



Ministerie van Sociale Zaken en
Werkgelegenheid

Discussion “Two tier labor markets”

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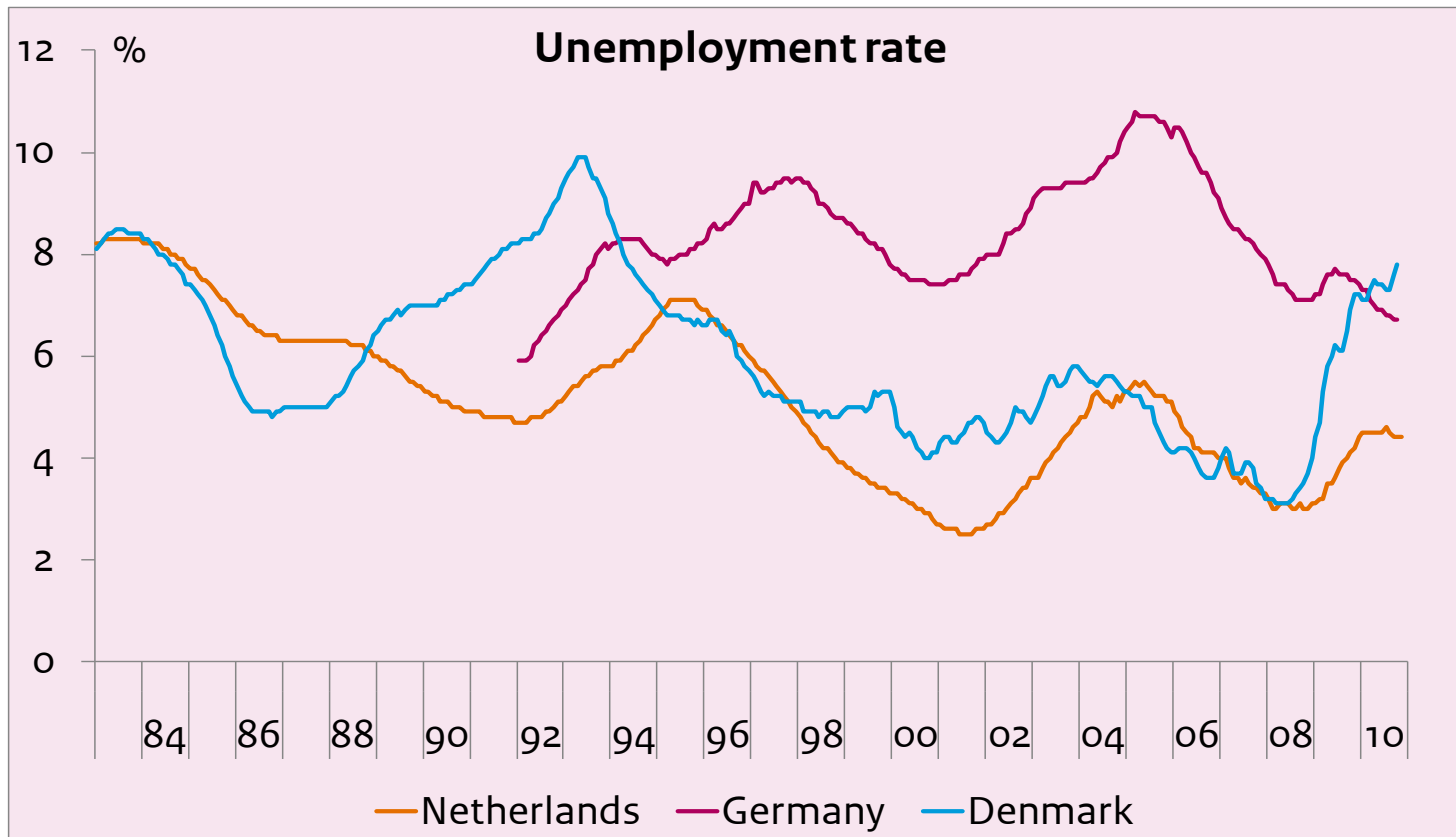


