

MOBILITY AND UNEMPLOYMENT IN THE PORTUGUESE LABOUR MARKET*

Pedro Portugal **

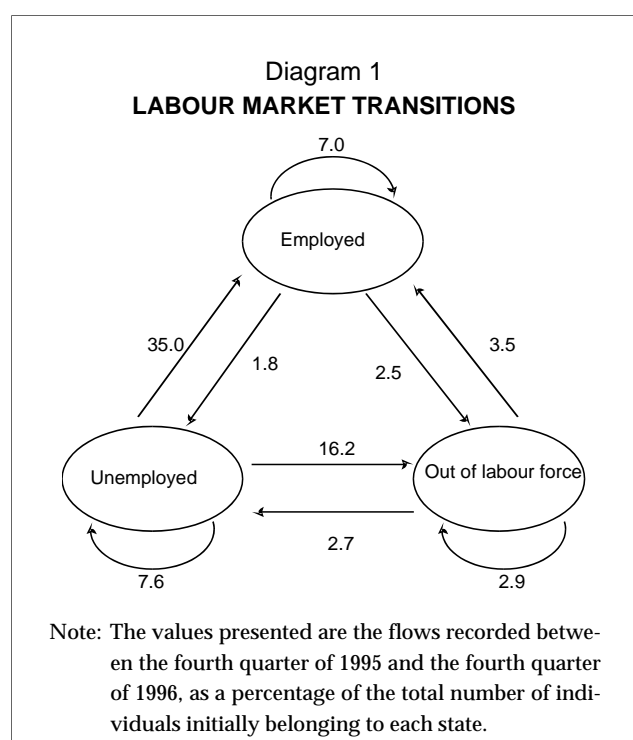
Mónica Dias **

1. INTRODUCTION

A conventional way of characterising the labour market state consists of breaking-down population at working age into employed, unemployed and out of labour force. Following these variables through short periods of time suggests that their behaviour is quite stable. However, the apparent stability may result from either the weak intensity of flows between the three states considered or the compensation between those flows — even if these are sizeable. A more precise characterisation would require the measurement of gross flows of workers, alongside the corresponding net flows. The microdata supporting the Employment Survey released by the *Instituto Nacional de Estatística* (INE) allow for a detailed analysis of the Portuguese labour market flows, and for a characterisation of its mechanism⁽¹⁾.

2. INTENSITY OF LABOUR MARKET FLOWS

The set of observed transitions between the employment, unemployment and out of labour force states refer to the period running from the fourth quarter of 1995 up to the fourth quarter of 1996 (diagram 1). Here, transitions between different states are distinguished from changes occurred within each state — insofar as the latter



involve a passage through a new job over the course of the year.

The main characteristic to be drawn from the transition values is the high stability of the labour market. A large share of individuals report the same labour market state at both moments. Initially employed individuals record very low flows into unemployment and out of labour force; on the contrary, job switching is much more frequent — reaching 7 per cent of employment throughout the year⁽²⁾. Transitions from individuals out of labour force are mostly due to the fact that this state feeds

* The opinions of this paper represent the views of the author, and are not necessarily those of the Banco de Portugal.

The authors thank Vítor Gaspar for his comments and suggestions.

** Economic Research Department.

(1) The Banco de Portugal thanks the INE for making the data available.

(2) It should be noted that these transitions (which are cumulative) may encompass temporary passages through unemployment and out of labour force.

