

# **Working Paper Series**

## **No. 10**

### **The dynamics of job creation and destruction for University graduates: why a rising unemployment rate can be misleading**

Ana Rute Cardoso  
Priscila Ferreira

May 2001

**Núcleo de Investigação em Microeconomia Aplicada  
Universidade do Minho**



# THE DYNAMICS OF JOB CREATION AND DESTRUCTION FOR UNIVERSITY GRADUATES: WHY A RISING UNEMPLOYMENT RATE CAN BE MISLEADING

Ana Rute Cardoso<sup>\*</sup>  
Priscila Ferreira<sup>\*\*</sup>

May 2001

## ABSTRACT

This study uses a longitudinal matched employer-employee data set on the Portuguese economy to analyze systematic information on job creation and job destruction for university graduates, comparing it to other groups of workers. We find that the unemployment rate can provide an incomplete and misleading idea of the dynamics in labor demand and of the employment prospects for university graduates. The pessimistic view that seems to be popular nowadays, stating that the expansion of higher education may have gone too far and that investment in higher education has become a too risky business, possibly not worthwhile, as employers are no longer keen on recruiting newly graduate workers, does not find support in the empirical evidence for the Portuguese economy.

JEL: J41, J60, J63

Key words: unemployment, gross job flows

---

\* Universidade do Minho, NIMA and CEPR  
Email: cardoso@eeg.uminho.pt

\*\* Universidade do Minho, NIMA  
Email: priscila@eeg.uminho.pt

Address: Universidade do Minho, NIMA, Gualtar, 4710-057 Braga, Portugal.

This study was prepared under the project *The demand for University degrees and the transition from University to the labor market*, funded by *Fundação para a Ciência e a Tecnologia* (contract PRAXIS/P/ECO/13014/1998). We are grateful to the Ministry of Employment, Department of Statistics, for access to the dataset *Quadros de Pessoal* and to Vítor Andrade from newspaper *Expresso* for the data on announced job offers. Ana Cardoso gratefully acknowledges the support of the *Australian National University, Research School of Social Sciences, Economics Program*, where this paper was written. Ana Lima provided competent research assistance on this project.

## 1. INTRODUCTION

The trend towards massification of higher education has been taking place in most countries, with enrolment rates and the number of students rising sharply. To cite a few examples, between 1990 and 1996 total enrolment in tertiary education more than doubled in Poland and Portugal, having increased by over 80% in the UK and Hungary (OECD 1999). Several reasons have combined for this outcome. Changes in the funding system for higher education, steered to rely increasingly on market mechanisms, have led institutions into intense competition to attract students. Rising private returns to higher education, pointed out in studies of wage dispersion for several countries, may have played a role motivating the continuation of studies beyond high school. The widespread perception of the impact of higher education on development has pushed other countries, in particular developing ones, into expanding their higher education systems.

However, as higher education degrees became more widespread and less exclusive, fears started spreading concerning the capacity of the labor market to absorb the newly-graduates. Throughout, employers have been claiming that the higher education system is not providing the necessary skills and it is often advocated that the *external efficiency* of Universities should be evaluated, monitoring the jobs and earnings of graduates. Most often, the unemployment rate has been implicitly set as the criterion to assess employment prospects for graduate workers. As it increased in several countries, the high expectations of the 'eighties gave place to concern in the 'nineties. An extreme pessimistic view seems to be popular nowadays, stating that the expansion of higher education may have gone too far and that investment in higher education has become a too risky business, possibly not worthwhile, as employers are no longer keen on recruiting newly graduate workers. (Teichler (1999) provides a clear analysis of these trends).

However, such statements are usually not backed up by sound empirical information and in this paper we argue that a more balance view is called for. Relying on systematic information on job creation and job destruction for university graduates compared to other groups of workers, we find that the unemployment rate can provide an incomplete and often misleading idea of the dynamics in labor demand and of the employment prospects for university graduates. What has indeed been the pace of job creation and job destruction for University graduates

hiding behind their unemployment rate? Which have been the most dynamic industries? What type of companies has been expanding the most their graduate labor force — the low paying or the high paying ones? How does the graduate labor market compare to that of undergraduates? The study uses a very rich longitudinal data set matching workers and employers in the Portuguese economy.

