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# Policies to prevent unemployment persistence

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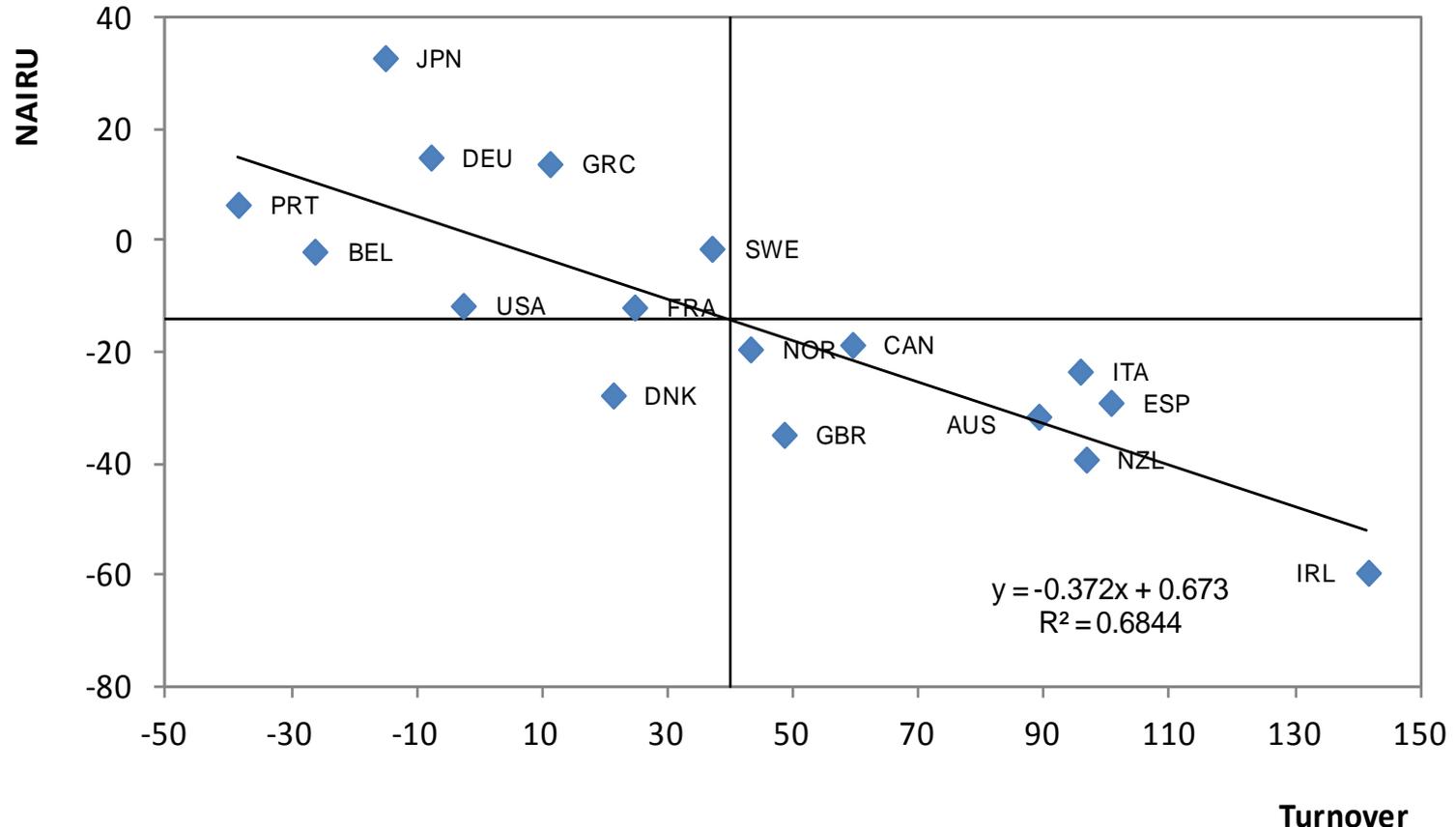
OECD Economics Department in collaboration with Directorate for  
Employment Labour and Social Affairs

# Main highlights

- The degree of turnover in the unemployment pool and the risk of persistence
  
- Factors affecting the risks of unemployment persistence and how they vary across countries
  
- Assessing the policy options to accelerate the return to work
  - Focus on policies to foster a pick-up in outflow rates
  - Consistency with other short-term and longer-term objectives

