciplinary dismissals

# Discussion (ii)

## Labour market segmentation vs. EPL reform (Jörg Peschner)

- Provides a comprehensive analysis of main labour market trends in the European Union – and most pressing issues
- Factor and cluster analysis is useful to capture differences across countries
- Results on wage differentials between permanent and temporary employees confirm previous studies
- The results of the simulation go beyond standard arguments on the labour market effects of EPL
  - Unemployment
  - Wages

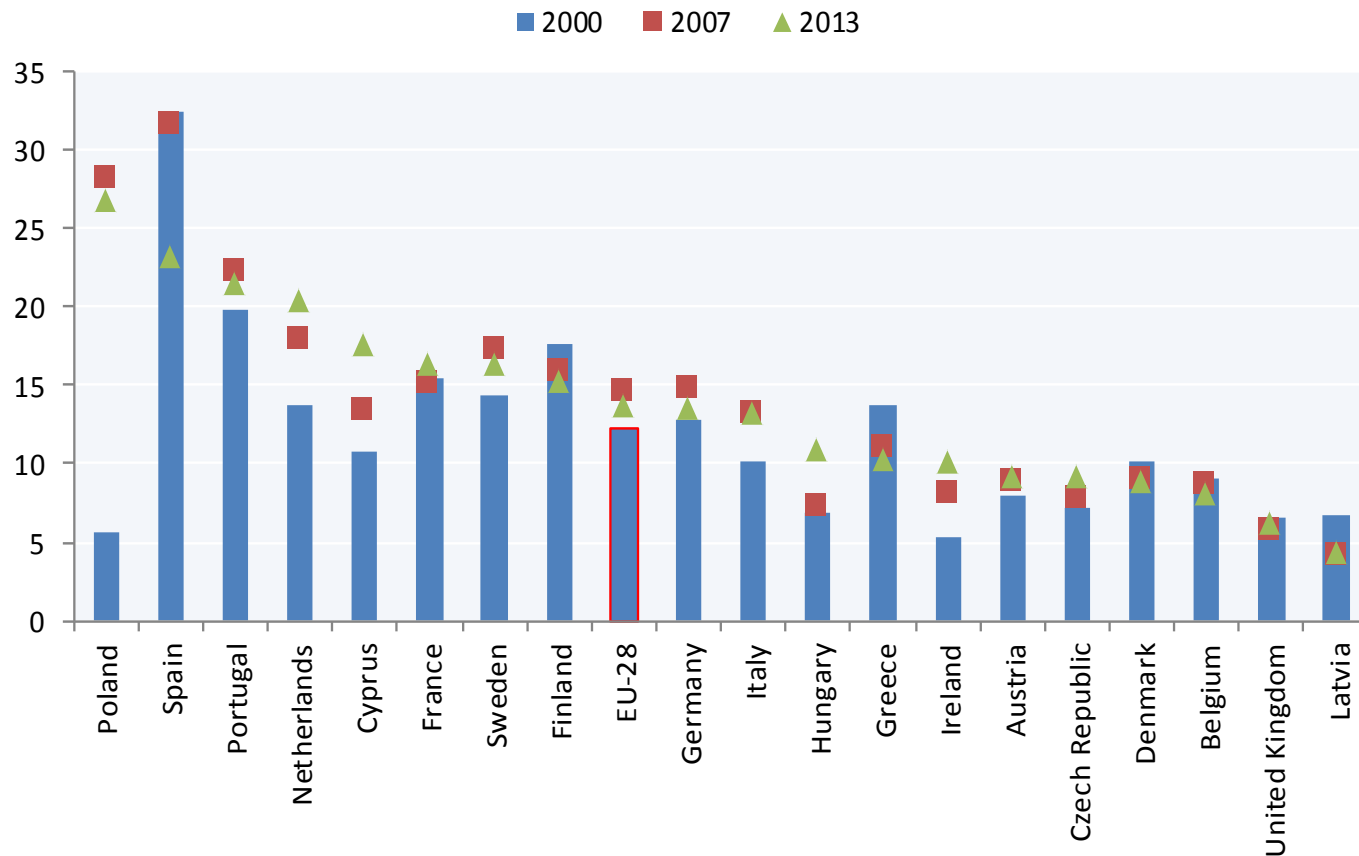
# Discussion (iii)

