

Session 19

A Labour Market For All!

Towards Wide-Ranging, Inclusive, non Ideological, Evidence-Based Reforms

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Darwin is quoted as saying that the most successful species are not necessarily the strongest; what is key for their survival and growth is their ability to change and to adapt to an always-evolving environment.

Countries too can thrive in a fast changing economic context if they foster and nurture a policy system in which reform is a permanent state of mind. Critically, this engagement towards reform will typically entail a constant search for the best policies, the most efficient public services, the best alignment of private and social incentives, the fairest distribution of income.

As the most appropriate solutions to the goals above will inevitably change from time to time, a successful reform agenda will need to have an open mind rather than focus on ideological answers from the past, either those stemming from the left or the right. Such a reform agenda will necessarily have to pay close attention to the results of the choices and reforms undertaken in the country in the past or in neighbouring countries, ideally focusing on rigorous evidence from counterfactual or other high-quality analysis.

In the specific realm of employment policy reform, one important approach with great success in a number of European countries is based on the simple yet powerful perspective of insuring workers, not jobs.

This approach, commonly referred to as flexicurity, draws on a number of well-known policy levers: great flexibility for employers to hire and fire workers, generous unemployment benefits to those who (voluntarily or involuntarily) lose their jobs, and intense and effective activation policies.

Activation measures deserve particular attention, as they include a large number of specific provisions, namely thorough job search support and monitoring delivered by public employment services. Other related policies or programmes such as hiring incentives and early or lifelong training (ideally conducted in close partnerships with employers in growing sectors) are also relevant.

Decentralised or representative sectoral or national collective bargaining can also play an important role here, ensuring that working conditions such as entry wages can respond to business cycle fluctuations, thus minimising the rise in unemployment during downturns.

The above approach can simultaneously promote the reallocation of economic activity and employment across firms within and between industries –a critical avenue for the growth of productivity and living standards– while avoiding negative outcomes in which workers who lose their jobs or who cannot find a first job bear a disproportionate part of the cost of economic progress.

Recent labour market reforms in Southern Europe followed many of the principles above, given the relatively poor performance of the institutional models in those countries. Indeed, the institutional frameworks in countries such as Greece, Italy, Portugal and Spain were typically characterised by a combination of significant legal protection to permanent workers, considerable flexibility to non-permanent contracts, low or very unequal unemployment benefits, poorly developed unemployment activation practices, and centralised and unrepresentative collective bargaining. Compared to the flexicurity approach above, these Southern European models tend to promote relatively low

productivity, low salaries and inequality, including in the protection against economic shocks and exposure to unemployment.

The reforms implemented following the financial crisis of 2008 and the eurozone crisis that started in 2010 sought to address many of the bottlenecks above. Of course, this is a policy arena in which there are no one-size-fits-all solutions. It is critical to understand what are the specific dimensions where reform may be required in each country and time period and what are the specific decisions to be taken in those policy dimensions.

Focusing on the case of Portugal, a country hit severely by the Eurozone crisis, following a long period of deteriorating competitiveness and increasing macroeconomic imbalances, a number of legislative and operational changes were introduced and put into effect in 2011 and 2012. These reforms were designed taking into account international comparisons and the evidence available on the effects of these institutional dimensions on job creation and the erosion of inequality.

Amongst other measures, the legal protection of permanent jobs and severance pay in general was aligned towards the OECD average, collective bargaining was decentralised by introducing representativeness criteria in extensions, a hiring incentive directed towards the long term unemployed and coupled with firm-provided training was introduced, job search support and monitoring was increased significantly, unemployment benefits were extended in coverage and reduced in duration, the minimum wage was frozen and working time flexibility was increased, and apprenticeships were boosted.

Following the introduction of this large number of comprehensive reforms, several positive effects could be observed, most notably a steep decline in unemployment from over 17% to 13% between 2013 and 2014. Employment levels also increased, as well as the percentage of new jobs under permanent contracts, particularly when compared to previous periods of recovery. Soon after the economy started its recovery, largely driven by an increase in exports made possible by greater competitiveness. A number of reforms in other sectors, including product and housing markets and the justice system, also contributed towards these positive outcomes, despite the negative effects of a number of contemporaneous austerity measures (both cuts in public expenditure and increases in taxes). Moreover, recent micro econometric, counterfactual evidence of some of these reforms in Portugal is consistent with the intended effects of some of these reforms, including in the cases of collective bargaining decentralisation, job search support and monitoring and the hiring subsidy.

All in all, the experience of Portugal and other Southern European countries is clear evidence that a commitment towards wide-ranging, inclusive, non-ideological, evidence-based reform, including but not only in the specific area of employment policy, can deliver important social gains in terms of job creation and equality, particularly in a fast-changing economic environment that presents as many challenges as opportunities