

Employment Protection and Perceived Job Security: the Mediterranean Paradox¹

La protezione dei lavoratori tra percezione e realtà: il paradosso Mediterraneo

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Riassunto: In questo articolo si analizza la relazione tra il livello di protezione dell'occupazione e come esso viene percepito dai lavoratori in Europa, con particolare attenzione ai Paesi Meditteranei. Pi precisamente, attraverso il confronto tra l'indice di protezione dell'occupazione - fornito dall'Oecd - e la *perceived job security* - ricavata dall'*European Community Household Panel* - si dimostra l'esistenza di una relazione negativa tra i due: i lavoratori che vivono nei Paesi con alti livelli di protezione dell'occupazione si sentono - *paradossalmente* - meno protetti.

Keywords: Employment protection, job security

1. Introduction

The high rates of unemployment characterizing most of the European countries in the nineties had pushed towards the necessity to increase flexibility in the labor market. In this view, several reforms introducing elements of pure flexibility (i.e. new fixed-term contracts, etc.) has been introduced in many European countries.

Nevertheless, during recent year, the increasing use of temporary employment raised the necessity, in the European Union, of balance flexibility and security. The Member States, thus, were confronted with a flexibility-security nexus. On one hand, there were a demand for increasing flexibility in order to reinforce the competitiveness of firms, sectors and countries. On the other hand, workers demanded job security, wage security and employability (Wilthagen *et al.* (2003)).

The question, however, was controversial and the difficulty to find effective policy strategies is reflected by the history of the institutional framework of the national labor markets³.

Together with an increasing attention to the cost and benefits of a greater Employment Protection, an increasing attention has been devoted to the perception of workers with respect to the job security, considering also that it has several potential broad implications in term of investment on job-specific skill, job mobility, consumption and savings, health job-related issues.

A lot of work has been done to identify the determinants of the level of job security in term of individuals characteristics⁴. Less attention, instead, has been devoted to the re-

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³See Oecd (2004a) for further considerations about the costs and benefit of greater job security.

⁴See, for example, Givord and Maurin (2003), Manski and Straub (1999), Clark *et al.* (1996), Clark (1997), Clark (1998), Clark *et al.* (2001).

relationship between the perceived job security and the institutions/rules that regulate the labor market⁵.

The aim of this paper is then to stress the relationship between Employment protection and perceived job security, with particular attention to the Mediterranean countries.

The EPL (Employment Protection Legislation) index, provided by Oecd has been used as a measure of the strictness of Employment Protection. The perceived job security has been measured using data from the ECHP (European Community Household Panel) Survey. The paper is organized as follow. Section 2 describes the measures of employment protection and perceived job security. Section 3 analyzes the relationship between the two measures. Finally, section 4 offers some concluding remark.

2. The measures

2.1 EPL index

The employment protection legislation - a set of rules governing the hiring and the firing process - can be provided through both labor legislation and collective bargaining agreements. The measure of employment protection developed by the Oecd is mainly based on legislative provisions, but it also incorporates some aspects of contractual provisions and judicial practices (Oecd (2004b)).

The indicator of employment protection refers to the protection of *regular employment* and the regulation of *temporary work* and is intended to measure the strictness of EPL (Oecd (2004b)).

More precisely, the overall summary measure of EPL strictness⁶ relies on three main components related to protection of regular workers against individual dismissal, specific requirements for collective dismissal and regulation forms of employment (Oecd (2004b)).

- *Individual dismissal*: three main areas are considered: difficulty of dismissal (conditions for "fair" dismissal); procedural inconveniences that the employer may face when starting the dismissal process; notice and severance pay provisions.
- *Collective dismissal*: refers to additional delays and procedures required which go beyond those applicable for individual dismissal.
- *Fixed-term contracts and temporary work*: is intended to measure the restrictions on the use of temporary employment by firms, with respect to the type of work for which these contracts are allowed and their duration.

⁵See, for example, Clark and Postel-Vinay (2005)

⁶The EPL index use a scale from 1 to 6, where 1 indicates the lowest level of protection and 6 the highest level of protection.

