CONSEIL D'ORIENTATION DES RETRAITES

L'emploi des seniors en Italie : des réformes importantes aujourd'hui questionnées

15e colloque du COR

Emploi des seniors et vieillissement actif en Europe

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Les colloques du COR
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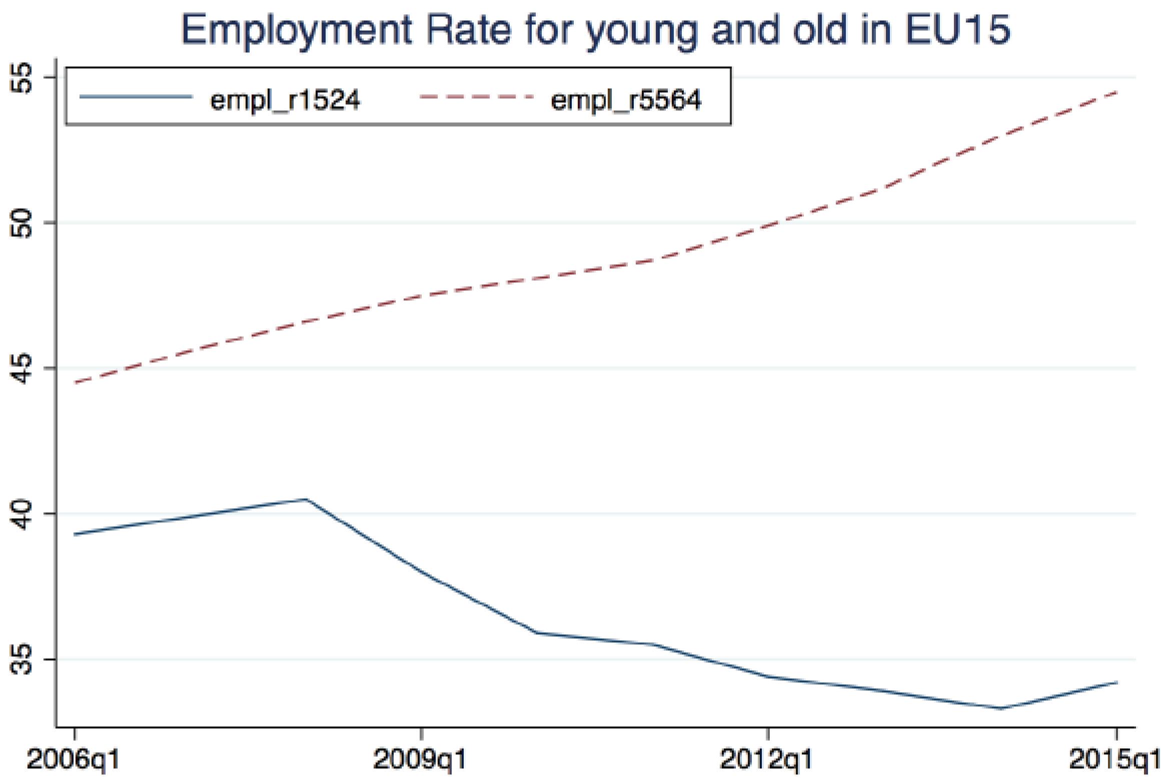
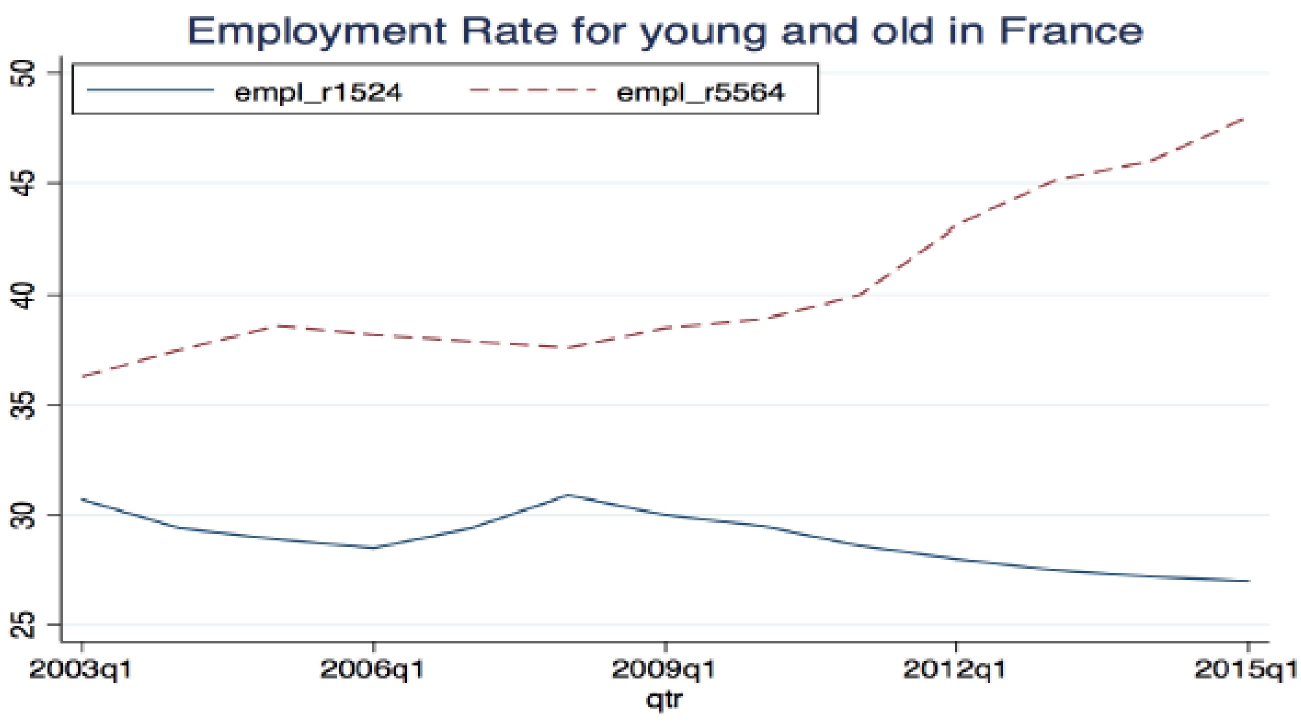
Young and older workers: divergent dynamics in the EU

