

*Labour market institutions, reforms and outcomes:
the case of Portugal during the Eurozone crisis*

Pedro S. Martins

Queen Mary, University of London; CEG-IST; IZA

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Structure

- 1 Eurozone crisis context
- 2 Labour market reforms
- 3 Results
- 4 Final remarks and research areas

The Eurozone (periphery) imbalances

Euro emergence implied major change in economic regime:

- False sense of prosperity
- Loss in competitiveness (unit labour costs), especially compared to Germany
- Focus on non-tradables, more generous social transfers in some cases
- Current account deterioration

Challenges facing Southern European labour markets I

Cyclical aspects:

- Credit, deleveraging, austerity (taxation)
- Competitiveness, economic restructuring (into tradables), low inflation
- Confidence, fall in consumption

Challenges facing Southern European labour markets II

Structural aspects:

- Downward nominal wage rigidity
- Highly centralised and unrepresentative collective bargaining
- Segmentation (dualism, trialism)

Specific labour market institutions are not 'bad' per se - unlike extreme cases

Employment Policy Priorities: the case of Portugal

Flexicurity and ULC orientation:

- Labour law and collective bargaining
- ALMPs
- Training
- *Unemployment benefits*

Reform package designed with IMF and EU, implemented in 18 months between 2011:q3 and 2012:q4; also other structural reforms (justice, housing, licensing, etc)

1. Labour law reforms I

- Objective individual dismissals widening (*extinction of work position* and unsuitability)
- Extension of maximum duration of fixed-term contracts (x2)
- Collective bargaining decentralisation: extension freeze and representativeness criteria
- Port labour flexibility
- *Deregulation of protected jobs* - professional bodies

1. Labour law reforms II

- Severance payments cuts and redesign
- Minimum wage freeze
- Cuts in bank holidays and assiduity-related additional holidays
- Lower overtime pay and greater flexibility ('bank of hours')
- Widening of short working-time schemes

2. ALMPs reforms

- Wage subsidy (ESF-supported)
- Youth-specific measures: Traineeships, Social Security cuts
- PES reform programme (8 pillars)
 - Greater activation (job search monitoring, assistance and short training), new ALMPs, vacancy and placement targets, greater cooperation with stakeholders (employer associations, temporary work agencies), restructured jobcentres and IT network, evaluation
- Pilot projects:
 - UB partial payment upon acceptance of low-wage job offers
 - Algarve-specific conversion/training programme
 - Forest-specific workfare programme
 - Management training for unemployed graduates
 - Extended workfare for local councils

3. Training reforms

- Widened and refocused offer of LLL (short training)
 - Refocus on short-term professional training courses (in detriment of literacy certification)
 - European Social Fund support critical
- Revamping apprenticeships
 - 50% increase in entry cohort
 - Focus on tradable sector qualifications
 - Greater synchrony with school year
 - Partnerships with employer associations and leading firms (including large SOEs)
- DDM studies based on matched PES-SS data (ALMPs, training and literacy certification)

4. *Social Security* reforms

- Widened access to UB (including service providers)
 - No adjustment to replacement ratios nor sanctions
- Lower UB ceiling
- Shorter maximum duration (but considerable *grandfathering*)
- UB cut after six months
- More generous social UBs

