

Labour Market Adjustments in Europe

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other insider/outsider pairs, like younger versus prime-age workers or union versus non-union members.

Note

1. Examples of models which combine barriers to entry with explicit monopolistic competition among firms are Blanchard and Giavazzi (2003) and Ebell and Haefke (2003, 2004).

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5. On the determinants of job flows in Europe: sectoral factors and institutions

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1. INTRODUCTION

The access to longitudinal firm databases has allowed the development of an empirical literature that examines the process of job creation, job destruction and, more generally, job reallocation at the firm level. This literature has allowed a better understanding of the behaviour of gross flows that are behind net employment changes. Indeed, we have learnt that two economies with broadly similar employment growth patterns can be characterized by significantly different underlying flows, that is, firms' behaviour. Moreover, gross job flows may be considered a proxy for labour market flexibility to the extent that they provide a measure of the responsiveness of the labour market to changes in economic conditions. On the theoretical side, differences in the stylized facts of job flows across countries have led to the development of theories that try to link these differences with the institutional framework of labour markets.

Available studies show that job creation and destruction coexist independently of the cyclical position of the economy, that is, when overall employment is both expanding or decreasing, showing that the adjustment process in the labour market is complex and the behaviour of firms is heterogeneous. Figure 5.1 illustrates the process of job reallocation. One limitation of most of the studies presenting international comparisons of job flows is the lack of comparability (OECD 1994). This is related to the fact that different sources could refer to different concepts, such as firm or establishment, different time intervals or periodicity, and, more importantly, different sectoral coverage. All these factors should be taken into account to get reliable conclusions.

In this chapter we examine cross-sectional patterns of job flows for 16 European countries using a unique homogeneous dataset of continuing

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