

CAPTURING TALENT: GENERATION Y AND EUROPEAN LABOR
MARKETS

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Gayle Allard

Raquel Martín

Cristina Simón

Gayle.allard@ie.edu
IE Business School
M^a de Molina 11, 13,15
28006 Madrid
Tel. 91 56 89 600

Raquel.martin@ie.edu
IE Business School
M^a de Molina 11, 13,15
28006 Madrid
Tel. 91 56 89 600

Cristina.simon@ie.edu
IE Business School
M^a de Molina 11, 13,15
28006 Madrid
Tel. 91 56 89 600

Abstract

This study explores the challenge of capturing talent from both the political and the management level in Western Europe. It begins by identifying the special characteristics of Generation Y: those born since 1980 and recently joining national labor forces. It then evaluates the rigidity of labor markets in the European countries, dividing them into most and least regulated and exploring some of the labor-market characteristics that accompany those extremes. Finally, it identifies the employment aspirations of Generation Y, and contrasts them with the realities of young workers on national job markets. It closes by offering suggestions for both managers and policymakers that could bring those aspirations closer to reality, and help firms and countries to capture the talent of the youngest workers.

Key words

Generation Y, talent, human resources.

INTRODUCTION

The race to maintain a competitive edge has become a permanent feature of the globalized world of the 21st century. As massive numbers of low-wage workers in China, India and other emerging markets join the world's productive system, the challenge for developed countries and their firms is to specialize in those higher value-added activities that are still relatively isolated from the fierce competition of low-cost producers. In these sectors, technology and highly skilled workers have become the key assets. Competitiveness today thus hinges on the ability to capture talent, especially the talent of young, well educated, internationally oriented and trainable workers.

Yet the pursuit of young talent leads companies and nations into a peculiar dilemma. Although data show that successive new generations have more schooling than any of their predecessors, other indicators and anecdotal evidence hint that educational systems in many countries are failing to produce young professionals with rigorous training and practical skills. This relative scarcity of qualified people, combined with rapid expansion of high value-added sectors, has resulted in labor shortages in many countries and market segments, and an intense international competition for these workers. At the same time, the workers in high-income countries whose educational levels are insufficient for them to fill jobs with high skill content find themselves competing more and more directly with the unskilled, low-wage workers in emerging economies. The result is an excess supply of labor and declining wages in the low-skilled segment of the market.

Much evidence points to this duality in the labor markets of developed countries. Data on the employment situation of workers with different educational attainments consistently shows that the least educated workers are the most likely to experience unemployment spells or precarious jobs (see table 1 below). Meanwhile, recent OECD figures on the educational attainment of immigrants and emigrants point to a substantial "brain drain" from some developed countries to others, with most European nations losing a net 3% or more of their highly skilled population to markets like Switzerland, with its collection of international institutions, or Canada, Australia and the United States, with their deregulated markets, lower taxes and abundant employment opportunities (see Figure 1 below). The European Commission estimates that some 400,000 European scientific workers have emigrated to the United States and are currently working in its high-tech sectors¹. Clearly, the labor markets for the highly skilled are "tight" and competitive, while the unskilled market is a "buyers'" market for firms.

¹ Cited in La Caixa, Servicio de Estudios no. 301, abril 2007, p. 29.

	Unemployment rate		
	Education level		
	Low	Medium	High
Ireland	7,3	3,7	2,2
United Kingdom	8,8	4,7	2,3
Denmark	7	4,5	3,5
Switzerland	4,8	3,1	1,9
Belgium	10	6,8	3
Finland	18,7	10,3	4,3
Germany	15,6	10,4	4,4
Sweden	8	5,3	2,9
Austria	8,6	3,8	2,2
Norway	8	3,6	2,9
Netherlands	3,3	1,8	1,5
France	12,2	7,9	5,8
Greece	8,7	12,4	7
Portugal	6,7	6,4	4,6
Spain	12,6	11,1	7,9

Table 1. Unemployment rate by education level. OCDE

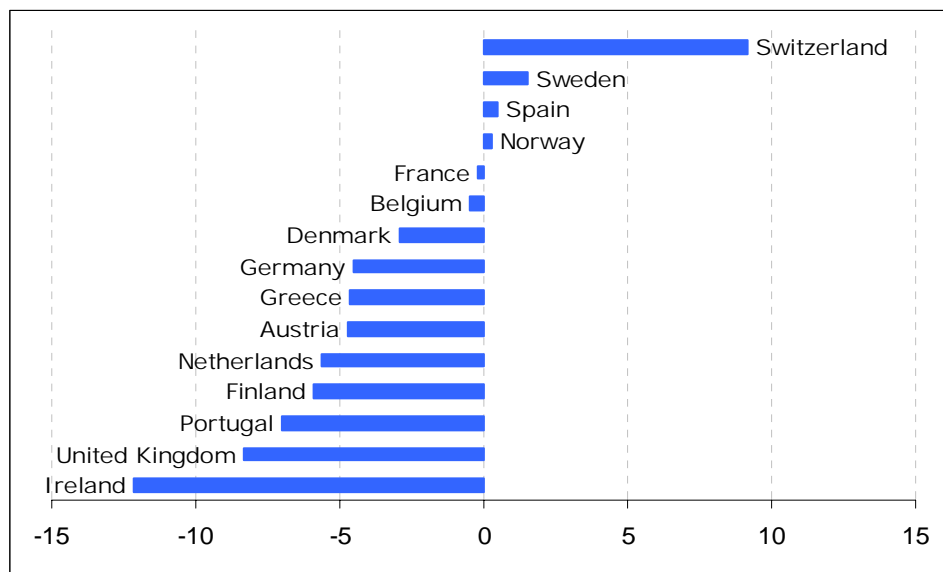


Figure 1: Net skilled (tertiary education) migration within OECD countries, as % of skilled native population, 2000. (Negative numbers indicate net outward migration to other OECD countries, while positive numbers indicate net inward migration.) Source: OECD.

This duality poses a special challenge both for governments and for the managers of human resources at the firm level. On the one hand, markets must be flexible enough to keep companies from taking their less skilled jobs into lower-wage countries. On the other hand, the jobs with a high skill content must be attractive enough to capture the

relatively scarce skilled workers and keep them from migrating elsewhere. The balancing act is a difficult one.

This study makes a first approximation to the challenge of capturing talent from both the political and the management level, in the countries of Western Europe. It begins by identifying the special characteristics of the young generation that is the object of companies' particular interest in Europe: Generation Y, which encompasses those born since 1980 and recently joining national labor forces. It then evaluates the rigidity of labor markets in the European countries, dividing them into most and least regulated and exploring some of the labor-market characteristics that accompany those extremes. Finally, it identifies the employment aspirations that are peculiar to Generation Y, and contrasts them with the realities of young workers on national job markets. It closes by offering some suggestions for both human resource managers and national policymakers that could bring those aspirations more into line with reality, and help both firms and countries to capture the talent of the youngest workers. The study hopes to make a contribution to addressing the unique employment challenges that face developed countries in the 21st century.

Generational groups, values and attitudes toward work

The values and attitudes that are characteristic of different generational groups have long attracted notice, particularly in the United States and more recently in Europe (Zemke et al, 2000; Kehrli and Sopp, 2006; Nugent, 2006; Kyles, 2005; Lancaster, 2002; *Generation Europe and the Future Work Forum*, 2006). The U.S. literature divides current generations into four groups, each with its special characteristics, as follows:

- **The traditional generation** (born 1939-1946²) groups those whose childhood was marked by war or postwar periods of economic crisis and austerity. Their essential values have remained focused on defending national peace and prosperity while upholding traditional values and respect for authority. This generation took a key role in the reconstruction and development of postwar Europe, and the formation of the new business models on the continent.
- **The Baby Boom generation** (born 1947-1960), the first to be raised with television, benefited from rapidly rising living standards, and their parents lavished on them the educational and other opportunities which they had not enjoyed. The idealistic baby boomers reacted by rebelling against conventional values in the social upheaval of the 1960s and 1970s, opening the way for explosive consumerism and acceptance of divorce, birth control and abortion, as well as workaholism and rising expectations. Baby boomers currently occupy the key management positions in European firms.