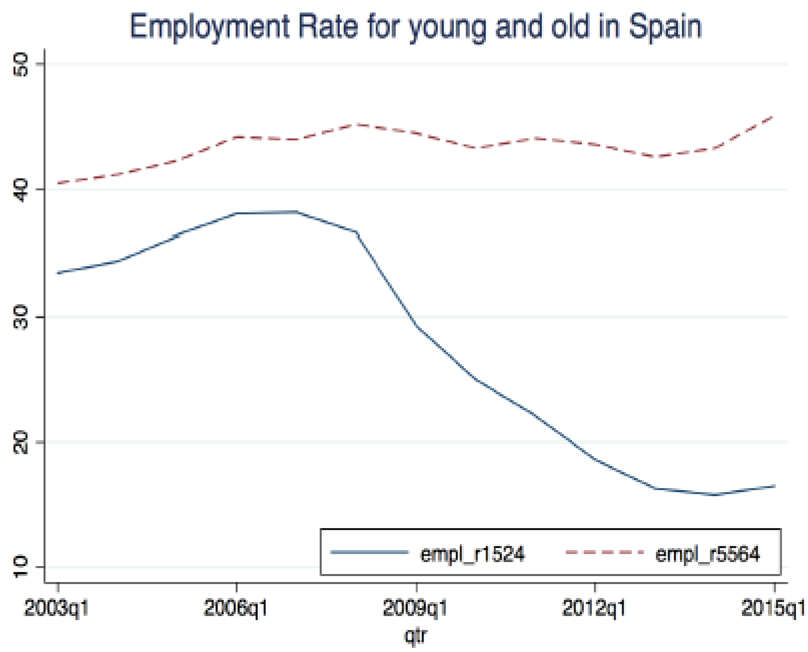
Figura: Employment rate for youth (15-24) and older (55-64) workers in EU15

