UNIT 2- LABOUR MARKET POLICIES IN THE EU

- European Integration and labour market policies
- Evaluating the effectiveness of labour policies

Readings for Unit 2 besides the slides

European Commission (2004), **Employment in Europe 2004**, (http://www.europa.eu.int/comm/employment_social/employment_analysis/employ_2004_en.htm), chapter 2

Calmfors L. (1994), *Active Labour Market policy and Unemployment- A Framework for the Analysis of Crucial Design Features*, in **OECD Economic Studies**, no.22 (pp. 7-47)

Fay R.G. (1996), *Enhancing the effectiveness of active labour market policies: evidence from programme evaluations in OECD countries,* **OECD Labour market and social policy occasional papers no. 18** (http://www.oecd.org/EN/documents/0,,EN-documents-187-5-no-10-no-187,00.html)

What policies to increase employment/reduce unemployment in the EU?

• Structural policies under the direct control of policy makers to reduce the NAIRU and the persistence mechanisms are:

✓ Skill enhancement policies

✓ Employment subsidies for the unskilled, to boost demand

✓ Active labour policies to increase the efficiency of the matching process and support labour market participation and labour mobility

• In addition:

✓ the negative effects of passive policies (Unemployment benefits, early retirement,…) and taxation on employment should be avoided in order to *make work pay* even for low wage workers.

✓Revise the bargaining process

✓Support R&D research and technological innovation

✓Sopport competition in thge product market and economic openness

• These policies seem to have worked in the nineties and to explain part of the reduction of the NAIRU, together with more flexibility and wage moderation in collective bargaining. But they are costly and may have negative effects that ask for a careful design.

LABOUR MARKET POLICIES IN THE EU

ACTIVE LABOUR MARKET POLICIES (ALMP):

- job search assistance (employment services)
- training
- wage subsidy for hiring in the private sector and for enterprise creation by the unemployed
- job creation schemes in the public sector

PASSIVE LABOUR MARKET POLICIES:

- unemployment benefits and other income support during unemployment
- early retirement schemes

note: these policies are supply side policies.

the underlying hypothesis is that unemployment may not be solved only via demand policies because of the inflation trade off.

The European Employment Strategy/1

- Since the late 1990s, **political consensus around the structural nature of Europe's unemployment problem** and on the need to increase the employment intensity of growth.

↓

- Support for a **more co-ordinated employment policy** response at the European level

- **European Employment Strategy (EES)** since 1997: definition of common objectives in relation to employment policy and detailed guidelines for the development of the employment policies of Member States .
  - The main goals of EES are:
- **More jobs**: 2010 targets for employment rates at 70% overall, 60% for women and 50% for older workers (*employability*);
- **Better jobs:** promotion of quality and productivity at work (*flexicurity and adaptability*);
- **Greater social cohesion:** trough investment in human capital and equal opportunities in employment for the disadvantaged

The EES implementation method

Approach based on:
open method of co-ordination
management by objectives

- **Diversity of approaches to reach common EU goals**: shared priorities and shared goals, are supported by a process of plan development (National Action Plans by national Governments) and review (by the European Commission and Peer reviews).
- No enforcement by mandatory directives on member states, but the **setting of measurable targets** at EU and national level, the **progressive development of statistical indicators** — agreed between the Commission and the Member States — to monitor progress, the **financial support of the European Social Fund**
- **The involvement of relevant actors** (social partners) is promoted, in accordance with the wide diversity in national institutional set-ups and social dialogue practices.

The EES main results: 1998-2003

- Greater role of **activation policies** and **public employment services** to support an active and preventive approach and improvement in matching process;
- In some Member States **tax-benefit systems** have been adapted to sustain activation and labour taxation has become more employment friendly
- **Education and training** systems have increasingly adapted to labour market needs with greater attention to **lifelong learning**
- Some progress in terms of **working time** arrangements and more flexible work contracts
- Stronger focus on **gender mainstreaming** and the reconciliation of work and family life **and on equal opportunities for the disadvantaged**
- **Southern countries had greatest difficulties** in adapting to the EU guidelines
- To reach 2010 targets employment should increase by 23 million. Difficult!!!

SPENDING IN LMP IN EU COUNTRIES

Public expenditure on labour market policies is about 3% of EU GDP. Of these: 40% goes on active measures and the remaining on passive measures.

Different composition: whilst in GB and Southern Europe they are mainly targeted on problem-groups (young people and the long-term unemployed), in other countries, and especially the Scandinavian ones, they are available to all job-losers.

Expenditure highest in the Scandinavian countries: from 5% of GDP in Denmark to 3,5% in Sweden. In these countries also high share of active policies.).

Expenditure per person unemployed lowest in Southern European countries and the UK (around 1% of GDP)

RECENT TRENDS IN EXPENDITURE

- **Increase in the incidence of active measures** on total spending from 33% of total spending early ’80s to 40% in late ’90s.

- In many countries generous **unemployment benefits** by amount and duration. Also generally a large proportion of the unemployed have access to such benefits.