Section 2 briefly describes the expansion of the higher education system and the evolution of the employment prospects for university graduates when compared to other groups of workers in Portugal, as traditionally captured by their unemployment rates and by the job offers advertised nationally over two decades. Section 3 describes the data set and explains the statistical measures to be used. In section 4, the results on job creation and job destruction from 1987 to 1997 for different types of workers and companies are presented. Concluding comments are the subject of the last section.

## **2. HIGHER EDUCATION AND THE LABOR MARKET IN PORTUGAL**

The integration of University graduates into the labor market started to be an issue of concern in Portugal in the early 90s. Until then, their unemployment rate was negligible and the wage premium for University graduates had been rising sharply. However, the University system had meanwhile expanded at an amazing pace. By the early 'nineties the claim that employers were no longer interested in hiring University graduates, in particular young ones, and were demanding instead experienced workers, was widely believed upon.

### *Enrolment in higher education: Portugal in international perspective*

Portugal presented the highest growth in tertiary education enrolment among the countries reported by OECD in table 1, as the number of students increased by 144% from 1990 to 1996. That change was almost exclusively due to rising enrolment rates. Such growth rate compares with 123% for Poland, 85% for Hungary, 81% for the UK, close to 50% for Belgium and the Czech Republic, 41% in New Zealand and 37% in neighboring Spain. During that period, the number of students increased the least in the USA (6%), Germany (7%) and The Netherlands (10%).

Table 1 – Index of change in total enrolment in tertiary education (1990=100)

	Index of change (base=100 in 1990)			Attributable to:	
	1985	1990	1996	Change in the size of youth cohort	Change in enrolment rates
Australia	m	100	129	100	130
Austria	80	100	120	97	126
Belgium	89	100	148	m	m
Canada	90	100	118	m	m
Czech Republic	m	100	149	115	130
Denmark	87	100	121	100	123
Finland	77	100	130	91	142
France	84	100	132	m	m
Germany	90	100	107	m	m
Hungary	m	100	185	m	m
Iceland	m	100	126	m	m
Ireland	79	100	151	107	142
Italy	86	100	127	m	m
Japan	m	100	121	m	m
Korea	m	100	122	m	m
Mexico	m	100	122	113	108
Netherlands	93	100	110	91	123
New Zealand	86	100	141	97	145
Norway	71	100	139	m	m
Poland	m	100	223	m	m
Portugal	m	100	244	105	234
Spain	73	100	137	101	137
Sweden	97	100	141	99	143
Switzerland	80	100	112	98	116
Turkey	m	100	171	m	m
United Kingdom	85	100	181	93	192
United States	91	100	106	95	111

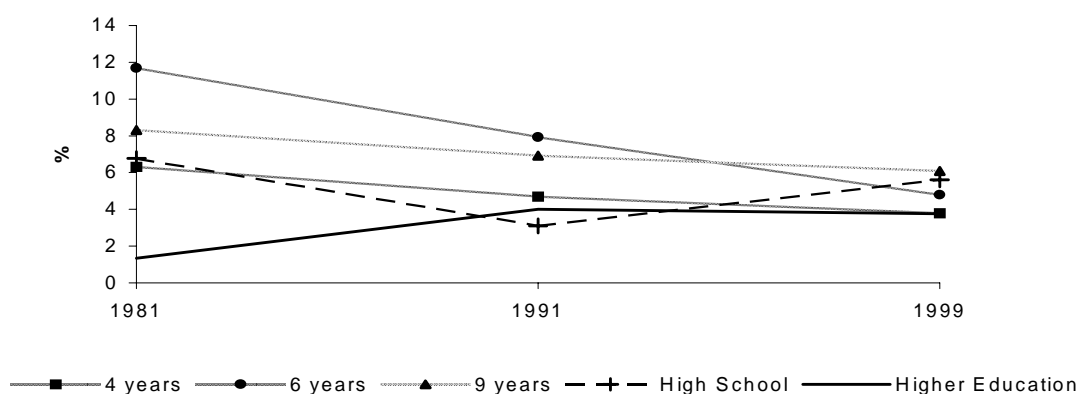
Source: OECD (1999).

In the age bracket 18-21 years, the enrolment rate in tertiary education is now in Portugal 19%, which compares with around 40% in Korea, Belgium, Canada or Greece, 36% in France, 35% in the USA, 31% in Australia, 27% in Spain and, on the other extreme, 6% in Brazil, 7% in Mexico, 8% in Switzerland, Indonesia and Iceland and 9% in Denmark (OECD 1999).

