

Employment stability or flexibility: Which is best for economy?

A recent article in the ILO's International Labour Review analyzes the relationship between employment stability and productivity in six major sectors in 13 European countries. According to the authors, both, extensive and short job tenure can produce adverse affects on productivity. They propose a policy of "protected mobility" on the labour market, together with active labour market policies seeking to combine both flexibility and security. ILO online spoke with Peter Auer, co-author of the article.

Q: Has employment become more flexible in Europe?

A: Despite a general feeling of growing job insecurity, employment stability remains a salient feature of contemporary labour markets. In 2002, the average German worker stayed with the same employer for 10.7 years, the average French worker for 11.3 years, the average British worker for 8.1 years, and the average American worker for 6.6 years (1998 data). The country with the longest tenure is Greece, where the average worker stayed with the same employer for 13.2 years, followed by Japan with 12.2 years and Italy with 12.1 years. Overall in Europe, tenure averaged around 10.5 years during the period 1992-2002, with a slightly increasing trend. There has been no dramatic change in employment duration, the long-term employment relationship has not disappeared, and there has been no convergence towards the US model of markedly shorter average employment duration. Nevertheless there is also an increase in flexible forms of employment, especially part-time jobs. But many of these part-time jobs are in fact long-tenured jobs, as part-time work is increasingly becoming a regular form of employment in today's economies, though it concerns women more than men. The salient observation is that employment relations are still rather stable, while flexibility has increased at the margin.

Q: Does stability pay for companies?

A: It is quite remarkable that the average duration of employment is still fairly stable after two decades of intense discussion and advocacy of flexibility. It may indeed be that both employers and workers have an interest in stable employment relationships. The interest of firms could well be productivity.

Q: Is there a positive relationship between stable employment and productivity?

A: Up to a certain point. We analyzed differences in the relationship between job tenure and productivity in major Organization for Economic Co-operation and Development (OECD) countries for three groups of workers: those who had been on the job under one year, those with over ten years of tenure and those with more than 20 years. The analysis shows that increasing the share of workers with very short or very long tenure will have a negative effect on productivity.

Q: At what point is job tenure no longer productive?

A: Our analysis of data for 13 European countries revealed that employment stability has a positive effect on productivity, at least until 13.6 years. After that point, the benefits of increased average tenure on sectoral productivity decrease. Nevertheless, considering wages and productivity, there still seems to be a benefit to retaining the workers beyond 13.6 years, until wages exceed productivity. It is important to keep in mind, however, that this finding is the average tenure and the average productivity for the six sectors in 13 European countries between 1992 and 2002. These aggregate estimates would vary by sector or country; but more importantly, at the individual level, it cannot be stated that this repre-

sents an appropriate length of time to retain a worker. In other words, though an "optimum tenure" may exist, that exact point cannot be stated precisely.

Q: Why would tenure be beneficial for productivity?

A: Stable employment relations induce firms to train their workers, while the structure of compensation induces workers to stay at the firm and not to shirk. The result is an increase in the worker's productivity and the firm's output.

Q: But isn't there also a benefit of flexibility, especially in labour markets subject to the impact of accelerated globalization and technological change?

A: Against the background of the flexibility mantra, the core stability in employment that we found in Europe comes certainly as a surprise, although it had been and is acknowledged by many international and national studies. However, we do not contest that there is also a need for and a benefit of flexibility, but the flexibility debate has made us believe that flexibility and speedy adjustment between jobs and firms is the exclusive answer, while there is also the possibility of adjustment within jobs or firms, while the employment relationship is maintained. In addition, we see adjustment that is helped by labour market policies. Therefore today, the search must be for the right balance of flexibility, stability and security to accommodate structural change and worker's need for security.

Q: Why is job tenure long in some countries and short in others?

A: Cultural, demographic, economic and institutional factors can all influence the length of employment tenure in a country. The younger a country's population, the lower its average tenure will be, simply because the young have spent fewer years working. Differences in GDP growth and labour market institutions can also have a substantial influence on job tenure. The important role of labour market institutions can be seen in the cases of the United States and Europe, where the influence of unions and bargaining agreements on job security can clearly be established. In the United States, for example, the share of workers with over ten years of tenure in the unionized sectors is 48 per cent, more than double the share in the non-unionized sectors and very close to European averages. In European countries, a main determinant of tenure is also the degree of employment protection legislation in the country concerned.

Q: What are the benefits of employment stability on the economy as a whole?

A: Stable employment relationships can help an economy by ensuring a steady and growing purchasing power and stimulating consumer demand. However, long-term employment relationships are not necessarily associated with feelings of job security. Japan illustrates this finding well, since long average tenure is coupled with a great sense of employment insecurity. There are many causes of this paradox: economic crisis, downsizing, rising unemployment and media reporting - all affect the perceptions of workers, even those with long-term jobs. If, on the other hand, a system of social protection is developed whereby the burden of dismissal is shared among workers and employers, the negative effect of an economic downturn can be mitigated. Unemployment insurance is one such institution. A household-level analysis of the effect of unemployment insurance



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on consumption in the United States found that in the absence of unemployment insurance, becoming unemployed would be associated with a fall in consumption of 22 per cent, compared with the 6.8 per cent drop for unemployment insurance recipients in the United States.

Q: So there is a link between job security and social protection?

A: Denmark is a good example of the link between the two. At over 5 per cent of GDP, Danish expenditures on labour market policies are the highest in the European Union. Though more than half of this expenditure is on passive measures, the Government has placed considerable emphasis on the participation of the unemployed in active measures, a policy that has been dubbed "learnfare." After a period of passive receipt of benefit, unemployed workers participate in training and educational programmes to improve matching in the labour market. Employment stability in Denmark is relatively low - 8.3 years in 2001 - and comparable with that of the United

Kingdom; but Denmark's "mediated" labour market provides a higher degree of job security. In job security rankings cited by the OECD, Denmark ranked fifth in feelings of job security in 1996 and second in 2000, out of a total of 17 countries. By comparison, the United Kingdom had the worst job security ranking in both survey years.

Q: What is the role of the social partners?

A: Our analysis poses a challenge to the traditional positions of the social partners. Employers should be interested not only in flexible employment relationships, but also in stable ones; and unions should not fear more flexible labour markets if these are embedded in a framework of "protected mobility" that provides lifelong "employability" training and income protection to workers. Indeed, in terms of employment and productivity, employers and unions have more in common than is usually believed. This is a good starting point for social dialogue on productive, decent employment.