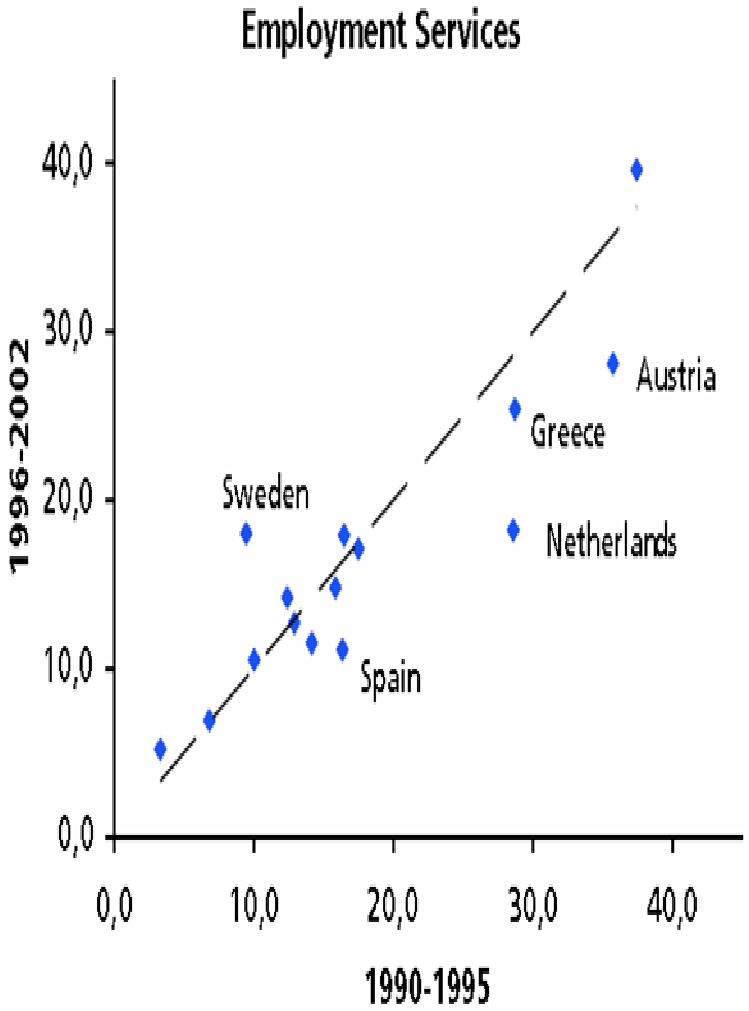
- About one third of total **active expenditure** in the EU goes to training policies, around one fourth to job subsidies, 17% on employment services, 16% on youth measures. and 12% on policies for the disabled. Each country different mix of policies.

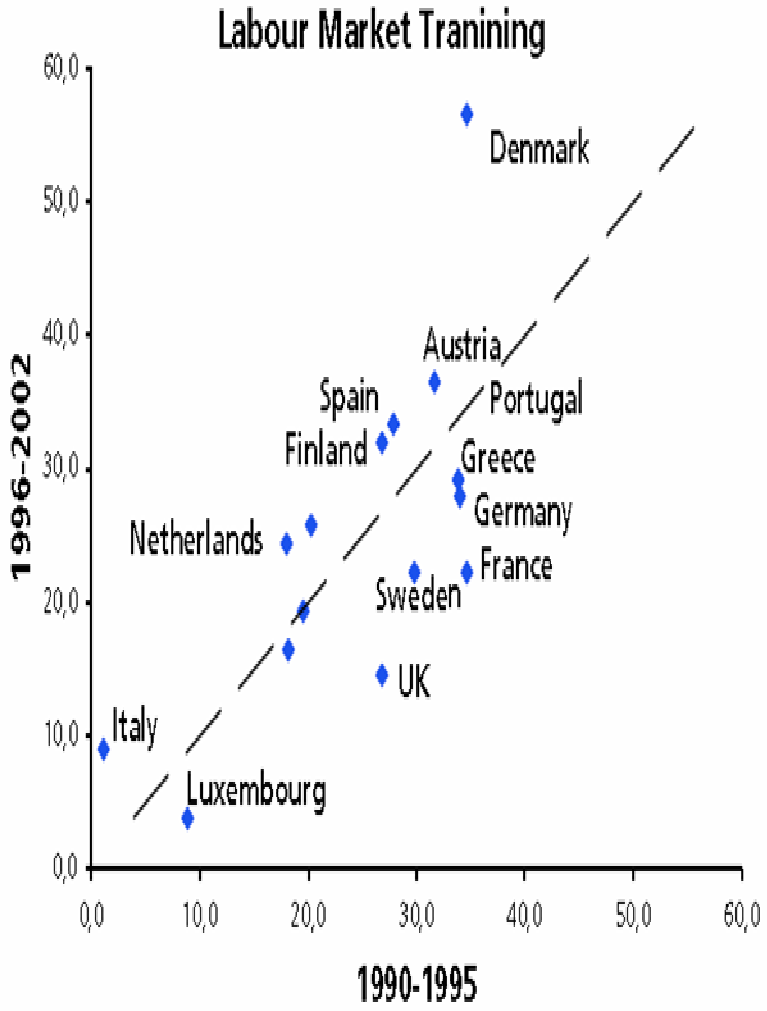
- In recent years concerns about public spending has led to a **general reduction in public spending on labour market policies** and especially to changes in the unemployment benefits system and to critical analysis of active policies.

