



# Labour market segmentation vs. EPL reform

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European Commission,  
DG EMPL, Employment Analysis

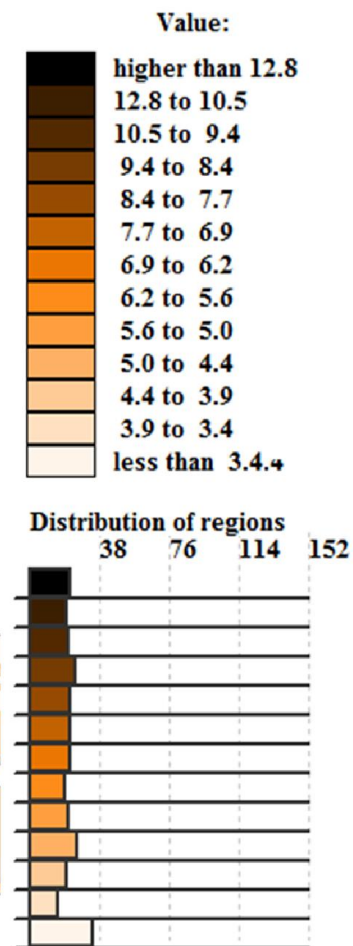
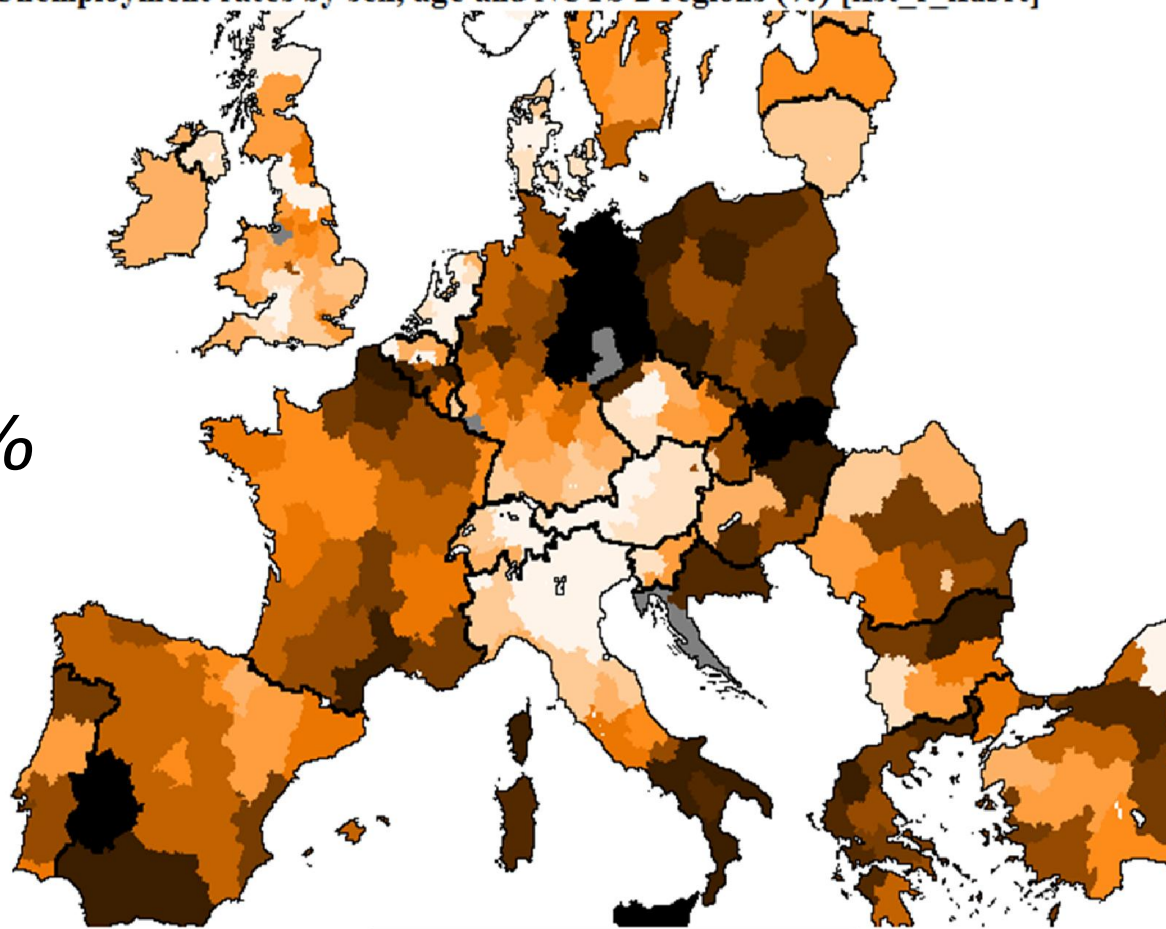
**Warsaw – 8 October 2014**

# Climbing unemployment rates in most places, Strong divergence

"DATASET: Unemployment rates by sex, age and NUTS 2 regions (%) [lfst\_r\_lfu3rt]"

