

What do pro-competitive policies imply for workers?

Category: Labour markets, Structural reform, Uncategorized

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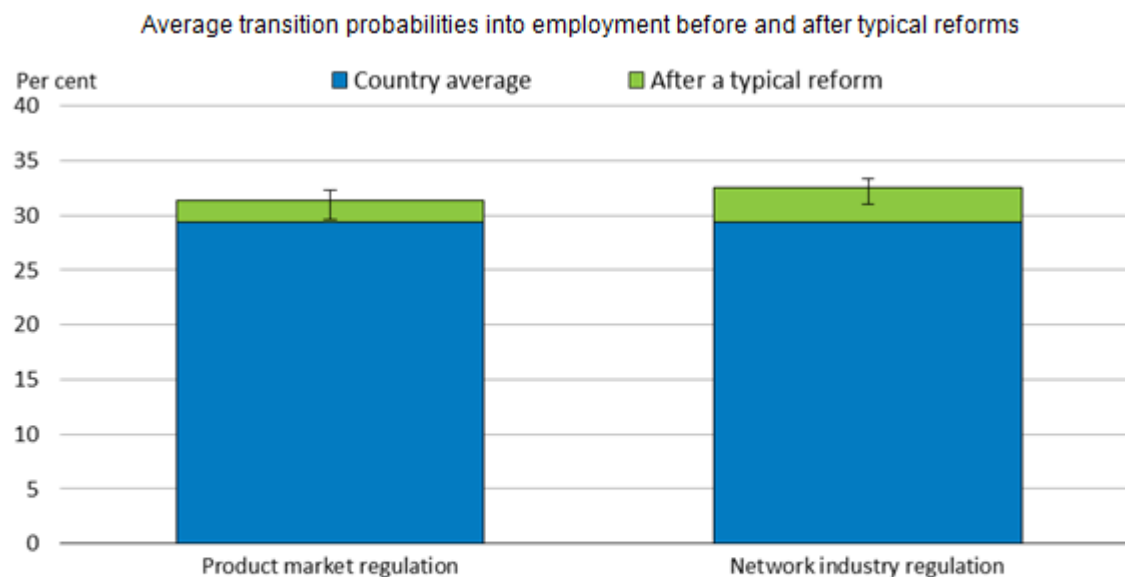
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Reforms that make economies more competitive have become a polarising subject. On one side, they are well established as a core staple of reform programmes: they are known to boost growth. On the opposite side, they often come up as lightning rods for criticism, as some perceive that such reforms make life more difficult for workers. And some people may lose from such reforms.

What do the data say? And what can economic policy makers do to achieve better results? The OECD has gathered, harmonised and probed micro-level data covering individual households in 26 countries over the past two decades to answer these questions.

A key conclusion is that reforms that improve competition in goods and services markets generally boost job-finding chances for people out of work (Figure 1). At the same time, they do not increase job-loss rates much, so that overall they have a small but positive net effect on employment. This micro-level finding that pro-competition reforms boost employment corroborates previous OECD and other research identified at the macro level: such confluence of different studies using different methods is reassuring about the robustness of the conclusion.

Figure 1. The chances to become employed are higher after reforms easing product market regulation