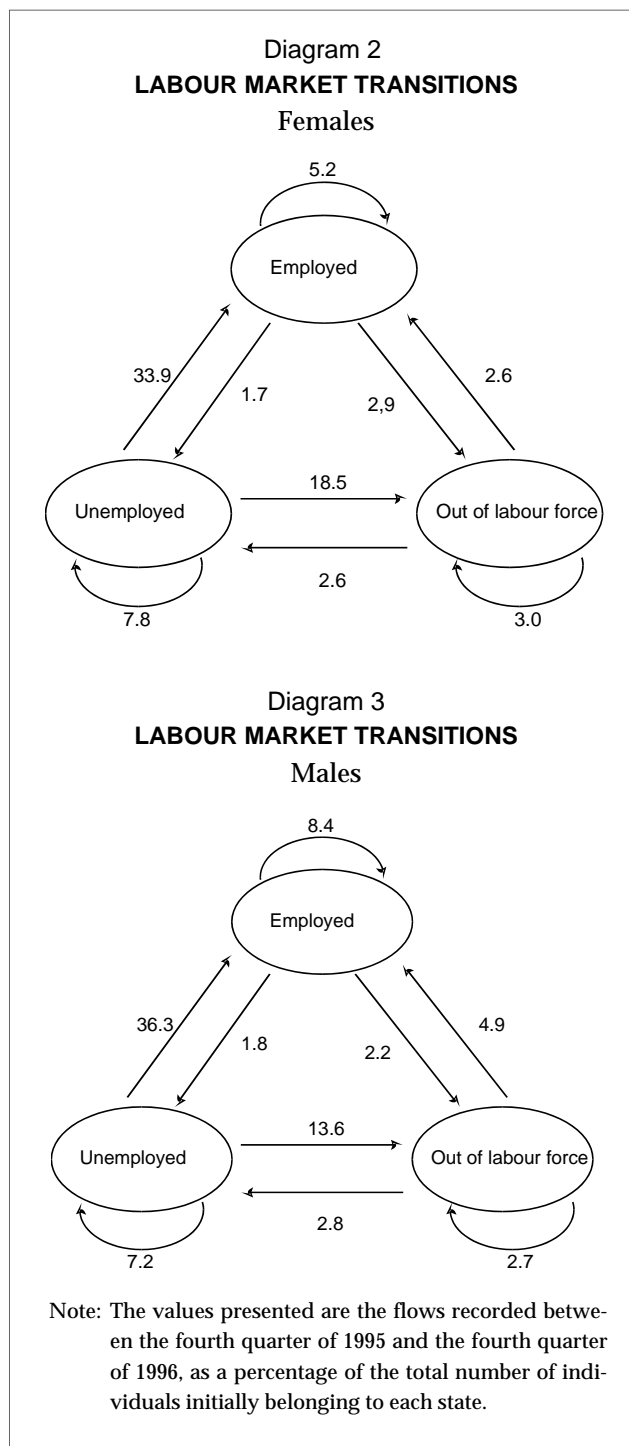
the remaining labour market state — e.g., providing first time job seekers. Finally, and corroborating expectations, transitions are more intense among the group of individuals initially unemployed. Unemployment is by definition a transitory state. Nevertheless, around 50 per cent of individuals remain in that state up to the end of 1996, although 7.6 per cent had an interim job experience which ended up in a new unemployment experience⁽³⁾.

The size of gross flows of workers across different labour market states obviously reflects clearly higher transition intensities than those of the corresponding net flows. This fact does not, however, contradict to the general impression of a weak mobility between the employment, unemployment and out of labour force states⁽⁴⁾.

3. DETERMINANTS OF LABOUR TRANSITIONS

The indication of strong stability is independent on gender. However, in most cases transitions are even more unlikely to occur among women (diagrams 2 and 3). Two states are worth being highlighted. Firstly, transitions from out of labour force are more frequent among women, suggesting a higher propensity towards household production. Secondly, job switching is much more frequent for males than among females, which suggests that job shopping (i.e., the investment in searching for a more adequate job) is more intense in males than in females.