## **Factors behind the growth of non-standard employment in Poland (Joanna Tyrowicz)**

- Provides evidence for the main aspects behind labour market duality in Poland – similarities and differences with Southern Europe
- Points at some methodological issues in the consideration of non-standard employment (e.g. dependent self-employment and civil contracts)
- Reviews different traditional explanations and questions their effectiveness in explaining non-standard employment
  - Labour Code
  - Tax wedge
- There seems to be a missing explanation: more than the share we need to understand the rise

# Non-standard employment concerns a large share of the workforce

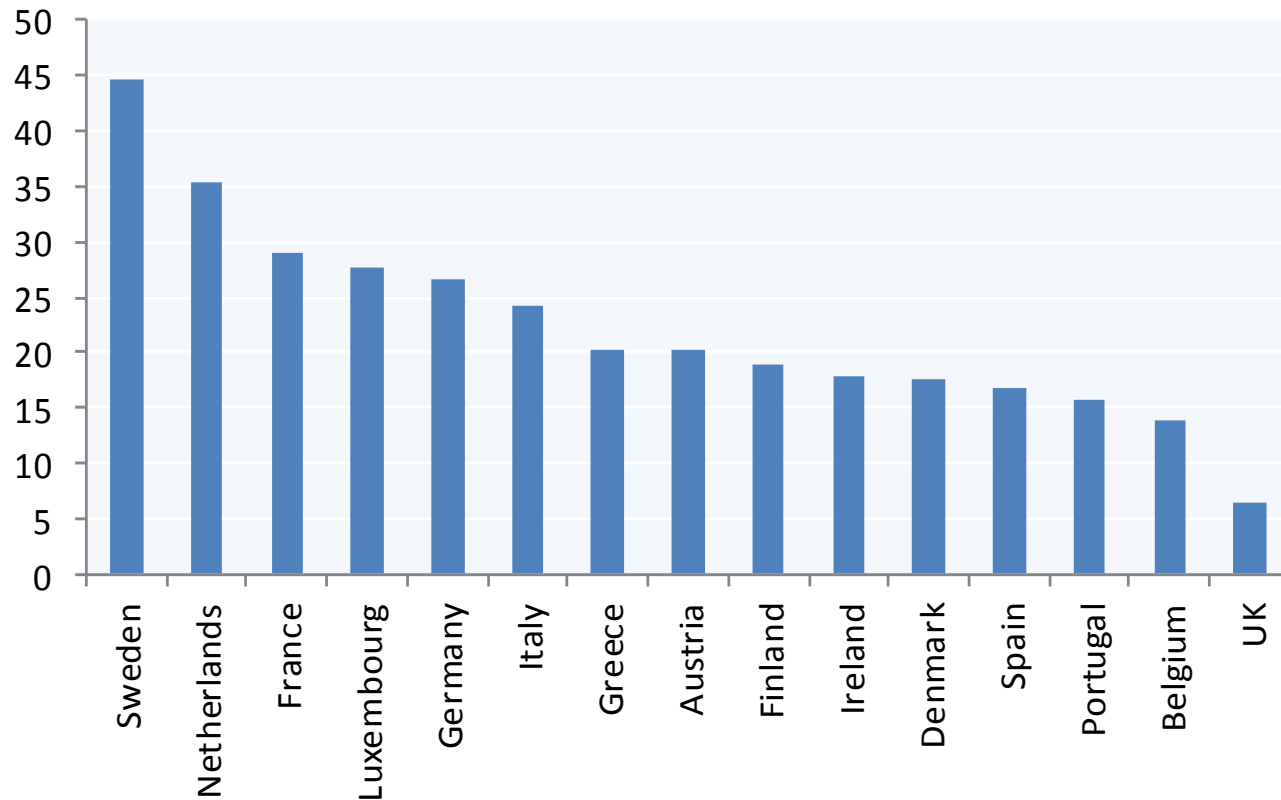
Temporary employment as share of total employment