**2007**

**EU:  
7.2%**

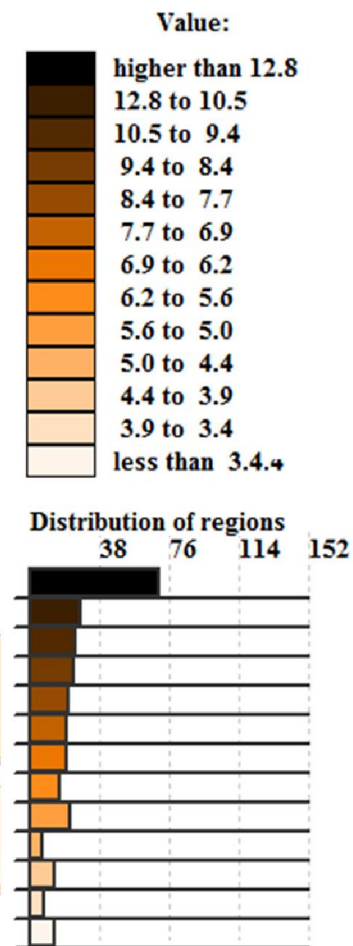
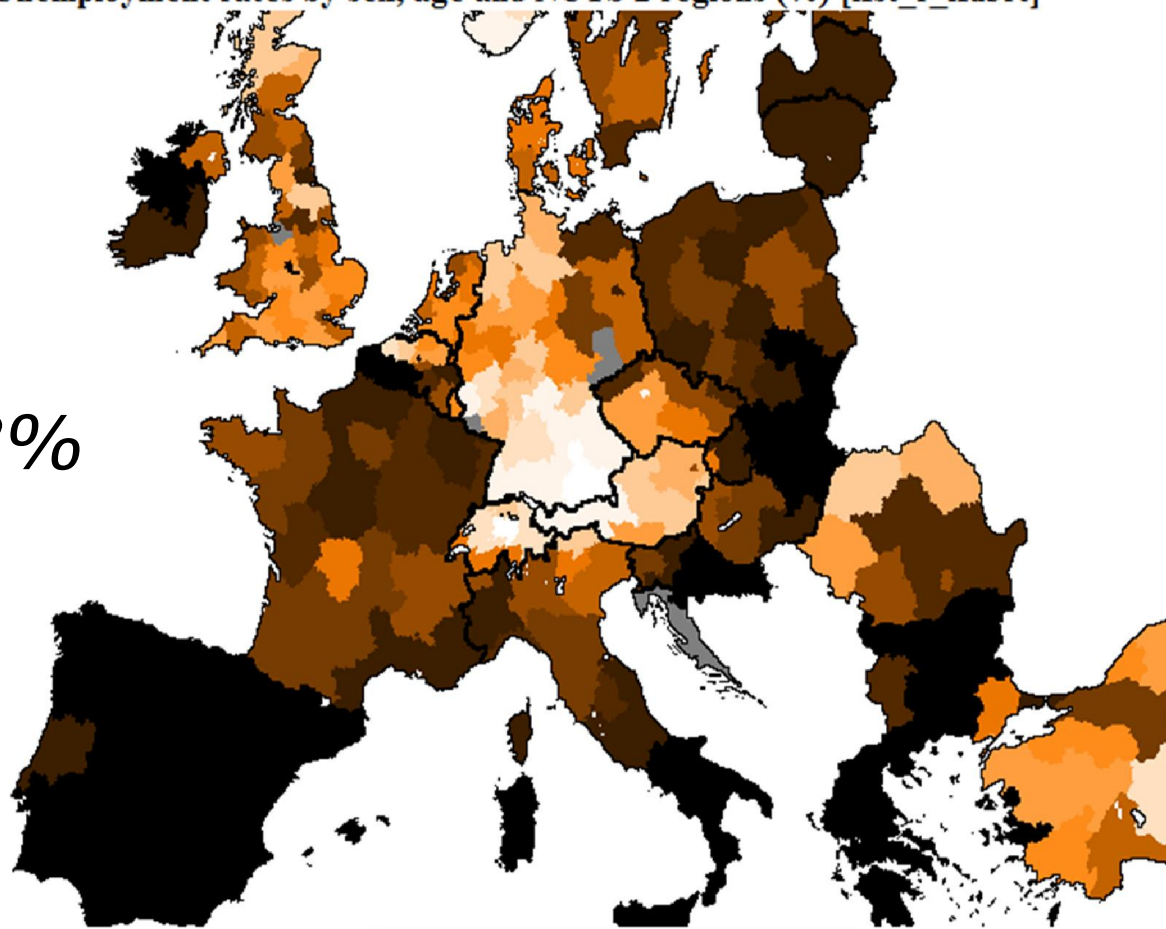


Source: LFS data, displayed using  
DG EMPL's regional projection software

# Climbing unemployment rates in most places, Strong divergence

"DATASET: Unemployment rates by sex, age and NUTS 2 regions (%) [lfst\_r\_lfu3rt]"

