

The Political Economy of Ageing Labour Markets

Amílcar Moreira
Institute of Ageing / Institute of Social Sciences
amilcar.moreira@ics.ul.pt

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Clarifying the topic

- ❑ **Traité de l'économie politique, Antoine de Montchrétien (1615)**
- ❑ **In its earliest stage it referred to studies about the creation of wealth by nation-states (Adam Smith, David Ricardo, Karl Marx)**
- ❑ **Currently it identifies studies that focus on:**
 - ❑ **How economic policies are adopted (Downs, 1957)**
 - ❑ **Impact of political institutions on economic outcomes (Roubini, 1990)**
 - ❑ **Origins and change of political institutions (Esping-Andersen, 1990; Pierson, 2000)**
- ❑ **Purpose of the Lecture:**
 - ❑ **To understand how demographic ageing might impact on the nature and shape of labour market institutions, i.e on how labour markets are regulated**

Why is this relevant?

- ❑ **Debate on the impact of demographic ageing on nature and extent of the Welfare-State**
- ❑ **This debate has overly focused on the distributive function of the Welfare-State**
 - ❑ **Distributive function – Promoting equality (Education, Health, Pensions)**
 - ❑ **Productive function – Regulating relation between capital and labour in the production of wealth**
 - ❑ **How much workers get (minimum wage regulations; wage-setting systems)**
 - ❑ **How secure they are in their jobs (employment protection legislation)**
 - ❑ **How much protection do they get when out of work (unemployment benefits, active labour market polices)**
- ❑ **This later function is important, as the way we regulate our labour markets impacts on our economic performance (see Nickell and Layard 1999)**

The political economy of ageing labour markets

□ Structure of the lecture

□ Main standpoints on political economy of labour markets

- Power-Resources Theory
- Asset-Based Theory of Preferences / Varieties of Capitalism Approach
- Insider/Outsider Model

□ Elements of a political economy of ageing labour markets

- How will demographic ageing impact on the distribution of labour market risks?
 - Looking at employers hiring/firing decisions
 - Taking a broader view
- What are the age-based trade-offs associated to labour market institutions?
 - Wage-setting systems
 - Employment protection legislation
- How will age impact on actor's preferences for labour market regulation? Some theoretical and empirical notes

□ Summing-up & research agenda for the future

Political Economy of Labour Markets

□ Power-Resource Theory

□ Departs on two key assumptions about market-based societies

- Preference for social protection reflect the class-based nature of how life-course risks are distributed

- Workers, as they are more exposed to life-course risks would like to insure against these risks

- Employers will oppose any kind of redistribution

- The end result of distributive conflicts is the product of the balance of 'power resources' held by actors

□ In capitalist societies there is an imbalance in the 'power resources' owned by employers (capital, means of production) and labour (human capital)

- Labour then tries to organise into trade unions, and left-wing parties to, counteract this imbalance

- Universal suffrage, social citizenship policies , Neo-Corporatist institutions to regulate working conditions

□ Welfare development depends on the strength of labour movement and on hold of left-wing parties over government

Political Economy of Labour Markets

- ❑ Asset Theory of Social Policy Preferences / Varieties of Capitalism Approach
- ❑ Iversen and Soskice (2001)
 - ❑ Preferences for redistribution do not reflect class, but nature of skills
 - ❑ General skills - Skills that are portable across all firms
 - ❑ Asset-Specific skills - skills are valuable only to a single firm or a group of firms (whether an industry or a sector)
 - ❑ Workers depending on specific skills are more exposed to labour market risks, and therefore more supportive of policies that protect them against those risks
- ❑ Hall and Gingerich (2001)
 - ❑ Firms are key in shaping model of labour market regulation
 - ❑ They are interested in protecting workers investments in specific skills
 - ❑ Two types of capitalist regimes
 - ❑ Liberal Market Economies
 - ❑ Production based on general skills
 - ❑ Market regulates employment relations
 - ❑ Coordinated Market Economies
 - ❑ Production based on specific skills
 - ❑ Unemployment insurance, employment protection and coordinated wage-bargaining

Political Economy of Labour Markets

❑ Insider/Outsider Model (Rueda, 2005)

❑ Labour is divided between insiders and outsiders

- ❑ Insiders - Less exposed to labour market risks (permanent contracts, voluntary part-time or fixed-term)
- ❑ Outsiders - More exposed to labour market risks (unemployed, involuntary part-time or fixed-term, students)
- ❑ Employment security explains the distribution of labour market risks

❑ This changes the distribution of preferences for labour market regulation...