Source: Eurostat, own calculations

# That generally has less favourable working conditions

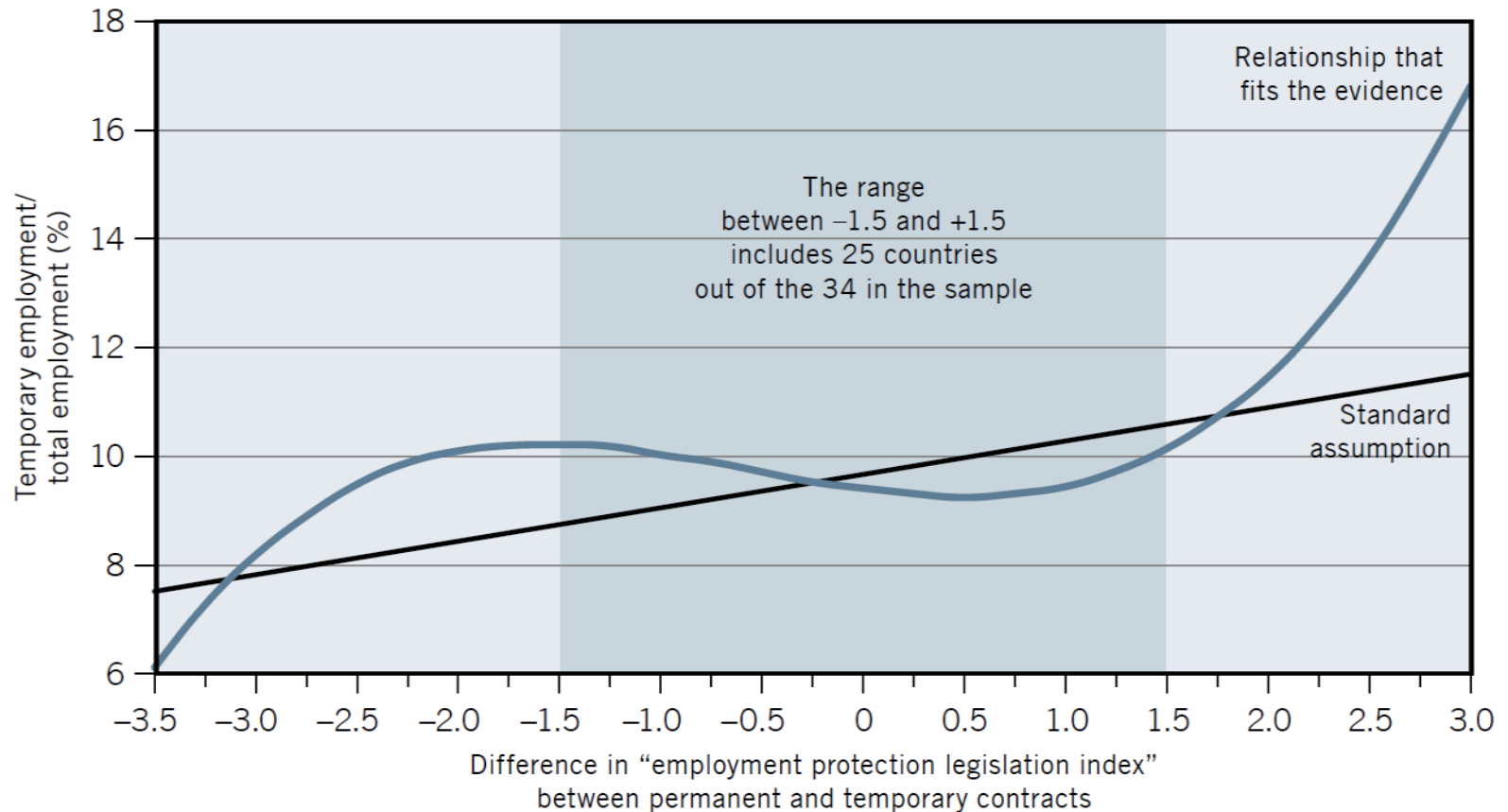
Wage premiums for permanent contracts



Source: Boeri (2011) "Institutional Reforms and Dualism in European Labour Markets"