Much scope for misunderstandings

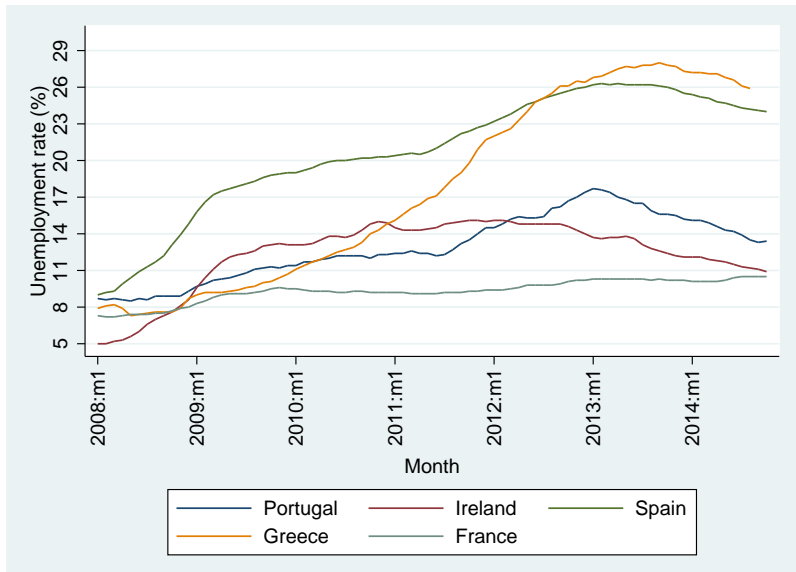


Main results

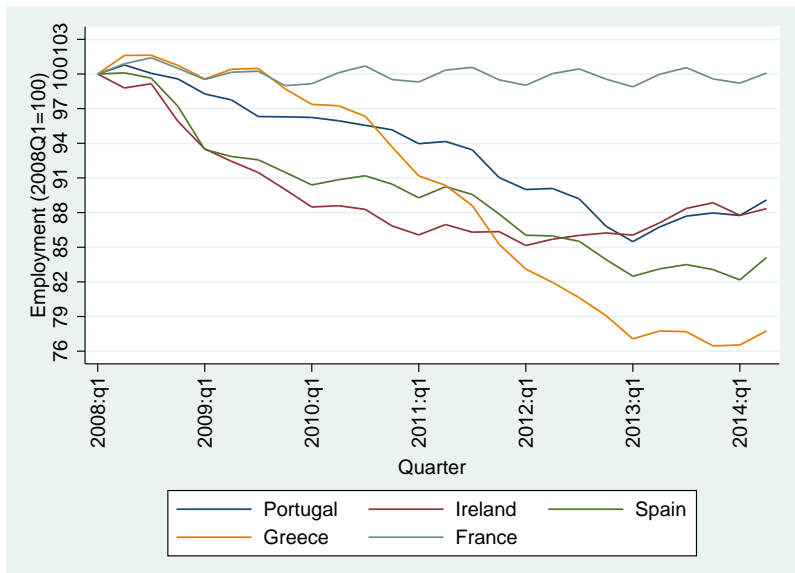
Several positive results so far (despite many on-going challenges):

- Fall in overall UR (17.5 to 13.1) and youth UR (42.5 to 32.2) from trough (2013:q1) to 2014:q3
 - 5% growth in employment over same period (particularly permanent contracts)
 - Overshooting wrt Okun's law predictions
 - Developments very favourable compared to Spain (or Greece)

Unemployment rates, selected countries



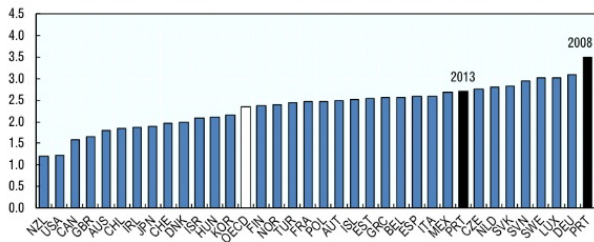
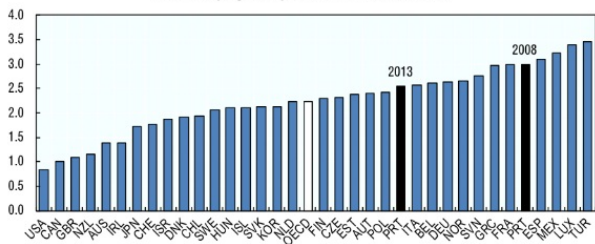
Employment indices, selected countries



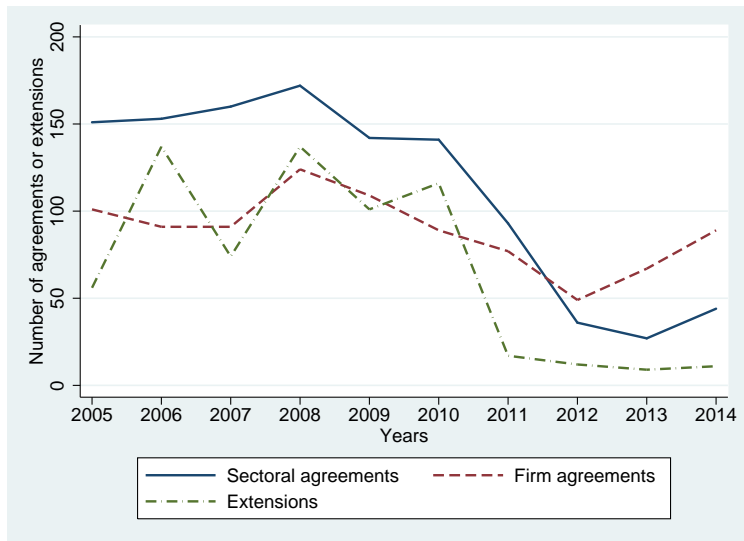
Main results II

- Convergence in OECD EPL (permanent contracts) indicator
- End of virtually automatic extension of collective agreements
- Decentralisation of collective bargaining
- Firm performance effects: reduction in failures, increase in new firms, increase in exports and international competitiveness
 - Exports share of GDP increase from 29% to 42% of GDP between 2009 and 2014
 - Widespread gains in market shares
 - First current account surplus since 1995