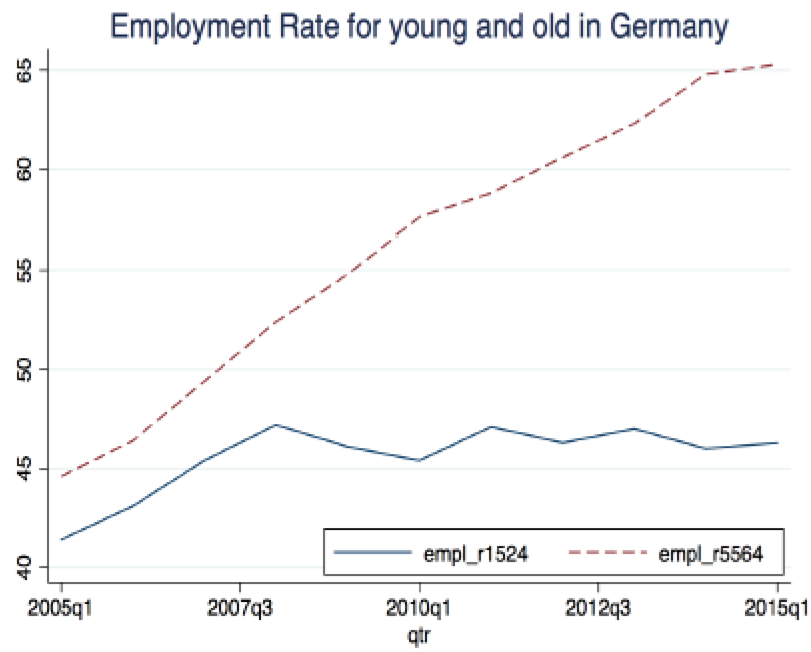


Old-in Young-out in France

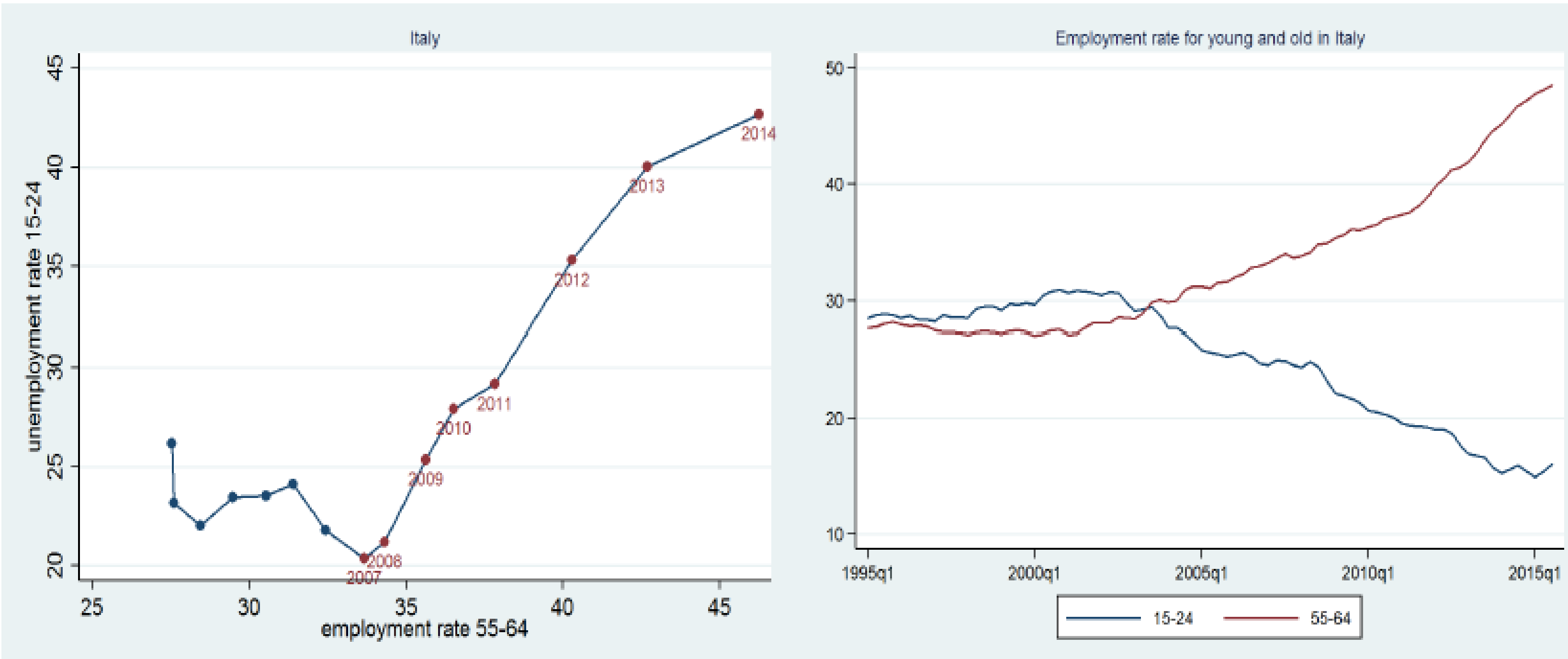


Old-in Young-out in Spain, but not in Germany





Dramatic old-in young-out in aggregate Italian data



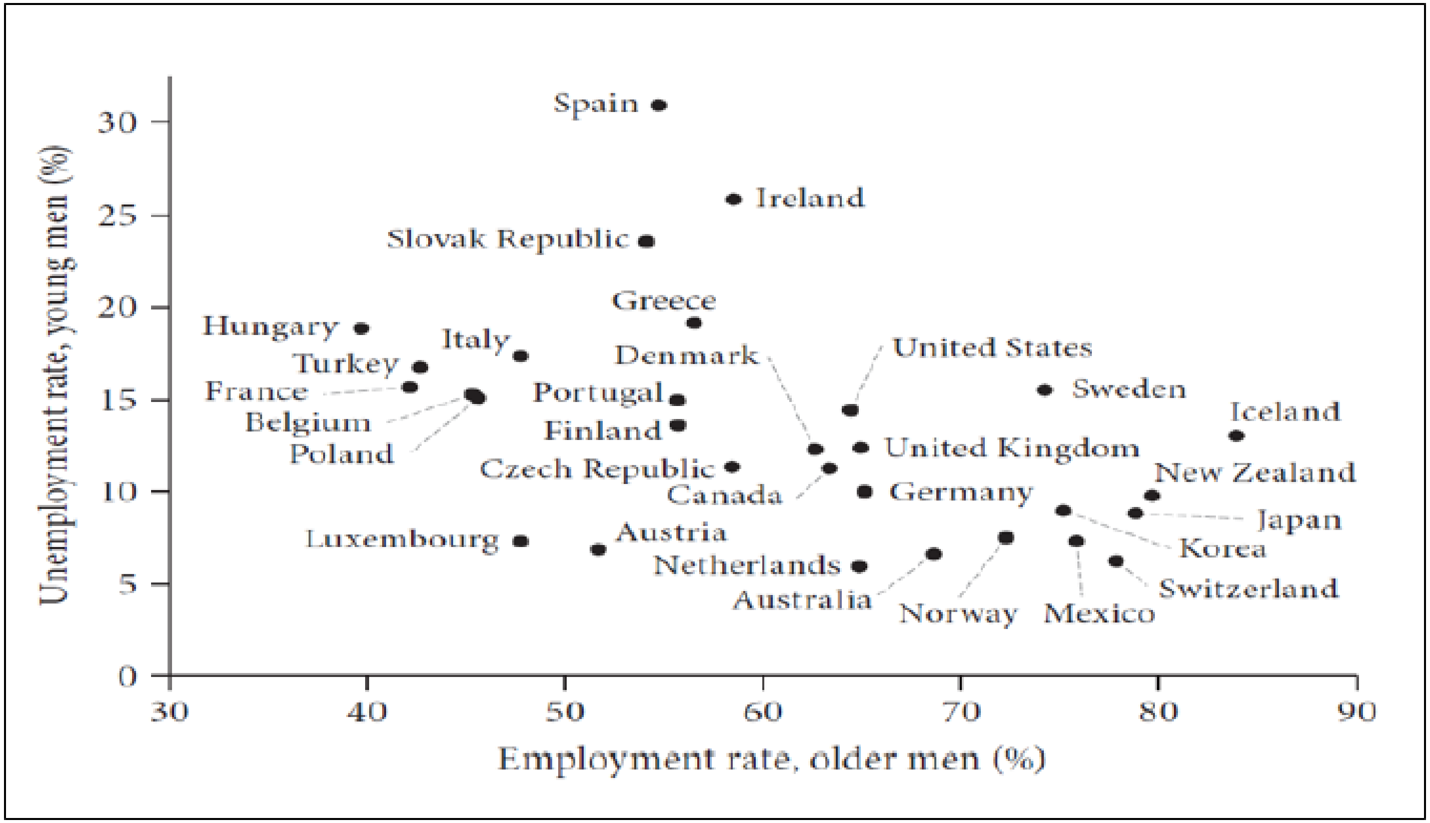
Cyclical and structural reasons behind older / young divergence

- Cohort effects (increase in female participation) and increase in retirement age can account for increase in employment rates of the over 55

- The Great Recession and dual labor market partially account for increase in youth unemployment (Boeri and Garibaldi, The Honeymoon Effect of Temporary Reforms, 2007)

- In the long run there is no lump of labor (eg. Boeri Van Ours, 2013)
- Any connection between the two phenomena in the **SHORT RUN**?

In the long run: no lump of labor ...



Fonte: Boeri, Van Ours, 2013. *The economics of imperfect labor markets.*

Yet, in the short run, during a recession...