# The influence of degree of turnover in the unemployment pool on persistence

(Percentage change from the mid-1990s to the mid-2000s)



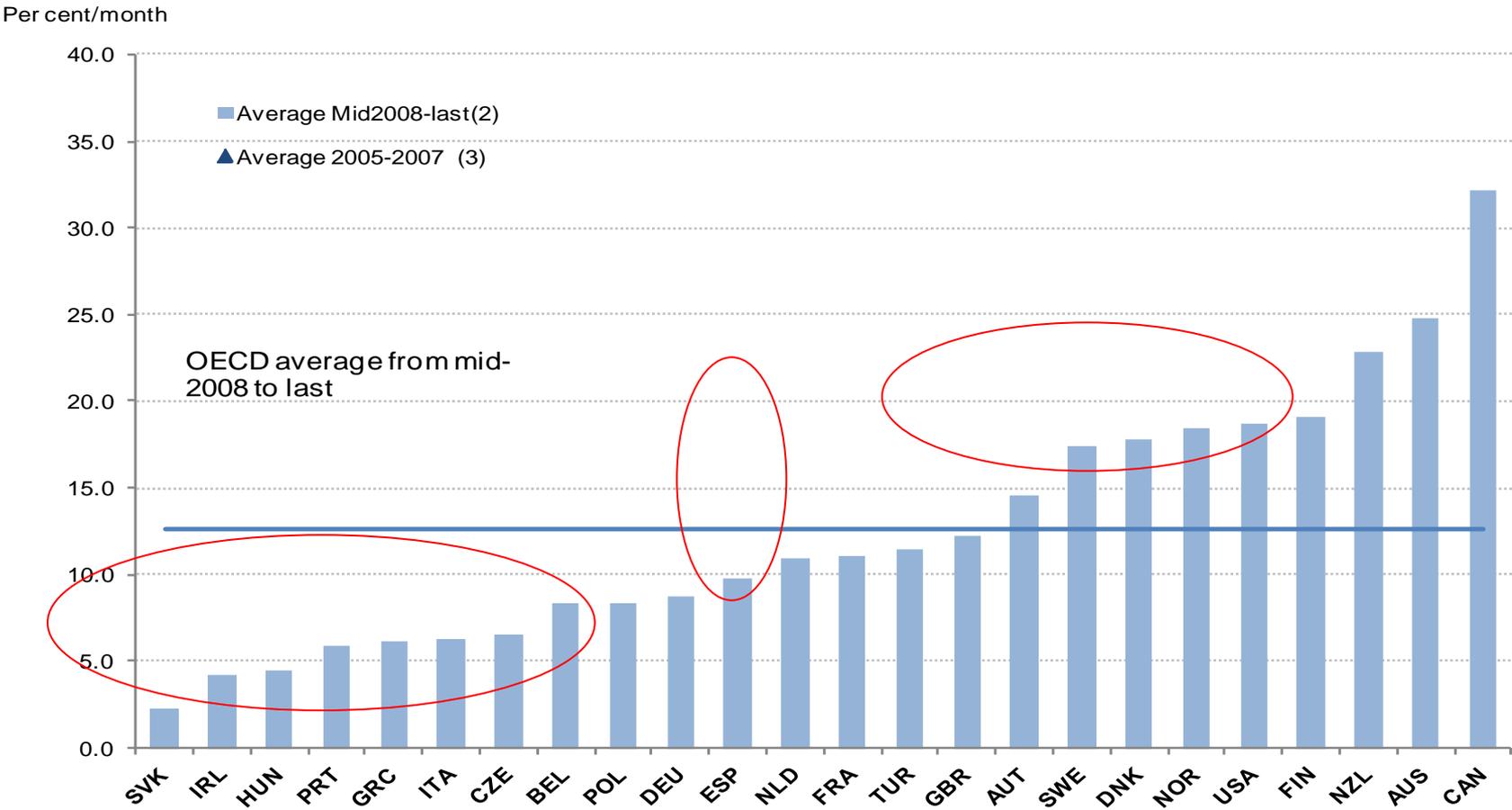
**Strong correlation suggests that policies that lead to lower NAIURU also contribute to raise unemployment turnover. However, converse is not necessarily true.**

# Impact of policies on unemployment level and turnover

- Reforms that raise turnover and reduce unemployment:
  - ***Reductions in / or easing of:***
    - Labour tax wedge
    - UI replacement rate (level and duration)
    - *Product market regulation*
    - *Employment protection legislation (regular contracts)*
  - ***Higher spending in:***
    - Public employment services: job search assistance
  
- Reforms that raise turnover with no impact on unemployment
  - ***Increases in / or easing of:***
    - Spending on training programmes
    - Rules on use of temporary contracts (two-tier systems)



# The probability of leaving unemployment has fallen following the crisis...



...and have generally remained depressed, in some cases to very low levels by historical standards. 14 countries facing substantial risk.

