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Labour market of elderly workers

Netspar
March 23
2009

“Employment protection, unemployment insurance
and the labor market for older workers”

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Discussion

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Outline

- Some key insights of the analysis
- Some comments and suggestions
- A look at some Dutch data
- Further policy issues

Some key insights of the model

- Older workers are close to retirement
- This gives firms an additional option in the case the match turns unproductive, simply wait for the worker to retire
- This makes older workers more attractive
- ... *ceteris paribus*
- Shorter remaining working lives still make them less attractive
- Higher firing costs (typically) also make them less attractive
- ... *furthermore*
- You can have “preventive” dismissals of high productive workers before firing costs jump up

Key empirical findings

- Endgame effect: employment rates already lower many years before retirement age, why still invest in a job/worker?
- Mid-life discount: Unemployment rate higher for men +/- 40-50, anticipation effect of higher firing costs and backward indexing of benefits?
- Fertility trap? Unemployment rate higher for women +/- 25-45, Generous maternity leave?
- Flow rates between employment and unemployment much lower for old than young in France than in the US
- Difference in wage new and old job higher for older workers

Comments and suggestions

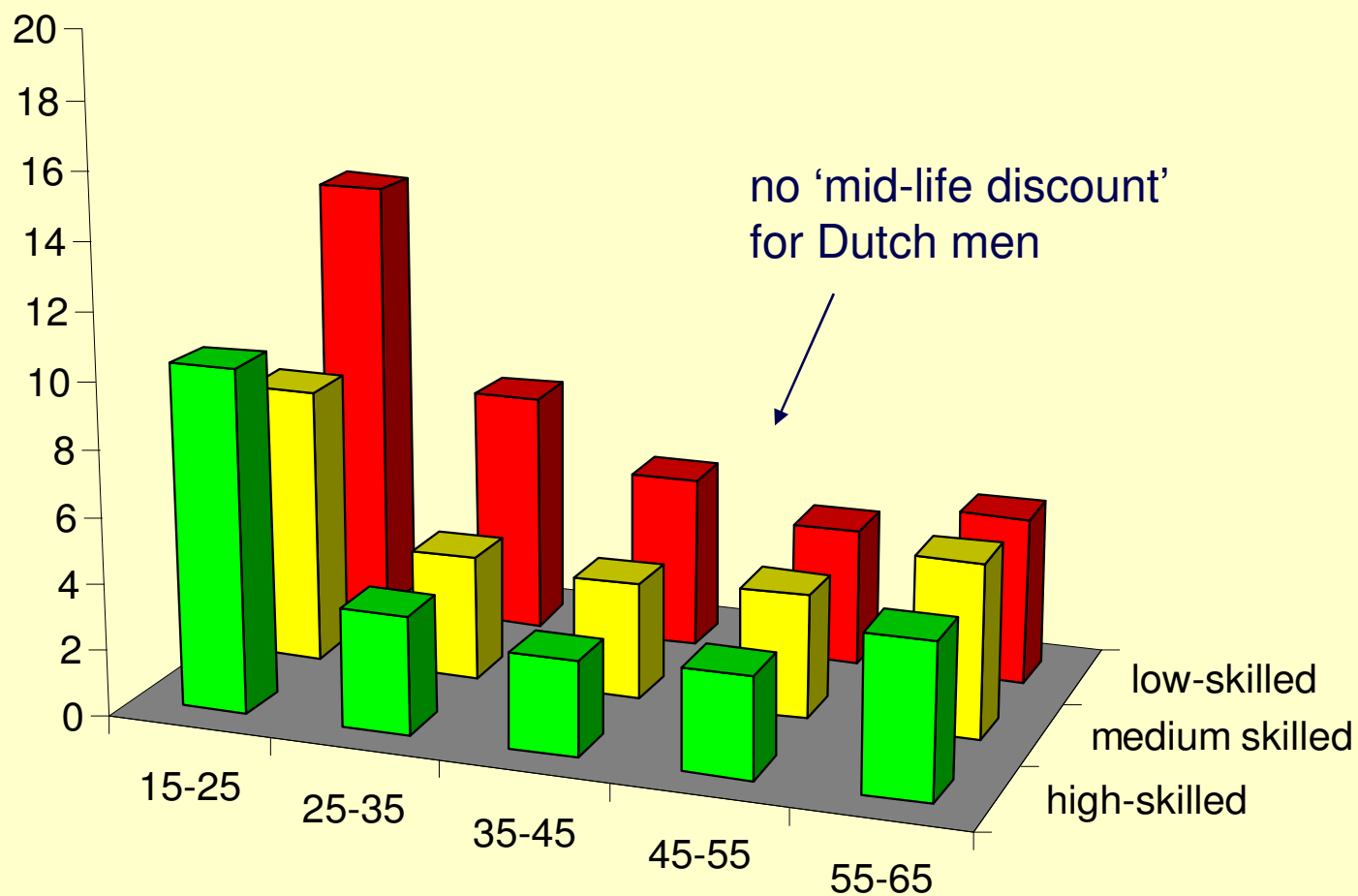
- Improve the link between the theoretical and empirical part
 - ▶ Backward indexing of benefits plays a big role in the empirical part is still absent from the model
 - ▶ The discontinuity in firing costs plays a big role in the theoretical part but receives little attention in the empirical part
 - ▶ Simulate a large number of lifecycles and see how the patterns for the flows and stocks compare to the data on lifecycles for workers 35+?