- A sudden increase in retirement age in a labor market characterized by strong employment protection may have short run (negative) effects on hirings across the age distribution, and notably on youth
- This may happen even when there is complementarity in production between age groups
- Of course this effect requires fixed capital and rigid wages

The 2011 Monti Fornero Reform

- In November 2011, Italy experienced a financial crisis. There was a run on the Italian public debt. Spread over German bonds rose above 500 basis points
- Forced by international institutions (the Euro is at risk), the centre right government headed by Berlusconi resigned in November 2011
- A technocrat government headed by Mario Monti (Elsa Fornero as labor minister) took immediately office and avoided intervention of the Troika (IMF, ECB EU) by approving a tough austerity package
- In December 2011, the *Decreto Salva Italia* was enacted, including a large temporary increase in retirement age

Immediate and tough response from the Monti Government

Monti: decreto salva-Italia

Pensioni, Ici, Iva: manovra da 30 miliardi. Tagli alla politica, riduzioni per Province e Authority
Non cambia l'Irpef e arriva una tassa (1,5%) sui capitali scudati. Estimi catastali rivisti del 60%

Previdenza

Casa e fisco

Costi della politica

Sviluppo

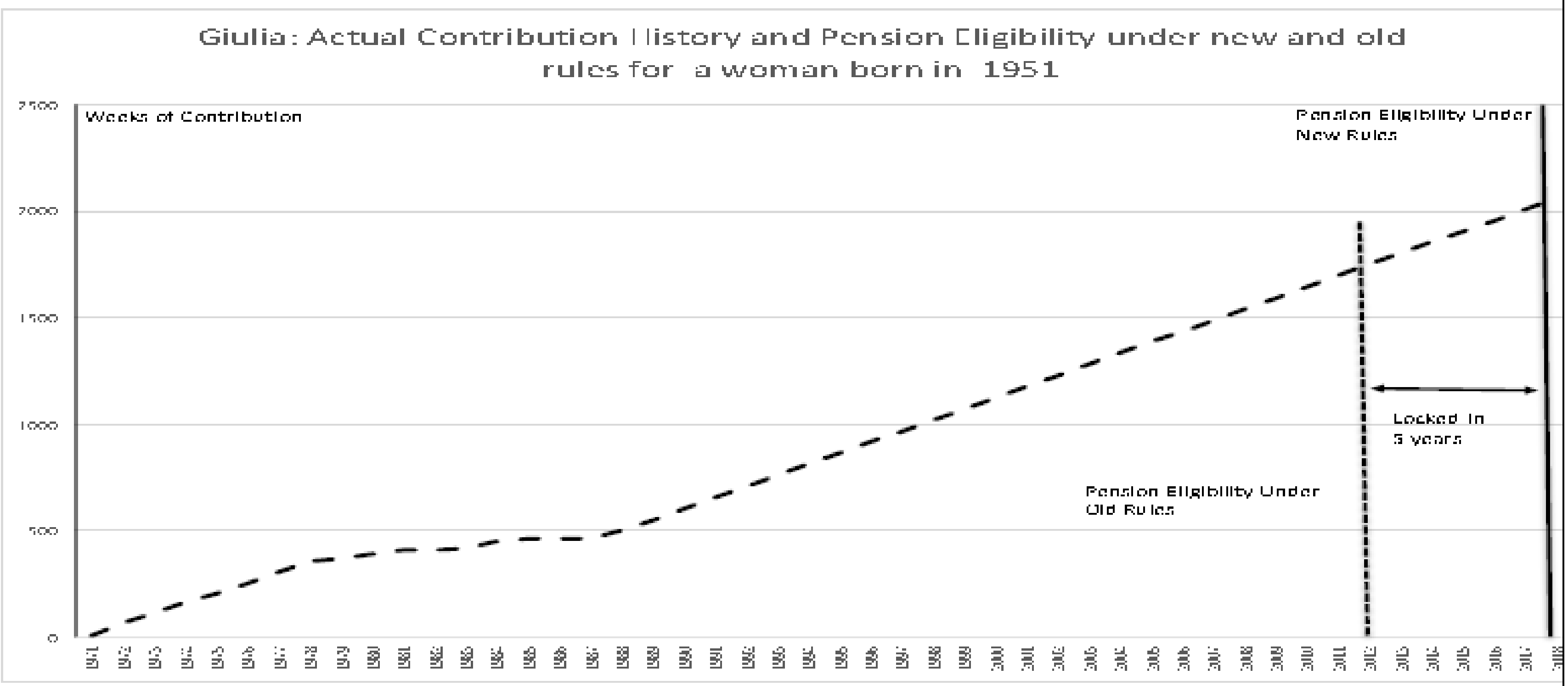
The Content of the Reform

- Large tightening of **Early Retirement** as of January 1 2012
  - Before the reform, a system of quotas (age years plus contribution) was regulating early retirement
  - After the reform, men (women) need 42 (41) years and 1 month, and further increase in the following years
- Immediate increase of **Regular Retirement** of one year for men and two years for women hired before 1996
  - Further increases up to 2020 (for women by 2016 4 years and 6 months)
- **No basic changes in rules for those hired after 1996** No changes for the youth

Data and Sample

- Continuing Private sector firms with more than 15 employees (the EPL threshold) active between 2008 and 2014 (approximately 60.000 firms)
- We observe worker characteristics and whether retirement has been postponed by the reform (reconstruction from social security records).
- We know how many workers are *locked_in* from the reform and for how many years.
- **Our sample**: All firms below between 15 and 150 employees with **positive locked_in workers**. Each firm is thus observed 7 times.
- Approximately 21000 firms (that grow to 24000 when we consider 200 employment threshold)

Actual Contribution Histories of selected locked-in Workers



Definitions

- young workers are below the age of 30
- older workers are above the age of 55
- Prime-age workers are the employees within these two thresholds.
- If $n_{i,t}$ is total employment if firm i in year t, it follows that in each firm i

$$n_{i,t} = \sum_{j=1}^{3} n_{ij,t} \qquad \text{j= 1: young, 2: prime- age, 3: older}$$

- main outcome is employment change normalized by employment at the time of the reform

$$g_{ij,t} = \frac{n_{ij,t} - n_{ij,t-1}}{n_{2011}} = \frac{\Delta n_{ij,t}}{n_{2011}} \qquad \text{j= young, older, prime age, total}$$

- We also experiment with employment changes.