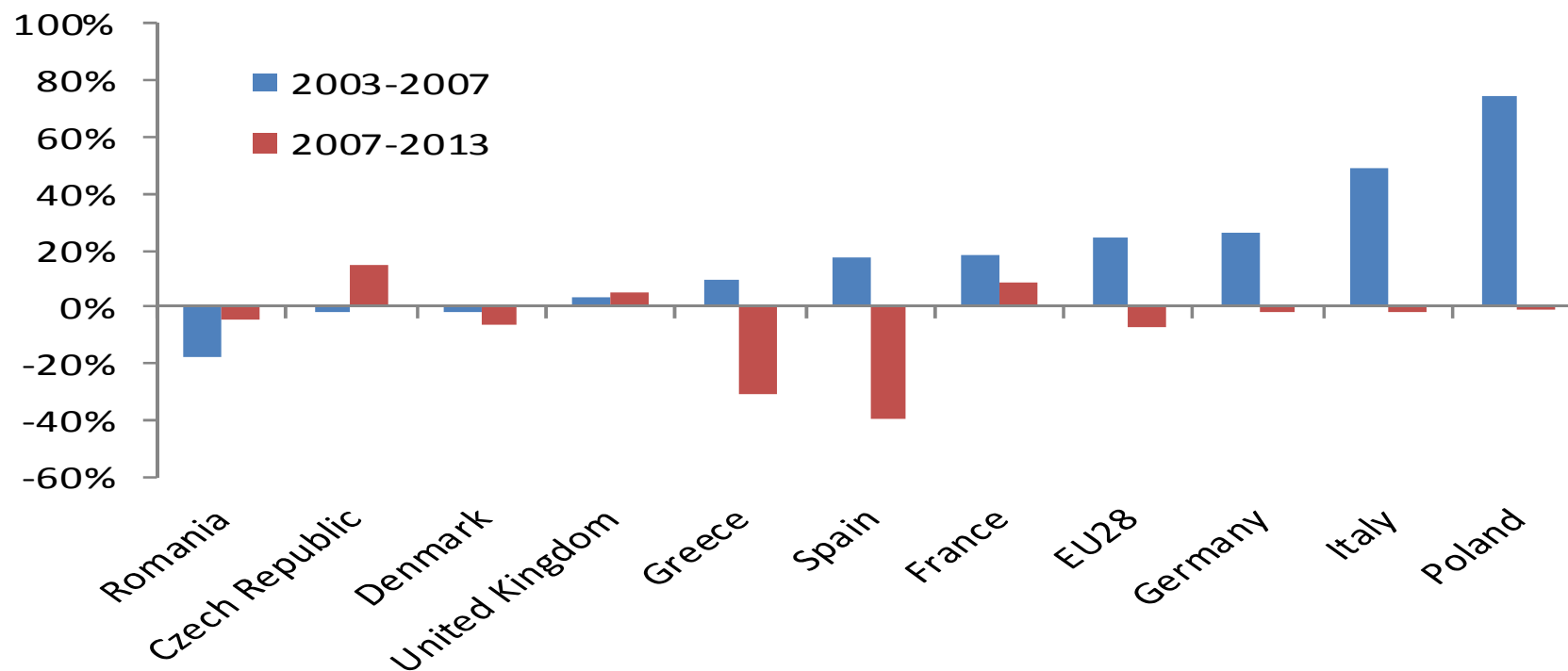
*2013*  
*EU:*  
*10.8%*



Source: LFS data, displayed using  
DG EMPL's regional projection software

## Build-up of temporary employment... ... stopped over the crisis

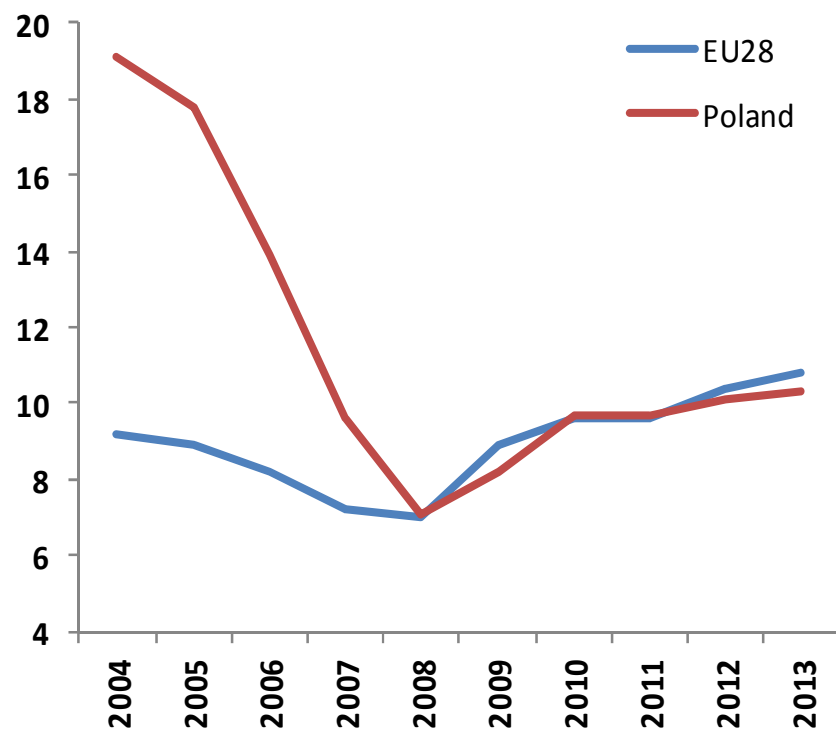
Temporary employment, % change in selected Member States



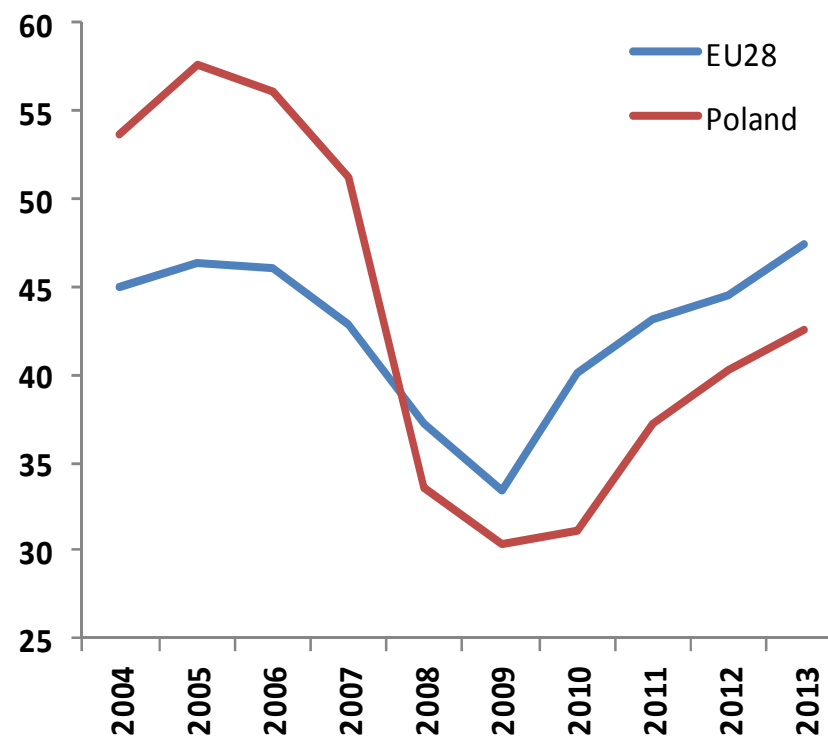
Source: Eurostat EU LFS

## Strong evidence for increasing structural component since crisis started

Unemployment rate in %



Share of long-term in all unemployed (%)

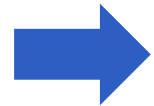




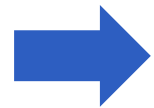
## **Structural Labour Market reforms become urgent necessity**



**Fight mismatches**



**Fight against LM segmentation**



**Prepare for workforce shrinkage**

## Segmentation and Labour Market situation:

Is there a typology of Member States  
in the EU ?