² The age ranges may vary according to the different countries, and as such imply distinct historical experiences for every group. These ranges were selected because they fit best with OECD and ESS data. They are also very similar to those used by the American Psychological Association.

- **Generation X** (born 1961-1979), raised in prosperity, rebelled in turn against the values of their parents by embracing more materialistic and individualistic values. In Europe, the members of this generation are marrying later and having children in their 30s. In the workplace, they have demanded greater flexibility and room for initiative, and a better work-life balance. Members of Generation X were raised with more sophisticated technologies, making them more “tech-savvy” than their predecessors.

Generation Y (born since 1980), raised with internet and other sophisticated information technologies, also grew up with prosperity and improving labor markets. These factors have shaped their attitudes toward life and work, which appear to be both more individualistic and more demanding. The EU White Paper on Youth Policy³ reports that the young people of Generation Y maintain their distance from social and ideological movements and express a high interest in working independently or creating their own firms. Their sense of loyalty to a particular firm is more limited, while their habits of instant communication through the internet have led them to expect rapid results and feel comfortable with long-distance contact (Lancaster and Stillman, 2002).

Another characteristic of the Y generation in Europe is their long period of economic dependence on their families.

The differences between the generations in attitudes affecting business are summarized briefly in table 2 below:

	Traditional	Baby Boom	Generation X	Generation Y
Perspective	Practical	Optimistic	Skeptical	Hopeful
Professional ethic	Dedicated	Committed	Balanced	Decisive
Attitude to authority	Respect	Love/hate	Disinterest	Courtesy
Leadership by...	Hierarchy	Consensus	Competition	Collectivism
Spirit of...	Sacrifice	Self-motivation	Anti-commitment	Inclusion

Table 2. Adapted from Zemke et. al, 2000.

To determine whether these characteristics are reflected in the European reality, this study used the results of the European Social Survey (ESS), 2004 edition, for the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. The study focused first on the value systems of the different generational groups, as expressed in 21 items of the ESS. These items were grouped into 10 motivational types following the operative framework of Schwartz (1987, 1992), as shown in table 3 below:

³ 2001. *White Paper: A New Impetus for European Youth.*

POWER	Social status and prestige, control or dominance over people and resources. (social power, authority, wealth, preserving my public image)
ACHIEVEMENT	Personal success through demonstrating competence according to social standards. (successful, capable, ambitious, influential)
HEDONISM	Pleasure and sensuous gratification for oneself. (pleasure, enjoying life, self-indulgence)
STIMULATION	Excitement, novelty, and challenge in life. (daring, a varied life, an exciting life)
SELF-DIRECTION	Independent thought and action-choosing, creating, exploring. (creativity, freedom, independent, curious, choosing own goals)
UNIVERSALISM	Understanding, appreciation, tolerance and protection for the welfare of all people and for nature. (broadminded, wisdom, social justice, equality, a world at peace, a world of beauty, unity with nature, protecting the environment)
BENEVOLENCE	Preservation and enhancement of the welfare of people with whom one is in frequent personal contact. (helpful, honest, forgiving, loyal, responsible)
TRADITION	Respect, commitment and acceptance of the customs and ideas that traditional culture or religion provide the self. (humble, accepting my portion in life, devout, respect for tradition, moderate)
CONFORMITY	Restraint of actions, inclinations, and impulses likely to upset or harm others and violate social expectations or norms. (politeness, obedient, self-discipline, honoring parents and elders)
SECURITY	Safety, harmony and stability of society, of relationships, and of self. (family security, national security, social order, clean, reciprocation of favors)

Table 3. Value types (Schwartz & Bardi 2001).

The response patterns were grouped into two components: those values that are self-directed (stimulation, hedonism, achievement, self-direction and power) and those are directed toward others (tradition, security, conformity, universalism and benevolence). Figure 2 below shows how these values are distributed as a function of these two

components.

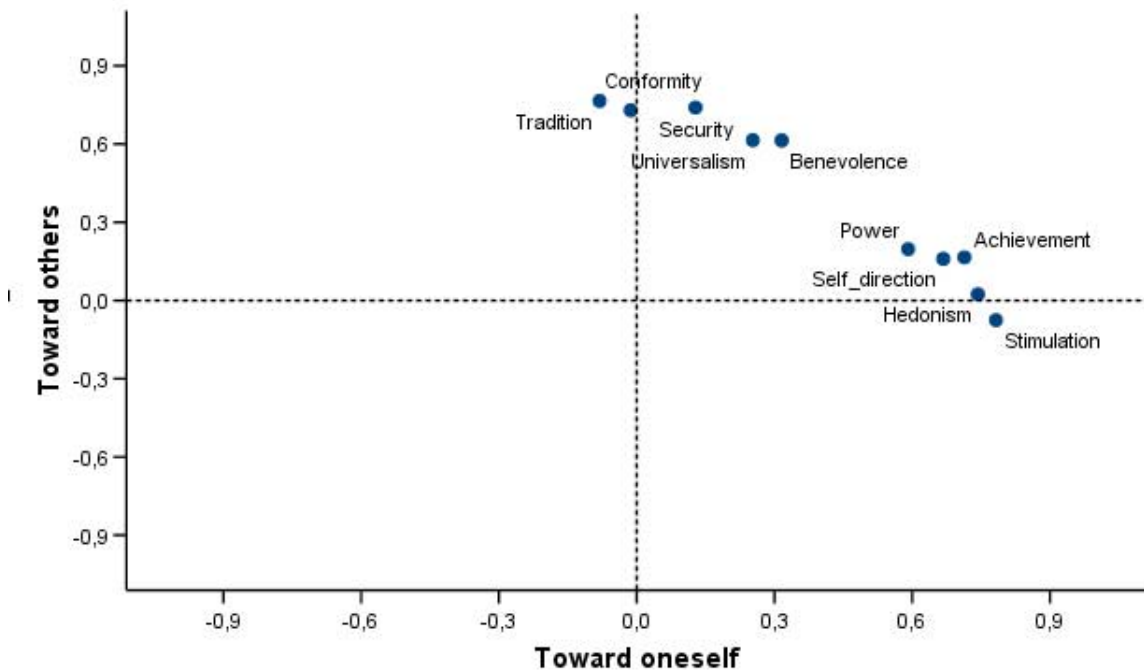


Figure 2: Distribution of components (factorial analysis of principal components).

The values of the different generational groups form an almost perfect diagonal, as can be seen in figure 3 below, with the traditional generation oriented strongly toward others, Generation Y focused heavily on self-oriented values, and the other two generations located in between the extremes⁴.

⁴ A Principal Components Analysis (PCA) was carried out in order to group values according to the different generational groups. PCA showed two clear-cut dimensions, labeled as 'orientation toward oneself' and 'orientation toward the others'. The location of each group as a function of the two dimensions is graphically shown in Figure 3.