#### *Evolution of unemployment rates*

A decline in overall unemployment rate took place in Portugal during the 80's and 90's. However, that trend was not common across schooling categories, as the unemployment rate for University graduates increased from around 1% in 1981 to 4% two decades later.

Figure 1 – Unemployment rate by schooling level



Sources: 1981 – INE. *Recenseamento da População e da Habitação, total do País.*

1991 – INE. *Censos 1991, resultados definitivos, Portugal.*

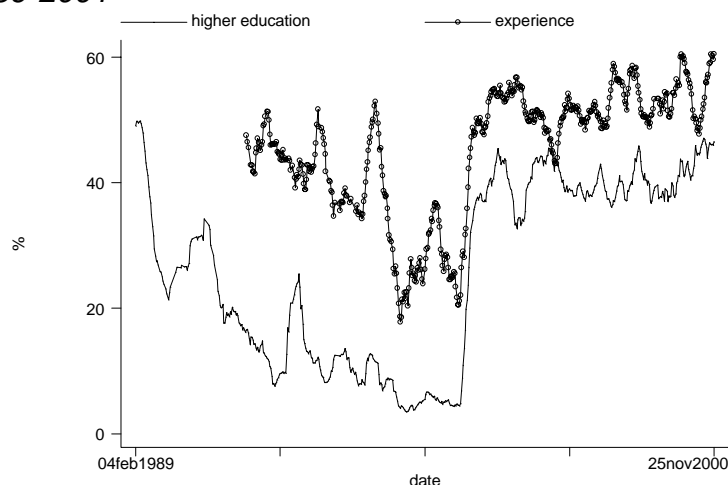
1999 – INE. *Estatísticas do Emprego.*

Note: Data on workers with no formal education was not included, since methodological changes in 1991 render comparisons unfeasible.

In fact, the convergence of unemployment rates across schooling levels stands out as the most prominent feature of figure 1. Whereas in the lowest schooling levels the unemployment rate was halved between 1981 and 1999, for university graduates it increased in the 80's, to remain almost stable in the 90's. This convergence of the unemployment rates to very similar values irrespective of the worker schooling achievement led to the idea that a university diploma was no longer a safe passport out of unemployment and raised doubts about the capacity of the labor market to absorb the newly-graduates.

The culprit for this trend, according to public opinion, was a slack labor demand, as employers would now no longer be willing to hire new graduates, preferring instead workers with experience. The analysis of job offers announced in the national press would lend support to this claim.

Figure 2 – Requirements imposed by job offers advertised at the national level, 1989-2001



Source: Data provided by the newspaper *Expresso*.

Notes: The newspaper *Expresso* is the major means for advertising job offers at the national level for qualified workers. The graph reports moving averages, with a smoothing window of 13 weeks (approximately one trimester).

Between 1989 and 1995, the share of job adds requiring a university diploma (*licenciatura*) declined sharply, from around 50% to 5%. On the other hand, the share of adds requiring previous labor market experience remained high, though declining between 50% and 20%. By mid 'nineties, a higher education diploma was back in high demand, and the number of employers advertising jobs for graduates was close to the number of those requiring previous experience. However, the trend in late 90's was not enough to overcome the concerns that meanwhile had grown, especially as the graduates unemployment rate failed to decline. Several quotations from the national press could illustrate the changing mood in the public opinion.

A higher education diploma is an almost systematic demand by employers [...]. (*Expresso* 15/7/89) [our translation]

Access to new occupations is becoming more selective, as the majority of employers are only accepting workers with a higher education diploma. (*Expresso*, 13/10/90) [our translation]

The concerns of the 90's can be illustrated by the following quotations.

A higher education diploma has definitely lost part of its traditional value. At least that is what the majority of employers think. What really counts is the previous labor market experience of the worker. (Andrade in *Expresso*, 1991) [our translation]

Higher education is no longer what it used to be a few years ago. Having a diploma no longer guarantees a job. Graduates, one can find thousands of them, all over the country, not knowing exactly what to do with their lives. (Andrade in *Expresso*, 1993) [our translation]

Many parents, and students, still believe that simply a higher education diploma will be the key to the desired job. It used to be so, but many years ago. (Andrade in *Expresso*, 2000) [our translation]

To what extent has the Portuguese economy indeed reduced its pace of job creation for graduate workers? Which were the most and the least dynamic sectors?