Throughout the life cycle transitions follow a well defined pattern. When individuals first enter the labour force, both employed and unemployed individuals switch labour market states quite frequently (chart 1); this frequency decreases with age. This shows that younger individuals search for a job that matches their productive capabilities. At the end of labour life this pattern is inversed, reflecting transitions into the out of labour force state. The share of out of labour force individuals

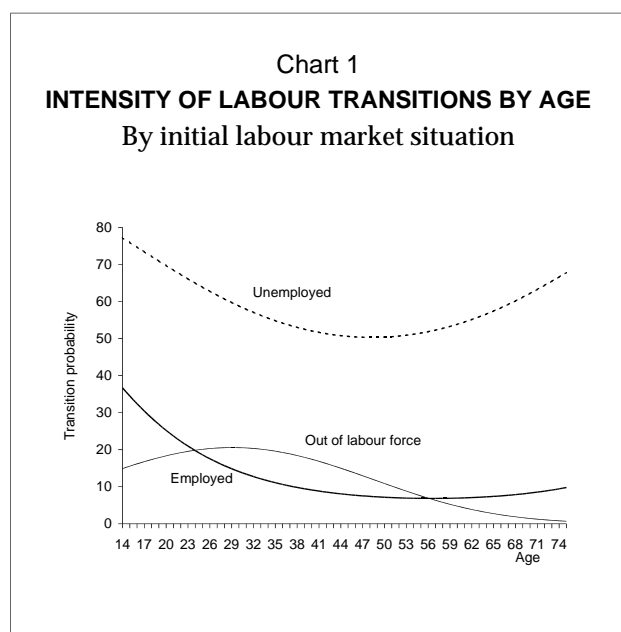


who exit this state increases with the growing labour market insertion of individuals ending their school life. In general, the out of labour force population records very low outflows from this state.

Educational level influences strongly individuals' labour market state (table 1). Individuals with higher education levels have a much higher probability of being employed, and hence a lower probability of being out of labour force or unem-

(3) See Mata and Dias (1997) for a detailed discussion on transitions within the same state.

(4) The intensity of flows in the Portuguese labour market is the lowest among the European Union (see, for example, Blanchard and Jimeno (1995)).



employed. The relative share of this group of individuals has increased lately, due to the increase in the education level and in the participation rate of younger generations, specially females. In addition, education seems to inhibit labour market transitions for those already employed (table 2). In fact, higher educational levels correspond to higher job stability. However, education does not seem to influence significantly the outflows from unemployment. Lastly, more educated individuals have a greater probability of exiting from the non-participation state.

Table 1
LABOUR MARKET SITUATION
BY EDUCATIONAL LEVEL

Percentage	Education level			
	Illite- rate	Basic level	Secondary level	Upper level
Labour market state in 1996:IV				
Employed	26.7	54.7	53.1	79.5
Unemployed	1.3	4.5	5.8	3.4
Out of labour force	72.0	40.8	41.1	17.1
Total	100	100	100	100

Table 2
INTENSITY OF LABOUR TRANSITIONS BY
EDUCATIONAL LEVEL

Percentage	Education level			
	Illite- rate	Basic level	Secondary level	Upper level
Labour market situation in 1995:IV				
Employed	10.1	12.1	10.6	7.8
Unemployed	72.0	56.9	61.6	62.8
Out of labour force .	3.0	9.6	17.3	31.3

Note: The values presentd are the proportion of individuals engaging in labour market transitions.

4. CHARACTERISATION OF UNEMPLOYMENT

One aspect of greatest concern regarding the labour market — and which demands a more detailed characterisation — is the unemployment state. The determinants of the stock of unemployed encompasses very distinct situations and dynamics. Firstly, the stock of unemployment is a result of the accumulation of vary different flows. These comprise transitions of individuals from out of labour force — e.g., individuals ending school who are first-job seekers, individuals who had already exited labour force — and transitions from employment — e.g., due to job destruction (resulting from the firm closings) or to the end of fixed-term contracts. Secondly, the stock of unemployed results also from outflows of the unemployment state, which may origin distinct arrival states: either employment (if a new job is found) or non-participation (when the household production, retirement or discouragement state is preferred).