Treatment

- Treatment: number of workers locked-in in 2011 in each firm.
- We distinguish between workers who are locked in for more than 3 years, more than 2 years and more than 1 year.
- The size of the locked-in population in each firm is normalized by the number of workers aged more than 54.

$$T_i^s = \frac{Locked_{in}\ old\ workers\ in\ firm\ i for\ at\ least\ s\ year}{old\ workers\ in\ 2011} \qquad \text{s=1,2,3}$$

- $T_i^3 = 0.25$ means that the employer of firm i found out that 25 percent of its older workforce had been locked-in for at least 3 years.
- Pre-trend impact of the policy variables, or the effect of the policy in the years 2009, 2010 and 2011, act as *placebo* in our regression analysis.

Regression Analysis

- Baseline specification

$$g_{ij,t} = \delta + \alpha_i + \sum_{k=2008}^{2014} \gamma_k I_k + \sum_{k=2008}^{2014} \beta_k I_k T_i^s \quad s = 1,2,3 \qquad (1)$$

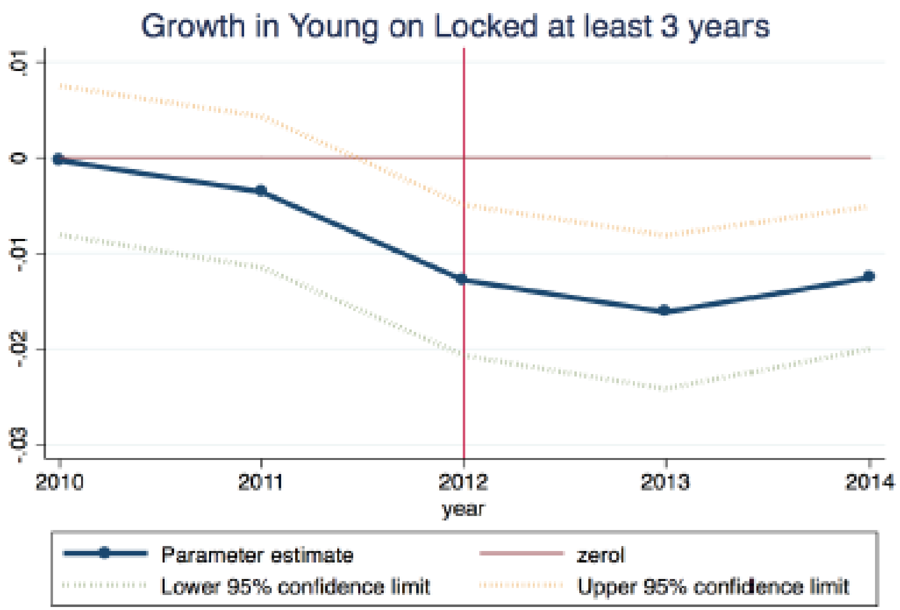
- δ constant: α_i firm fixed effect: I_k time dummies
- robustness check, we also allow the left-hand-side to be the absolute variation in employment in group j so that

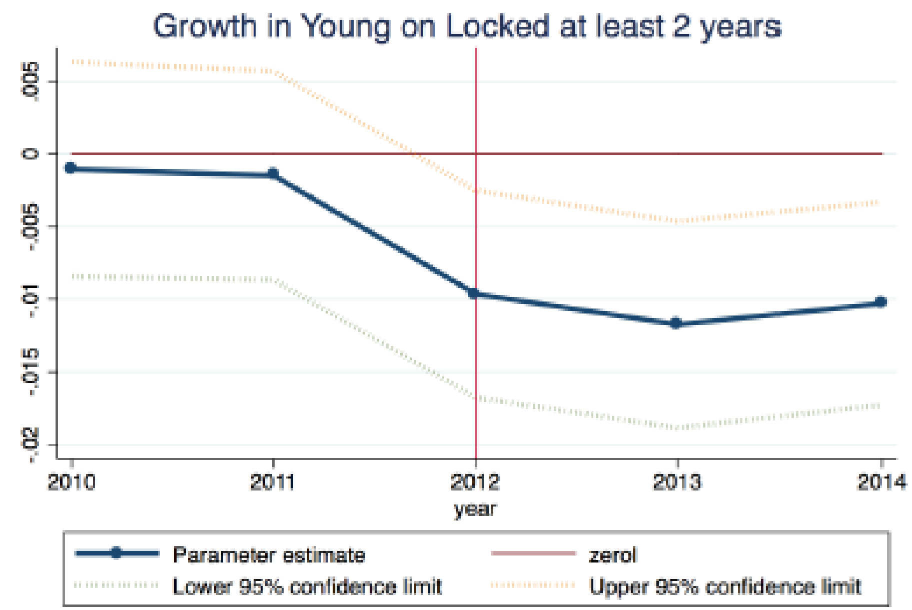
$$\Delta n_{ij,t} = \delta + \alpha_i + \sum_{k=2008}^{2014} \gamma_k I_k + \sum_{k=2012}^{2014} \beta_k I_k T_i^s \quad s = 1,2,3 \qquad (2)$$

Summary *locked_k_old* of *k* years in 2011 by quantile for different years of delay