OECD EPL indicator

Protection of permanent workers against individual and collective dismissals¹OECD employment protection overall indicator²

Published collective agreements



Employment equation

$$Employment_{it} = \beta Extension_{it} + \alpha_i + \gamma_t + e_{it}, \quad (1)$$

- $Employment_{it}$: log employment of sector i in month t
- $Extension_{it}$: dummy equal to 1 if extension issued in month $t - 1$ to $t - 4$
- α_i : (5-digit) sector fixed effect
- γ_t : month fixed effect (e.g. Jan 2008, Mar 2011)
 - Robust standard errors
 - Significance levels: *:0.1 **:0.05 ***:0.01
- Other LHS variables: Hirings, Separations, Service providers, Wagebill, etc
- Identification from scattered timing of collective bargaining and extension

Main results - Employment

	(1)	(2)	(3)	(4)
	Workers	Hirings	Separations	ServiceProviders
Four months post ext.	-.020 (.004)***	-.041 (.013)***	-.014 (.012)	.014 (.003)***
Obs.	83358	60179	62457	67911
R^2	.988	.887	.907	.983

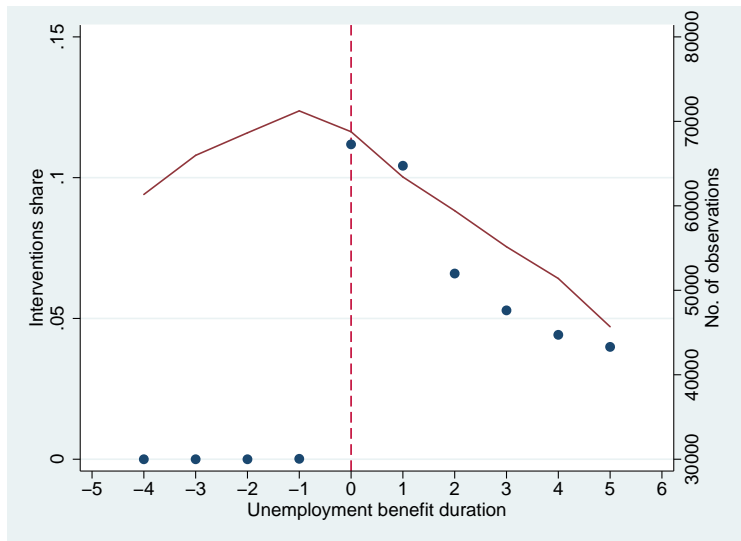
Main results - Wages

	(1)	(2)	(3)	(4)
	Wagebill	WagebillSP	TotalWagebill	AvgWage
Four months post ext.	-.022 (.005)***	.011 (.005)**	-.020 (.005)***	-.002 (.003)
Obs.	83358	67911	83896	83358
R^2	.984	.975	.984	.875

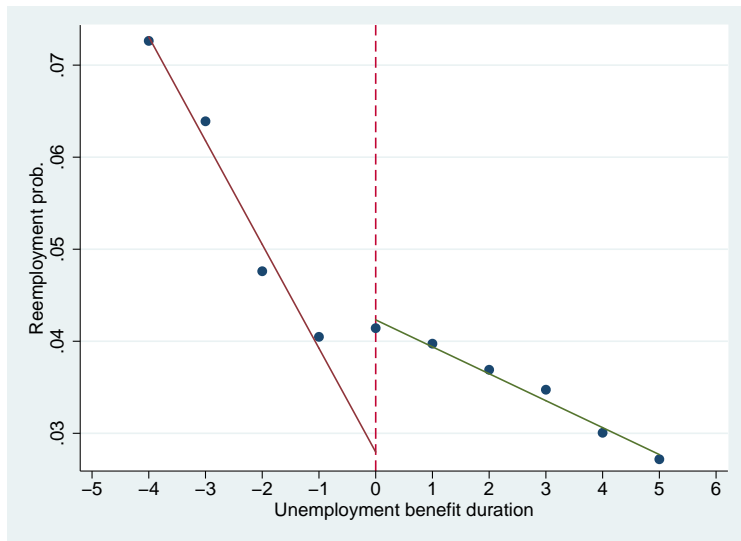
Main results III

- 'Activation of the activators': large increases in PES jobsearch monitoring, vacancies, placements and training attendance
 - Monthly summons increase by more than 50% (41k/month in 2011, 71k in 2013)
 - CIE results: doubling of transition probability from (UB) unemployment to employment, no substitution effects
 - Training participants also increase steeply (344k in 2011, 467k in 2013)

Probability of treatment and number of observations



Discontinuity in the reemployment probability



'Fuzzy' RDD

$$Y_{it} = \alpha + \beta D_{it} + S(\tilde{Z}_{it}) + \delta X_{it} + \epsilon_{it} \quad (2)$$

