

How uncertainty on labour markets is bad for you? An international perspective

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In OECD countries, the recent years have been characterized by a trend towards more flexibility on the labor market (with lower firing costs and unemployment benefits as documented by Nickell, et al. 2005). These policies aim at boosting employment in sclerotic labor markets but they maybe increase uncertainty along the lifecycle. At the same time, people in the some countries have worse average health than others countries and there are different longevity rates across countries. This project aims at shedding light on the pros and cons of such flexibility of employment policies by measuring the trade-off between the benefits of a lower unemployment rate and the potential deterioration in workers' health conditions. We want to measure to what extent a more flexible environment on the labor market can give rise to a faster deterioration in health prior to retirement, thereby shedding a new light on the policy debate about employment and retirement policies.

We will develop a heterogeneous agent life – cycle model with savings and retirement decisions, We will include a demand for health model following models with endogenous longevity (Hall and Jones 2007 and Fonseca et al., 2013). Existing work documents how health coverage and health conditions affect retirement decisions (French and Jones, 2011, among others). The reverse causality is also explored. Employment or unemployment affects health spending, through an income effect. In this project, we want to investigate how labor market transitions modify health, beyond this income effect. We will study how increased flexibility on the labor market might deteriorate workers' health conditions. In order to specify this link in our model, we will dwell on health studies relating work conditions to health (Goldman et al., 2009, Salm (2009)). We will modelize in the model how uncertainty can affect your health via stress factors. For example, losing a job in the U.S. is associated to a decrease in income, while losing a job in other European country with unemployment benefits this decrease may be not so large. This could create a health deterioration larger in the U.S. versus other European country via the stress suffered with the job joss uncertainty.

Using the model, we will assess the impact of increased labor market flexibility in an economy with limited unemployment insurance coverage (US) versus prevalent insurance (Europe), which would then illustrate how economic policy can affect the trade-off between increased employment and deterioration in workers' health conditions via the economy uncertainty.

References cited

Nickell, et al. 2005

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