### 3. METHODOLOGY

The expansion or contraction of employment levels results from gross flows taking place at the firm level, which cannot be captured by aggregate employment figures, and certainly not by the trend in unemployment figures, as this results from the combined influence of demand and supply. The study of gross job flows has therefore deserved increasing attention in the literature, as it provides a more accurate picture of the dynamics in the labor market (see for example Davis et al (1996) or Garibaldi and Mauro (2000) for a highlight of its advantages).

#### *Data set*

This study relies on *Quadros de Pessoal*, a longitudinal data set matching workers and their employers in the Portuguese private sector, from 1986 to 1997. The data are gathered annually by the Ministry of Employment, with information on approximately 2.5 million workers and 200 thousand companies each year (see the appendix for more information). Jobs filled by full-time wage earners were considered in the analysis. The unit of observation for the computation of gross flows is the firm. The analysis has concentrated on higher education graduates, compared to the rest of the labor force. The methodology and the concepts used follow Davis *et al* (1996), as explained below.

#### *Job creation and job destruction*

Gross job creation and destruction were computed at the firm level as the change in employment from period  $t-1$  to period  $t$ :

$$\Delta X_{e,t} = X_{e,t} - X_{e,t-1} \quad (1)$$

where  $X$  stands for the employment level,  $e$  refers to the firm and  $t$  to the moment in time (year). If employment increases ( $\Delta X_{e,t} > 0$ ), job creation is said to have taken place, while job destruction occurs when employment in the firm decreases ( $\Delta X_{e,t} < 0$ ).

Aggregating from the firm level to the sector level (an industry or region, for example), gross job creation is computed as the sum of employment changes over



all firms that expanded its employment or were set up during the period, and similarly, job destruction is the sum of employment changes over all firms that contracted or shut down. Companies with a stable employment level contribute neither to job creation nor job destruction.

$$C_{s,t} = \sum_{+} \Delta X_{e,t} \quad \text{and} \quad D_{s,t} = \sum_{-} |\Delta X_{e,t}|, \quad (2)$$

where  $C_{s,t}$  is job creation in sector  $s$  and  $D_{s,t}$  is job destruction in sector  $s$  in period  $t$ . Net job creation is the difference between gross job creation and gross job destruction.

#### *Job reallocation*

Gross job reallocation is computed as the sum of job creation and job destruction over a certain period for sector  $s$ :

$$R_{s,t} = C_{s,t} + D_{s,t} \quad (3)$$

Gross reallocation is the maximum amount of worker reallocation required to accommodate the change in employment opportunities across firms. Note that, if no worker switched from a contracting to an expanding company, then the amount of worker reallocation would correspond to  $R$ , as  $C$  workers would move from out of employment into employment, while  $D$  workers would move in the opposite direction. This measure therefore provides an indication of the overall degree of rotation in the labor force resulting from changing job opportunities across firms. However, certain workers may be counted twice in the gross reallocation measure — if they switched from a contracting to an expanding company.

#### *Minimum worker reallocation*

The measure of minimum worker reallocation aims precisely at eliminating the problem of double counting involved in summing gross job creation and gross job destruction. It is computed as the larger of gross job creation and gross job destruction.

$$R_{\min s,t} = \max(C_{s,t}, D_{s,t}) \quad (4)$$

This measure reports the minimum worker reallocation that is required to account for the changes in job opportunities across firms.

### *Excess job reallocation*

Finally, excess job reallocation is computed as the difference between gross reallocation and the absolute value of net employment change.

$$Re\ xC_{s,t} = R_{s,t} - |C_{s,t} - D_{s,t}| \quad (5)$$

It evaluates the amount of job reallocation that took place beyond what would be strictly necessary to accommodate the net job change that occurred. It is therefore considered the best indicator of simultaneous job creation and job destruction in the sector, capturing the heterogeneity among firms — whereas some are expanding their level of employment, others are contracting it.