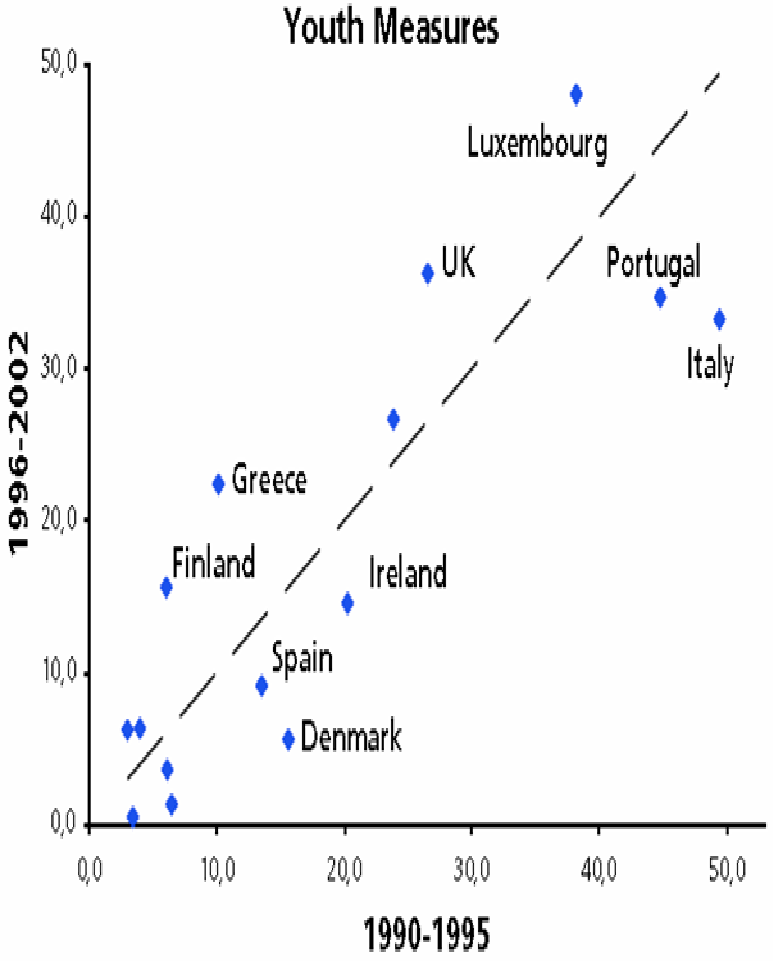
Table 28 - Labour Market Expenditures in the European Union[1]								
	Total expenditures % of GDP				Active expenditure % of total labour market expenditure			
	1980-1984[2]	1985-1989[3]	1990-1995	1996-2002[4]	1980-1984	1985-1989	1990-1995	1996-2002[4]
Austria	:	1.3	1.6	1.8	:	22.7	21.0	27.0
Belgium	:	4.4	4.0	3.8	:	30.3	31.1	35.5
Denmark	6.0	4.5	6.3	5.2	13.1	25.3	24.2	32.8
Spain	2.5	3.1	3.5	2.3	10.3	21.0	19.3	31.4
Finland	1.8	2.3	4.9	3.8	55.3	41.0	32.8	33.0
France	2.5	2.9	3.0	3.1	22.3	25.9	36.2	43.3
Germany	:	2.1	3.3	3.5	:	41.9	41.2	36.8
Greece	:	0.6	0.8	0.9	:	38.2	45.2	47.0
Ireland	:	4.6	4.2	2.7	:	31.9	34.2	51.4
Italy	:	1.8	2.5	1.9	:	38.1	58.7	56.7
Luxembourg	1.5	1.2	0.8	0.9	51.6	33.0	26.2	30.3
Netherlands	3.8	4.4	4.2	4.2	20.6	29.9	33.6	39.4
Portugal	:	0.7	1.4	1.6	:	58.8	52.8	47.3
Sweden	2.2	2.7	5.0	3.5	67.7	70.7	55.9	53.2
United Kingdom	2.1	2.3	1.9	1.0	28.7	35.3	29.1	38.1
Unweighted Average	2.8	2.6	3.2	2.7	33.7	36.3	36.1	40.2

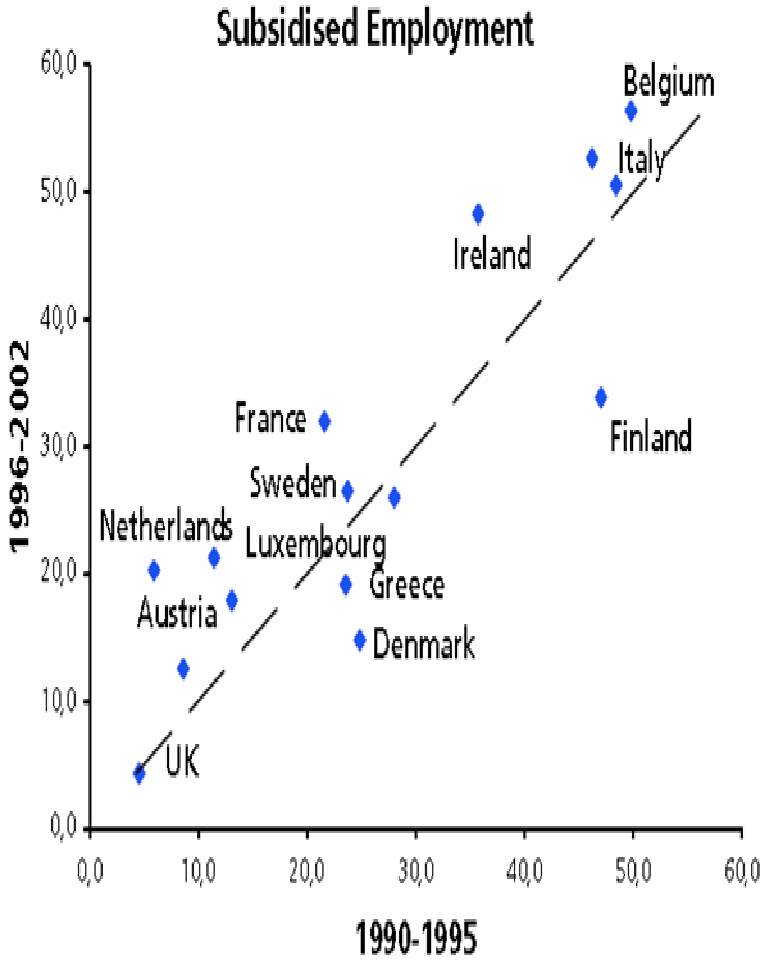
Source: OECD, Social Expenditures database. For the 1995-2000 period data are from the Employment Outlook 1999, 2000, 2001.
1 Total labour market expenditures include ALMPs and passive measures (expenditures for unemployment compensation and early retirement for labour market reasons). Expenditures are expenditures paid and controlled by the general government and mandatory private social expenditures.
2 For Spain, Germany, Greece, Ireland, the Netherlands and Portugal passive measures include only unemployment compensation.
3 For Greece and the Netherlands passive measures include only unemployment compensation. For Ireland and Portugal early retirement for labour market reasons are only available since 1990.
4 Data refer only to public expenditures; 1996-2002 for Austria, Spain, Finland, Germany, Sweden; 1996-2001 for Belgium, France, Ireland, the Netherlands and the UK; 1996-2000 for Denmark and Portugal; 1996-1999 for Italy 1996-1998 for Greece; 1996-1997 for Luxembourg (a) 1985