# Empirical evidence shows an important role of EPL

Relation between share of temporary employment and gap in EPL



Source: ILO (2012) "World of Work Report 2012"

# A number of reforms implemented in recent years

## **Spain (2012)**

- Reduction in the gap in severance payments
- Restrictions of the use of temporary contracts to specific causes

## **Portugal (2009)**

- Alignment of severance payments
- Reinforcement of legislation for self-employment

## **Greece (2009)**

- Shift of the burden of proof in case of dependent self-employment
- Reduction in severance payments for permanent employees

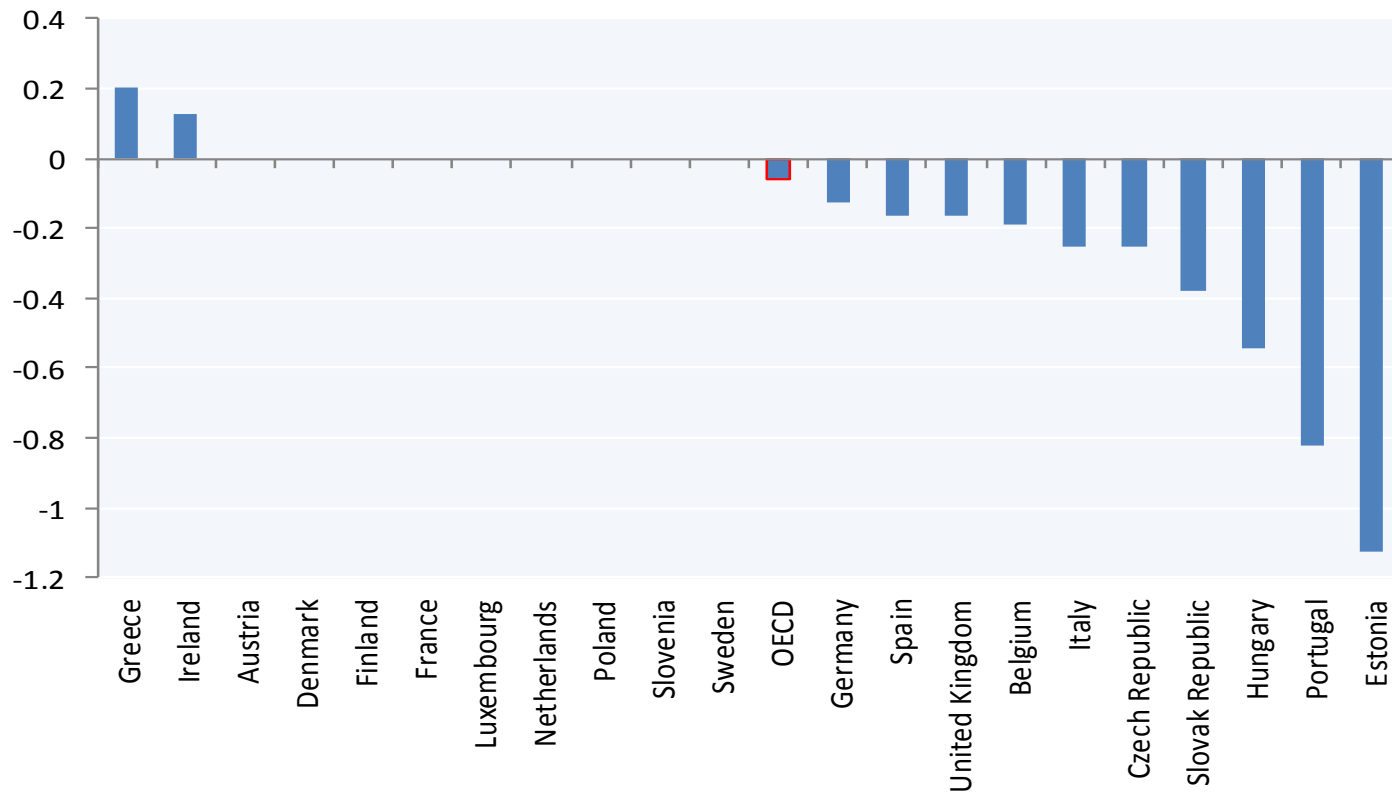
## **Italy (2012)**

- Limitations to the use of temporary contracts (but partially reversed)
- Project of introduction of a single employment contract