- \tilde{Z}_{it} is (centered) forcing variable for individual i in month t , D_{it} is treatment dummy, E_{it} is eligibility dummy, Y_{it} is reemployment dummy, X_{it} are covariates, $S(\tilde{Z}_{it})$ is polynomial function of forcing variable
- For capacity reasons, *Convocatórias* was implemented gradually, setting up a fuzzy design (eligibility instruments D_{it})
- Next: solid lines are predicted values from regression of reemployment on forcing variable, estimated separately on each threshold side

Different specifications, different dependent variables

Polynomial function	Reemploy'm't probability	Treatment effect on:		Income level	1st stage results - eligibility effect
		Transitions... out of unemploy'm't	to non-subsidy unemploy'm't		
Linear	0.021*** (0.007)	0.023*** (0.008)	0.003 (0.004)	0.007 (0.022)	0.130*** (0.001)
Quadratic	0.083*** (0.009)	0.080*** (0.010)	-0.003 (0.004)	-0.011 (0.026)	0.114*** (0.001)
Cubic	0.040*** (0.009)	0.047*** (0.010)	0.008** (0.004)	0.017 (0.028)	0.133*** (0.001)
Linear spline	0.041*** (0.009)	0.041*** (0.009)	0.000 (0.004)	0.002 (0.023)	0.106*** (0.001)
Quadratic spline	0.097** (0.040)	0.099** (0.041)	0.002 (0.012)	0.237** (0.109)	0.110*** (0.001)
Outcome mean	0.044	0.062	0.017	0.010	-
Obs.	611,061	611,061	611,061	600,412	611,061

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

European Commission, November 2014

Portugal enacted a number of labour market reforms between 2011 and 2013. The protection of workers under permanent and fixed-term contracts was aligned. Working time legislation was made more flexible, and measures were taken to better adapt wages to productivity at the firm level. Unemployment benefits were reformed and eligibility was extended. The Public Employment Service was reformed, existing Active Labour Market Policies were reviewed and new programmes introduced, including targeted to the youth. The unemployment rate declined by about 2 percentage points between 2013 and 2014.

(‘Box 3. Examples of effective structural reforms in the Member States’, Joint Growth Report)

General ideas I

- Labour reforms can have important effects in improving labour outcomes, even in difficult economic circumstances, particularly in EMU
- Aligning EPL between permanent and fixed term contracts is probably better than introducing single contract
 - Segmentation between labour contracts and false service provision may be more important than permanent/fixed term gap
 - Personnel economics research: service provision, working hours flexibility, international trade impact, interplay with UBs, etc

General ideas II

- *Social dialogue* needs to be regarded critically and exposed as unrepresentative when that is the case
 - Conditionality as only way of eroding unrepresentative interests (and in some cases not enough)?
 - But ownership important for reform sustainability
 - Industrial relations, personnel economics research: scope for PRP under high base wages, importance of diversity in personnel practices, composition and role of employer associations, etc
- *Potential of PES* (and its reforms) generally under-appreciated, especially when UB generous
 - Research: impact upon firms, incentives for caseworkers (public-sector HRM), training quality, apprenticeships in Southern Europe, ESF evaluations, new matched data including training

Extra slides

References

- Jaeger, A. 'Portugal's economic crisis: genesis, response, and prospects', 2014
- Martins, P. and Pessoa e Costa, S. 'Reemployment and Substitution Effects from Increased Activation: Evidence from Times of Crisis', IZA DP 8600, 2014
- Martins, P., '30,000 Minimum Wages: The Economic Effects of Collective Bargaining Extensions', IZA DP 8540, 2014

Timeline - 2011

- From early 2000: major macro imbalances prompted by euro membership, low productivity growth
- May 2011: approval of €78bn PT-Troika MoU, including structural reforms conditionality
- June: elections and new coalition government
- July: first law bill in parliament (lower severance pay for new contracts)
- Oct: extension of working time proposal
- Nov: general strike I

Timeline - 2012

- Jan: extension of FTC in force; tripartite agreement (with all four E'r and one (smaller) E'e confederations)
- Feb: new ALMP (targetted wage subsidy)
- Mar: main labour law reform in parliament (in force since Aug); PES reform plan; general strike II
- Apr: UB reforms in force
- July: youth unemployment programme rolled out
- Sept: proposal for employer payroll tax cut
- Nov: collective bargaining extension criteria in force; general strike III

Timeline - 2013

- Jan: framework law for regulated professions in force; port labour law in force
- Mar-: adjustments to ALMPs
- June: general strike IV
- Sept: constitutional court ruling on Aug 2012 labour law reform
- Oct: new wide ALMP in force (1% of salaries of all new contracts); second extension of FTC