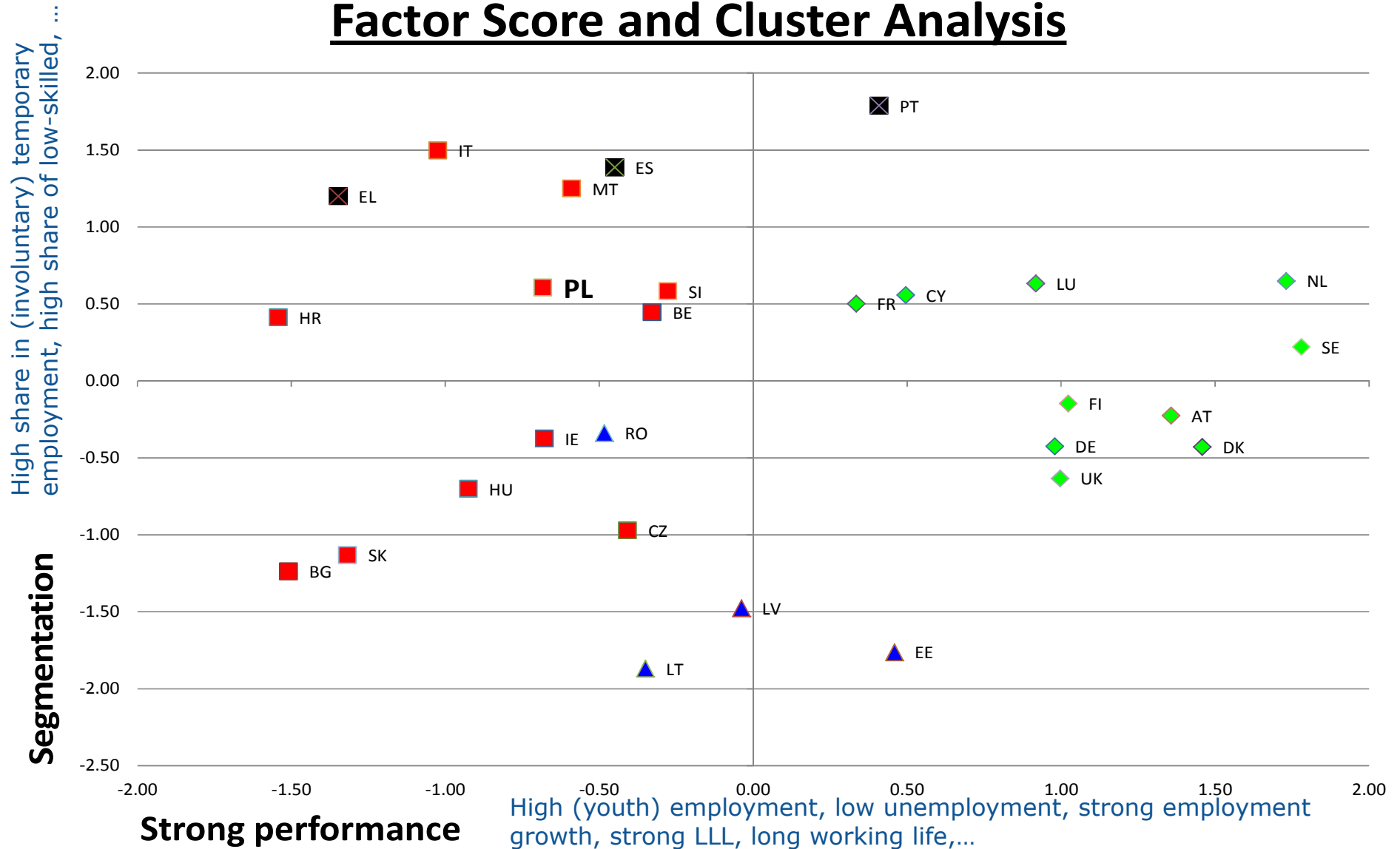


Factor&Cluster analysis based on 27  
labour-market related indicators



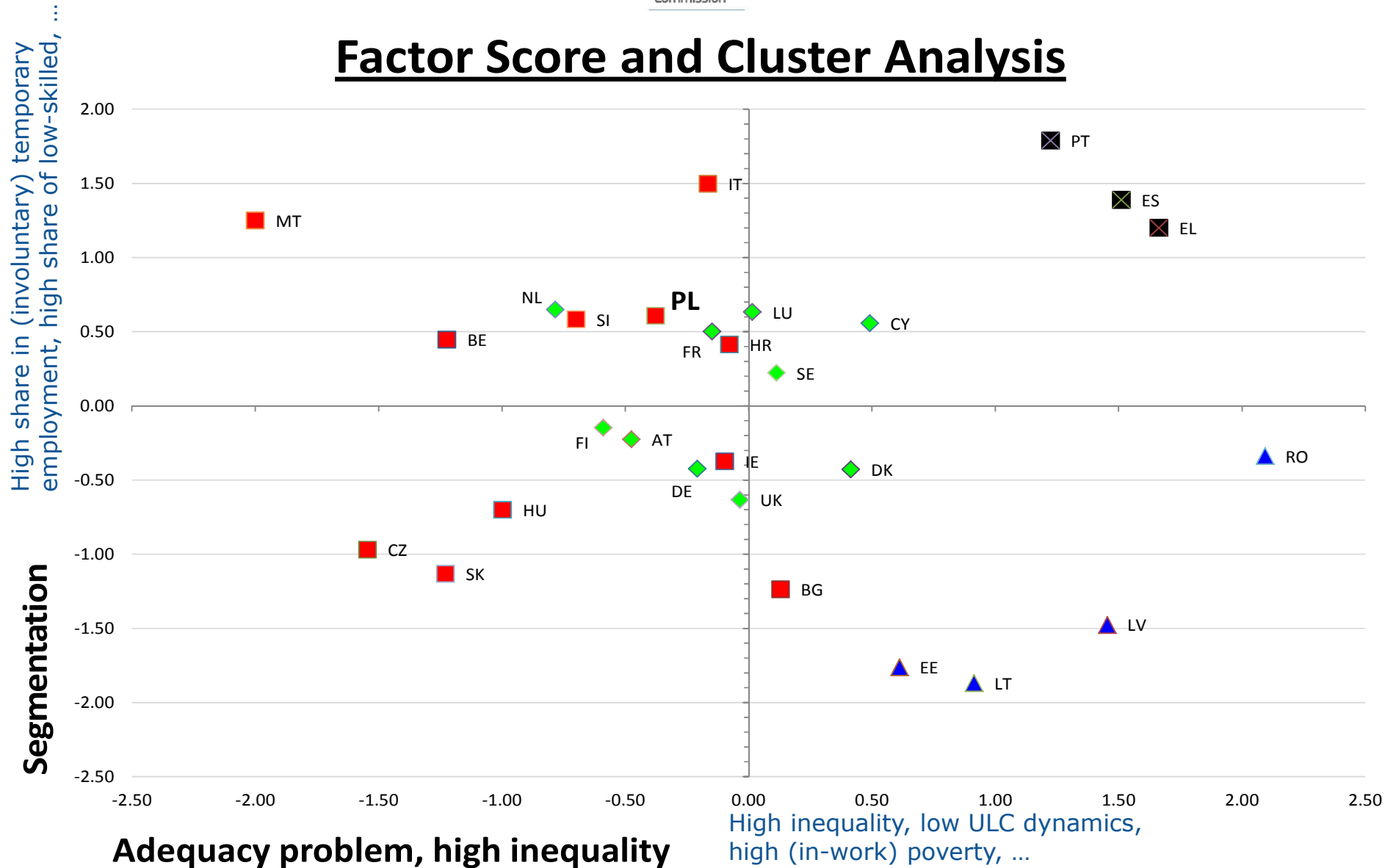
European Commission

## Factor Score and Cluster Analysis



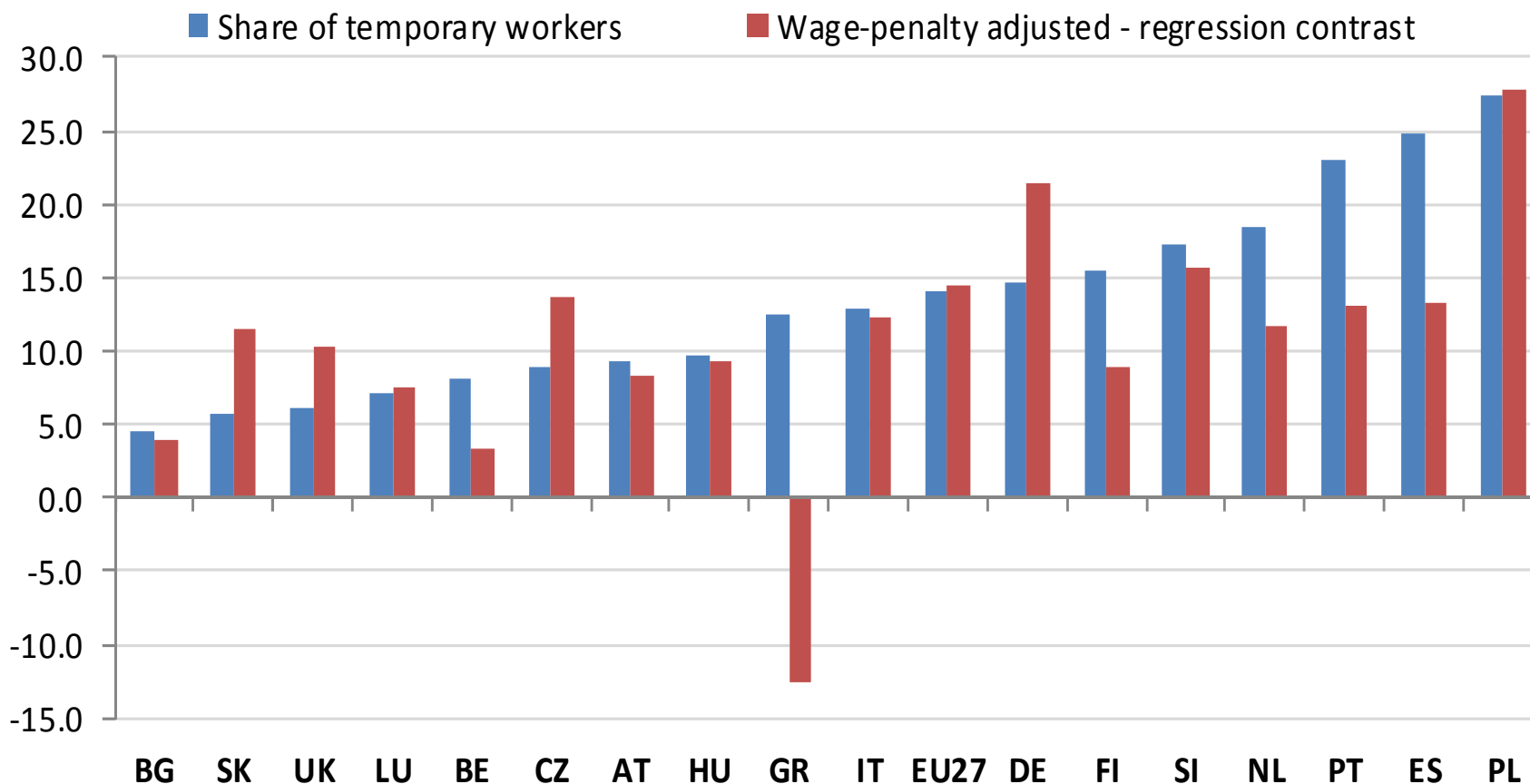


## Factor Score and Cluster Analysis

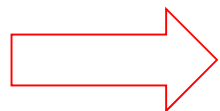




## Duality and Wages: Results of a contrast regression (2011) Considerable wage penalty on temporary contracts !



Source: DG EMPL calculations, based on EU-SILC 2010, SES 2006, see also EiE2010



**Continue effort:**  
**structural labour market reforms**

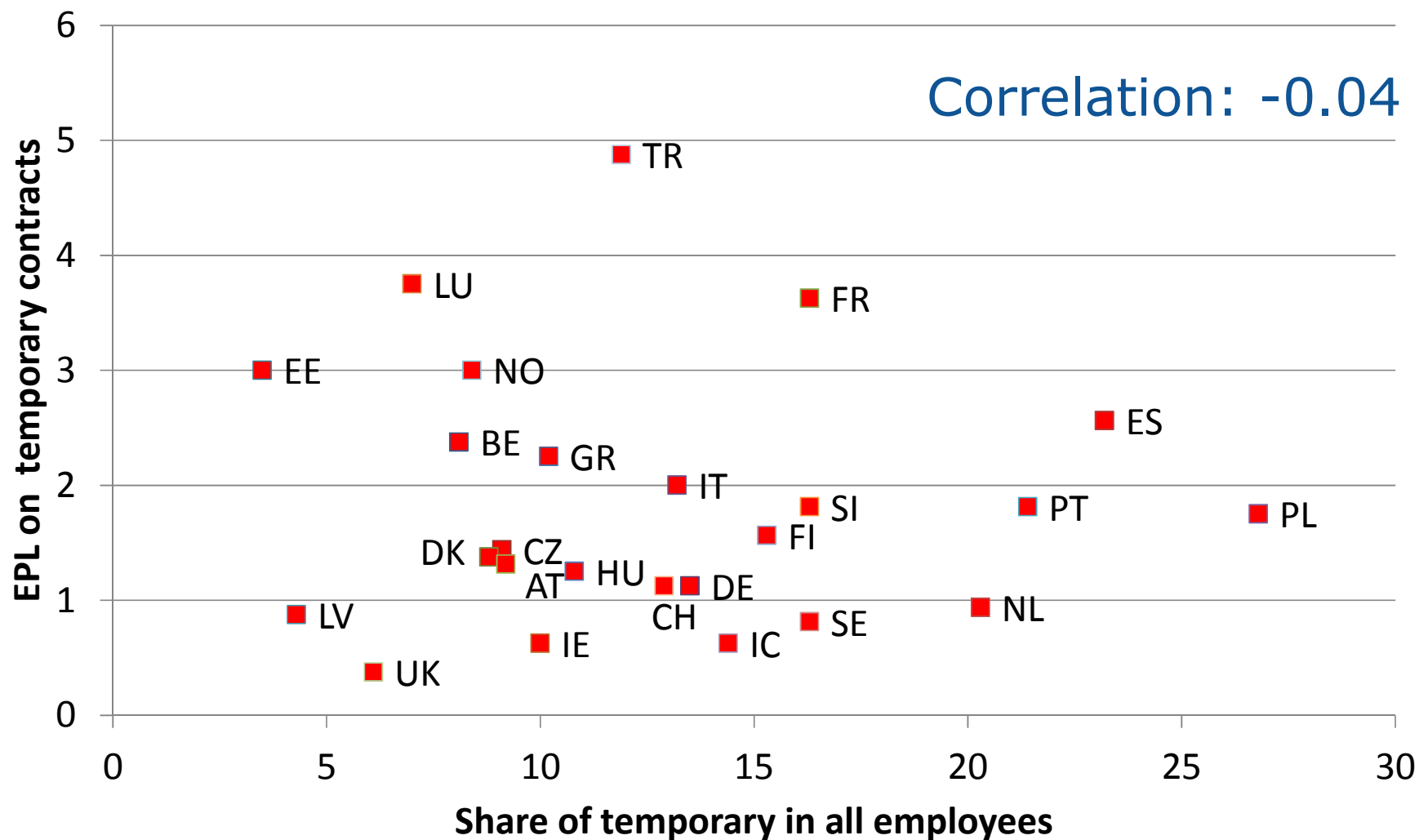
**The role of EPL**





European

## EPL and Temporary Contracts



Source: OECD (EPL), Eurostat EU LFS



## **Simulation exercise for Poland** **With DG EMPL's Labour Market Model**

Reduce Poland's EPL down to the level of Denmark

- Administrative Cost of Firing
  - Severance Payment
- } -23%