# Factors contributing to risk of persistence through their influence on the outflow rate

## ➤ Labour market tightness

- GDP generally expected to grow faster than productivity and labour force, but not sufficiently to allow for significant decline in unemployment

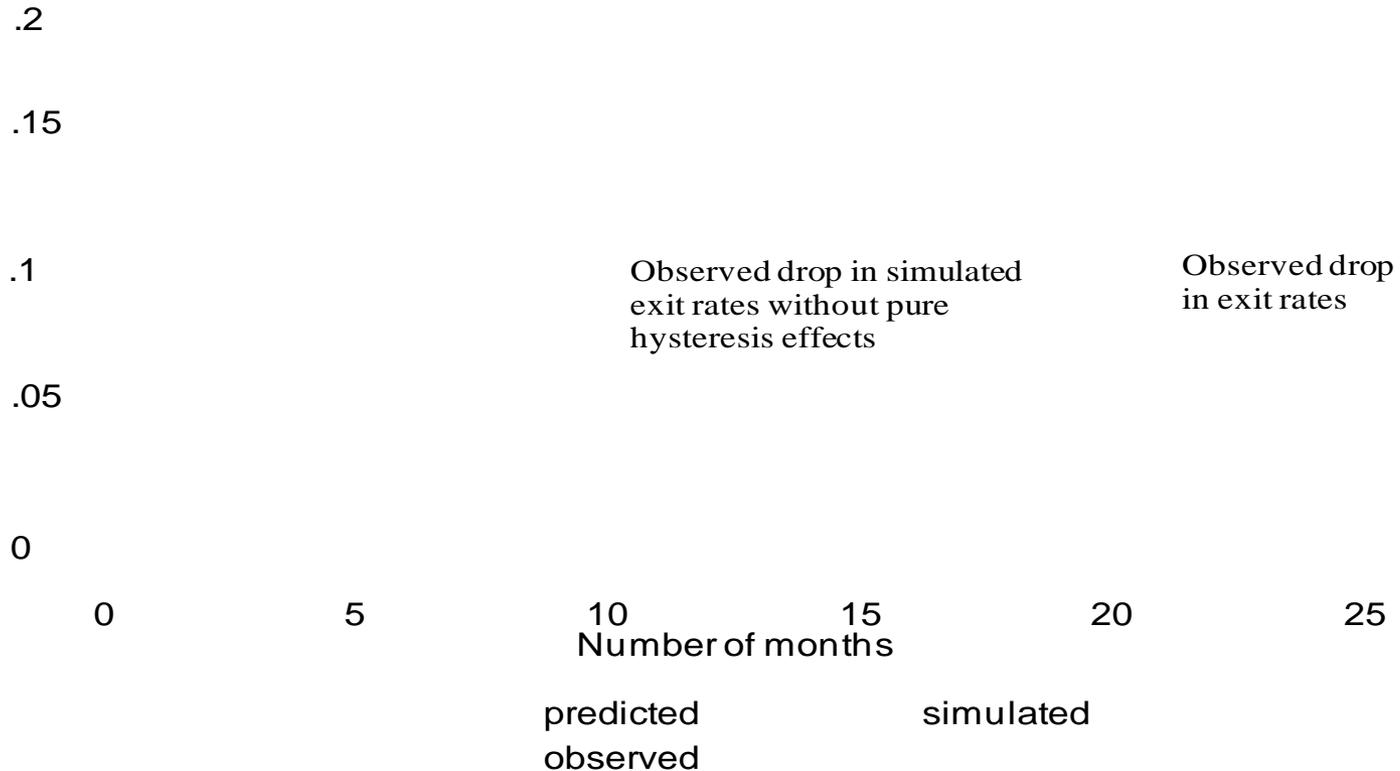
## ➤ Matching efficiency

### ➤ Occupational and/or geographical mismatch

- Difficult to find clear evidence of geographical (at least based on measures of dispersion)
- Occupational mismatch could be more prevalent in countries where construction has been severely hit (higher % of low-skilled workers)