Table 3 displays a breakdown of the stock of unemployed according to the reason of job-searching. The most frequent state is that where individuals are unemployed due to the ending of a fixed-term job experience (27.1 per cent). However, these are the individuals who faster find a new job (table 4). Conversely, collective dismissals (14.5 per cent) are linked to a greater difficulty in moving to employment, and to a higher incidence

Table 3
COMPOSITION OF THE STOCK OF UNEMPLOYED

Percentage	Reasons for job searching				
	First job	Collective dismissal	Individual firing	End of a fixed-term contract	Other
Relative share in the stock of unemployment	20.1	14.5	15.2	27.1	23.1
Proportion out of labour force	33.8	55.3	41.2	29.8	46.3

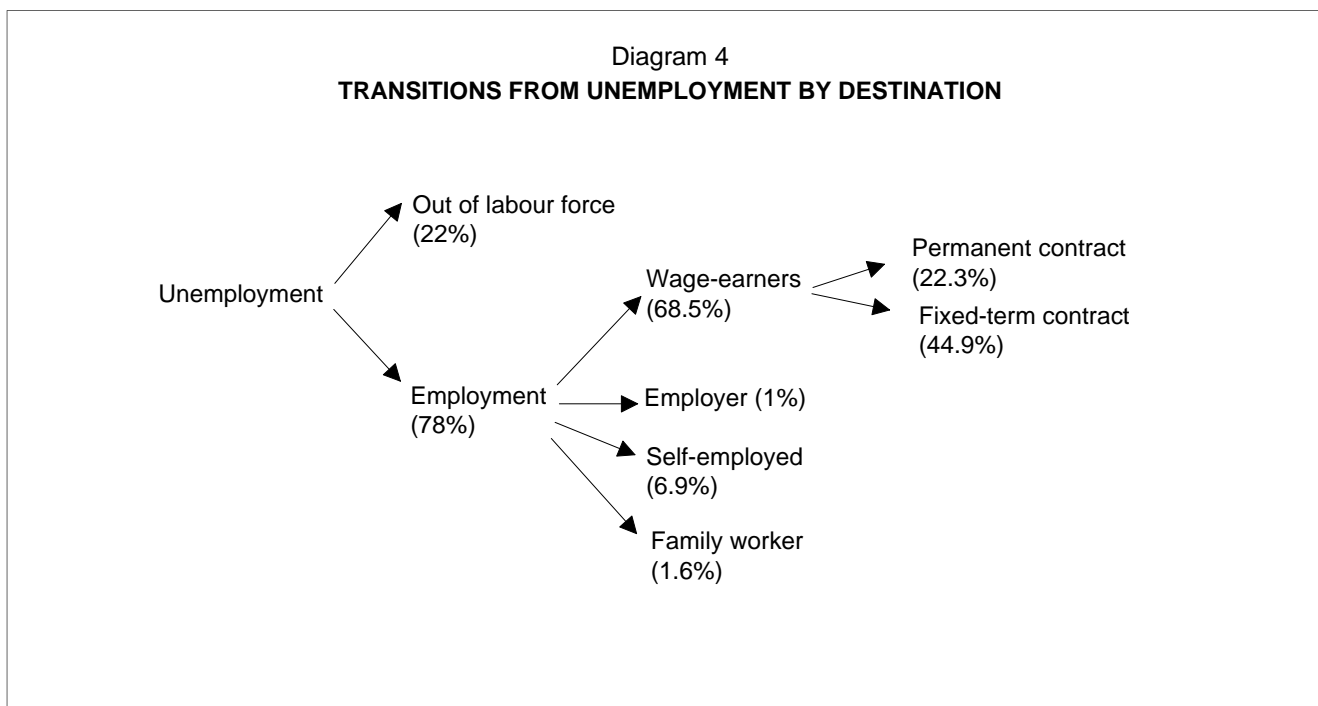
Table 4
INTENSITY OF QUARTERLY OUTFLOWS FROM UNEMPLOYMENT

Percentage	Reasons for job searching				
	First job	Collective dismissal	Individual firing	End of a fixed-term contract	Other
Proportion entering employment	14.1	11.7	13.4	20.6	13.0
Proportion moving to out of labour force.	5.3	3.7	4.0	2.7	4.6

of long-term unemployment (individuals searching for a job for a period over 12 months).