Figure 1: *The overall EPL index for the European countries late 90s (Oecd).*

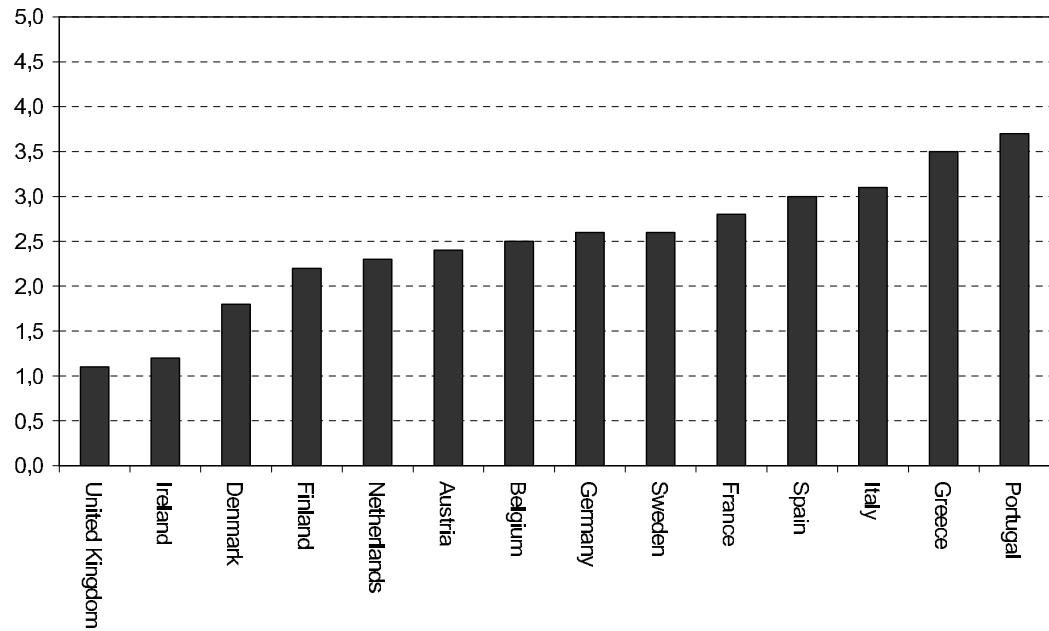


Figure 2: *The individual dismissal EPL index for the European countries late 90s (Oecd).*

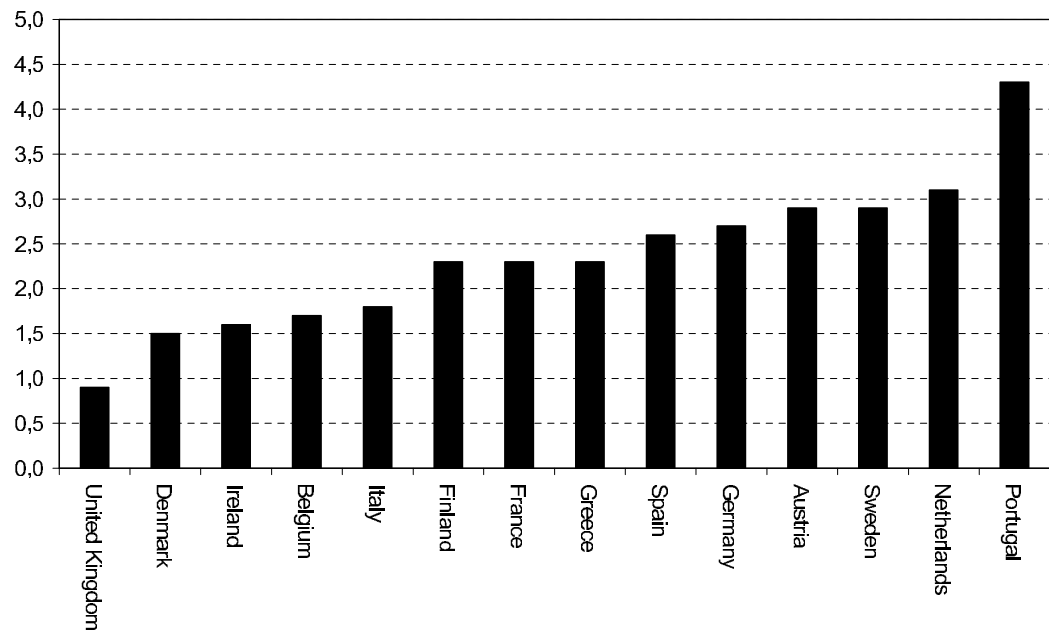


Figure 3: *The temporary employment EPL index for the European countries late 90s (Oecd).*