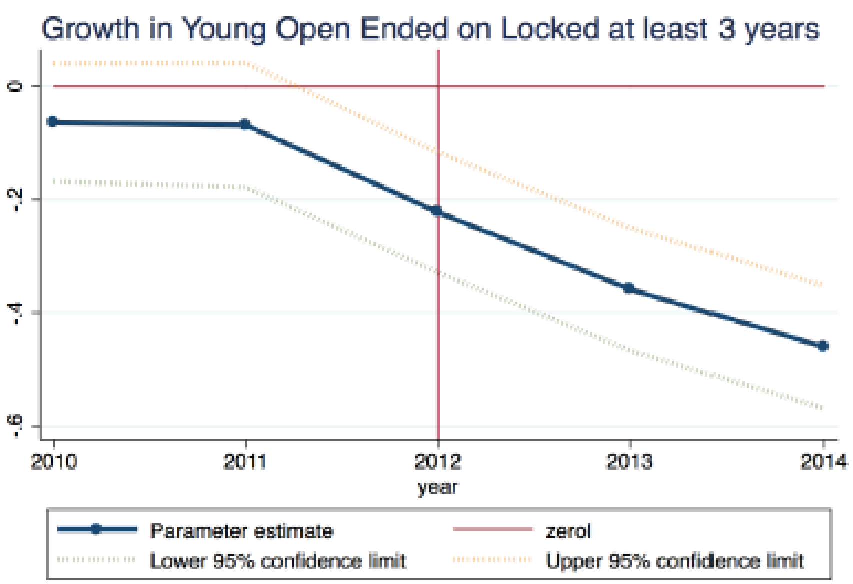
	(1)	(2)	(3)	(4)	(5)	(6)
	All	1	2	3	4	5
	mean [a]	mean [b]	mean [b]	mean [b]	mean [b]	mean [b]
locked3_old [c]	0.279	0.084	0.147	0.224	0.329	0.665
N	8472	1862	1773	1984	1173	1680
locked2up_old [d]	0.292	0.094	0.157	0.226	0.334	0.684
N	11085	2634	1832	2595	1808	2216
locked1up_old [e]	0.367	0.127	0.225	0.324	0.475	0.902
N	21662	4905	5240	4036	4491	2990

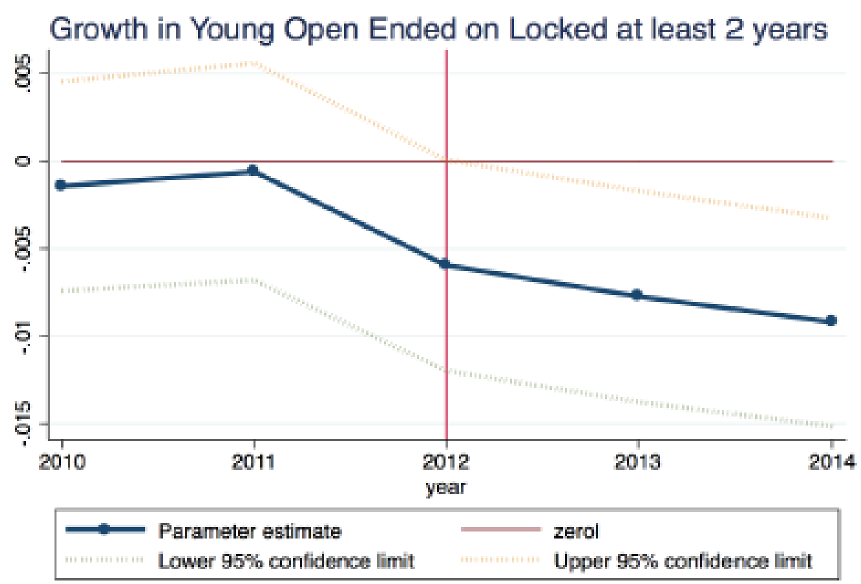
Coefficients on Young Growth over time: All workers