## Labour-Market Model: Calibrated parameters on EPL

|                        | <i>OECD Index III</i> | <i>Modified Index</i> | <i>Share of Severance Pay</i> |
|------------------------|-----------------------|-----------------------|-------------------------------|
|                        | Overall EPL           | .. weighted           |                               |
| <b>Austria</b>         | 2.41                  | 2.37                  | 30.8%                         |
| <b>Belgium</b>         | 2.61                  | 2.36                  | 36.3%                         |
| <b>Czech Republic</b>  | 2.32                  | 2.76                  | 30.1%                         |
| <b>Germany</b>         | 2.63                  | 2.90                  | 35.5%                         |
| <b>Denmark</b>         | 1.91                  | 1.82                  | 23.4%                         |
| <b>Spain</b>           | 3.11                  | 2.88                  | 38.6%                         |
| <b>Finland</b>         | 2.29                  | 2.35                  | 40.5%                         |
| <b>France</b>          | 3.00                  | 2.66                  | 49.3%                         |
| <b>Italy</b>           | 2.58                  | 2.31                  | 38.5%                         |
| <b>Netherlands</b>     | 2.23                  | 2.59                  | 44.8%                         |
| <b>Poland</b>          | 2.41                  | 2.35                  | 23.2%                         |
| <b>Sweden</b>          | 2.06                  | 2.02                  | 34.1%                         |
| <b>Slovak Republic</b> | 2.13                  | 2.61                  | 42.6%                         |
| <b>United Kingdom</b>  | 1.09                  | 1.41                  | 30.7%                         |

**-23%**

Source: Berger, Gstrein, Keuschnigg, Miess, Müllbacher, Strohnner, Winter-Ebmer: Development/Maintenance of the Labour Market Model (Final Report), Institut für Höhere Studien, Universität St. Gallen, p. 25.