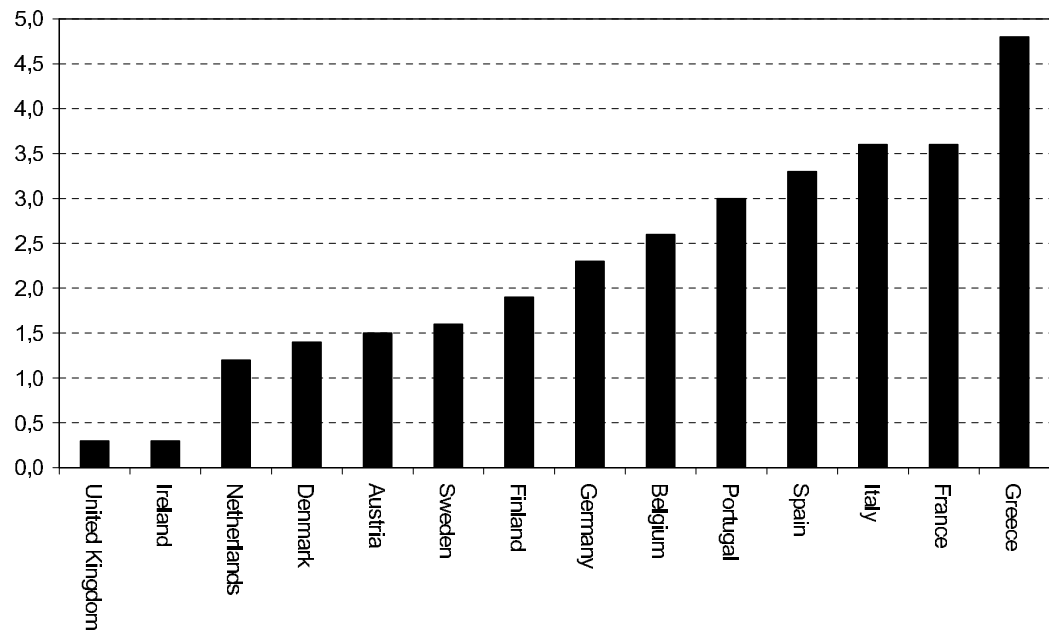
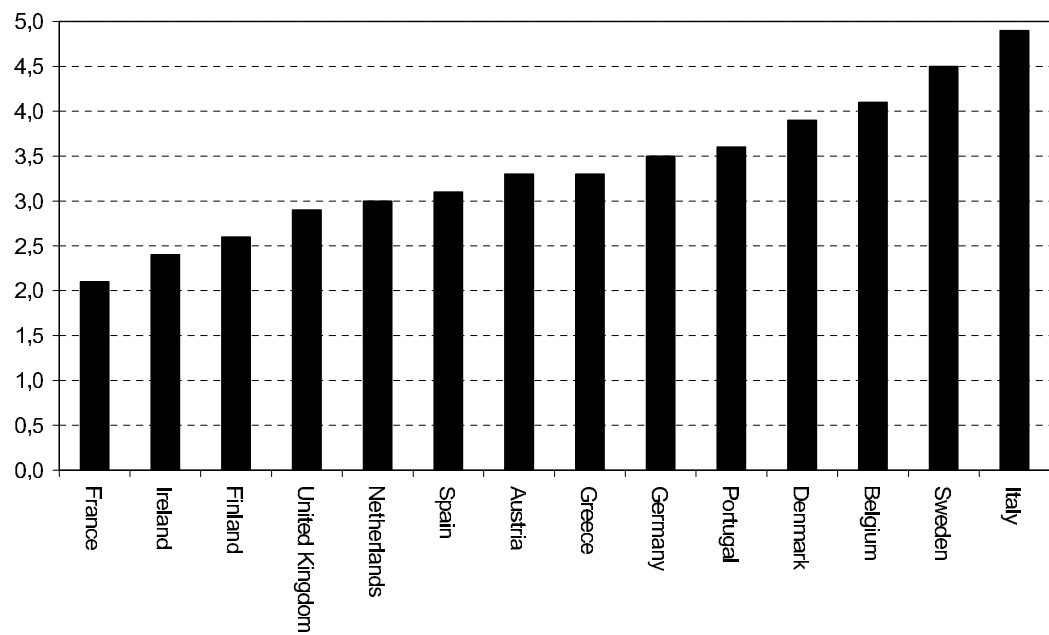