### ➤ Unemployment duration dependence

# Unemployment duration dependence as a channel of persistence



**Pure duration dependence effects account for between one-third to one-half of the total decline observed in exit probability on average**

**Effect stronger in English-speaking, Nordic countries and Neth. Weaker in countries where outflow rate is low to begin with.**

# Policy options to accelerate the return to work

## ➤ Policies should aim at:

- Boosting the outflow rate in the short run (preferably into jobs)
- Lowering structural unemployment
- Strengthen capacity of labour market to withstand future shocks

## ➤ While taking into account other objectives or constraints

- Speed of implementation and impact
- Public finance consolidation
- Providing adequate social protection and maintaining participation
- Avoid measures that could hamper necessary reallocation of resources

**Table 4. The impact of policies to reduce unemployment persistence on other economic objectives**

	<b>Timing</b>	<b>Budgetary cost</b>	<b>Social protection / Labour force part.</b>
<b>Reduce initial replacement rate</b>	Rapid	Negative	Reduce
<b>Shorten benefit duration</b>	Rapid	Negative	Reduce
<b>Increase spending on PES</b>	Fairly rapid	High	Improve
<b>Create public sector jobs</b>	Fairly rapid	High	unclear (risk of strong displacement effect)
<b>Expand training programmes</b>	Fairly rapid	High	Improve
<b>Reduce labour taxation</b>	Rapid	Potentially high	Neutral
<b>Ease EPL on regular contracts</b>	Fairly Slow / Medium term	None unless accompanied by stronger UI benefits	Improve if help reduce duality
<b>Reform wage bargaining</b>	Slow / long-term	None	Improve if reduce insider-outsider divide

# Boosting labour demand through targeted payroll tax reductions

- **Reductions in payroll taxes can be effective in boosting employment in the short and medium run**
  - About half of member states have taken some measures
  
- **But should be targeted**
  - Targeting low-wage earners seems clearly desirable
  - Targeting at new hires that involve net job increase is more effective but also more complex to implement and monitor
    - (e.g. Finland, France, Hungary, Ireland, Portugal, Spain and Turkey)
  - Trade-off between timing and cost-effectiveness

# Designing UI benefits to minimise their unintentional side effects

- Measures have been taken to raise the coverage and/or duration of UI benefits
  - Question is how to ensure that these measures do not hamper unemployment outflow during the recovery
  
- Extension of coverage to workers previously left out should be made permanent (Finland, Japan and Slovak Republic)
  - Coupled with conditionality and activation measures especially where level is relatively high
  
- Extended benefit duration without adequate activation and make-work-pay policies carries strong risks of persistence if maintained
  - Making the level of benefits decline with duration

- **There is a case for beefing-up resources for job-search assistance, esp. in countries where average caseload per staff has risen substantially.**
  - Czech republic, Greece, Ireland, Korea, Mexico, New Zealand, Turkey, United Kingdom and United States
  
- **Scaling-up of training programmes should be maintained, esp. in countries where outflow rates remain depressed**
  - Worth pursuing in current context of difficult access to jobs to limit skills erosion.
  - Broader access to vocational training may be particularly desirable (not least in countries where construction has been particularly hard hit).
  - Short-term challenges include capacity and budgetary constraints, and difficult choices as regards the appropriate target.

# Reforming employment protection legislation to boost hiring

- **Strict EPL helps the impact of shocks on employment but raises unemployment persistence**
  - Through higher incidence of LTU and lower sensitivity of wages to overall unemployment
  
- **Two-tier reforms implemented to reduce effect on persistence**
  - Belgium, France, Germany, Italy, Netherlands, Portugal, Spain and Sweden
  - Raises turnover (especially for youth and women) with no permanent gains in employment.
  - In addition to well-known adverse effects associated with labour market duality
  
- **Priorities for reform**
  - Reduce uncertainties related to the application of EPL for regular contracts (to reduce legal and procedural costs)
  - Harmonise legislation between temporary and regular contracts
  - Little or no budgetary cost but impact on outflow rate could take time to materialise