# Lowering EPL: Transmission Path in the Labour Market Model



Reduction of firing costs

Job surplus of an employment relationship

Wage bargaining

Higher wages

Higher firms' rent

Higher LM participation

Higher labour demand

**Higher Employment**

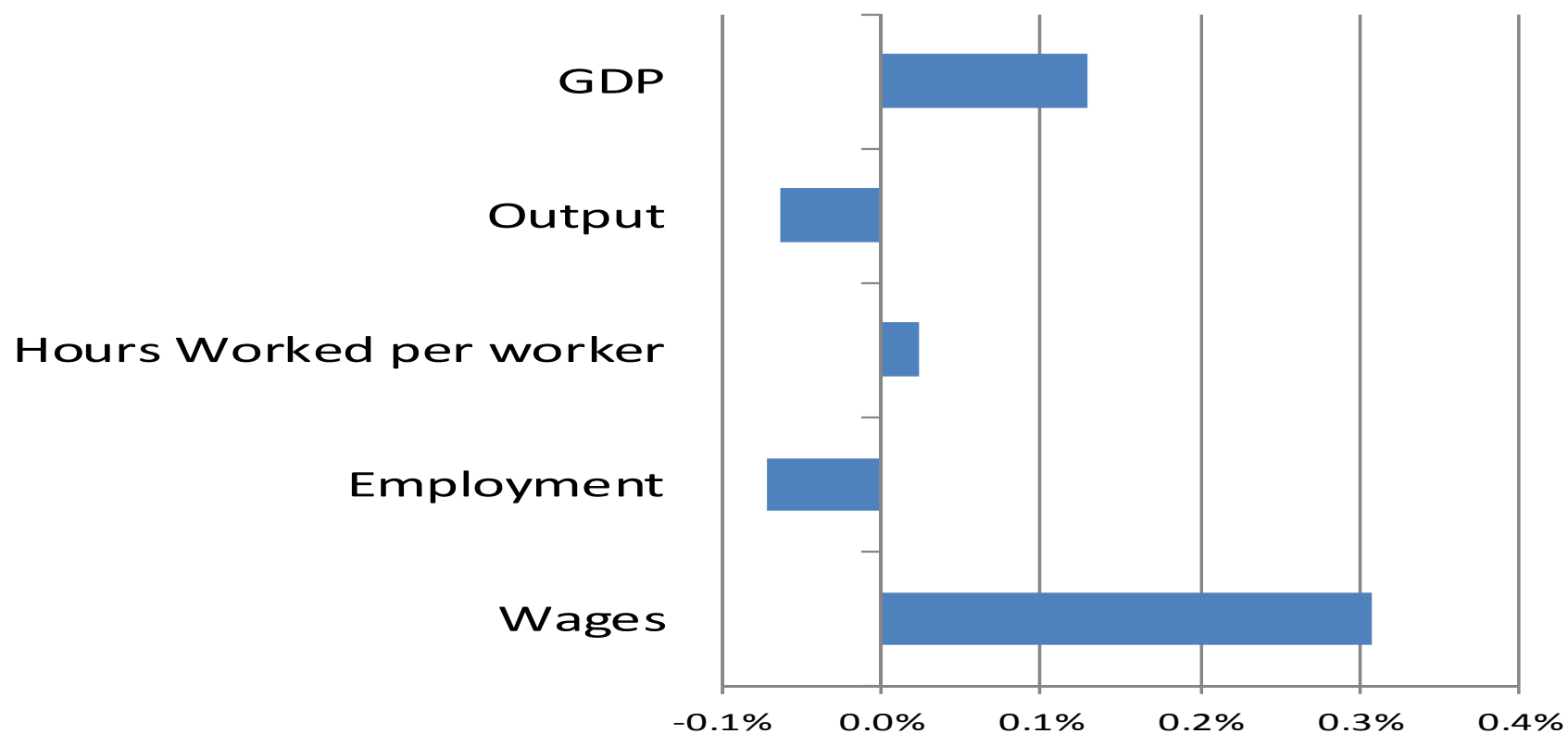
More job separations

Higher frictional Unemployment Elasticity (EPL) = 0.17

**Lower Employment**



## Lowering EPL in Poland: Long-term impact on ...



Unemployment rate:

+0.11 %-pts

Labour market participation

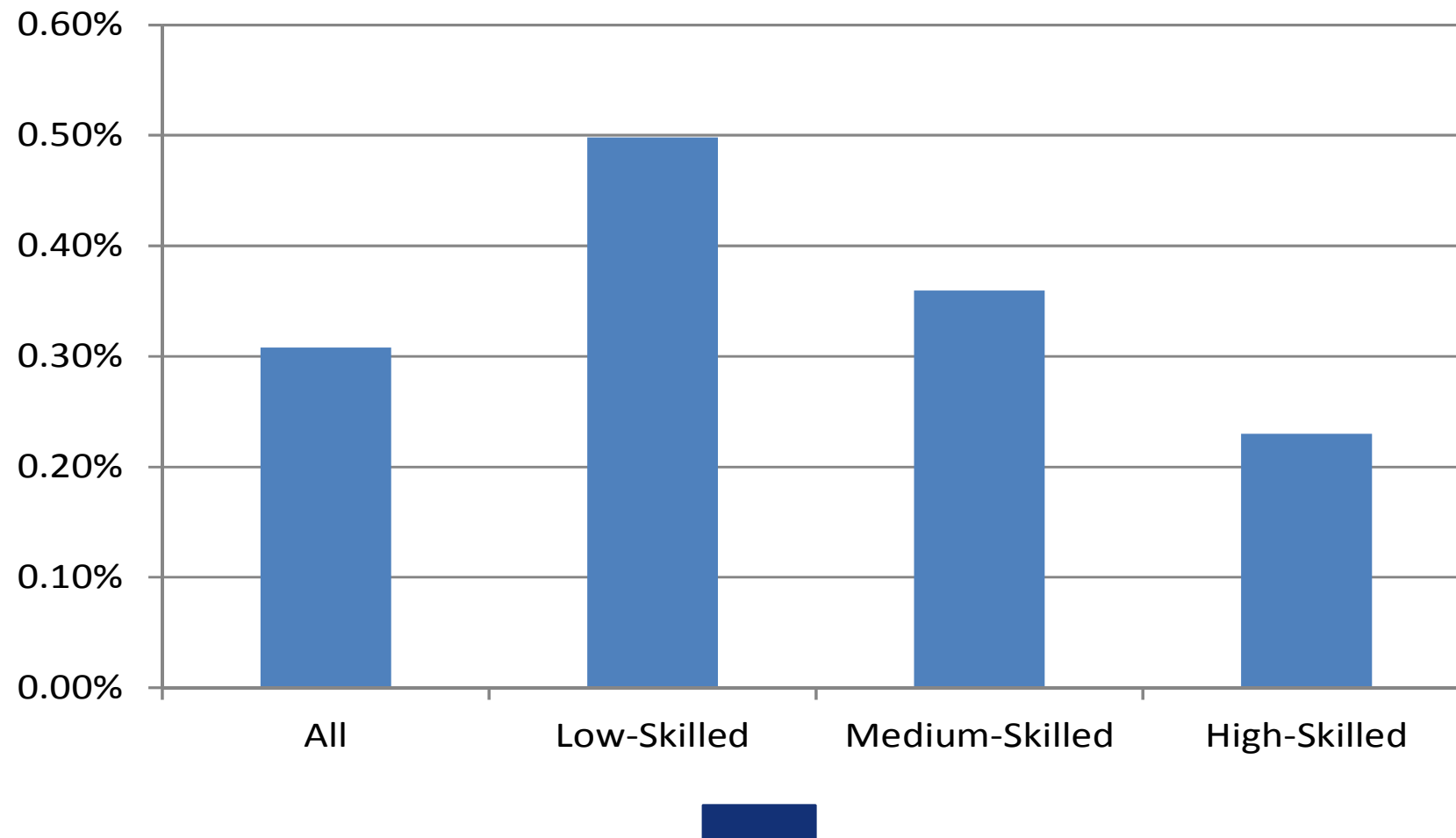
+0.04 %-pts



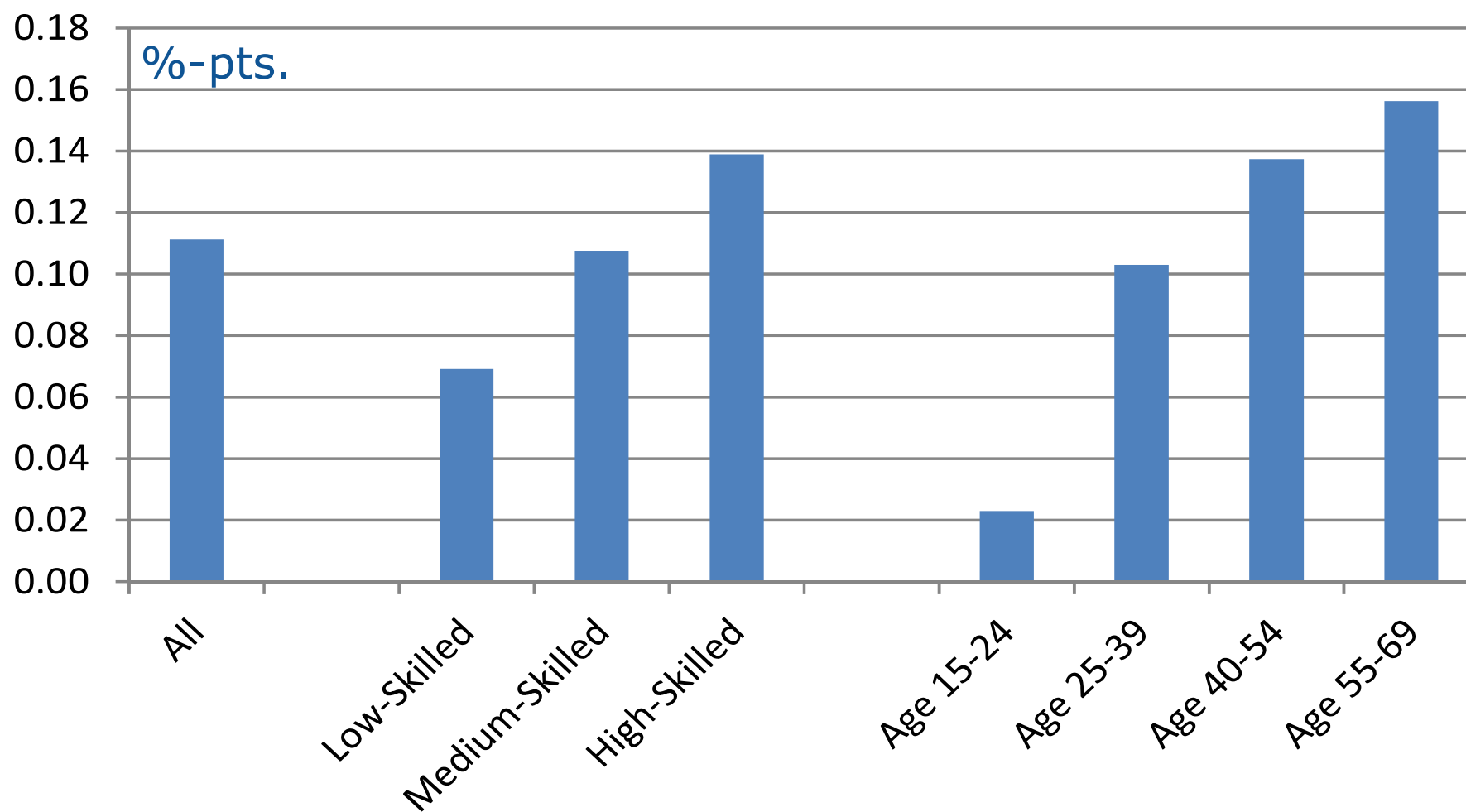




## Lowering EPL in Poland: Long-term impact on **wages**...



## Lowering EPL in Poland: Long-term impact on **unemployment**...





## Conclusion:

### Lowering EPL in Poland: Long-term impact

- Strong positive overall employment gains questionable
- But: Higher frictional unemployment reflects more hiring, more firing -> higher job turnover

Thank you.