Table 29 - Categories of ALMPs absorbing the maximum share of LMPs expenditures			
	1985-1989	1990-1995	1996-2002
Austria	PES	PES	TRAINING
Belgium	DJC	DJC	DJC
Denmark	TRAINING	TRAINING	TRAINING
Spain		DJC	DJC
Finland	DJC	DJC	DJC
France	TRAINING	TRAINING	DJC
Germany	TRAINING	TRAINING	TRAINING
Greece	DJC	TRAINING	TRAINING
Ireland	TRAINING	DJC	DJC
Italy	YOUTH	YOUTH	DJC
Luxembourg	DISABILITY	YOUTH	YOUTH
Netherlands	DISABILITY	DISABILITY	DISABILITY
Portugal	TRAINING	YOUTH	YOUTH
Sweden	DISABILITY	DISABILITY	DISABILITY
United Kingdom	PES	PES	PES


Employment Services
1996-2002
1990-1995
0,0
10,0
20,0
30,0
40,0
Austria
Greece
Sweden
Netherlands
Spain


Labour Market Tranining
1996-2002
1990-1995
0,0
10,0
20,0
30,0
40,0
50,0
60,0
Denmark
Austria
Spain
Portugal
Finland
Greece
Germany
Netherlands
France
Sweden
UK
Italy
Luxembourg


Youth Measures
1996-2002
1990-1995
0,0
10,0
20,0
30,0
40,0
50,0
Luxembourg
UK
Portugal
Italy
Greece
Finland
Ireland
Spain
Denmark


Subsidised Employment
1996-2002
1990-1995
0,0
10,0
20,0
30,0
40,0
50,0
60,0
Belgium
Italy
Ireland
Finland
France
Sweden
Netherlands
Luxembourg
Greece
Austria
Denmark
UK

POLICIES FOR THE UNEMPLOYED
1. ACTIVE POLICIES

EXPECTED BENEFITS

- increase of the effective labour supply by reinsertion of the unemployed into the labour force (with effects on wages due to greater competition for existing jobs).
- development of work related skills and increase in productivity
- improve the matching process and decrease in labour market mismatch
- shorter and fewer unemployment spells
- lower expenditure on passive measures
- work test for those on unemployment benefits
- spillover social effects

POLICIES FOR THE UNEMPLOYED
1. ACTIVE POLICIES

PROBLEMS

- higher wage demands or less downward wage pressure
- distortion of labour and product markets (deadweight,substitution, displacement effects)
- high costs
- questions on programme design and implementation:
  - at what point of the unemployment spel should alp be offered?
  - how targeted should they be?
  - what level and length of compensation?should participation be targeted or mandatory?
  - should various services be combined or not?
- **some answers through the evaluation of policies**

Table 3. Costs/benefits of programmes		
Level	Costs	Benefits
Individual	Opportunity cost of being in a programme relative to job search. This would vary with the type of individual, i.e. income loss is smaller for low-wage earners than for prime-age displaced workers. Direct costs of participation in programme should they exist.	Gains in future earnings/employment through participation in the programme.
Government	Programme costs and administrative costs.	Longer-term reductions in unemployment resulting in lower programme and administrative costs. Reduced reliance on unemployment benefits and social assistance. Programme output. Increased tax revenues resulting from employment/wage gains.
Social	Substitution/displacement effects and deadweight losses in addition to direct costs to governments.	Reduced crime (perhaps lower health care costs). One would expect these spillover effects to be quite different for different groups of individuals, e.g. reduced criminality would apply mainly to youths. Spillover effects of programmes on other individuals, i.e. training may inspire other household members to upgrade skills; self-employment schemes may create jobs for non-participants etc. Perhaps increased co-operation among different levels of government and regions.

THE EVALUATION OF LABOUR POLICIES

QUESTIONS TO BE ANSWERED

- - are labour policies effective in reducing unemployment?
- - are they less costly than other policy instruments?
- - which measures are most effective?
- - which target is the most affected by these policies?
- - what is the best way to implement these policies?

1. WHAT TO EVALUATE

POLICY EVALUATION
IMPACT EVALUATION
PROCESS EVALUATION

2. HOW TO EVALUATE

MONITORING
IMPACT ANALYSIS
PROCESS ANALYSIS

3. WHEN TO EVALUATE

EX ANTE
IN ITINERE
EX POST

4. WHO SHOULD EVALUATE

IN HOUSE
OUTSIDE EXPERTS

What to evaluate

1.POLICY EVALUATION

Deals with the objective of labour programmes: are current policy objectives and priorities appropriate? Estimates of costs and benefits.

2. PROCESS EVALUATION

Consider the design and implementation of programmes . Usually this is the least developed part of the evaluation.

3. IMPACT EVALUATION

MICRO: did the programme make a difference on partecipants?

MACRO: did it make a difference on aggregate variables?

It requires to measure the effectiveness of a programme against a counterfactual situation: what would have happened in the absence of the programme?

Have to consider dispersion effects: **Deadweight**
substitution
displacement

in order to measure the **NET EFFECT**

HOW TO EVALUATE

MONITORING PROGRAMME PERFORMANCE (PROCESS MONITORING)

- measurement of specific GROSS outputs and costs of the programmes
- analysis of the implementation process.