# Reduction in the gap in EPL in most OECD countries

Change in the gap in EPL between permanent and temporary employment, 2011-2013



Source: OECD, own calculations

# But these efforts have not been enough to address duality

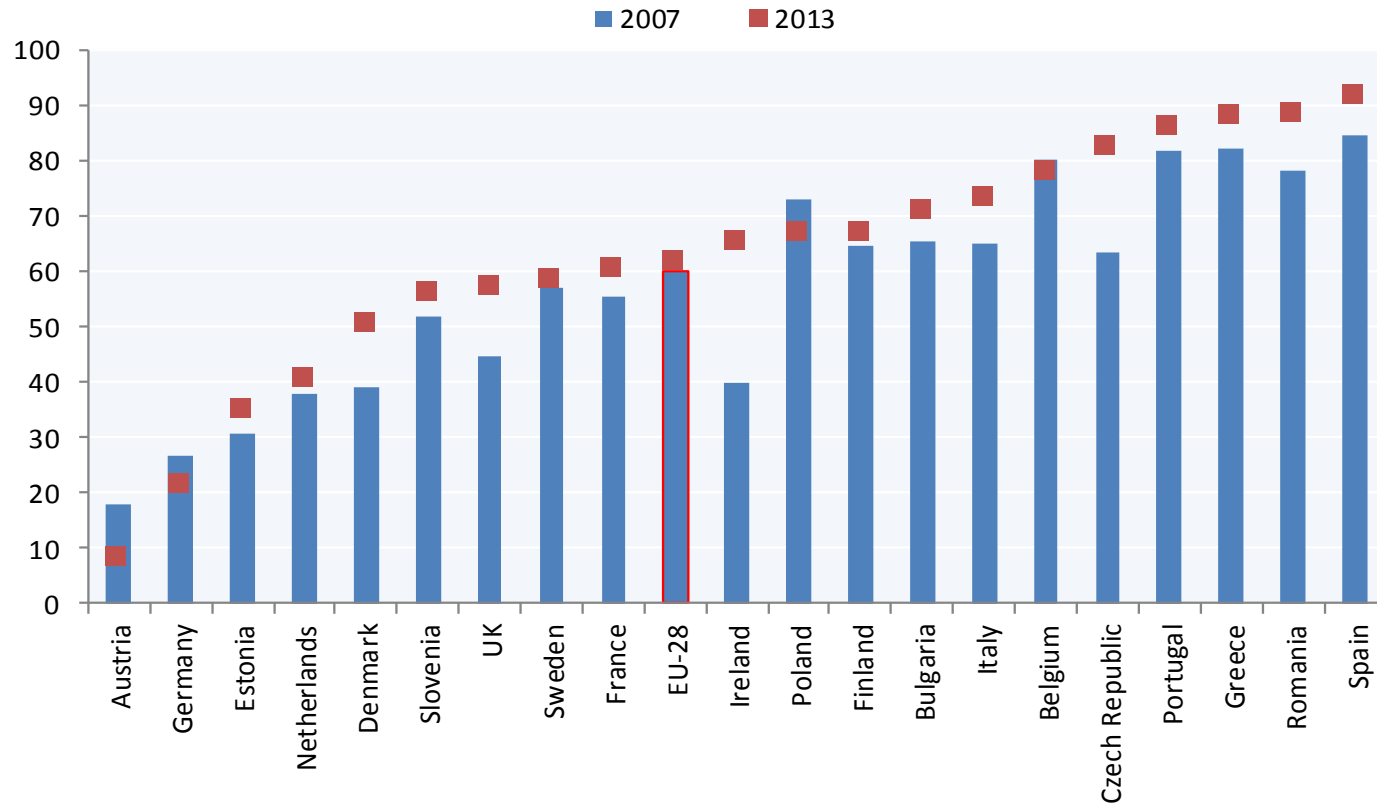
Employment change by type of contract in Spain, year-on-year quarterly change