- Consider the robustness of the results
 - ▶ Uniform firing costs less problematic for older workers → depends also on wage relative to productivity by age?
 - ▶ What if firing costs depend on tenure not age?
 - ▶ Can you get a hump shape for employability with gradually rising firing costs?
 - ▶ Endogeneous wages (e.g. depressed hiring probabilities reduce wage claims older workers)

... continued

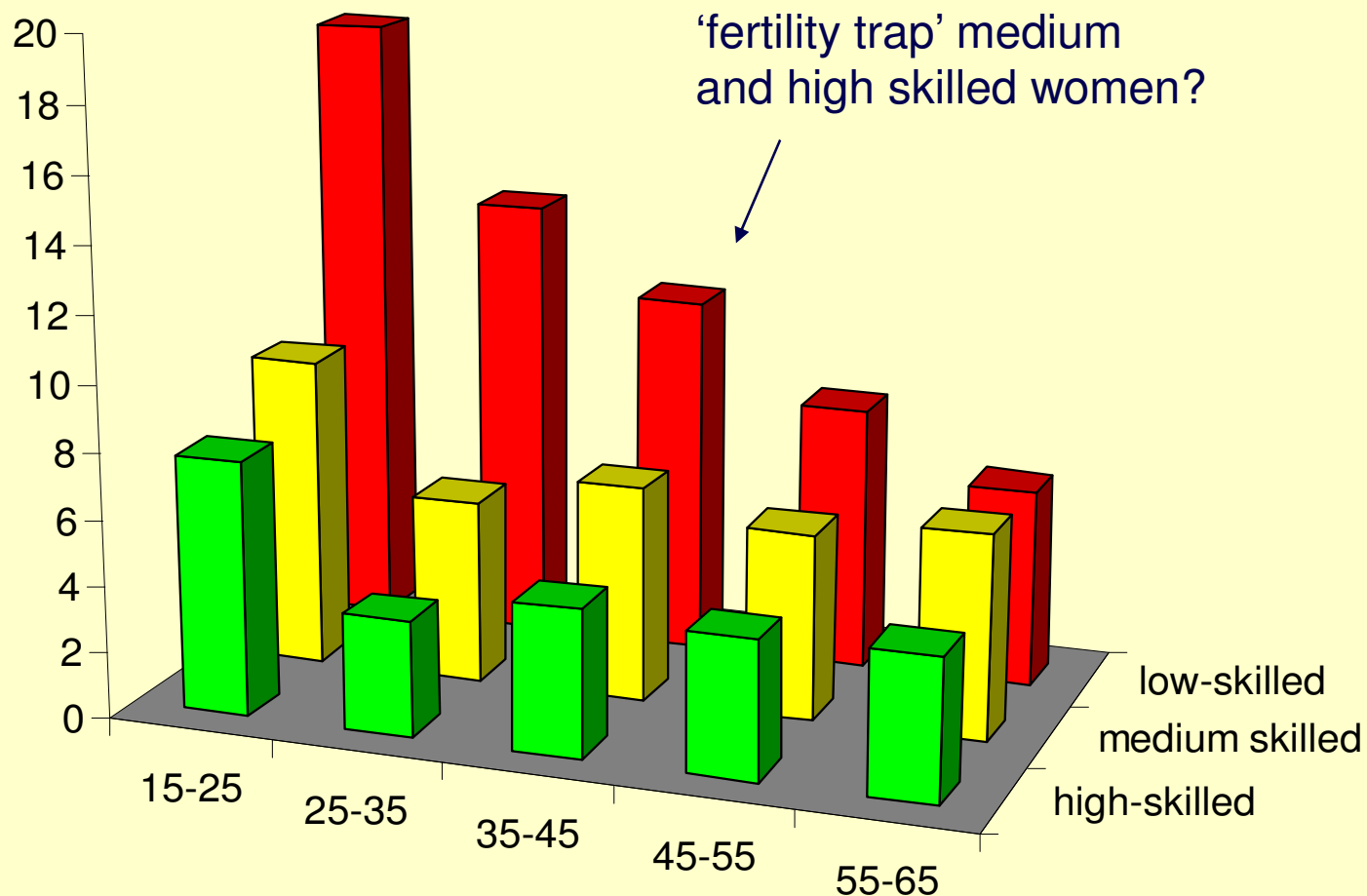
- One year of data, business cycle effects, labour market of the elderly perhaps less responsive to business cycle than labour market of the young
- Do the wage losses pick up lost rents or unobserved productivity differences between individuals fired and not fired?
 - ▶ Though perhaps not that problematic for age-wage loss story
- Perhaps try a wage loss-education interaction term, as an additional check on the rents story