Most unemployed individuals (68.5 per cent of those exiting unemployment) become dependent

wage-earners (diagram 4). The most common state is that where individuals engage in a fixed-term contract (44.9 per cent of formerly unemployed individuals are fixed-term contracted, while 22.3 per



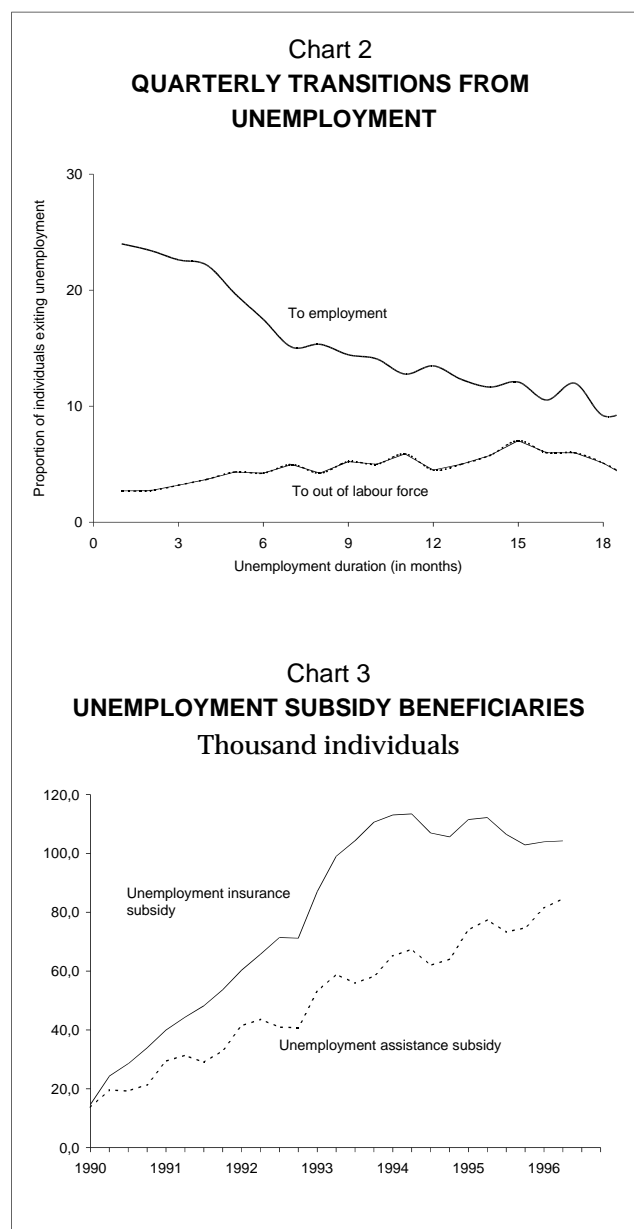
cent engage in a permanent contract). Although these proportions contrast with those of total employment, it should be noted that many individuals are at first fixed-term contracted, managing to get a permanent contract afterwards. Finally, 22 per cent of all exits from an unemployment state result into exits into out labour force, while 7.9 per cent of transitions result in self-employment.

5. UNEMPLOYMENT PERSISTENCE AND UNEMPLOYMENT INSURANCE

The concern about long-term unemployment is partly linked to the increasing difficulty in finding a job with the persistence in time of the unemployment spell. This observation has sustained the hypothesis that unemployment persistence may be due to a dependence relationship between present and future unemployment. From a microeconomic perspective, this negative relationship between unemployment duration and the probability of re-employment has been attributed to human capital depreciation, to the stigmatisation of the long-term unemployed by the potential employers, to a discouragement phenomena affecting the intensity of job searching, and to undesirable effects of unemployment protection schemes. In the period under review, the probability of finding a job falls sharply with unemployment duration (chart 2); conversely, transitions out of labour force seem to exhibit a weak upward trend.