Source: ILO (2014) "Spain: Growth with Jobs"

# While employment quality has also deteriorated

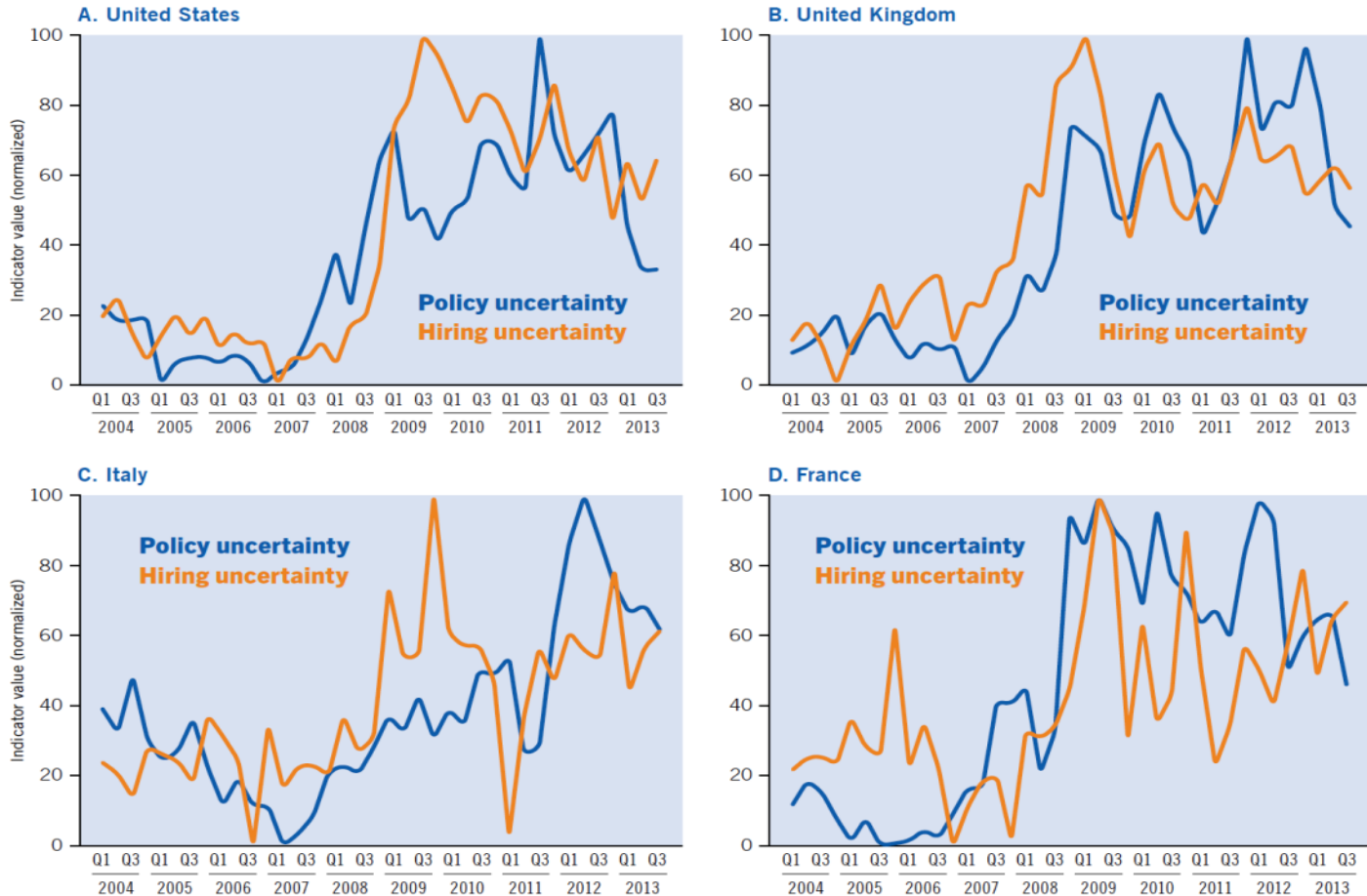
Share of involuntary temporary employment