Indicators

- programmed and effective expenditure
- diffusion of the programme, participants selection process, period of intervention, institutions and staff involved
- characteristics of participants
- performance indicators of gross results

- No counterfactual assessment of net effects
- Mainly concerned with programme design and implementation

IMPACT ANALYSIS

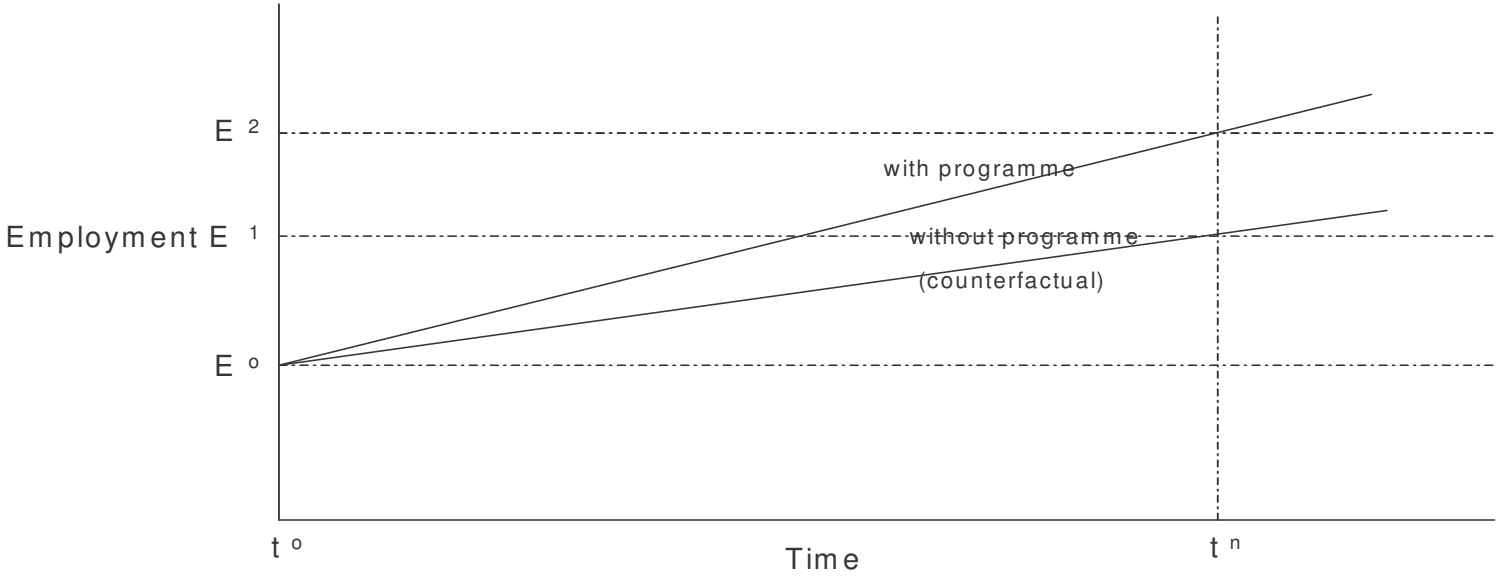
measurement of the NET EFFECTS of the programmes. Hence have to consider:

- what would have happened in the absence of the programme (counterfactual situation)

Problems:

* Methodological: relate mainly with the construction of valid counterfactual (**selection bias problems**)
* difficulty to define the outcome variable and the target population
* difficulty in considering ALL the different aspects of the programme **(indirect macro effects and long term effects)**
* difficulty in taking into account changes in the programme due to **implementation.**

Figure 1 : Assessing additionality (Macro)



Where

t^o	=	baseline
t^n	=	evaluation point
$E^o - E^2$	=	observed change in employment
$E^1 - E^2$	=	impact of programme

Table 1. Definitions of frequently used terms in the evaluation literature on ALMPs	
Term	Definition
Deadweight loss	The outcome of the programme is no different from what would have happened in its absence. A common example is a wage subsidy to place an unemployed person in a firm, where the hiring would have occurred even without the subsidy.
Substitution effect	A worker taken on by a firm in a subsidised job is substituted for an unsubsidised worker who would have been hired. The net short-term impact on employment is therefore zero.
Displacement effect	Typically, this refers to displacement in the product market. A firm with subsidised workers increases output, but displaces (reduces) output among firms who do not have subsidised workers. This could also occur in aid to help individuals start up enterprises. There may also be "fiscal displacement" with respect to labour market policies; fiscal displacement exists when central governments provide funding to local governments -- typically for job creation projects -- who in turn use this funding to carry out projects that they would have implemented anyway.
Selection bias	In an evaluation study, selection bias exists when programme outcomes are influenced by unobserved (or difficult-to-observe) factors that are not controlled for in the evaluation. For example, bias may be the result of unobserved differences in individual motivation. It can also arise as a by-product of the administrative selection process whereby certain individuals are selected for programmes based on their observed characteristics (administrators may "cream" the best to maximise the success of a programme) etc.
Randomisation bias	This refers to bias in random-assignment experiments. It can encompass a number of different areas including problems with site selection for experiments, drop outs from programmes that leave the sample non-random and so on. There is also the so-called "Hawthorne" effect. In essence, this says that the behaviour of individuals in an experiment will be different because of the experiment itself and not because of the goal of the experiment. Individuals in the experiment know that they are part of the treatment group and act differently. The same could hold true for those outside the treatment group.