Job flows are usually expressed as rates, by dividing by a measure of the firm size. The average employment between two periods is the firm size measure used:

$$Z_{e,t} = \frac{X_{e,t} + X_{e,t-1}}{2} \quad (6)$$

The rate of employment growth in the firm is thus computed as:

$$fe = \frac{\Delta X_{e,t}}{Z_{e,t}} \quad (7)$$

The use of this size measure to compute the rate of change in employment is preferred over the traditional size measure (the employment in the base period). Indeed, the rate of employment change  $f$  ranges over a bounded and symmetrical interval,  $-2$  to  $+2$ , and it is possible to compute it for new firms as well. For a new company, the rate of employment growth would be  $+2$ ; for a company going out of business, it would be  $-2$ . The traditional measure  $\left(\frac{X_{e,t} - X_{e,t-1}}{X_{e,t-1}}\right)$ , would be positive infinite for a new firm and  $-1$  for a firm going out of business. Since firm creation and destruction are symmetrical situations, it is adequate to have a measure of employment change achieving symmetrical values. Values of  $f$  between  $-1$  and  $1$  correspond approximately to the traditional percent increase in employment.

For a certain sector  $s$ , the different rates would be computed as:

$$c_{s,t} = \frac{C_{s,t}}{Z_{s,t}}, \text{ rate of gross job creation} \quad (8)$$

$$d_{s,t} = \frac{D_{s,t}}{Z_{s,t}}, \text{ rate of gross job destruction} \quad (9)$$

$$r_{s,t} = \frac{R_{s,t}}{Z_{s,t}}, \text{ rate of gross job reallocation} \quad (10)$$

$$r \min_{s,t} = \frac{R \min_{s,t}}{Z_{s,t}}, \text{ rate of minimum worker reallocation} \quad (11)$$

$$r \text{exc}_{s,t} = \frac{R \text{exc}_{s,t}}{Z_{s,t}}, \text{ rate of excess job reallocation.} \quad (12)$$

The following section analyses these indicators for graduate workers and workers with lower schooling levels separately.

#### 4. COEXISTENCE OF HIGH RATES OF JOB CREATION AND JOB DESTRUCTION

Out of 100 jobs existing in the economy performed by university graduates, 25 new ones were created on average each year, between 1986 and 1997. However, such a high rate of job creation was accompanied by a relatively high rate of job destruction. In fact, out of 100 jobs performed by university graduates, 17 were destroyed on average each year. These values suggest that a high job rotation prevails in the Portuguese economy, strictly due to heterogeneity in the firms' recruitment behavior.

High job creation and simultaneous job destruction is also a characteristic of the labor market for workers with lower levels of schooling, but the rates are lower. Indeed, out of 100 existing jobs performed by undergraduates, 15 were created and 13 were destroyed on average each year during the period under analysis.

*Table 1 – Rates of gross job creation and destruction by schooling level, 1986-1997*

year	higher education graduates		schooling below higher education	
	creation	destruction	creation	destruction
1986	0.218	0.187	0.139	0.116
1987	0.211	0.177	0.142	0.100
1988	0.236	0.188	0.149	0.115
1989	0.303	0.214	0.171	0.120
1990	0.214	0.098	0.117	0.092
1991	0.214	0.098	0.117	0.092
1992	0.248	0.163	0.146	0.131
1993	0.256	0.194	0.136	0.152
1994	0.357	0.284	0.205	0.194
1995	0.232	0.150	0.139	0.126
1996	0.248	0.144	0.133	0.136
1997	0.298	0.180	0.159	0.154
mean	0.253	0.173	0.146	0.127

Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

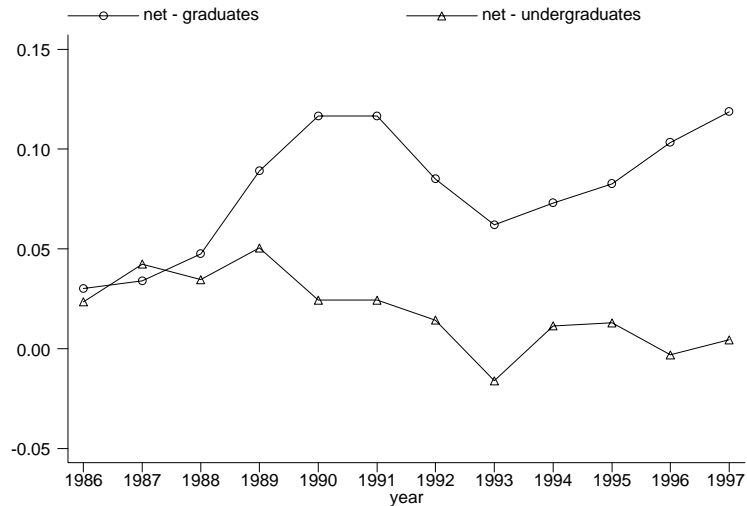
Note: In 1990, no worker data were gathered and therefore the flows indicated for 1990 and 1991 result from averaging the flow that took place between 1989 and 1991. Note however that firms that were set up and closed down within that period are not captured, and therefore the flows for 1990 and 1991 may be underestimated. On the other hand, from