- ❑ Insiders – Oppose UB and ALMP (tax burden, low wage competition). strongly in favour of employment protection
- ❑ Outsiders – More supportive of UB and ALMP. Less supportive of employment protection (easier entry in the labour market)
- ❑ Up-Scalers – Oppose UB and ALMP (tax burden, fear of regulation) and employment protection (reduces flexibility and economic performance of firms)

❑ ... And how political parties position themselves

- ❑ Social Democratic – Have insiders as core constituency. Less able to follow policies to support outsiders.
- ❑ Conservative parties - Have up-scalers as core constituency. But are able to follow policies for outsiders, namely lower employment protection.

Political Economy of Labour Markets

□ What we have discussed so far:

- There is a number of key institutions in regulating the functioning of the labour market

 - Wage-Setting Systems; Employment Protection Legislation; Unemployment benefits; Active Labour Market Policies

- These institutions imply a redistribution of gains and costs across social groups

- Individuals' preferences with regards to these institutions reflect their exposure to labour market risks, which in turn might reflect one's

 - Socio-economic class

 - Skills

 - The level of employment security

□ The political economy of ageing labour markets*

- How will demographic ageing reshape the distribution of labour market risks?

- What are the age-based trade-offs associated to labour market institutions?

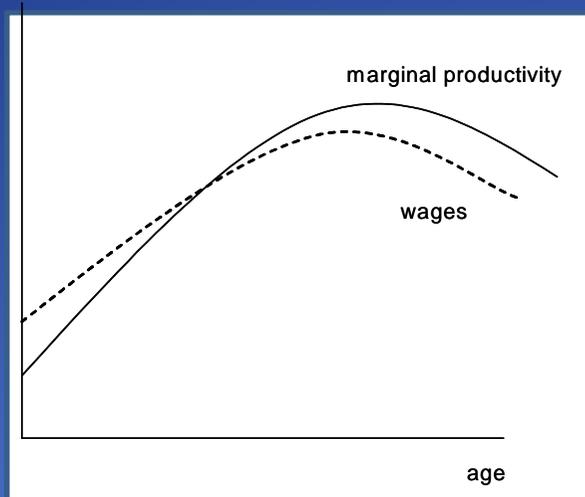
- How will the distribution of preferences change by reference to this?

* For this lecture we will not discuss how demographic ageing impacts on preferences of capital/employers, and on the strategies of political parties and trade unions.

How will demographic ageing reshape the distribution of labour market risks?

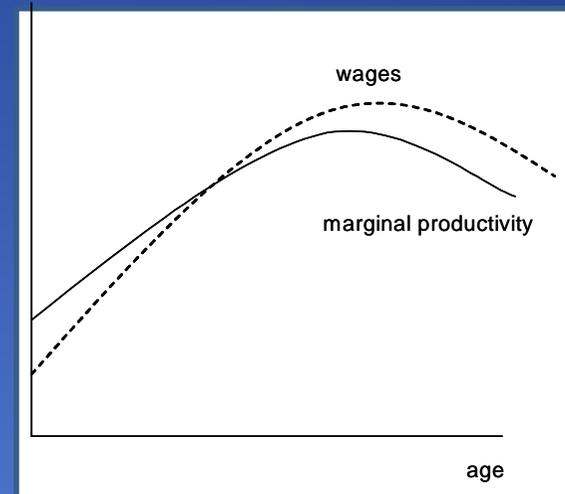
- Looking at employers hiring/firing decisions

Human capital theories



Becker, 1971; Hutchens, 1988

Delayed Compensation Contracts



Lazear, 1979

- No clear incentive for firing older workers
- No incentive to hire older workers / Incentive to offer lower wages to older workers.
- Transfers between age-groups in firms

How will demographic ageing impact on the distribution of labour market risks?

□ Taking a broader view

□ Generation crowding models (Mosca, 2009)

- These theories look at whether the size of one's cohort has repercussions on the level and shape of one's earnings and employment opportunities

- Three key assumptions:

- Workers of different cohorts are different factors of production, as compared to the more homogeneous factor capital;

- Workers of different ages are imperfect substitutes in production, especially in high skilled occupations.