IMPACT ANALYSIS: THE SELECTION BIAS PROBLEM (1)

- THE **SELECTION BIAS** ARISES BECAUSE POLICY OUTCOMES MAY BE INFLUENCED BY UNOBSERVED CHARACTERISTICS OF THE PARTICIPANTS THAT ARE NOT CONTROLLED FOR IN THE ESTIMATION OF NET EFFECTS (FOR EXAMPLE MOTIVATION OR CREAMING OF PARTECIPANTS).
- IN ORDER TO OVERCOME THIS PROBLEM AND TO CONSTRUCT VALID COUNTERFACTUAL TWO MAIN METHODS:

1. **EXPERIMENTAL METHOD**: the treatment and control groups are constructed by randomly assigning each eligible individual to the treatment. In this way selection bias is eliminated by construction.

BUT

- ethical problems
- high costs
- implementation problems
- randomization bias and substitution bias (contamination) remain
- still difficult to measure indirect and long term effects.

IMPACT ANALYSIS: THE SELECTION BIAS PROBLEM (2)

2. **NON EXPERIMENTAL METHODS**: the control group is made up by individuals similar to the ones in the treatment group, or before/after comparison of treatment group/ or interviews to participants on their behaviour in the absence of the programme.

Problems

- difficult to eliminate selection bias
- econometric complexity
- very different results according to estimation procedures
- difficult to measure indirect and long term effects.

MAIN RESULTS OF LABOUR POLICIES EVALUATIONS (1)

MACROECONOMIC IMPACT/1

EMPLOYMENT EFFECTS

estimated through cross-countries analysis.

Problems in estimation:

* endogeneity of expenditure on labour market programmes
* ignoring effectiveness of labour market institutions
* ignoring effects of other variables (labour market regulation, unemployment benefits systems etc.)

Results moderately positive in the long run: expenditure in youth measures, training and PES programmes improve the employment/growth relationship. Intensity of spending on ALMP counterbalance negative effects of raise in UB RR.

MAIN RESULTS OF LABOUR POLICIES EVALUATIONS (2)

MACROECONOMIC IMPACT/2

WAGE EFFECTS:

2 effects possible according to theory:

a) reduce wage pressure by increasing competition for jobs

b) increase wage pressure by reducing the cost of losing a job.

Time series and cross-countries estimations.

Results are mixed:

- some authors find upward pressure on wages and crowing out of regular employment
- other authors find a moderating effect on wages of some programmes (training).

Results seem to depend upon :

- level of unemployment
- cyclical pattern of active labour programmes.

MAIN RESULTS OF LABOUR POLICIES EVALUATIONS (3)

MICROECONOMIC IMPACT/1

- They measure individual effects that are difficult to generalize because indirect effects and long term effects are not considered
- Results depend very much on how programmes are managed and implemented and often these aspects are not accurately considered in the evaluation.

- ➢ little net effects and decreasing returns to scale of ALMP: more effective under "normal" labour market conditions, not when high unemployment rates.
- ➢ better when carefully targeted and when combined with other measures.
- ➢ however trade off: if targeting on the most problematic groups less risks of dispersion effects, but high risk of adverse signalling.

MAIN RESULTS OF LABOUR POLICIES EVALUATIONS (4)

- more effective when targeted to women, less effective in the case of young people, which seem to require specific measures less linked to the labour market.
- employment services appear to be the most effective and the least costly, but they require high quality administrative and management capacity.
- training measures costly and with a little net impact because often objectives are different from placement and their effects are more likely to occur in the long run. the evaluation period may thus be extended.
- training on the job better than formal training.
- in order to avoid upward wage pressures and to maintain job search pressures better (according to Calmfors):
  - set compensation levels well below market wages
  - not too long duration of programmes
  - mix of measures targeted to the long term unemployed

Table 9. Summary of lessons from the evaluation literature

Programme	Appears to help	Appears not to help	General observations
Job search assistance (JSA) (job clubs, individual counselling, bonus payments etc.)	Most unemployed but in particular, women and sole parents.		Require careful controls.
Classroom training	Women re-entrants;	Youths (if not combined with other programmes); Prime-age men and older workers with low initial education.	Important that courses signal strong labour market relevance, or signal "high" quality. Youths are likely to need a combination of programmes targeted at their specific labour market needs. More evidence required for displaced workers. Follow-up evaluation period needs to be longer as length of course increases.
On-the-job training	Women re-entrants, single mothers.	Youths (if not combined with other programmes);	Must meet specific labour market needs.
Subsidies to employment	Long-term unemployed; Women re-entrants.	Youths (if not combined with other programmes);	Require careful targeting and adequate controls to maximise employment gains and social benefits.
Direct job creation	Severely disadvantaged labour market groups.		Typically provides few long-run benefits and principle of additionality usually implies low marginal-product jobs.
Aid to unemployed starting enterprises	Men (below 40, relatively better educated).		Only works for a small subset of the population.

Notes: The above table was filled out based on evaluation results presented in Tables 1 to 8, DOL (1995), HRDC (1994) and OECD (1993).

Passive policies (1)

Two main roles of UB:

1. insurance role against the risk of income loss due to job loss.
2. assistance role against poverty

- the economic literature has stressed the possibility of a link between the benefit system, search behaviour and unemployment.

Passive policies: the debate

EQUITY and EFFICENCY arguments to explain state intervention in income support during unemployment:

- **EQUITY** ARGUMENTS: State as insurer against the risk of losing a job due to market failure .
- **EFFICENCY** ARGUMENT:

➢ possibility of more efficient job search and job matching if the unemployed is not obliged to accept the first job opportunity.

➢ In addition if firms are risk neutral and workers are risk averse it is efficient that firms act as insurers for workers against the risk of lay off (severance pay or lay off tax). The cost would be higher for firms with higher lay off rates.

