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Gross job flows and institutions in Europe

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Abstract

We examine job flows in the 1990s for a sample of 13 European countries. By using a dataset of continuing firms that covers all sectors, we find firm characteristics to be important determinants of job flows, with smaller and younger firms within services typically having a larger degree of job turnover. Once controlled for firm and sectoral effects, the role of institutions in the dynamics of job creation and destruction is examined. As expected, employment protection is found to reduce job flows. Similarly, countries with higher unemployment benefits and more co-ordinated wage bargaining systems are characterised by lower job flows.

JEL classification: J23; J60
Keywords: Gross job flows; Labour market institutions

1. Introduction

Recent literature has stressed the importance of job flows when firms and workers are heterogeneous and the matching process between vacancies and workers is costly. When a shock hits the economy, the desired allocation of jobs among firms and sectors changes, leading to simultaneous job creation and destruction. Because of heterogeneity and other labour market frictions, new vacancies and unemployed workers do not match instantaneously, implying spells of unemployment and vacant positions in the economy (Pissarides, 2000). Studies estimating job creation and destruction from plant

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or firm-level data show that a high number of jobs are simultaneously created and destroyed even when the employment growth is close to zero. This provides evidence on the complexity of the dynamics underlying the adjustment process in the labour market.

The main limitation of the existing studies on job flows is the lack of internationally comparable job flows statistics (OECD, 1994). A number of problems arise when using firm-level data, which become of particular concern when doing international comparisons. Differences in definitions, sampling intervals and sectoral coverage may lead to misleading interpretations of the cross-country differences in estimated job flows.

We examine time series and cross-sectional patterns of job flows for 13 European countries in the 1990s using a homogeneous firm dataset that covers all sectors. We provide comparable estimates of job flows of continuing firms, i.e. excluding start-ups and shutdowns and examine cross-country differences and regularities.

We find important regularities across countries, where smaller and younger firms in the service sectors exhibit higher job turnover. After controlling for firm characteristics, we find persistent cross-country differences in job flows that can be partially explained by institutional features. As expected, we find a negative effect of policies aiming to protect jobs on the dynamics of job reallocation. Similarly, generous unemployment benefits and institutions that increase co-ordination in wage bargaining reduce job turnover.

The remainder of the paper is organized as follows. In Section 2, we present the theoretical motivations of our study and the most relevant empirical evidence. Section 3 describes the data used in the analysis and defines concepts and measures of gross job flows. Section 4 analyses the effects of firm characteristics and Section 5 assesses the role of institutional features in explaining gross job flows. Section 6 concludes.

2. Theoretical motivations and empirical evidence

2.1. Job flows: some stylized facts

There is a large literature studying job reallocation and its components.[1] The key findings can be summarised as follows:

1. A high number of jobs are simultaneously created and destroyed in all countries and sectors regardless of the cycle phase.
2. Job creation and destruction are negatively correlated but not perfectly. This implies that, although job creation is pro-cyclical and job destruction is counter-cyclical, the volatility of the two flows over the business cycle may differ.

[1] For a thorough discussion of the results in this literature, see the excellent survey of Davis and Haltiwanger (1999).