Figure 4: *The collective dismissal EPL index for the European countries late 90s (Oecd).*



In figure 1 the level of the overall EPL index for a group of European countries is displayed. The main message coming from this graph is the well-known distinction between Mediterranean countries and North-Western countries: the first group (i.e. Italy, Spain, Portugal and Greece) is characterized by a high level of Employment Protection (between 3.0 and 3.8), while the second (i.e. Great Britain, Denmark, Finland) presents looser rules EPL (between 1.0 and 2.0).

In figures 2 to 4 the three main components of the EPL index are analyzed separately. Looking to the Mediterranean countries, it's interesting to notice that Portugal presents high levels of rigidity both in rules for individual dismissal, collective dismissal and temporary employment. Italy, differently with respect to the "common thought", presents looser restriction (with respect to other European countries) in term of individual dismissals that are compensated with very strict legislation for temporary employment and collective dismissals. To conclude, Spain has a relative high level of protection in all the three components.

2.2 Job Security

In last years, given the increasing interest about the perceived job security, many surveys introduced questions about this issue⁷.

Typically, survey questions on job security appear in two broad form. Most commonly, individuals are asked to report their degree of satisfaction with respect to their job security. A typical "satisfaction" formulation would be *"How satisfied are you with your present job or business in term of job security?"* followed by a verbal scale such as "Very satisfied, somewhat satisfied,...". An alternative formulation is the use of a "probabilistic" question. Here a typical wording would be: *"What do you think is the percent chance that you will lose your job during the next 12 months"* (Clark and Postel-Vinay (2005)).

In this paper, the European Community Household Panel (ECHP) data are used. The ECHP is a cross-sectional longitudinal survey focusing on household income and living conditions: information on health, education, housing, migration, demographics, employment characteristics and satisfaction are provided.

In the ECHP questionnaire, the question on job security is inserted in a wide range of questions regarding personal satisfaction. It has a typical "satisfaction" formulation and the exact wording is as follow:

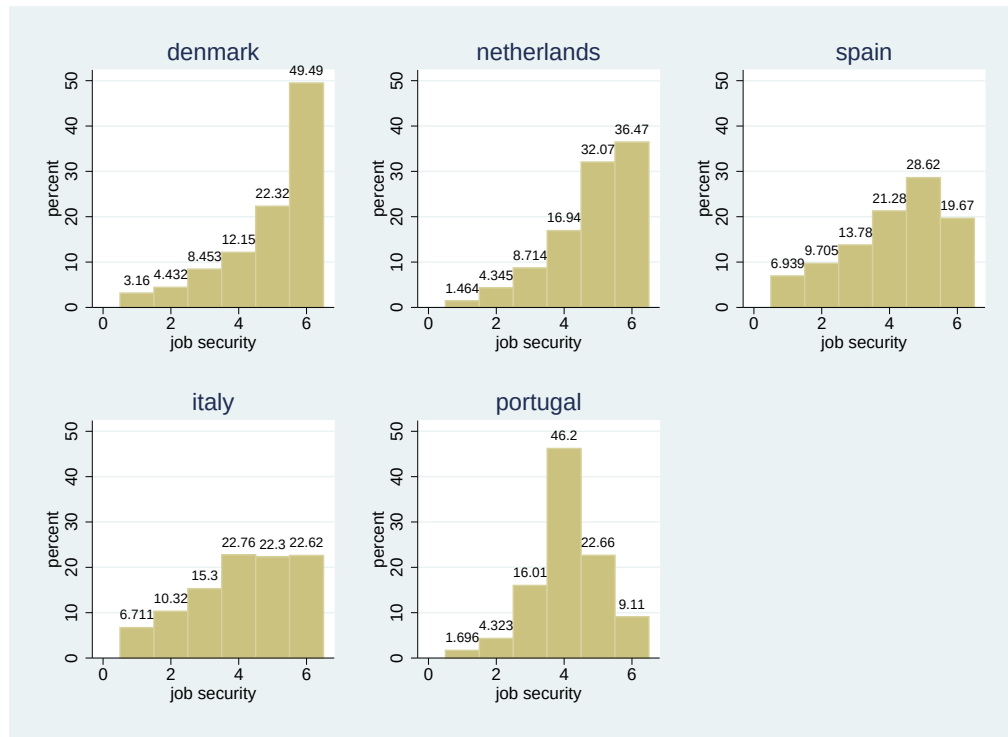
Question: *"How satisfied are you with your present job or business in terms of job security? Using a scale from 1 to 6, please indicate your degree of satisfaction. Position 1 means that you are not satisfied at all, and 6 that you are fully satisfied"*.

In figure 5, the distribution of replies relative to the perceived job security in 1997 for 5 European countries are presented⁸.

⁷See, for example the ISSP survey on "Work Orientation", Bank of Italy SHIW Survey

⁸For simplicity reasons I consider only 5 out of 12 European countries. In particular, I choose 3 Mediterranean countries, i.e. Italy, Spain and Portugal and 2 North-Western countries, i.e. Denmark and Netherlands.

Figure 5: *Distribution of perceived job security - ECHP 1997*



Looking at the perceived job security, the countries could be divided another time in two groups: the first one is composed by the Mediterranean countries and the second by the two Northern countries. In particular, in Denmark and Netherlands about two thirds of respondent are very satisfied (i.e. position 5 and 6 in the satisfaction ranking) in term of job security (about 72% for Denmark and 68% for Netherlands); in Italy and Spain, about half of respondents are very satisfied (about 48% for Spain and 44% for Italy); in Portugal only the 31% are highly satisfied.

Looking at the less satisfied position, it's interesting to notice that about 62% of Portuguese are not completely satisfied and about 15% of Spanish and Italian (16% for Spain and 17% for Italy) are not satisfied at all in term of job security.

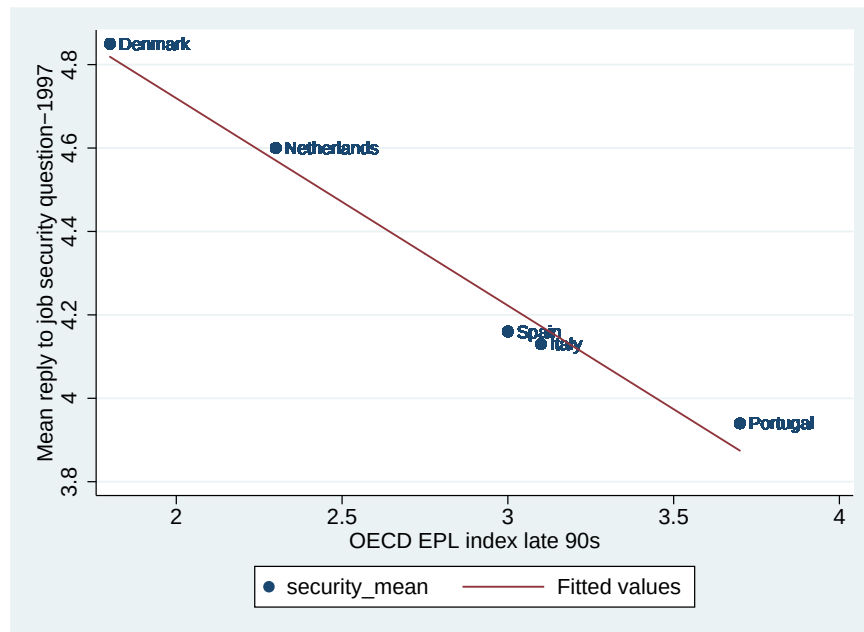
The picture coming from this general analysis of the ECHP evidences that the Mediterranean countries are characterized by higher level of insecurity than the Northern countries.