During the eighties critics to this approach: unemployment benefits are said to increase the reservation wage of the unemployed

NEGATIVE EFFECTS OF UB ACCORDING TO SEARCH MODELS

- UB tend to increase the reservation wage and, in absence of job search requirements, may reduce incentive to effective job search and the willingness to accept job offers as long as the benefits are available
- Reducing the cost of unemployment, UB increase the bargaining power of unions over wages and reduce incentive for firms to build a reputation as a provider of secure jobs.
- UB subsidise employers´seasonal demand for labour, in their absence seasonal jobs whould offer higher wages
- UB may affect labour participation , inducing higher participation for those at higher risk of unemployment

Empirical results on UB

- Level and duration of UB have some influence on the the duration of unemployment, especially for secondary workers
- The replacement rate has also a negative effect on the employment levelt, but it takes a long time (around 3 years). This effect may be counterbalanced by spending on ALMP, while it is enhanced when collective bargaining is at the industry level.
- Indirect effects of UB: increasing wage pressures by insiders
- Negative effects of UB, especially for low wage workers, depend on their interaction with taxation system and other welfare benefits via the so- called “unemployment trap”. Importance of *make work pay policies* through financial an non-financial incentives.
- Generous UB may increase labour market participation of people with high unemployment probability.

Employment protection legislation

Issue: the legal regulation of employment contracts (hiring/firing/ lenght of contracts)

- in Europe greater regulation of employment contracts than in the us and, usually, higher protection of workers against layoffs. in European countries dismissals must be grounded on just cause (personal shortcoming of the employee or economic reasons).
- also variety of accompaining programmes that support dismissed workers.
- however large differences among European countries with at the two extreme great Britain (where there is only a financial compensation for job loss) and Italy (where dismissals are strictly regulated).
- in recent years trend toward a deregulation of employment contracts mainly through deregulation of atypical contracts (part-time and temporary work) under the hypothesis that a deregulated or flexible market works better and create greater employment.
- wide debate over this thesis. empirical evidence once again contradictory.

Employment protection: the debate (1)

CRITICS ARGUE THAT EMPLOYMENT PROTECTION:

- slows down necessary work force adjustment and labour turnover
- increases fixed labour costs and thus total employment
- reduce allocative efficency and thus increase long term unemployment
- increase in long-term unemployment
- diffusion of the black economy in order to evade such strict regulations

PROPONENTS ARGUE that**:**

- equity arguments (asymmetry of conditions in the labour market of the two parties)
- stabilization of employment over the business cycle
- greater investment in training and human capital on the part of the firm
- greater internal flexibility and acceptance of new forms of work and internal labour division if worker knows there is employment stability
- lower costs in enforcing contracts relative to private contracting.

Employment protection: the debate (2)

PROBLEMS WITH EMPLOYMENT PROTECTION LEGISLATIONS ARE NOT IN THE LEGISLATION ITSELF, BUT IN :

- **POLICY DESIGN FAILURES** (for example when all the burden and cost of employment protection is upon the firms as in the case of the Italian protection of disabled workers or in the case of legal thresholds),

- **IMPLEMENTATION FAILURES** (as in the case of labour court decisions or public agencies which are inconsistent or long arbitration or authorization procedures)

- **STRUCTURAL AND INSTITUTIONAL MALCOORDINATION (**such as the non coordination of incentives and legal requirements or the non adjustment of regulation to changing economic and/or social conditions.

Empirical evidence (1)

- methodology: use of index and rankings of restrictiveness across countries and correlation analysis with employment performance indicators.
- such comparisons and policy conclusions, should however be considered with caution:

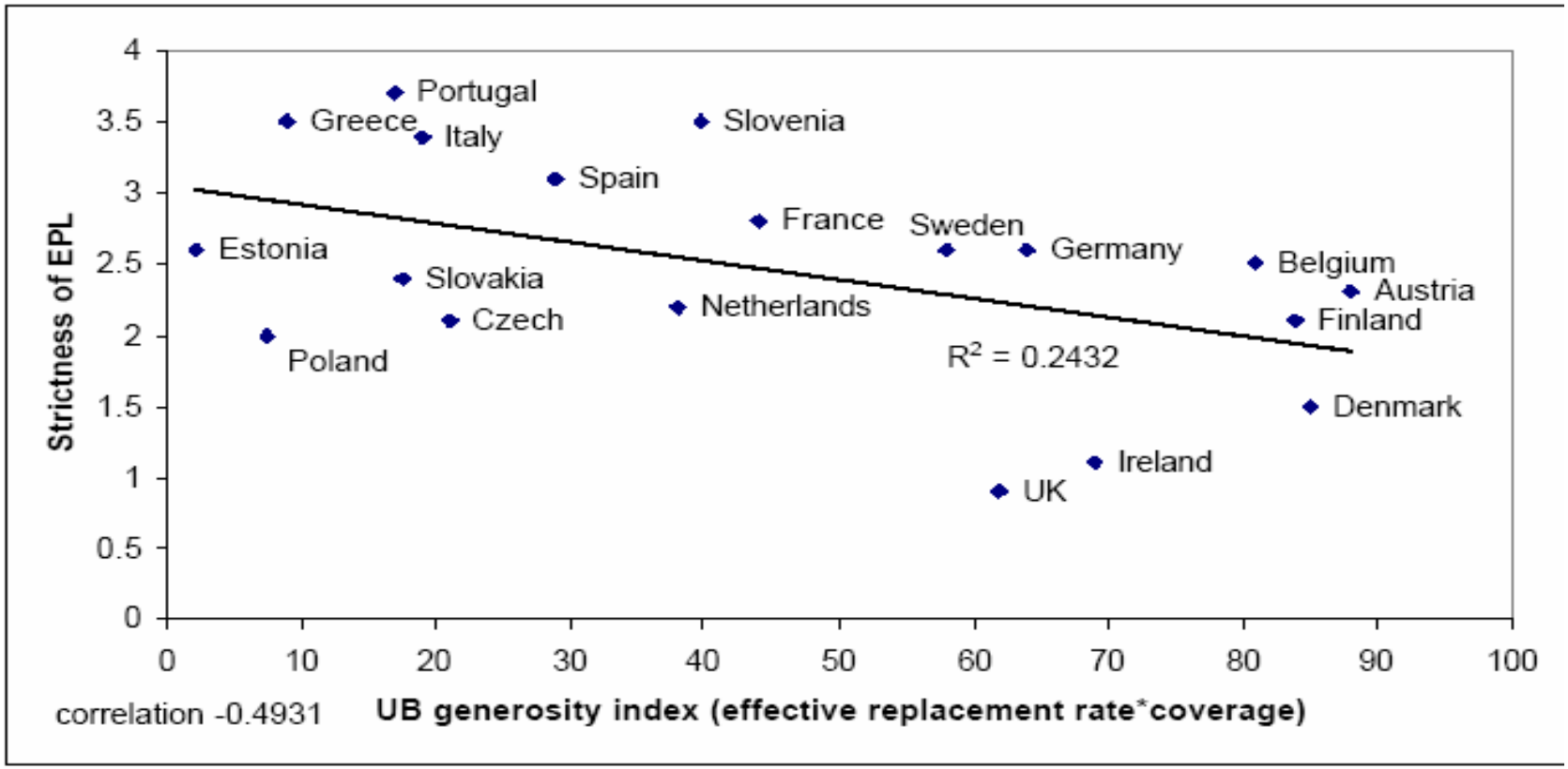
➢ first, attention should be put on the quality of data considered and their comparability.