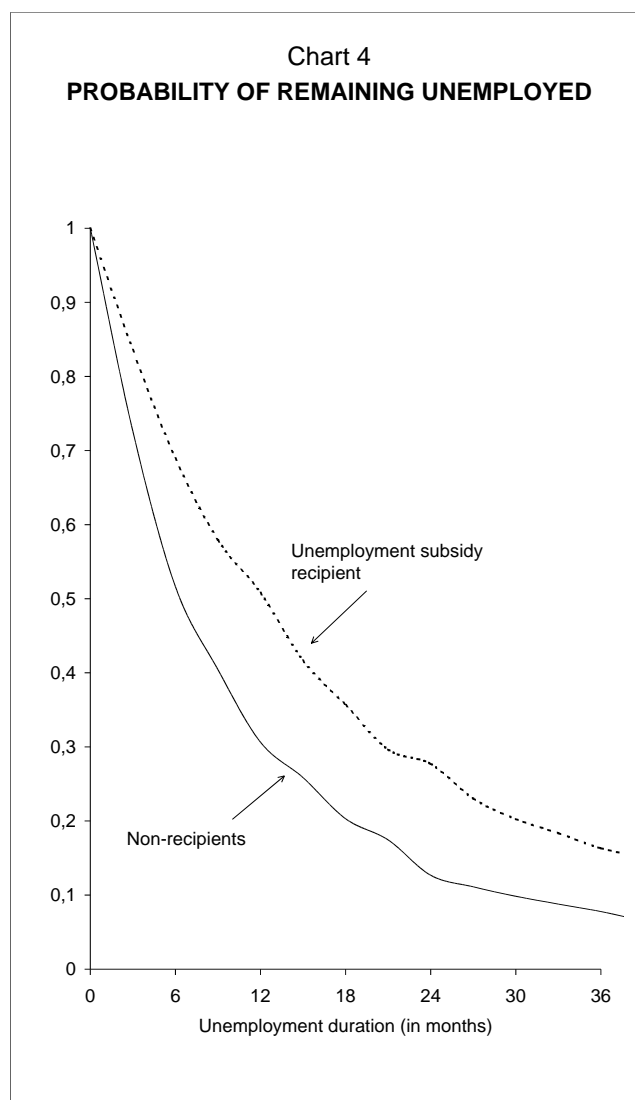
The existence of unemployment protection schemes characterised by high replacement rates and long maximum potential durations are factors frequently pointed in the explanation of chronic and persistent unemployment in most European Union countries⁽⁵⁾. In Portugal the change in the eligibility requirements for the unemployment subsidy occurred in 1989 favoured a very sharp increase in the share of unemployed workers benefiting from the unemployment subsidy in the following years (chart 3). The attribution of the unemployment social subsidy became dependent on the verification of less restrictive

(5) See Scarpetta (1997) for a study on unemployment in the OECD countries.



eligibility conditions, which are mostly determined by the worker's recent labour market profile. The upper limit of the subsidy duration started being indexed to the worker's age; in the higher age bracket (over 55 years old), this duration lasts up to 30 months.

Chart 4 compares the behaviour of workers benefiting from the unemployment subsidy with the non-beneficiary workers. It becomes clear that non-recipients move into employment at a much greater pace than that of beneficiaries. The indication that the unemployment subsidy scheme might be contributing to restrain the transitions from unemployment into employment is not disturbed by the fact that beneficiaries also share



other characteristics that disfavour transitions into employment — namely older ages and lower education levels⁽⁶⁾. In fact, the impact of the Portuguese unemployment subsidy scheme on the pace of transition into employment does not differ substantially from that of other European economies. For instance, the Portuguese and Spanish experiences are in this respect quite similar (Bover, Garcia-Perea and Portugal, 1997).