Source: Eurostat, own calculations

# Additional causes: (i) Economic uncertainty still high

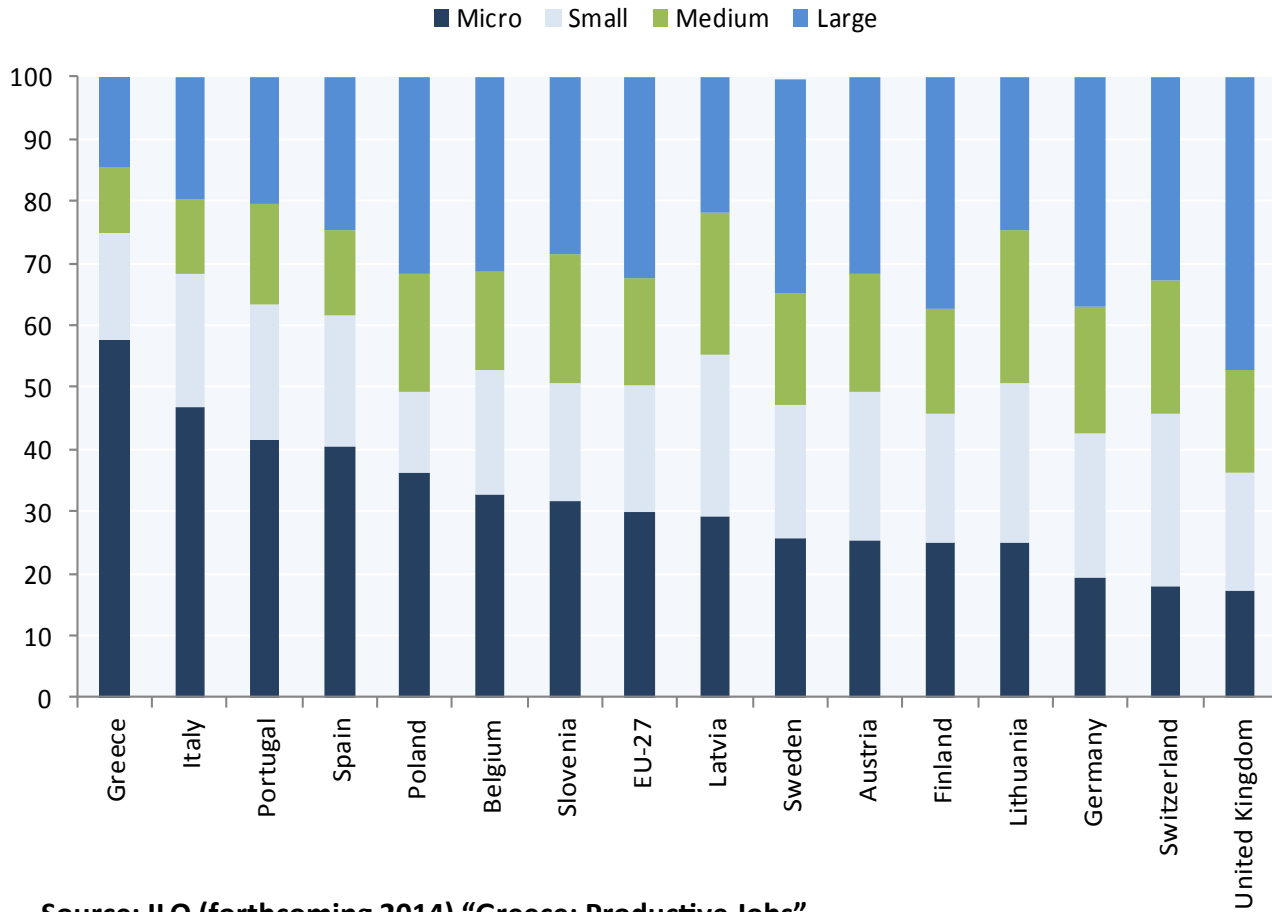
Policy uncertainty (Baker, Bloom and Davis ) and hiring uncertainty (ILO)



Source: ILO (2014) "Global Employment Trends 2014"