➢ second, there are important methodological problems related to the difficulty to consider all the relevant variables that affect each country performance. usually forms of rigidity are accompanied by forms of relative flexibility within each country. it is important to take into account the institutional framework in all its aspects when considering the degree of labour market regulation rigidity (flexibility) and the enforceability of employment protection.

Empirical evidence (2)

- no clear effect on the level of employment, but effects on the velocity of employment adjustment to the cycle
- segmentation of the labour market if deregulation only for atypical contracts
- higher unemployment persistence over time

The Trade-off between UB and EPL (late 1990s)



POLICIES TO REDUCE LABOUR SUPPLY

in Europe large use of early retirement for economic reasons (especially in France and Italy) and reduction of working time.

EARLY RETIREMENT

- to reduce social pressures during mass restructuring and to incentivate turnover and the hiring of younger workers
- very high costs for the public budget and contradiction with recent pension reforms that ask for an increase of retirement age.
- also, in some countries, such as italy, little employment effect and expansion of labour supply in the black economy.
- need of greater flexibility in retirement age.

WORKING TIME

- if no proportional reduction in labour costs results in an increase in hourly labour costs and a reduction of competitivity of european firms.
- simulation models do not find a strong link between generalized working time reduction and increase in employment.
- working time flexibility and local agreements on working time reductions appear to work better.

Table 38 - ESTIMATED CONTRIBUTION TO CHANGES IN THE EMPLOYMENT RATE OF										
		TFP growth	Degree of Openness	Share of fixed-time trend	Share of part-time	Tax wedge	Gross replacement rate	ALMPs	Cyclical factors	Other factors
B	1990-1995	-0.30	1.65	-0.34	1.46	-0.41	-0.07	-0.31	-0.27	-0.12
	1995-2000	0.37	2.38	-0.34	3.79	0.02	0.00	0.36	0.27	2.64
DK	1990-1995	0.10	0.46	-0.18	-0.70	0.18	0.35	0.94	-0.04	3.46
	1995-2000	0.03	2.15	-0.1	0.00	0.11	-0.02	0.57	0.87	1.03
DE	1990-1995	-0.29	-0.66	-0.11	0.60	-0.75	-0.02	-0.21	-0.17	0.89
	1995-2000	0.03	2.07	-0.10	1.68	-0.14	0.07	-0.03	-0.18	2.69
EI	1990-1995	0.37	0.62	0.10	0.43	-0.23	0.21	-0.05	0.63	2.49
	1995-2000	0.32	2.28	0.11	-0.05	-0.01	-0.07	-0.05	-0.25	1.51
ES	1990-1995	0.11	1.50	0.00	1.30	-0.33	-0.05	-0.25	-1.33	4.49
	1995-2000	0.00	2.14	0.00	0.38	0.13	-0.02	0.40	0.82	-5.12
FR	1990-1995	-0.04	0.78	0.04	2.00	-0.25	0.00	0.14	-1.26	3.90
	1995-2000	0.07	1.53	0.10	0.70	0.00	0.00	0.20	-0.05	0.28
IE	1990-1995	0.33	4.57	0.22	2.16	0.42	-0.05	0.21	-1.95	4.31
	1995-2000	-0.17	6.75	0.22	2.49	1.12	0.07	1.10	2.84	3.93
IT	1990-1995	0.27	1.06	0.16	0.81	-0.25	0.37	0.15	-1.04	4.07
	1995-2000	-0.16	1.10	0.16	1.35	0.54	0.02	-0.01	-0.41	0.14
LU	1990-1995	-0.36	1.32	-0.04	0.60	0.20	:	-0.76	-1.35	-0.21
	1995-2000	0.66	7.95	-0.30	1.79	-0.12	:	0.25	2.50	9.06
NL	1990-1995	-0.07	2.10	-0.51	3.08	0.22	-0.14	-0.12	-0.93	2.04
	1995-2000	0.04	2.62	-0.38	2.16	-0.03	0.12	2.91	0.94	0.42
PT	1990-1995	0.35	1.15	0.14	0.70	0.00	0.05	-0.13	0.08	3.22
	1995-2000	-0.44	1.62	0.34	0.97	0.03	0.23	0.30	-0.98	-2.53
UK	1990-1995	0.29	0.83	0.41	1.30	0.01	0.00	-0.25	-1.50	4.25
	1995-2000	0.08	1.77	0.36	0.43	0.44	-0.02	0.11	0.17	0.59