Bentolila's message is welcome, but three questions

1. Do results generalize?
2. The nature of shocks?
3. Performance over the cycle?

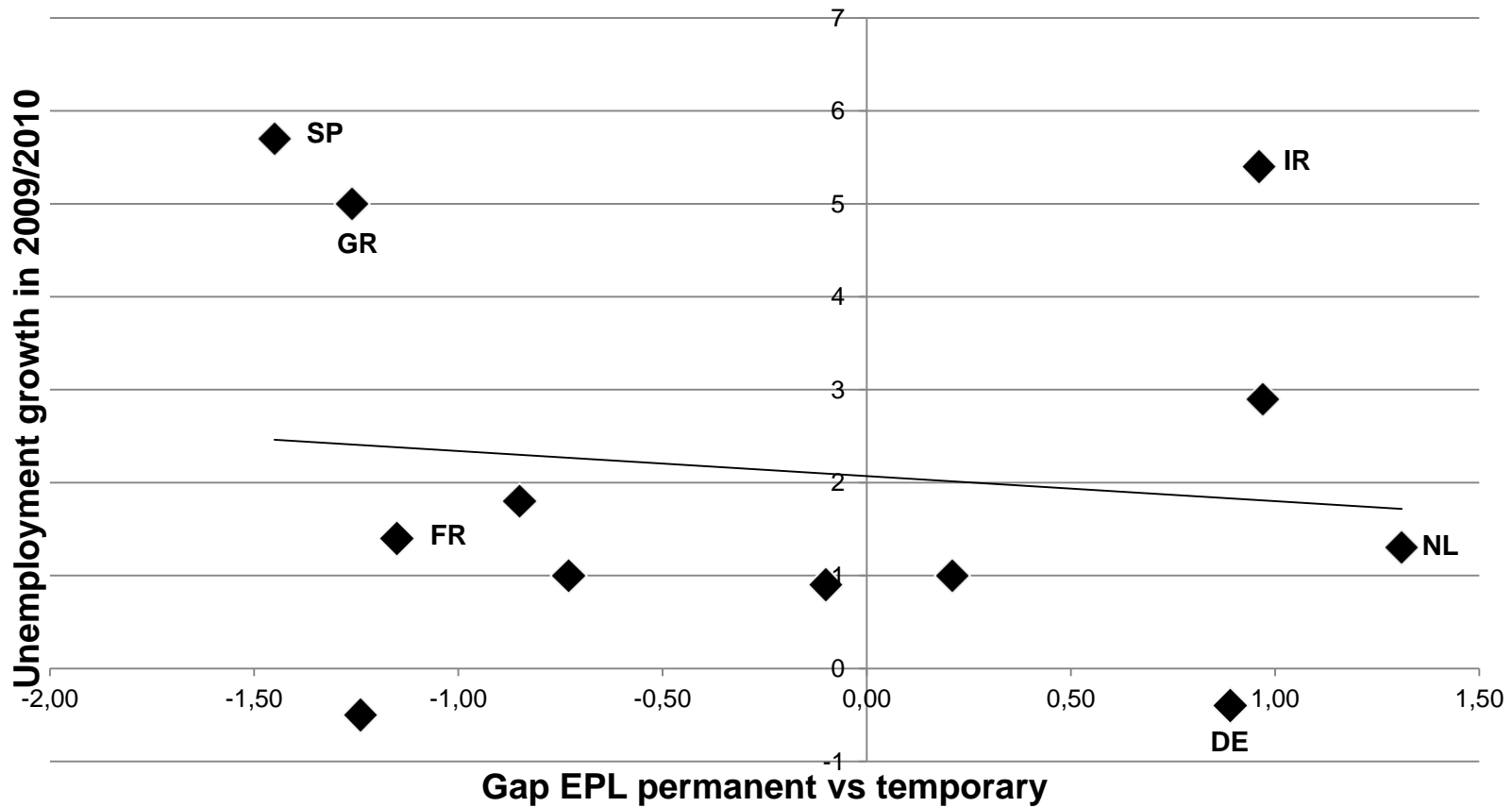


1. Do results generalize ? Netherlands and Denmark



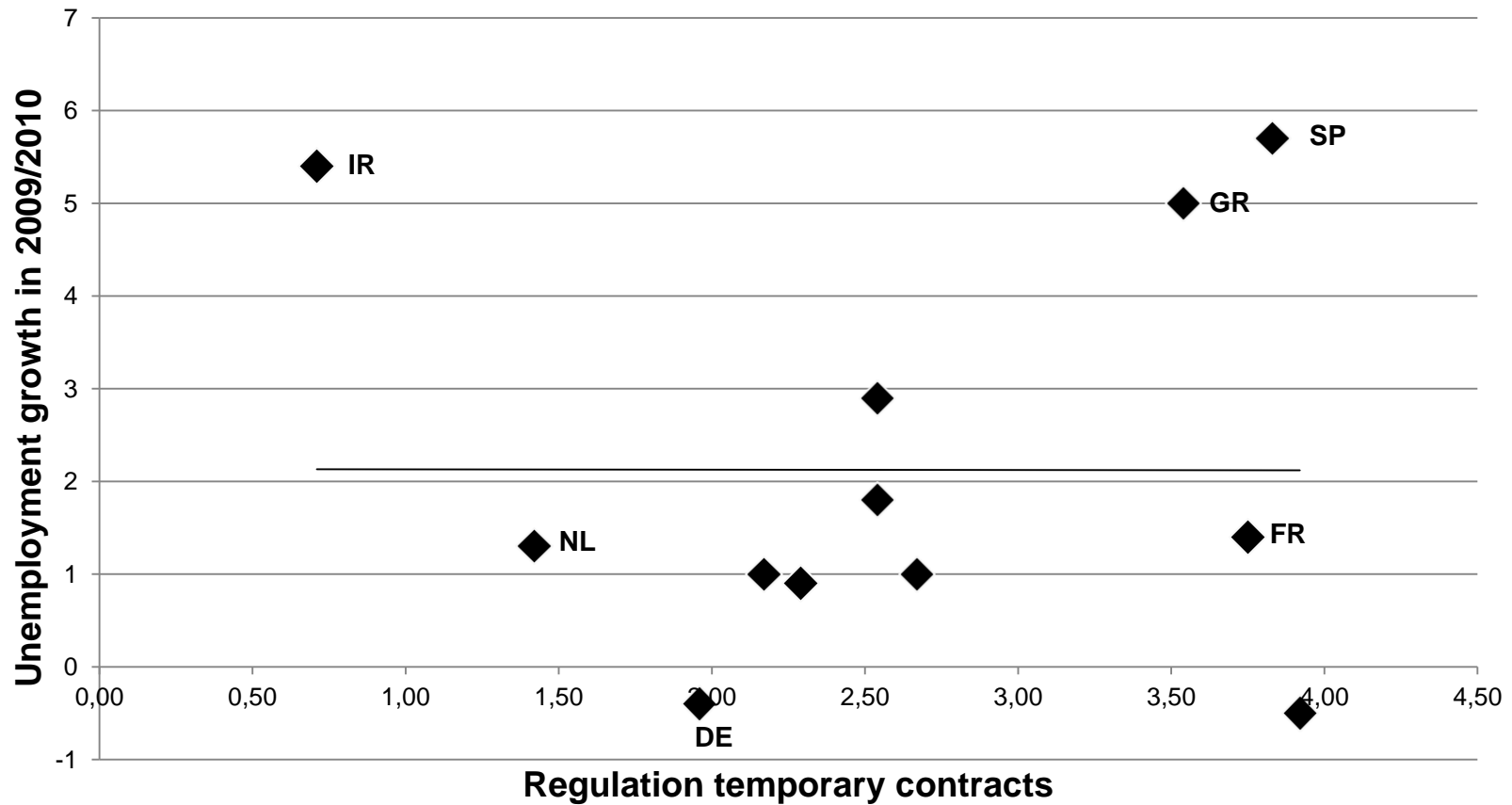


EPL-Gap (OECD) vs unemployment reaction





EPL temporary vs unemployment reaction





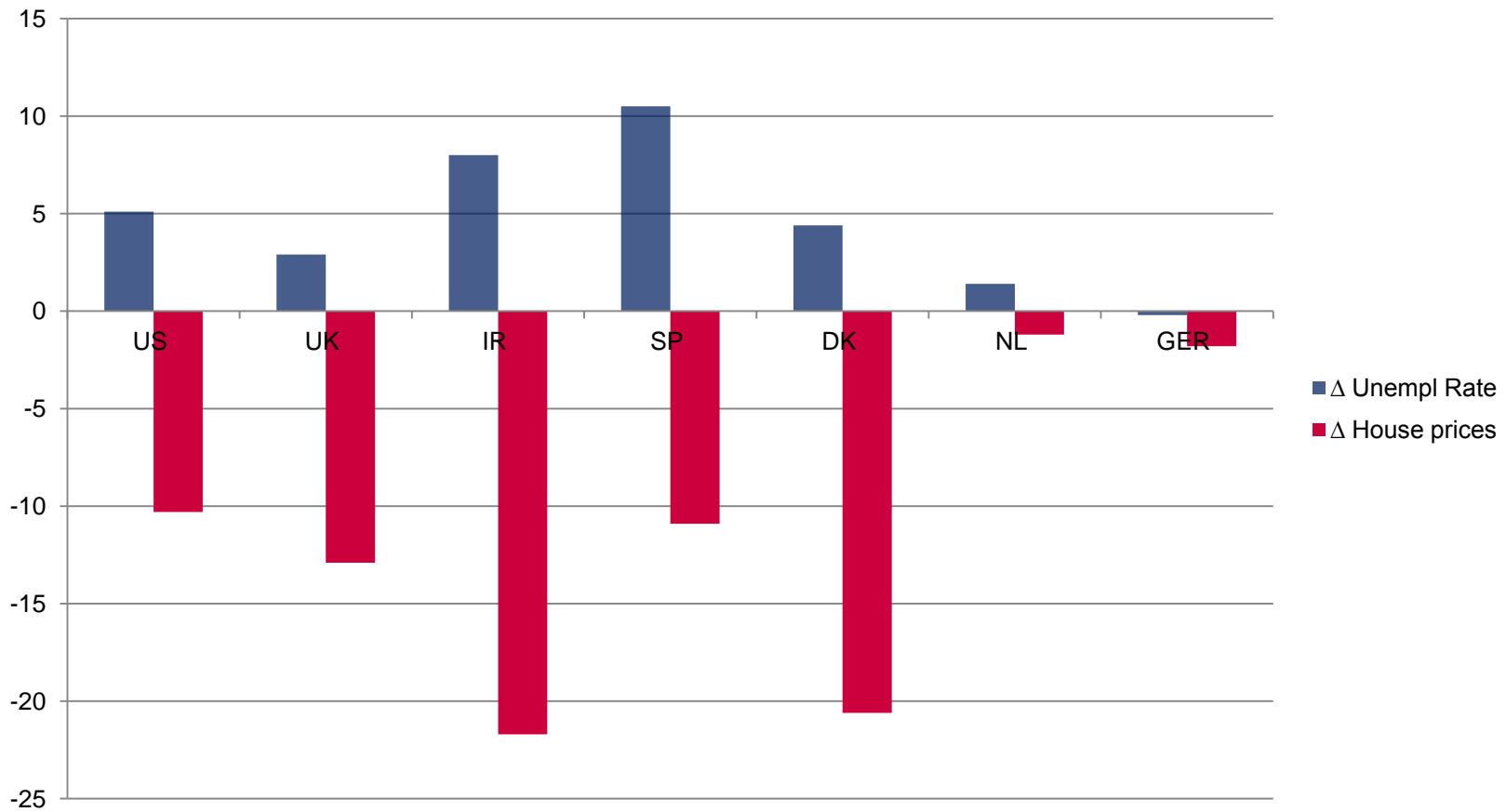
2. The nature of shocks?

Strongest unemployment reaction in 2009-2010:

- Spain: +5,7% (housing market)
- Ireland: +5,4% (housing market, banks)
- Greece: +5% (government finances)



Nature of shocks (cont'd)





Nature of shocks (cont'd)

(a) symmetry and expected persistence of shock important determinants of unemployment reaction:

- They influence the size of balance sheet readjustment...
- ...and the need for reallocation of labour

So the missing question is: what sort of shock do we see and consequently what sort of unemployment reaction is called for?



3. Performance over the cycle

We know that flexible markets can be hit severely, but they usually recover quickly, too.

Judgement should be based on performance over the cycle

- Involuntary labor hoarding vs unemployment
- V-shaped vs U-shaped

Flexible temporary contracts helps recovery:

- Employers create more jobs
- Stepping stone to permanent contracts



Conclusion

Agree with underlying messages

i. Flexibility should not exclusively come from temporary contracts...

ii. And EPL for permanent contracts should be lower..
...in order to reduce gap permanent/temporary
...and reduce insider/outsider problems

...but resilience during crisis does not constitute a convincing argument (yet?)