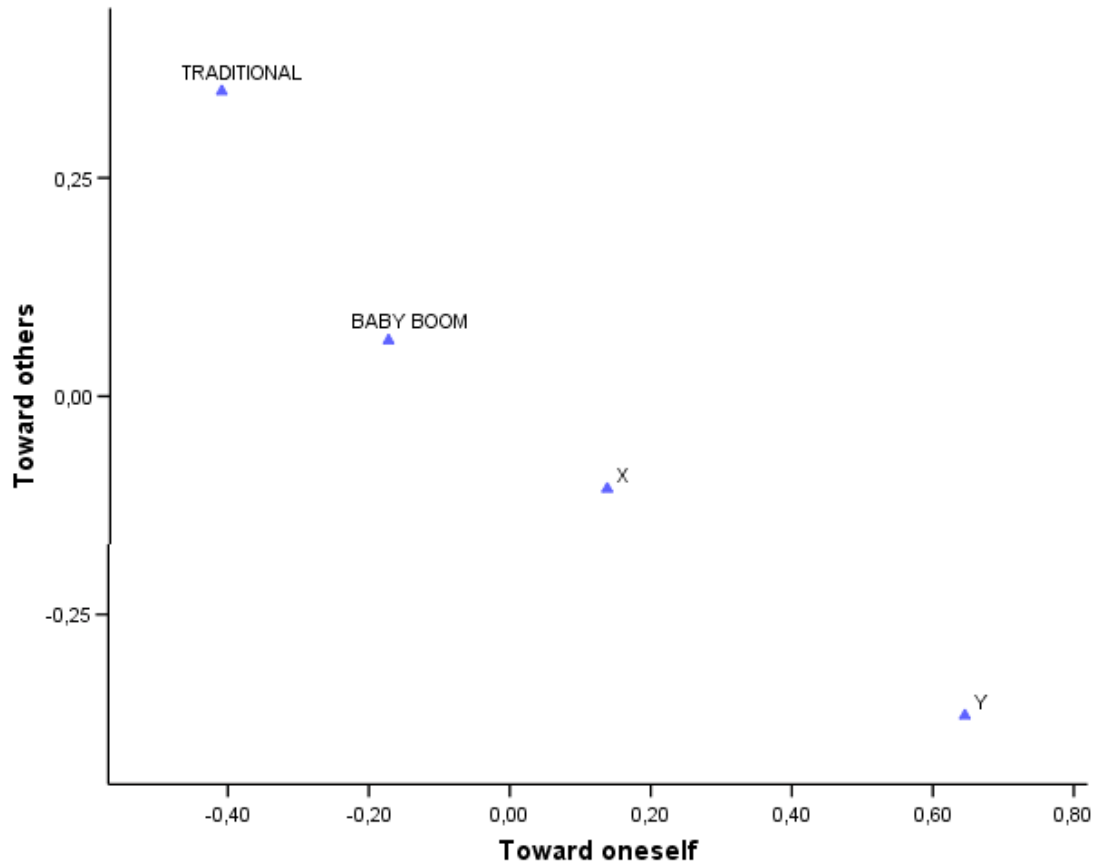


Figure 3. Components by generations.

When these same values are distributed between the components by countries, as shown in figure 4 below, some countries emerge as more individualistic (Switzerland and Austria), while Catholic Spain and Ireland show a stronger orientation toward others. Greece is an outlier with an extreme score on both components. If the values of the different generations in Spain alone are taken in comparison with other countries, all age groups show a stronger orientation toward others, within the same age distribution noted for the larger sample above (see figure 5).

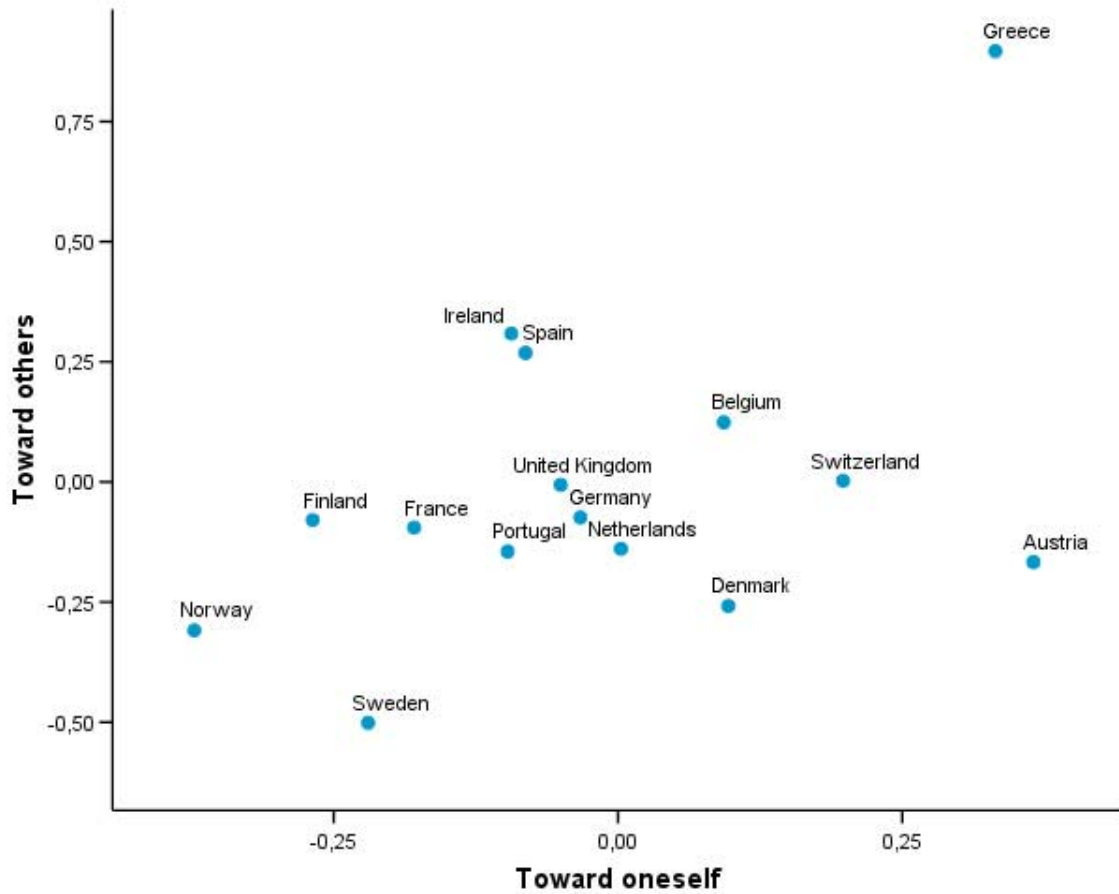


Figure 4. Components by countries.

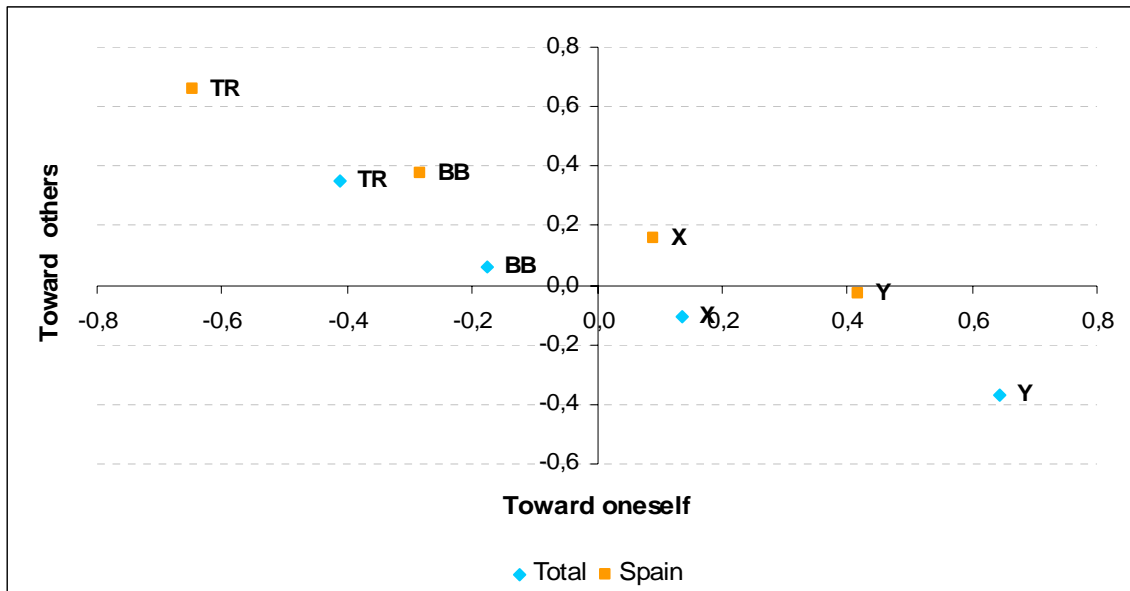


Figure 5. Components by generations: Spain vs total.

How do these different attitudes toward life affect the expectations and priorities of different generations at work? Figure 6 below, based on the answers to five questions in the ESS, shows that Generation Y workers value job security above all else, followed

by autonomy in the workplace. Pay, promotion opportunities and work-life balance are less important, although the first two are assigned greater importance by Generation Y than by other generational groups. The lack of concern for work-life balance is a logical consequence of the fact that many of Generation Y's members are neither spouses nor parents yet.