The unemployment subsidy system has a social justification, as a means of income support and social insurance. Consequently, the existence of an unemployment insurance regime is in itself a means of macroeconomic stabilisation. Furthermore, unemployment insurance may improve the efficiency of the economy — by favouring the job ma-

(6) See Portugal and Addison (1997) for a detailed study on the impact of the unemployment insurance on unemployment transitions.

ting process, by improving the allocation of resources (and hence labour remuneration itself) and by stimulating the labour supply of individuals who are eligible to benefit from the unemployment subsidy. However, as in any insurance activity, the moral hazard problem arises (as the beneficiary does not behave according to a risk minimisation criterion). The size of undesirable effects of the unemployment insurance schemes depend on each system's specific design (eligibility conditions, replacement rate, maximum duration, etc.). In general, the maximum duration of the subsidy appears to be the most influential factor⁽⁷⁾.

6. CONCLUSION

The existence of barrier to labour mobility tends to result, in the long run, into a inadequate resource allocation, and hence into a chronic productivity problem. The weak intensity of labour market transitions in the Portuguese case is clearly symptomatic of the importance of those barriers. Therefore, it is of great importance the study of the relationship between those elements of micro-economic rigidity and the seeming rigidity of the Portuguese labour market. Firstly, both the legal framework of labour relations (namely the employment protection legal framework) and the obstacles to regional mobility (namely, the standstill in the market for house renting) rise significantly the costs of adjustment for both the labour demand and labour supply⁽⁸⁾. Secondly, both the income maintenance mechanisms (e.g., minimum wage, unemployment subsidy and minimum income) and the persistence of labour markets weakly sensitive to the general conditions in the labour market, tend to raise reserve wages, hence making it harder for workers to accept of low paid jobs.

In evaluating employment policies the equity and efficiency objectives should always be weighted adequately. However, the announced equity purposes very often do not correspond to the

(7) In the Portuguese case it is also noticeable that the unemployment subsidy scheme disincentives part-time job finding (Portugal and Addison (1997)).

(8) Grubb and Wells (1993) considers that the Portuguese job protection legal framework is the most inflexible of all EU countries.

actual outcomes. Frequently such policies affect negatively the position of the less skilled, the unemployed, and the younger workers (the outsiders), favouring those with secure (the insiders).

Finally, individual welfare is not independent of the intensity of the labour market flows. In fact, for the same unemployment rate a more flexible labour market (characterised by higher unemployment rates but shorter unemployment durations) is preferable to a more rigid one (with lower unemployment incidence rates but longer unemployment durations). This analysis seems to suggest that the Portuguese labour market — even after discounting the influence of cyclical movements — is closer to the second characterisation than to the first one.

REFERENCES

- Blanchard, O. and Jimeno, J. (1995). "Structural Unemployment: Spain versus Portugal," *American Economic Review Papers and Proceedings*, 4, May: 212-218.
- Bover, O., García-Perea and Portugal, P. (1997). "A Comparative Study of the Portuguese and Spanish Labour Markets," presented in the *Workshop "The Portuguese Labour Market in International Perspective"*, Banco de Portugal, Lisboa.
- Grubb, D. and Wells, W. (1993). "Employment Regulation and Patterns of Work in EC Countries," *OECD Economic Studies*, 21, Winter: 7-58.
- Mata, J. and Dias, M. (1997). "Transitions in the Labour Market", *Economic Bulletin*, Banco de Portugal, 3, March: 51-63.
- Portugal, P. and Addison, J. T. (1997). "Unemployment Insurance and Joblessness: A Discrete Duration Model with Multiple Destinations," presented in the *Workshop "The Portuguese Labour Market in International Perspective"*, Banco de Portugal, Lisboa.
- Scarpetta, S. (1997). "Le Rôle des Politiques du Marché du Travail et des Dispositions Institutionnelles Concernant le Chômage: Une Comparaison Internationale," *Revue Économique de l'OCDE*, 26 (I): 53-113.