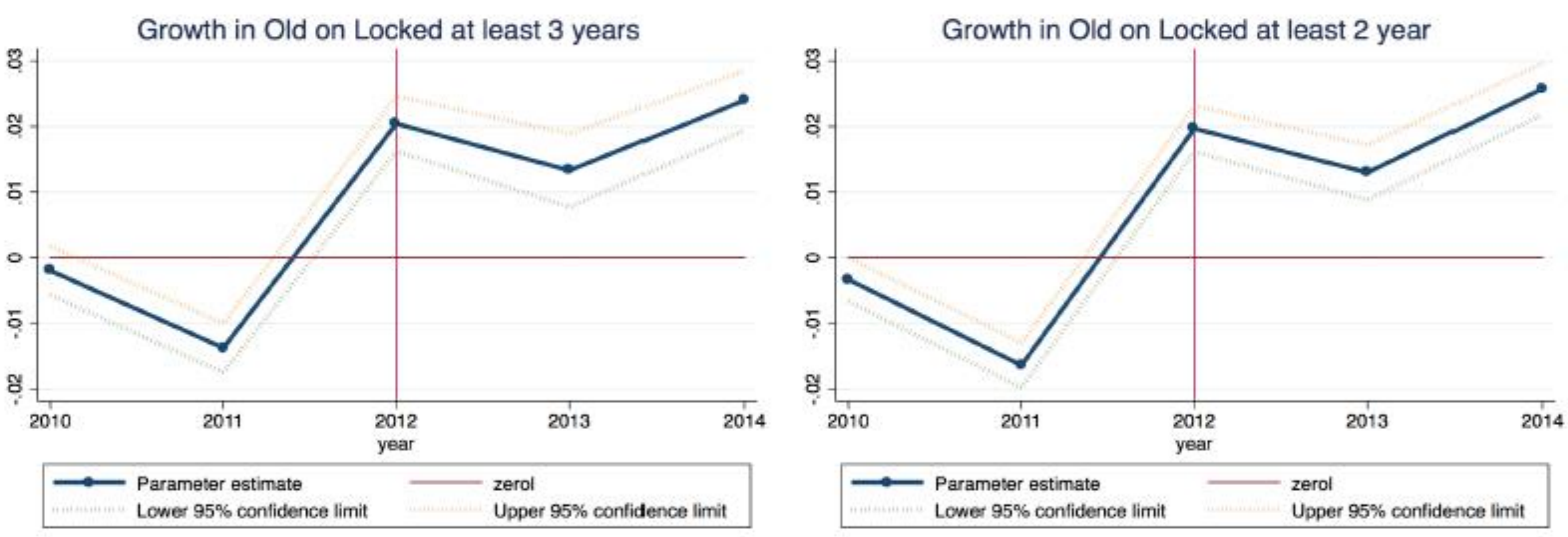


Coefficients on Young Growth over time: Open Ended Employment

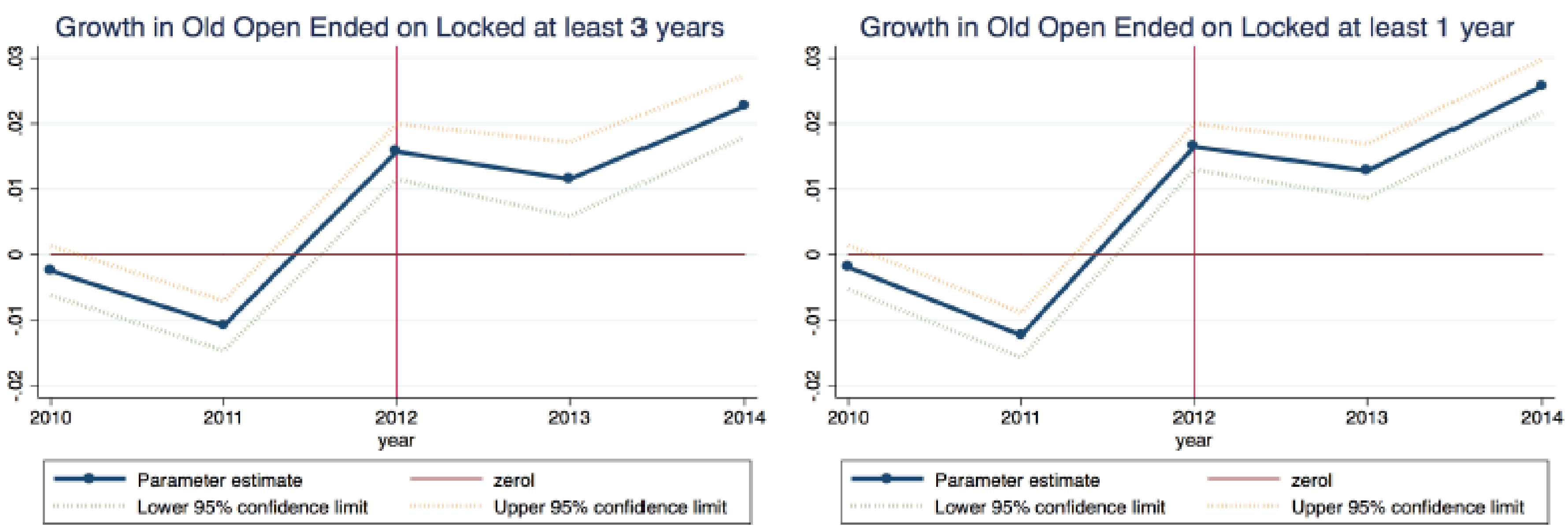




Coefficients on Old: Total Employment

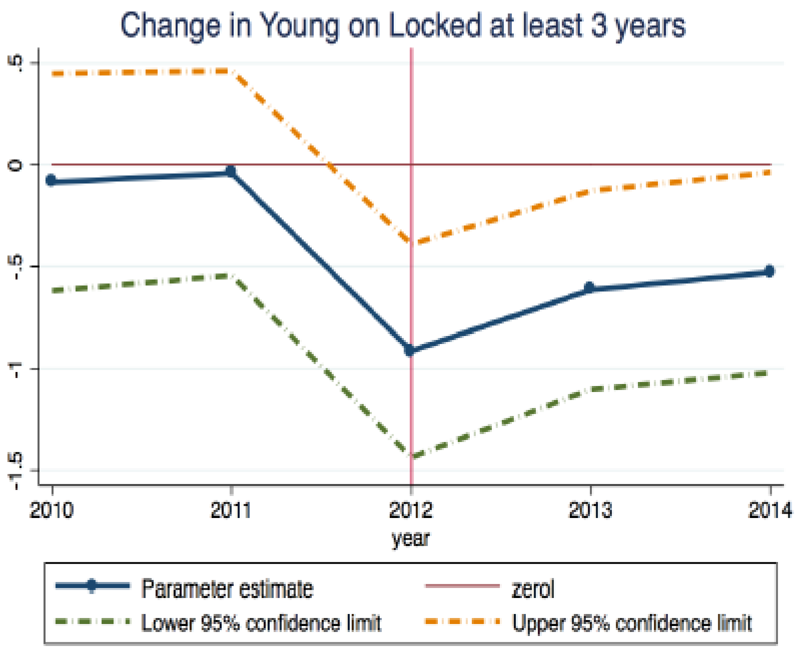


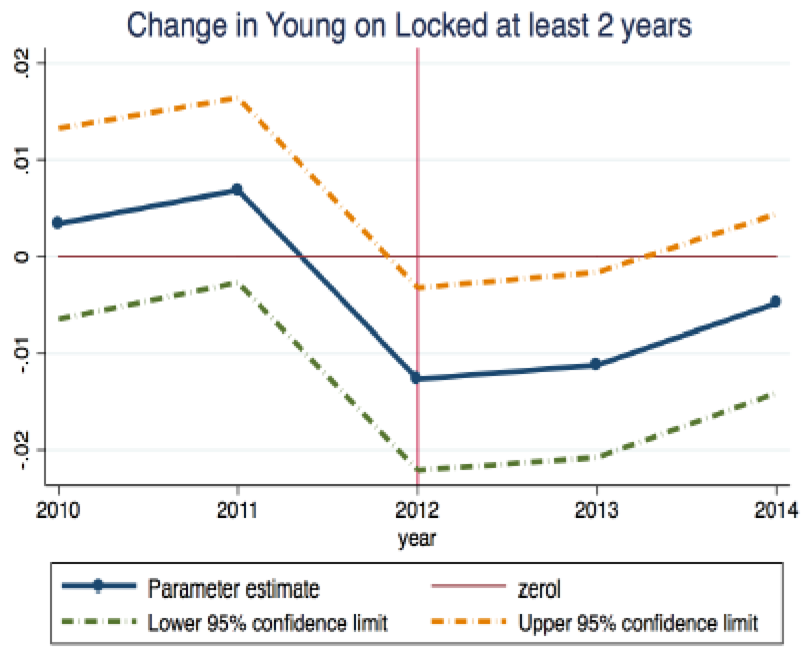
Coefficients on Old: Open Ended Employment