StatLink  <http://dx.doi.org/10.1787/888933436574>

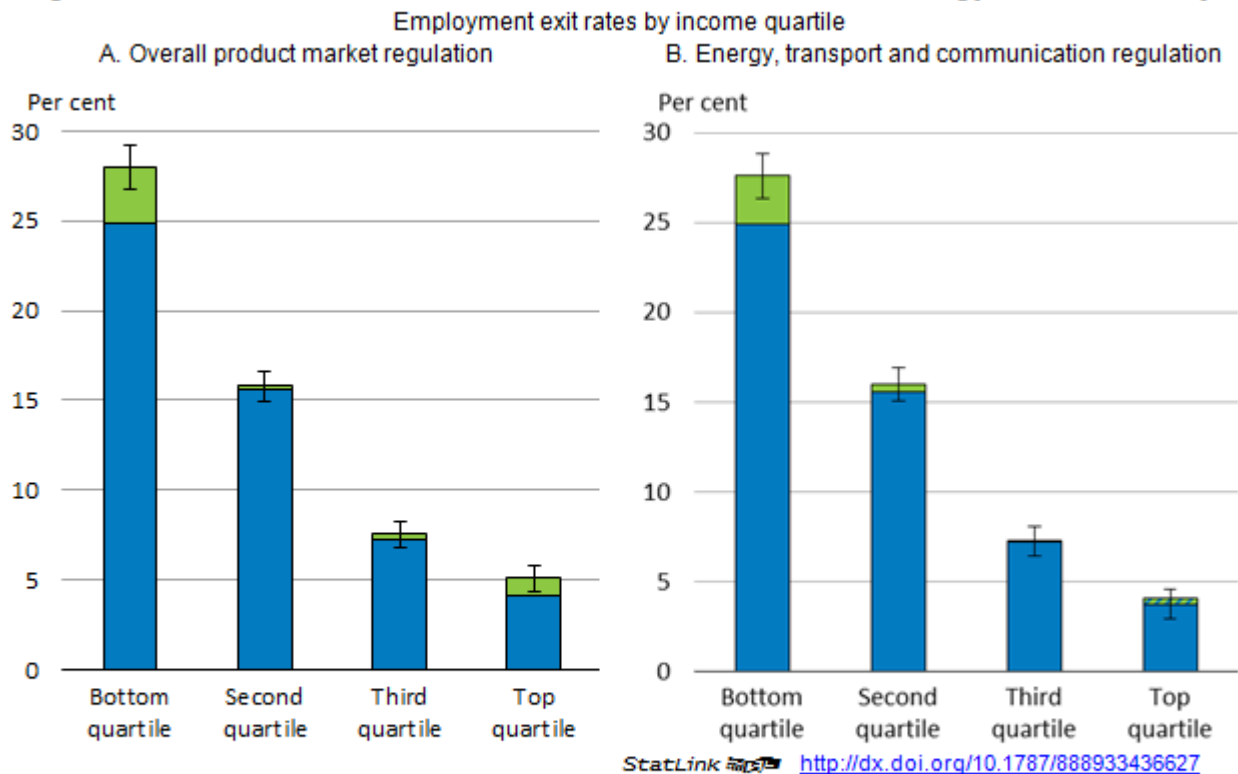
Note: The blue bars indicate the average rate across 26 OECD countries. The green bars indicate the estimated impacts of typical flexibility-enhancing reforms. For the measurement of typical reforms, see Box 2 in Cournède, Denk and Garda (2016). The effects are estimated using micro-level data over 1994-2012. Vertical segments show 90% confidence bands.

Source: Cournède, B., O. Denk, P. Garda and P. Hoeller (2016), "Enhancing Economic Flexibility: What is In It for Workers?", *OECD Economic Policy Papers*, No. 19, OECD Publishing.

Effects differ a lot across different people. The job-finding benefits of more competitive markets accrue primarily to young workers and women. More competitive markets leave jobless men's chances to find jobs essentially unchanged.

More competitive markets imply a greater number of job exits for workers who are less qualified or more generally have low earnings capacity (Figure 2). This effect adds to a starting point where, in the absence of reform, low-income workers already face a much higher risk than others to become unemployed or quit the labour market altogether. However, job-finding probabilities also rise, leaving employment unchanged for low-income workers. In other words, more competitive markets imply that low-income workers face higher labour market rotation, with more frequent but shorter spells out of employment, for unchanged average employment prospects over time.

Figure 2. Product market reforms increase low-income workers' risk of becoming jobless considerably



Note: The blue bars indicate the average rate across 26 OECD countries. The green bars indicate the impact of a typical product market reform (see Box 2 of Cournède, Denk and Garda, 2016). Hatched areas indicate negative effects. Black segments indicate 90% confidence intervals. Quartiles are calculated over the average monthly labour income that an individual obtained in months of the preceding year during which she or he worked. The effects are estimated with micro-level data over 1994-2012.

Source: Cournède, B., O. Denk, P. Garda and P. Hoeller (2016), "Enhancing Economic Flexibility: What is In It for Workers?", *OECD Economic Policy Papers*, No. 19, OECD Publishing.

The greater labour market instability that pro-competition reforms generate for low-income workers calls for ensuring that employment assistance programmes reach them and are effective. These programmes are particularly helpful when they develop vulnerable workers' employability in all situations: this can be done by allowing vulnerable programmes to tap active employment assistance programmes not only when they are unemployed but also when they work or are out of the labour force.

The OECD inquiry into the effects of flexibility-enhancing reforms on workers also delved into labour market reforms, the influence of other policies and specific impacts on workers employed in reformed sectors. These areas have important policy implications that forthcoming blog posts will outline.

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