# Additional causes: (ii) Weak business environment

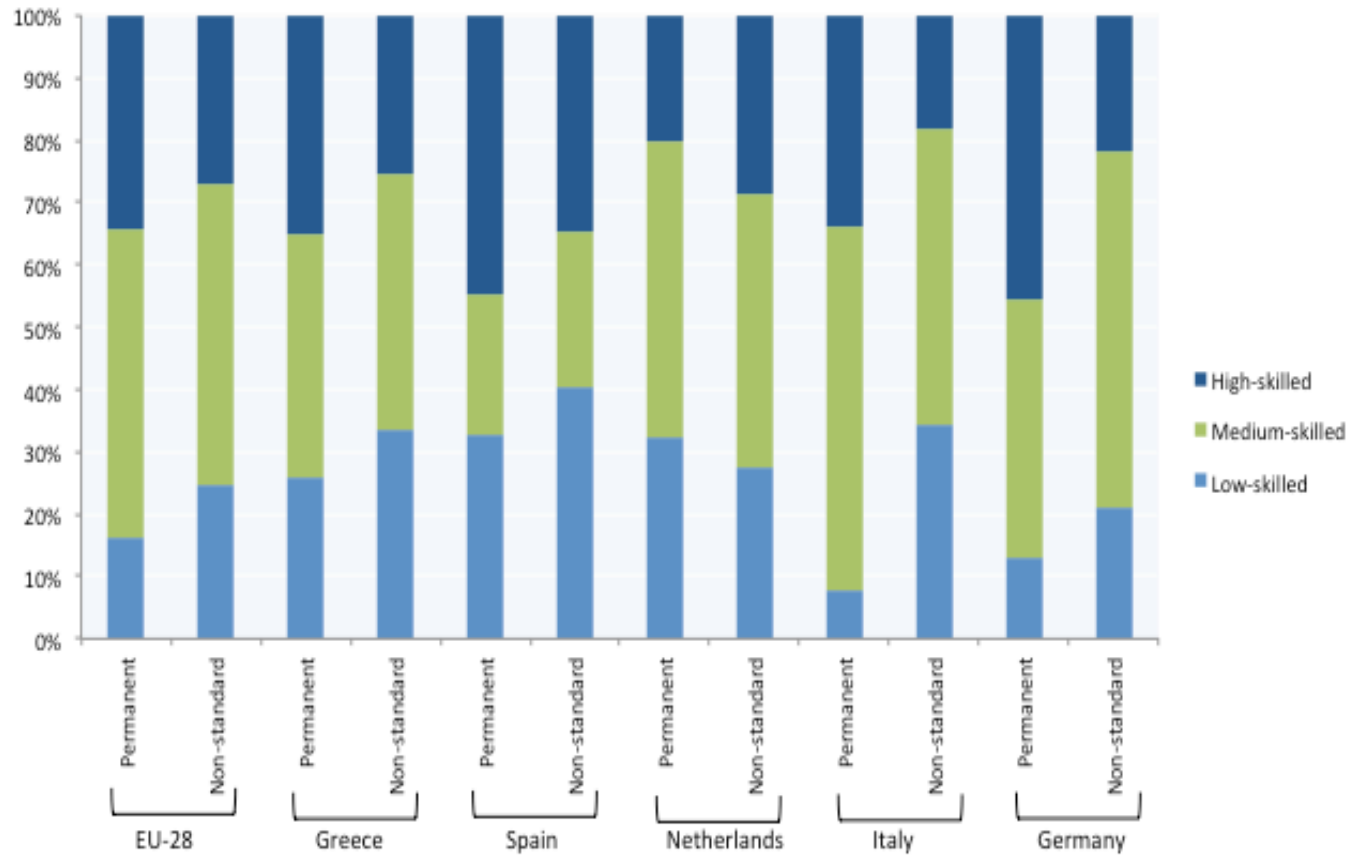
Business composition by firms' size



Source: ILO (forthcoming 2014) "Greece: Productive Jobs"

# Additional causes: (iii) Skills composition of labour force

Skills composition by employment contract



Source: Eurostat, own calculations