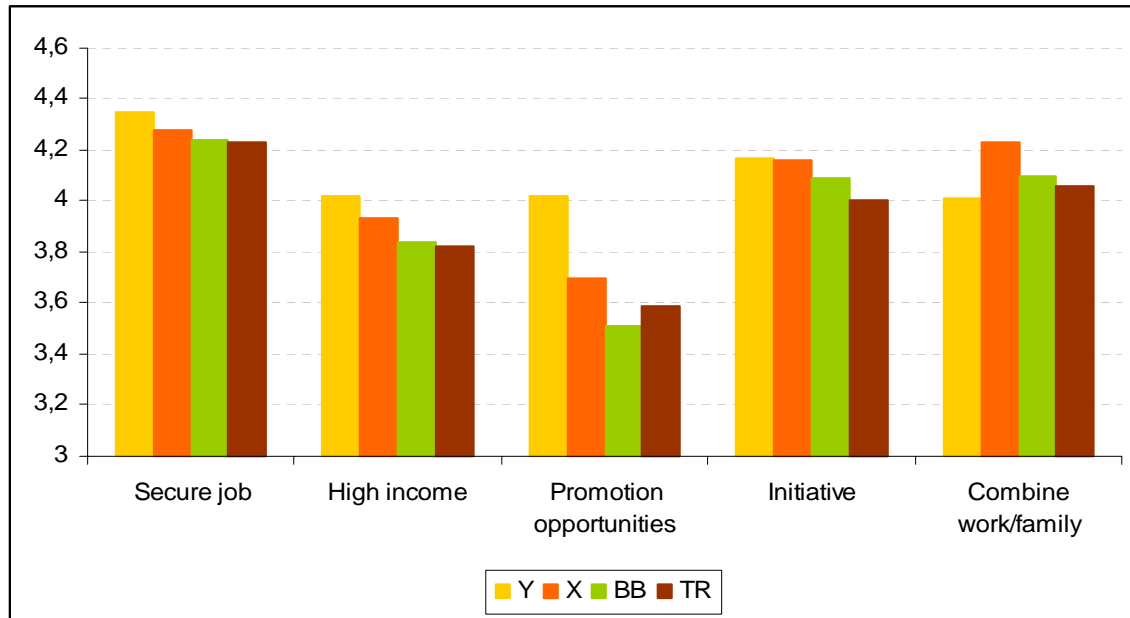


Figure 6. Priorities by generations.

Employment protection legislation: rigid vs flexible job markets

Just as they have different attitudes toward work than their elders, Generation Y workers and would-be workers find themselves in different situations in their respective national labor markets. In general, in all of the European countries in this study, young people experienced higher rates of unemployment and lower employment rates than the older population, due in part to their short job experience and to the natural period of transition into the labor market. However, in some countries the differences between the job situations of the generations were more striking, which indicates that other factors may be at work that put young people at a disadvantage in local job markets.

Within Western Europe, there are some countries where the employment rate of young people (15-24 years old) is only slightly below that of older people (25 to 54 years) in the same country. Some examples are the Netherlands, Switzerland, the United Kingdom and Denmark, where the employment rates of the two age groups are relatively similar. However, there are other countries where the employment rate of young people is less than half that of their elders, indicating that they face more difficulties integrating into national labor markets. These countries are France, Greece, Belgium, Portugal, Spain and Finland (see figure 7 below).

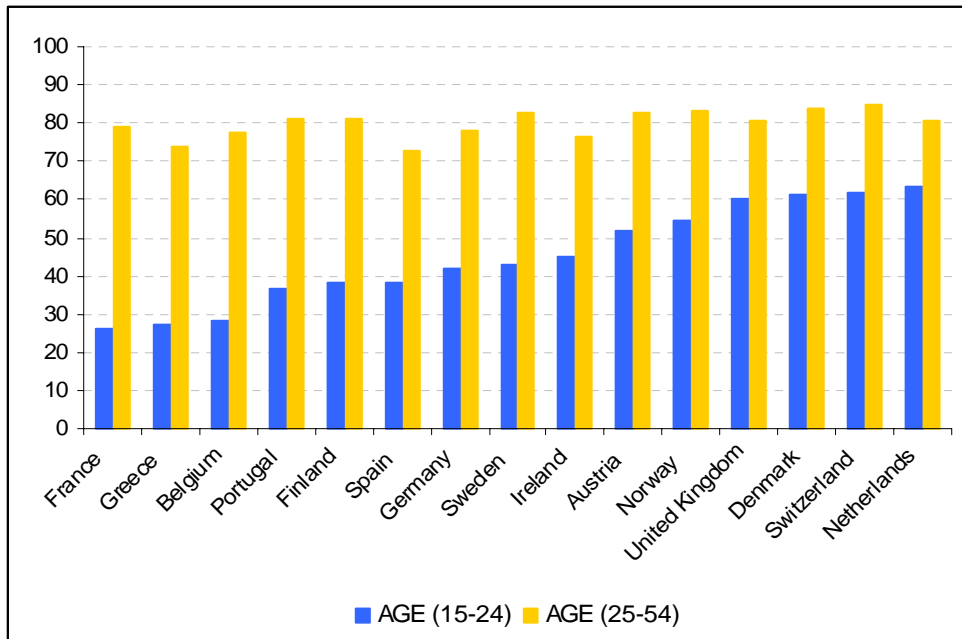


Figure 7. Employment rate of younger and older workers, 2004. Source: OECD.

Other labor market indicators also show that the young are more disadvantaged in some European countries than in others. For instance, the unemployment rate of young people is similar to that of older persons in Denmark, Switzerland and Germany; but it is significantly higher in the United Kingdom, Sweden, Norway and Greece (see figure 8 below). Additionally, young people find it much more difficult than their elders to obtain indefinite or permanent job contracts in certain countries, such as Spain, Germany, Sweden and Portugal (see figure 9 below).

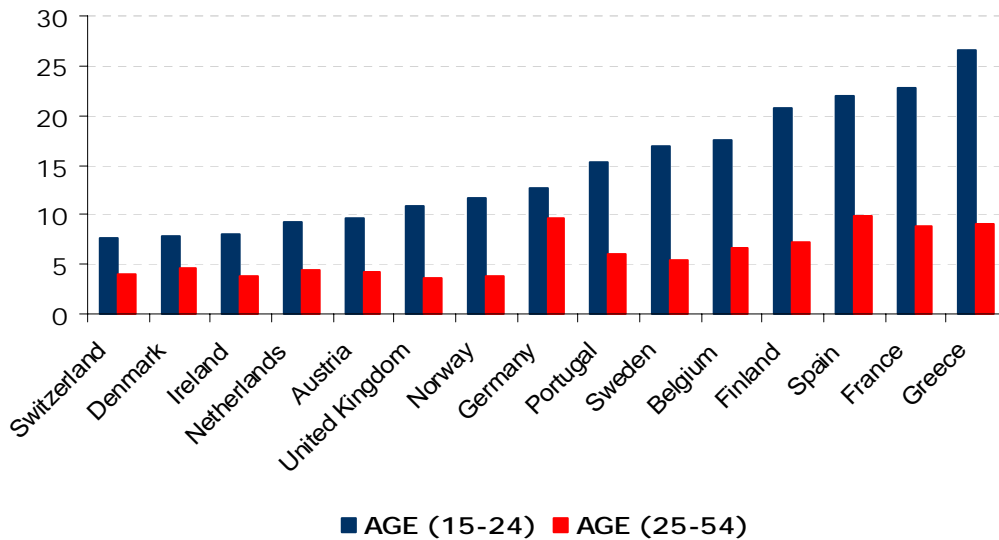


Figure 8. Unemployment rate young and older persons, 2004. Source: OECD.