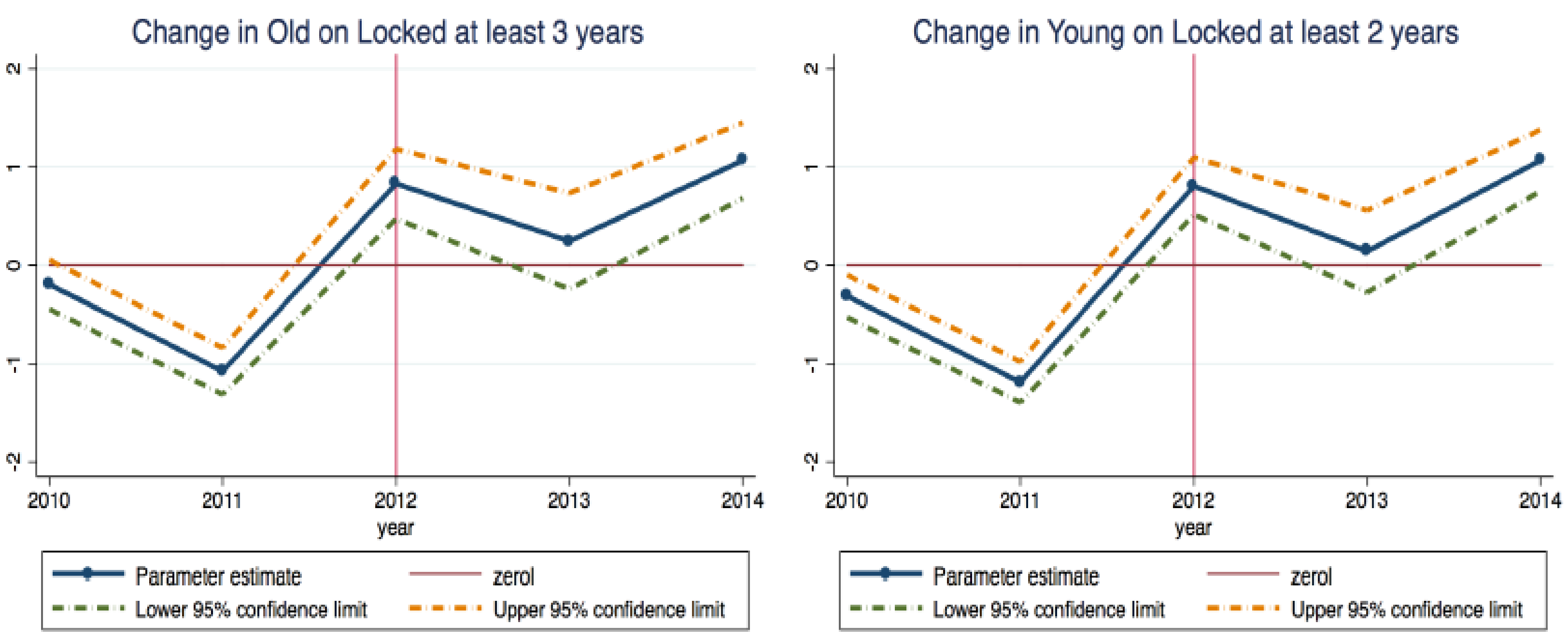
Coefficients on Total Employment

Coefficients on Young in Absolute Changes





Coefficients on Old in Absolute Changes



Quantifying Size of the Effects

- Let us focus on the average firm in 2012. The evolution of the average treated firm is

$$\underbrace{n_{2012}}_{\approx 53.16} = \underbrace{n_{2011}}_{\approx 52.70} + \underbrace{\Delta n^{young}_{12,11}}_{\approx -0.33} + \underbrace{\Delta n^{prime}_{12,11}}_{\approx +0.18} + \underbrace{\Delta n^{old}_{12,11}}_{\approx 0.59} \qquad (3)$$

- We consider the coefficient in 2012 from our baseline specification. We can obtain

$$\begin{cases} \hat{\Delta} n^{young}_{12,11} = \underbrace{\hat{\gamma}}_{\approx -0.014} \underbrace{n_{2011}}_{\approx 52.70} \underbrace{\overline{locked3\_old}}_{\approx 0.28} = -0.207 \\ \hat{\Delta} n^{old}_{12,11} = \underbrace{\hat{\gamma}}_{\approx 0.03} \underbrace{n_{2011}}_{\approx 52.70} \underbrace{\overline{locked3\_old}}_{\approx 0.28} = 0.59 \end{cases}$$

Estimates of the Effects

- The share of employment changes explained iby our regressions s

$$\begin{cases} \frac{\hat{\Delta} n_{12,11}^{young}}{\Delta n_{12,11}^{young}} & = & \frac{-0.207}{-0.33} = 0.626 \\ \frac{\hat{\Delta} n_{12,11}^{old}}{\Delta n_{12,11}^{old}} & = & \frac{0.502}{0.59} = 0.85 \end{cases} \quad (4)$$

- At least 60 percent of the fall in youth employment can be accounted for by locked_3
- At least 80 percent of the increase in old employment can be accounted for by locked_3

Conclusions

- Across most European countries, increase in older employment is associated to increase in youth unemployment
- The paper evaluates whether increase in retirement age contributed to these diverging developments at the two extremes of the age distribution in the short run
- We exploit a unique data set from Italy and a quasi experiment setting from the steep and unexpected increase in the legal retirement age in Italy (Monti Fornero reform)
- Results are clearly significant and survive to several robustness checks
- Large effects on the crowding-out of young workers and growth of older workers;
- Reform explains 60% of the former and 80% of the latter among affected firms