Unemployment rate men by age-skill in the Netherlands



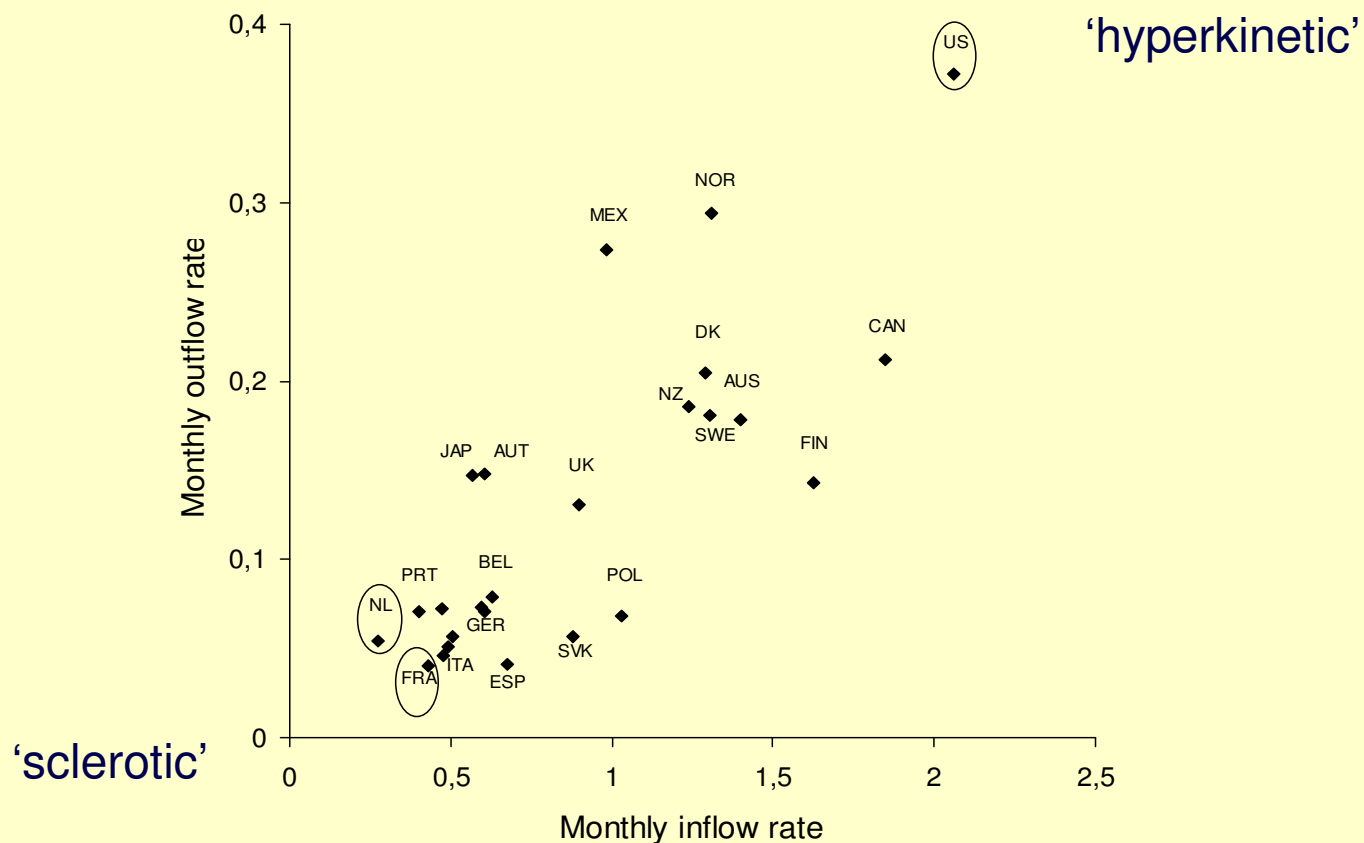
Source: Statistics Netherlands (average 2003-2007)

Unemployment rate women by age-skill in the Netherlands



Source: Statistics Netherlands (average 2003-2007)

France and the Netherlands, stagnant pools: flow rates in/out of unemployment 55-64



Source: own calculations using OECD data, average for 1990-2004, steady state assumption for the outflow rate (outflow rate = inflow rate / unemployment rate)

Policy issues

- From positive to normative analysis
 - ▶ Some papers look at optimal EPL
 - Blanchard and Tirole (2007), Fella (2007)
 - ▶ No paper looks at optimal EPL over the lifecycle
 - ▶ Empirically EPL rises with age/tenure
 - ▶ Is this efficient, or merely the result of rent seeking?

- The focus in the Dutch debate is on severance pay rather than procedures, is this misguided?
 - ▶ Severance pay typically neutral in theoretical models
 - ▶ Some empirical support (slide)
 - ▶ Netherlands '#1' in EU15 in terms of 'procedural inconveniences' related to dismissal

Empirical support for ('more') neutrality of severance pay*

	Overall OECD index	Severance pay
Employment rate	-1.81**	-.35
Participation rate	-1.83**	.29
Unempl. rate	.29	.19
Duration of unemployment	5.77***	3.40***

* Data for three periods (late 1980s, late 1990s and early 2000s), random country effects, control variables, ** (***) significantly different from zero at 5% (1%) level

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- Active debate in the Netherlands about shifting retirement age up → What would happen to hiring and firing by age when you shift the retirement age up but keep the firing cost schedule the same?