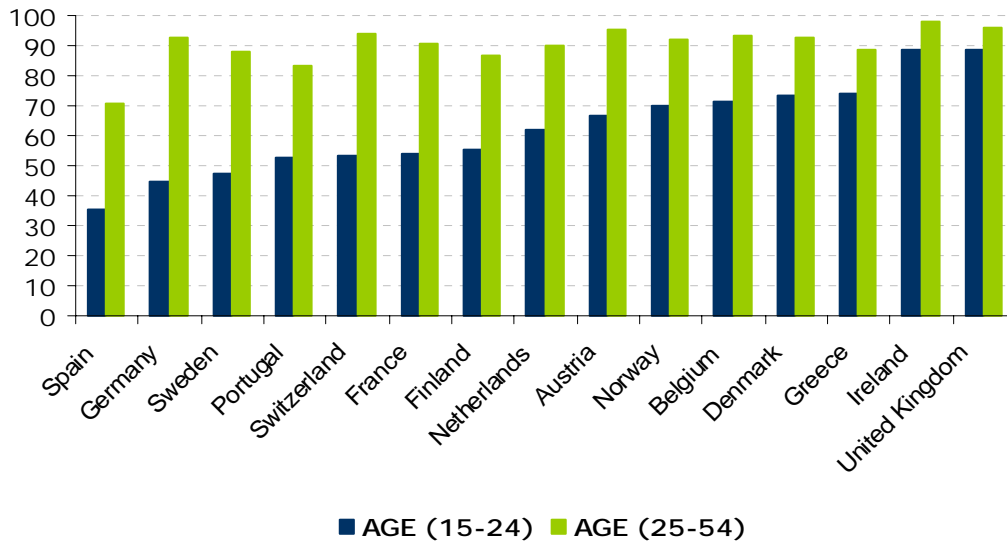


Figure 9. Young and older workers on indefinite contracts, 2004. Source: OECD.

These differences persist over time and across the business cycle: in fact, in most Western European countries the unemployment rates of young people and older people were more similar in 1994 than they were in 2004. This persistence indicates that the contrasts between countries may be linked to structural differences which make it less attractive or more difficult to hire young people. One possible explanation could be the labor legislation in different countries, which has an impact on patterns of employment and unemployment.

Employment-protection legislation

Employment-protection legislation (EPL) is the assortment of laws that protect workers against dismissal, through required severance payments, prenotification periods or prior authorization for dismissals; by specifying the terms of unfair dismissal or requiring firms to readmit unfairly dismissed workers; or by establishing a trial period after which a worker receives greater job protection. EPL may also include limitations on the use of temporary work or temporary job agencies, or special requirements for collective dismissals.

The OECD has developed an indicator to assess how strict these laws are. Its EPL indicator covers 18 different aspects of job protection and weights them in a single score, where higher numbers indicate greater job protection and lower numbers indicate a more deregulated market. On the basis of this indicator, the “rigid” labor markets in Western Europe are France, Greece, Portugal and Spain; while the “flexible” or less regulated labor markets are Denmark, Switzerland, Ireland and the United Kingdom (see Figure 10 and table 4 below).

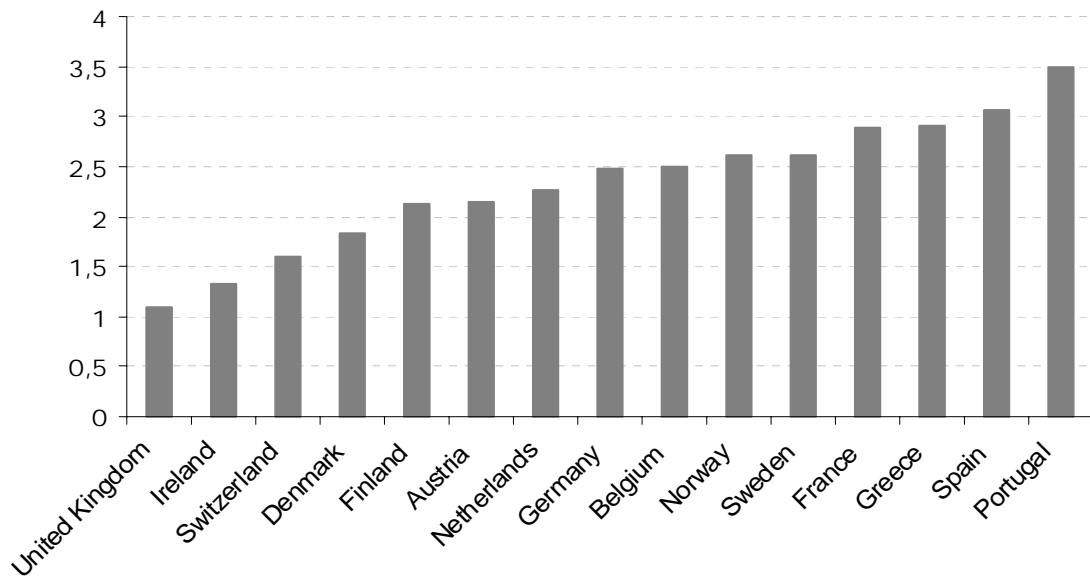


Figure 10. EPL for the countries in this study. Source: OECD, 2003.

LIBERAL	United Kingdom
	Ireland
	Switzerland
	Denmark
AVERAGE	Finland
	Austria
	Netherlands
	Germany
	Belgium
	Norway
	Sweden
PROTECTIONIST	France
	Greece
	Spain
	Portugal

Table 4. Classification of the countries in this study by their EPL scores.

Why is EPL important? There has been a lively academic and policy debate over whether rigid labor markets cause higher unemployment rates, longer jobless spells, or lower employment rates for the population in general (see, for instance, Nickell (1997), Blanchard (2000), OECD). There seems to be agreement on the fact that rigid labor laws have caused “dual” labor markets to emerge, where a core of workers (normally middle-aged white males) are protected against dismissal and a growing group that includes mainly the young, women and immigrants suffer from higher unemployment rates and have more precarious temporary jobs. The protected workers have come to be known as “insiders”, while those with little or no protection are called “outsiders” in the labor market.