3. EPL versus job security

The analysis of the two measures gives the idea of the existence of a link between Employment protection and perceived job security.

In order to verify the existence of this link I first plot (figure 6) the EPL index - relative to the late 90s - versus the average level of perceived job security for the 5 European countries (i.e. Denmark, Netherlands, Spain, Italy and Portugal) in 1997.

Figure 6: *Employment protection and perceived job security*



In figure 6 it appears a clear link between the level of Employment Protection and the perceived job security. More precisely, there is a negative relationship between EPL e job security, i.e. countries where there is a stricter EPL the workers feel less secure. In fact, at the upper-left part of the graph there is Denmark (with EPL index equal to 1.8 and average perceived job security equal to 4.8) and at the lower-right part there is Portugal (with EPL index equal to 3.8 and average perceived job security equal to 3.9).

In more analytical manner, it's possible to individualize the existence of this negative relationship regressing the perceived job security on a set of variables composed by individual characteristics and the EPL index. More precisely, I run an ordered probit estimation.

A summary of the estimation results are presented in table 1. Beyond the well-known results concerning the individuals determinants of the perceived job security, the most important results is the coefficient related to the EPL index. In fact, the level of Employment Protection has a negative and highly significant effect on the probability of increase the security feeling of the workers.

The same results come out also from Clark and Postel-Vinay (2005) where, using data from ECHP for 12 European countries, the authors found a negative relationship between job security and job protection.

Table 1: *Estimation results*

Variables	Coefficients
Age	−0.378* (0.007)
Agesq	0.011* (0.000)
Permanent job	1.014* (0.027)
Past unemployment	−0.132* (0.026)
EPL	−0.158* (0.038)

3.1 An example: 1997 Spain

In order to give an example of the existence of this negative relationship between Employment protection and perceived job security, it's interesting to look at the reform introduced in Spain in 1997.

This reform had the aim to introduce more security in the Spanish labor market through the introduction of new permanent contracts with lower firing costs, reducing, in this way, the strictness of EPL. More specifically, it promoted the use of this new restrictive permanent contracts to hire some specific groups (temporary workers with less than 30 years of age and with more than 45 years of age, long term unemployed, women under-represented in their occupations and disabled workers).

According to what shown before, this reform had the effect of increasing the perceived job security of the workers, in particular the younger (See, table 2)Trevisan (2007).

Table 2: *Effects on perceived job security*

	1st treatment-1st control	1st treatment-2nd control
N.Obs.		
Treatment	422	260
Control	458	385
<i>Effect</i>	0.221** (0.102)	0.256** (0.103)

4. Conclusion

In this paper, we highlight the existence of a relationship between Employment protection and perceived job security. In fact, the comparison between the EPL index provided by Oecd and the level of perceived job security drawn from the ECHP data, shows a negative and highly significant correlation.

The existence of this "paradox" between real protection and perception of risk, in particular for the Mediterranean countries raises an important question, as highlighted in (Accornero (2006), speaking about Italy:

*Come mai l'immagine che ci siamo fatti in Italia circa la precarietà del lavoro
é piú fosca di quella che ci forniscono le grandezze sul mercato del lavoro?*

There could be several reasons behind this "paradox". First of all, there might be some unobservable country specific effects that induce individuals to be more or less satisfied in term of job security. Secondly, the structure of the labor market is also important. In fact, the Mediterranean countries, that show the highest level of insecurity together with the highest level of protection, are frequently characterized by high rate of unemployment and low level of unemployment benefit. These characteristics might make the cost of job loss very high.

To find a way to solve this "paradox" is not a trivial process. However, it should be one of the main issue in the "labor" agenda of the governments.

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