- increase in the supply of an input, its price and utilization rate will decline

- Demographic ageing will mean that the older cohort will become more abundant, which can mean lower wages or higher unemployment (or lower employment rates)

- The type of impact on older workers will depend on degree of substitutivity between younger and older workers and the level of regulation in the labour market

- No regulation – adjustment is done through the increase of wages of younger cohort

- Labour market regulation – adjustment made through higher unemployment/lower employment of older generation.

What are the age-based trade-offs associated to labour market institutions?

□ Wage-Setting Systems

- Aubert (2005) - Reports a negative correlation between the employment share of older workers and their wages relative to younger workers. A similar negative correlation exists for hiring, except in the case of highly qualified workers.
- OECD (2006) - Employers are more likely to hire and retain older (male) workers in countries where wages rise less steeply with age

□ Employment Protection Legislation

- Bassanini and Duval (2006) - Positive relation between the level of employment protection legislation and the employment rate of workers aged 55 to 64, in OECD countries
- OECD (2006) - Negative relation between employment protection and the hiring rate of men aged 50 to 64
- Behagel, Crepon and Sedillot (2008) found that a higher tax penalty on the laying-off of older workers reduces the probability of being fired for male older workers
- Krugler, Jimeno and Hernanz (2002)- Reduction of dismissal costs approved in 1997 increased the probability of making the transition from permanent employment to unemployment – which practically cancels out any increases in hirings (2002: 19-21).

How does age impact on actor's preferences for labour market regulation?

- Age emerges as an important variable in the formation of social cleavages around the regulation of the labour market

- Young workers vs. older workers

- Conflict over level of employment protection

- Conflict over pay-system (productivity based vs. seniority based)

- Active vs. Retired

- Conflict over level of protection to be given to the unemployed

- Conflict over the level of investment in ALMP

- Understanding the role of age in the formation of preferences

- Age vs. Skills vs. Income/Class

- Economic-Life Cycle vs. Demographic Life-Cycle (Wilkozewski, 2009)

- Self-Interest vs. Dynastic altruism vs. Societal Altruism

- Cohort effects

How does age impact on actor's preferences for labour market regulation?

□ Example: age-based support for cuts in unemployment benefits

- Bonoli and Häuserman (2009) - People over 65 are more likely to support a reduction of unemployment protection than those aged 18 to 39 (Voting behavior in referendums)
- Bursemeier et al (2009) Age effects are generally low (except in Sweden and Norway, Japan and the USA)
- Fraile and Ferrer (2005) - support for cuts in the level of unemployment benefits spending actually decreases with age
- Blekesaume and Quadagno (2003) - Positive relation between age and support for welfare policies towards the unemployed

Summing up

- ❑ There is a number of key institutions in regulating the functioning of the labour market (Wage-Setting Systems; Employment Protection Legislation; Unemployment Benefits; Active Labour Market Policies)
 - ❑ These institutions imply a redistribution of gains and costs across social groups
 - ❑ Individuals' preferences with regards these institutions reflect their exposure to labour market risks, which in turn might reflect their socio-economic class, skills or employment security
 - ❑ Demographic ageing impact on the distribution of labour market risks, with older workers being more exposed to unemployment/ inactivity, lower hiring opportunities and the prospect of lower wages upon recruitment.
 - ❑ Certain labour market institutions (wage-setting systems, employment protection legislation) imply a redistribution of gains and costs between age-groups
 - ❑ We can expect that that age will play a more important role in the formation of preferences for labour market regulation...
- ... But we need to have a comprehensive approach to the role of age in the formation of policy-preferences

A research agenda for the future

- ❑ In order to understand how demographic ageing will shape the political economy of labour markets, we need to look at:
 - ❑ How age and skills interact in the way labour market risks are distributed?
 - ❑ How age will shape individuals' preferences for labour market regulation?
 - ❑ How will trade unions adapt to changes in preferences and possible age-based conflicts within the labour force?
 - ❑ How will employers adapt to changing preferences in the labour force? What kind of cross-class alliances can they engender?
 - ❑ How will political parties position themselves in the face of a change in the distribution of preferences in society?

Thank you for your attention!!!

And I hope you've enjoyed it! 😊