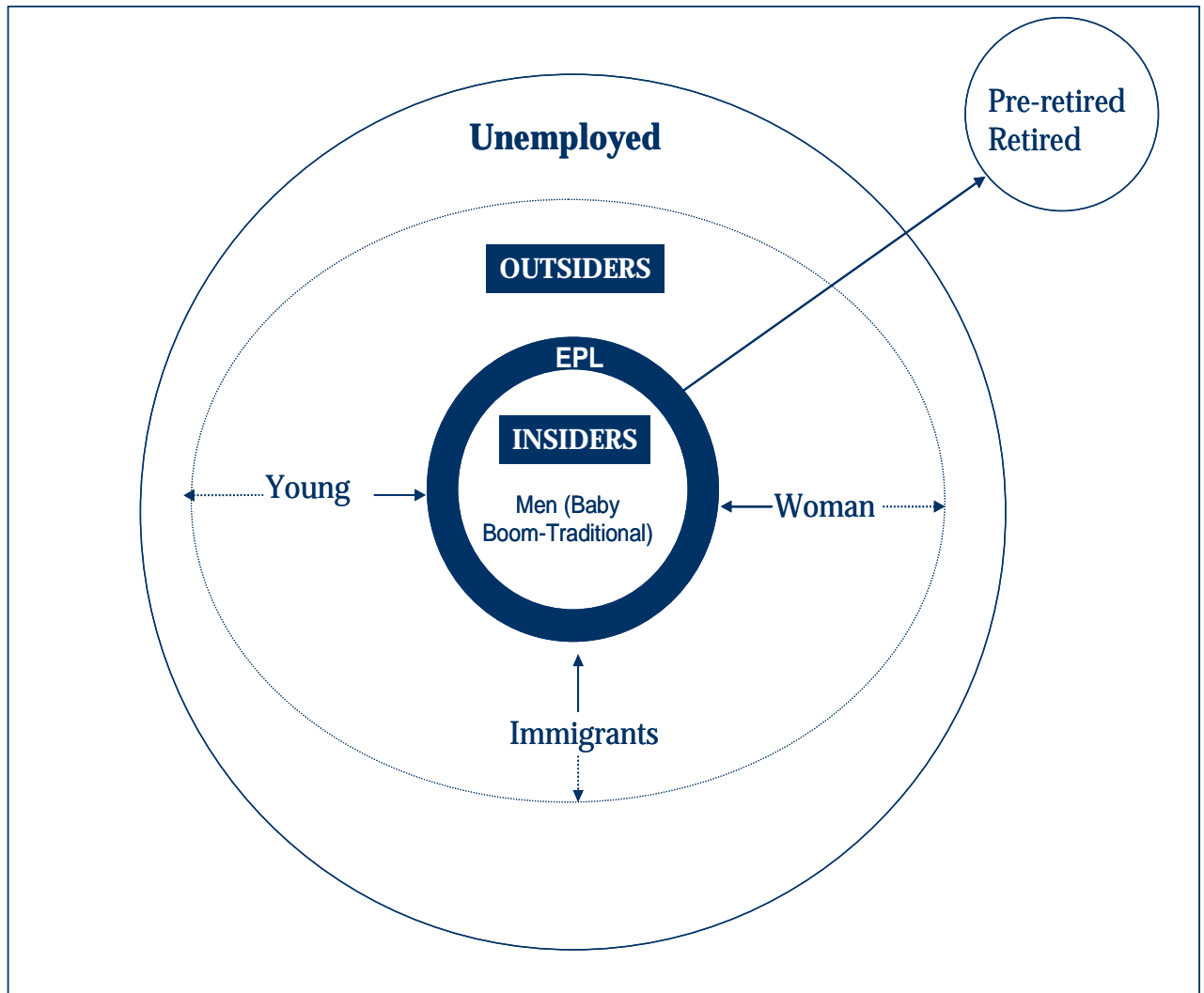


Figure 11. The insider-outsider dilemma.

The employment and unemployment data cited above indicate that young people are indeed outsiders in many European countries, particularly in the more rigid labor markets. As table 5 below shows, in the countries classified as “protectionist”, the average unemployment rate is 21.6% for young people, compared with only 8.6% in the “liberal” countries. The employment rates are also very different: in the protectionist countries the youth employment rate is only 32%, while in the liberal countries it is 57%. The participation of young people in the labor force is also substantially lower on average in the protectionist countries (41%) than in the liberal ones (62%), indicating that young people may eventually choose not to seek work given their poorer job prospects in rigid labor markets.

Country	EPL	Labor-force			
		Employment rate	participation rate	Unemployment rate	Indefinite job contract rate
Denmark	LIBERAL	61,30	66,40	7,80	73,10
Ireland		44,80	48,80	8,10	88,80
Switzerland		62,00	67,10	7,70	53,10
United Kingdom		60,10	67,40	10,90	89,00
	Average	57,05	62,43	8,63	76,00
Austria	AVERAGE	51,90	57,40	9,70	66,80
Belgium		28,10	34,00	17,50	71,40
Finland		38,10	48,10	20,80	55,30
Germany		41,90	48,00	12,60	44,50
Netherlands		63,20	69,60	9,20	62,10
Norway		54,40	61,60	11,70	70,00
Sweden		42,80	51,50	17,00	47,50
	Average	45,77	52,89	14,07	59,66
France	PROTECTIONIS	26,40	34,10	22,70	53,70
Greece		27,40	37,30	26,50	73,70
Portugal		36,90	43,60	15,30	52,60
Spain		38,40	49,20	22,00	35,20
	Average	32,28	41,05	21,63	53,80

Table 5. Labor market indicators, young population. Source: OECD.

One of the most revealing indicators, for the purpose of this study, is the much higher rate of temporary employment for young people in rigid labor markets. In protectionist countries, less than 54% of the young people on average have permanent or indefinite job contracts, compared to 76% in the liberal job markets. Young people in rigid labor markets thus have a substantially smaller possibility of obtaining secure employment. These poorer job market prospects collide with the high expressed preference for job security of Generation Y workers, as commented above.

Clearly, this job-market situation is negative for the young people concerned. For the economy as a whole, it is also a serious problem, since rigid labor markets may make it more difficult to capture and fully utilize young talent. First, high unemployment rates or low employment rates among the youth mean that part of the large amount of public spending devoted to education –about 6% of GDP each year in the developed countries- is underutilized. Additionally, high unemployment rates imply either large public outlays on unemployment benefits or a burden on families to maintain their young potential workers. In either case, households' disposable income is reduced.

The most important cost, however, may be the long-term effects that high EPL has on productivity. If strict job-protection laws boost the productivity of protected “insiders”, through the job training and experience that they acquire over years on the job, they are likely also to reduce the productivity of precarious “outsiders” who neither acquire stable experience nor receive investment in training by companies who expect to have them on their payrolls for a long period of time. Hence, overall productivity in a country over time will depend at least partly on whether the higher productivity of insiders compensates for the lower productivity of outsiders.

The macro evidence makes it clear that companies in rigid labor markets, faced with the high cost and uncertainty surrounding dismissal for insiders, have shown an increasing preference for hiring outsiders over time. In Spain –an extreme example-- 90% or more of the new contracts generated each month are temporary; and in other rigid labor markets employment of outsiders has consistently grown faster than that of insiders, and the rate of temporary employment has risen (see figure 12 below). This tendency has been aggravated by the fact that labor market “reforms” in most European countries have focused on liberalizing temporary work while leaving the high severance payments or long prenotification periods for “insiders” basically intact. As a result, it seems logical to expect that the higher productivity of a dwindling group of insiders will eventually be overwhelmed by the lower productivity of growing numbers of outsiders.

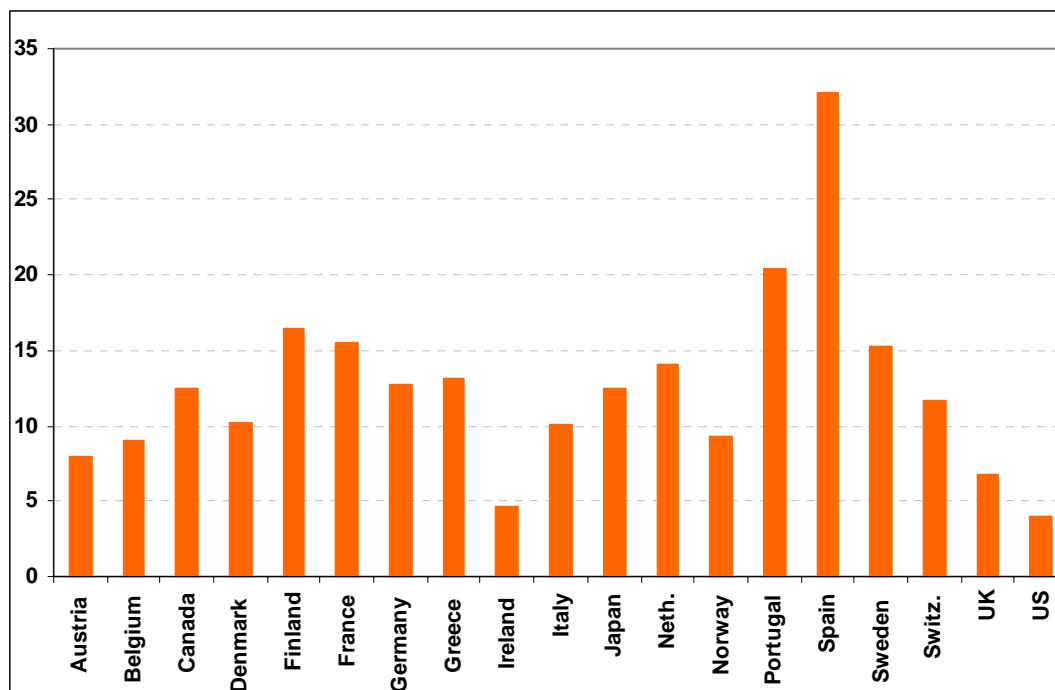


Figure 12. Temporary employment rate (%). Source: OECD, 2000.

Can the roots of the poor productivity performance of some European nations be traced back to rigid labor markets and an insider-outsider situation? It would be an oversimplification to attribute low productivity growth only to EPL, since so many other factors are involved in productivity. However, data on productivity per person and per hour worked in the 2000-2005 period show a relatively high correlation between this indicator and the rigidity of local labor markets (see figure 13 and table 6 below). The European countries with the most liberal labor markets showed substantially higher productivity in 2005 (\$35,422 on average) than the more rigid countries (\$25,153); and their productivity growth rates averaged 1.75% a year, compared with only 1.59% for the most rigid countries. It seems evident that there is some relationship between labor markets and productivity performance. (See Allard, Lindert, 2006 for this argument and the evidence).

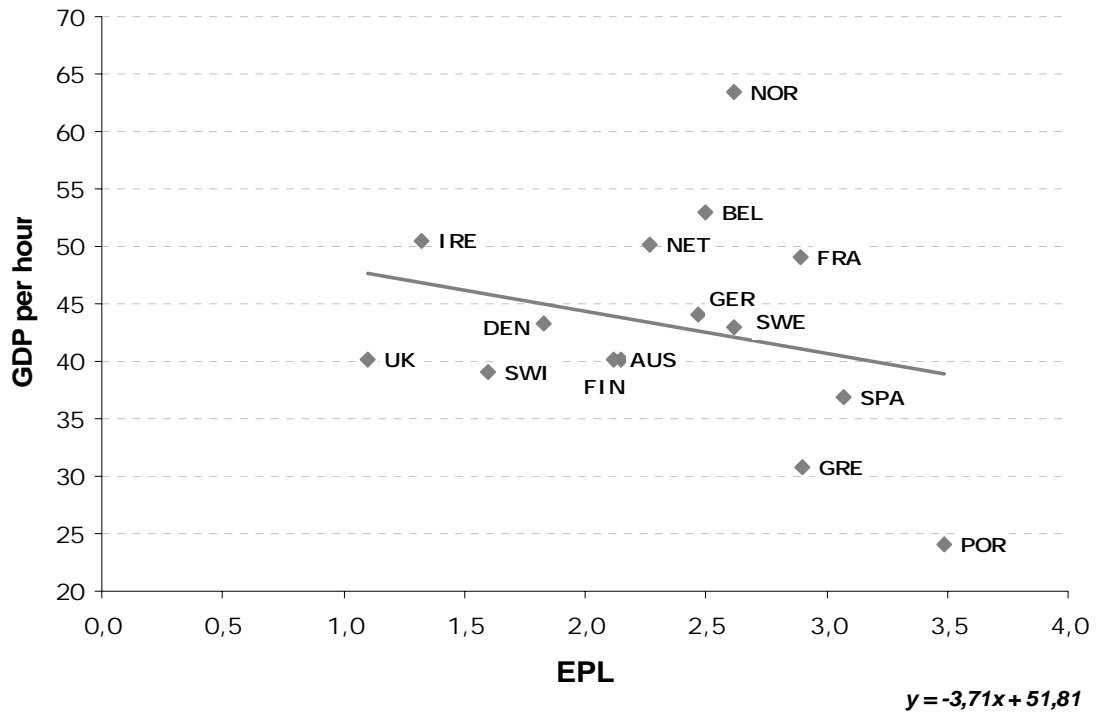


Figure 13. GDP per hour by EPL score. Source: OECD.

Country	EPL	Groups of EPL	GDP per hour (2005)	Growth GDP per hour (2000-2005)
United Kingdom	1,1	LIBERAL	40,10	2,1
Ireland	1,32		50,50	3,21
Switzerland	1,6		39,00	1,25
Denmark	1,83		43,30	1,43
Finland	2,12	AVERAGE	40,10	2,28
Austria	2,15		40,10	1,26
Netherlands	2,27		50,10	0,84
Germany	2,47		44,00	1,5
Belgium	2,5		52,90	1,19
Norway	2,62		63,50	2,5
Sweden	2,62	43,00	2,52	
France	2,89	PROTECTIONIST	49,00	1,86
Greece	2,9		30,80	3,92
Spain	3,07		36,90	0,64
Portugal	3,49		24,10	0,86

Table 6. GDP per hour and growth GDP by groups of EPL. Source: OECD.

The aspirations of Generation Y in different labor market contexts

When the values and aspirations of the different generational groups defined above are taken along with the characteristics of the local labor market, some surprising findings emerge. The protectionist countries are the most altruistic or “other”-oriented. At the same time, they are the countries that place the highest values on security, both on the job and in life in general.

When attitudes toward work and job aspirations are analyzed, a similar pattern emerges. Workers in the protectionist countries rank security and income levels above all other aspirations, including career advancement and the opportunity for initiative at work (the values are above 4 on a scale of 1 to 5 points). In the more liberal countries, opportunity for personal initiative is more important. The young workers from Generation Y are especially concerned about job security and pay (see figure 14 below). The difference in work aspirations when filtered by the characteristics of the local labor market may indicate that rigid EPL is not associated with personal initiative or risk-taking, which are features that are highly desirable for an economy that wants to move toward more innovative, higher value-added sectors. Whether this is due to the innate characteristics of the country or whether it has resulted from more rigid labor markets is impossible to determine.

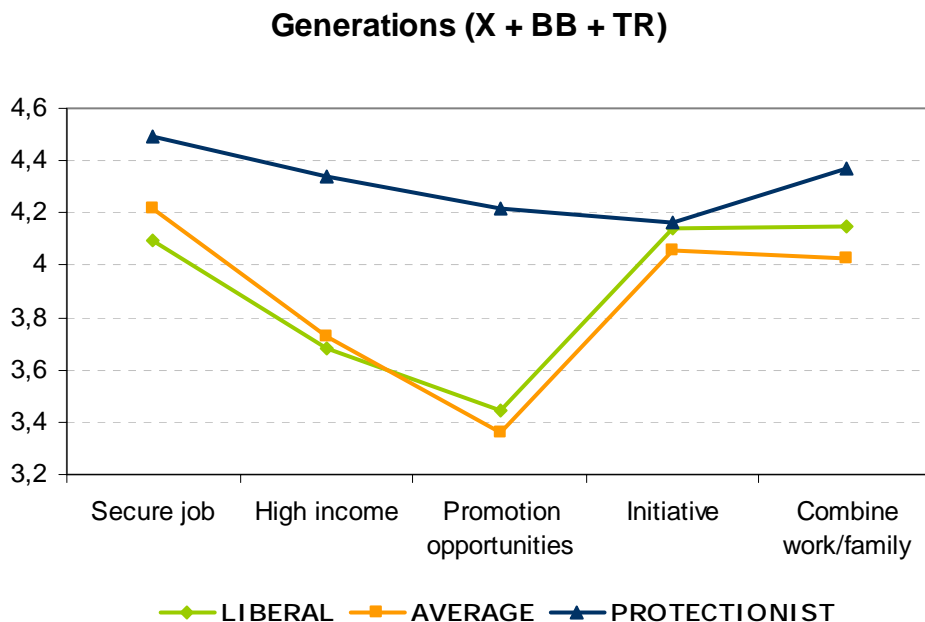


Figure 14. EPL and professional preferences. Generations X+BB+TR

Conclusions and recommendations

What does this complex of different aspirations, regulations and labor-market outcomes mean for West European countries and their efforts to capture and retain domestic talent?

As explained above, the challenge faced by developed countries is twofold: to keep the highly skilled from migrating to different firms or countries, draining talent from the high value-added sectors of the local economy; and to shield the low-skilled from the low wages and/or high unemployment rates that result from intense competition with labor in emerging markets. To respond to the first challenge and retain the most skilled Generation Y workers, human resource managers might respond with any of the following approaches:

- Creation of a company “trademark” that makes it attractive to young people
- Rapid and direct processes of incorporation into the company, with immediate feedback (most likely via web-based processes). The use of a mentor within the company often gives good results.
- Evaluation based on results rather than time spent on the job, which poses a major challenge to the area of human resource management
- Variable retribution mechanisms based on performance, with possibility of short-term rewards, for young people who are still not focused on or motivated by the long term
- “Quality” relationships for the Generation Y employees with co-workers and in particular with their superiors in the firm
- Companies should conduct “exit interviews” with the young people who decide to leave the firm, and keep the doors open for their return through “alumni clubs” that maintain links with former employees over time

Beyond this company-based challenge is the political objective to manage job markets in such a way that skilled workers’ access to good, secure employment is maximized. It seems reasonable to assume that the countries that have enacted strict labor-market legislation were attempting to both provide security for workers and boost productivity in the economy overall. However, the data and studies cited above show that they may not be achieving either of these objectives. Productivity growth and overall productivity levels are weaker in these economies than in those with more liberal labor markets; while protectionist countries reserve job security for “insiders” and exclude growing numbers of outsiders, including their youth, who are precariously employed. Paradoxically, then, rigid labor markets are achieving the opposite of what they pursue.

The protectionist countries also appear to be on a collision course with the aspirations of Generation Y for greater security, promotion and pay. It appears clear that in rigid labor markets, companies are not willing to create large numbers of the secure jobs that Generation Y desires, in a context of high dismissal costs. Additionally, low productivity, another characteristic of the protectionist countries, condemns a country to lower pay, since companies cannot over the long run pay workers a larger amount than the product and revenue that they generate. Hence rigid labor markets have come to be associated with lower pay and more precarious employment, not a good combination for capturing and retaining talent.

How can countries address this contradiction? One solution would be a new, more global approach to labor-market reform which took these realities into account. Laws protecting insiders could be relaxed, while more security could be offered to outsiders, in an inter-generational exchange that would offer more flexibility for the economy as a whole. This might involve reducing dismissal pay for workers with long years of service, while providing slightly larger dismissal payments for temporary workers or those who have spent fewer years in the firm.

Another approach might be to relax dismissal restrictions on firms across the board while providing a better public safety net for dismissed workers in the form of unemployment benefits and training programs. This combination of policies, often called “flexicurity”, has been used in Denmark, Sweden and the Netherlands to shift the burden of work-force adjustment from private companies to the public sector. (See figure 15 below.) Key to this approach is a different concept of job security, which centers less on the specific position within a firm and more on a flexible, dynamic environment where employment is more easily generated and jobs are easier to find. Part-time work is common within this model. It should be noted that Denmark, now held

up as a model of “flexicurity”, suffered from very high rates of unemployment until it reformed its benefits system. Clearly, the safety net needs to be carefully administered and selectively used so that its cost does not become an additional burden on society, which will be passed on to labor cost in the form of higher taxes.

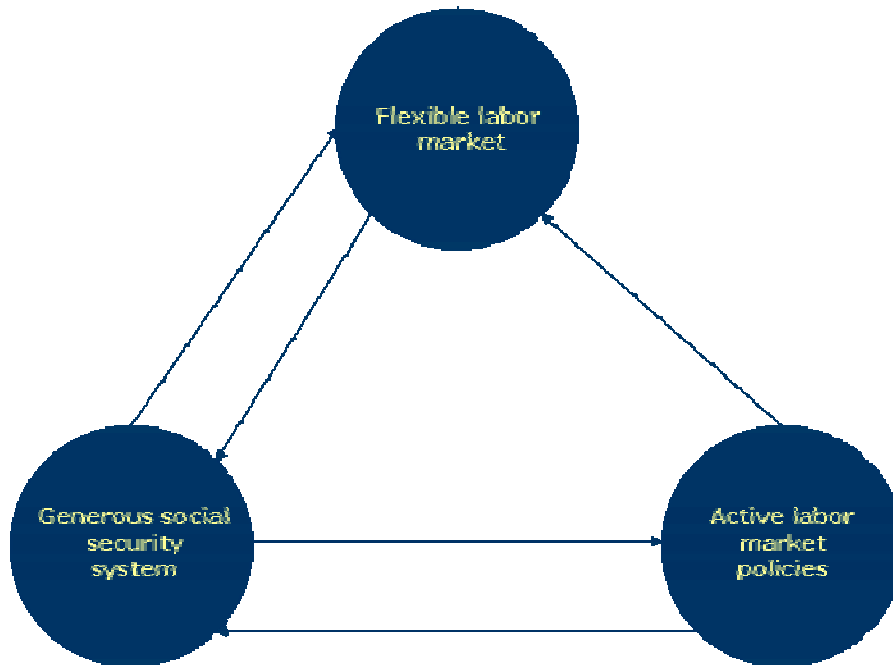


Figure 15. The “flexicurity” model. Source: OECD.

At the same time, European policymakers face the challenge of providing access to employment security and an adequate standard of living for their low-skilled workers, who face stiff competition from millions of low-wage workers in emerging markets. These workers stand to benefit most from a more flexible labor market along the lines of the “flexicurity” model suggested above. Not only would a less rigid labor market offer them a chance for employment on less precarious terms, but it would also provide the possibility of public-sector support if jobs are bid away from developed countries into lower-cost markets. Here the need to administer benefits rationally becomes especially pressing, to avoid a rising tax burden that would raise the costs of unskilled labor and accelerate the shift of jobs and production to developing countries. At the same time, countries need to focus on the quality of their educational and training systems in order to incorporate more unskilled workers into the high value-added sectors where the natural competitive advantages of developed countries lie.

Over the longer run, skilled workers in developed countries are likely to also face more intense competition from the workers in emerging markets. The young population accounts for a very large proportion of the total in developing countries, and as their income levels rise, many poorer countries are making major investments in education and preparing larger numbers of their younger workers for jobs in higher-technology production or services. Already inflows of skilled workers from these countries to Europe and other OECD economies are large, and some

governments in rich countries are making an effort to attract more of these workers to fill shortages and/or dampen wages in their high value-added sectors (see figure 16 below).

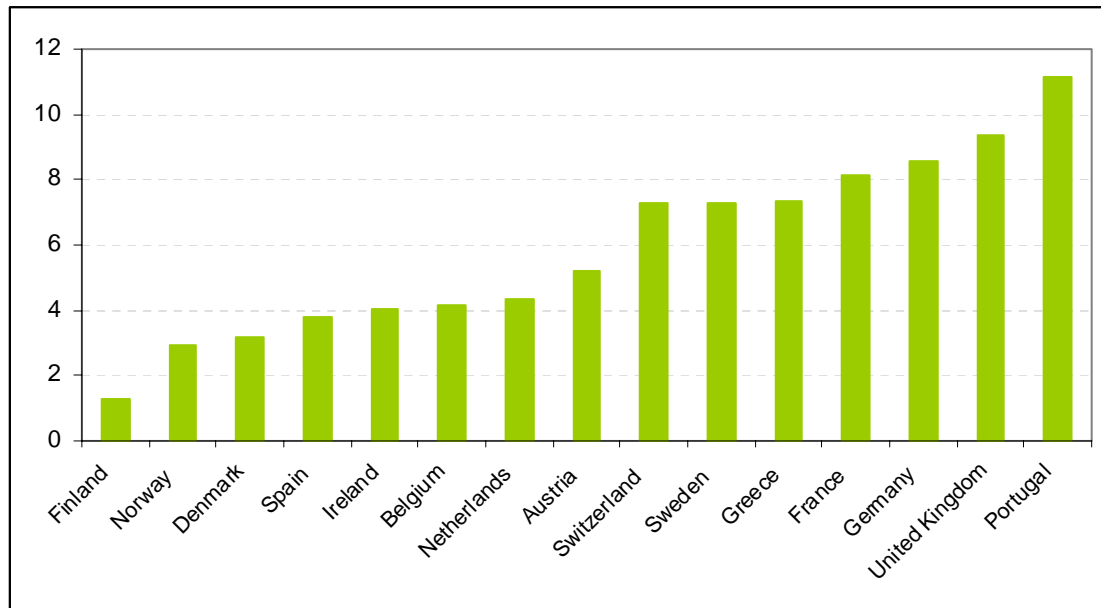


Figure 16. Foreign-born persons with tertiary attainment as a percentage of total residents with tertiary attainment, circa, 2000. Source: OECD.

Hence, in a dynamic and fast-changing world, the monopoly power of Generation Y's best educated members in some labor market segments is likely to be only temporary. However, even in this scenario, the challenge for countries and companies would still be to attract the best talent, from their own countries and from everywhere in the world. The policy measures and human resource-management approaches recommended above could also convert protectionist labor markets into better magnets for foreign talent as the competitive international environment evolves.

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