1994 onwards the data refer to the month of October, whereas until 1993 they referred to March. As such, the values for 1994 refer to a wider period, therefore overestimating the yearly flow.

The trends in net job creation rates for graduate workers and for those not holding a university diploma were similar until 1989, diverging markedly afterwards (figure 1). During the first half of the 80's, the Portuguese economy has grown sharply, and employment expanded at a fast pace. Such rate of net job creation, around 3% a year, was until 1989 similar for both groups of workers. By 1989, however, net job creation for workers holding a University diploma was already taking place at a faster pace than for workers with lower schooling levels. The contrast became more pronounced in the 90's. Even though the rate of net job creation declined for either group between 1991 and 1993, employment opportunities for graduates were expanding much faster than for non-graduates. In 1993, negative rates of job creation for undergraduates contrasted with a positive 6% net job creation for graduates. Since 1993, employment for undergraduates has remained at a stable level, whereas for university graduates it has been expanding strongly, reaching 10% a year since 1996.

Concerns about the employment prospects of university graduates therefore begun spreading in Portugal precisely when their employment opportunities were expanding the most and in sharpest contrast with the employment prospects for undergraduates. Thus, the rising unemployment rate did not result from a slack labor demand by employers no longer trusting the higher education system and the skills it provides. Instead, demand kept expanding, though at a lower rate than in the 80's, but it just did not match the steady rise in supply brought about by the massification of higher education. The employment prospects for university graduates should be compared to those for undergraduates in the same period, and not to those of graduates who left the educational system a decade before.

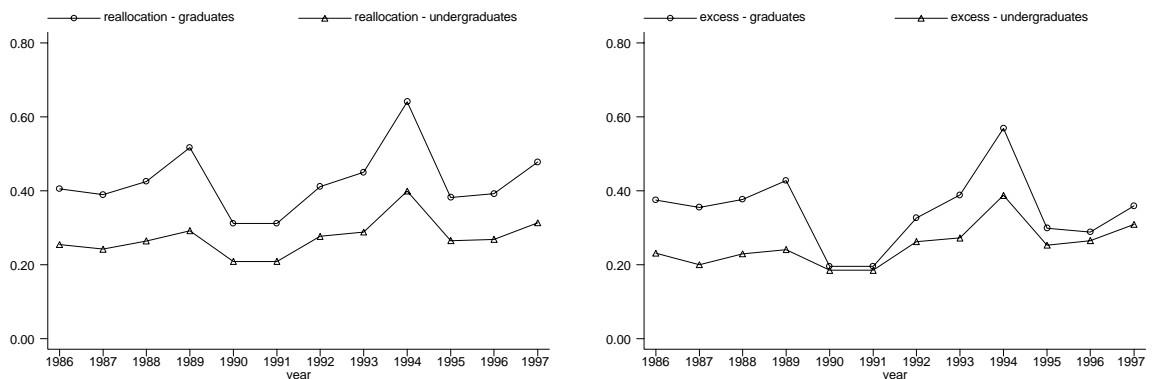
Figure 1 – Rate of net job creation by schooling level, 1986-1997



Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

Figure 2 presents other measures of rotation of job opportunities among companies, revealing that the pace of change in the labor market for university graduates is faster than for other workers.

Figure 2 – Rate of gross job reallocation and excess job reallocation by schooling level, 1986-1997



Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

In fact, approximately 25-30% of the existing jobs for undergraduates are either created or destroyed each year, whereas for higher education graduates that value is around 40%. The reallocation beyond what would be strictly necessary to accommodate the net employment change reveals a similar pattern. Such turbulence results from the contrasting behavior of the different companies, which is more pronounced for jobs held by university graduates than for the rest of the labor

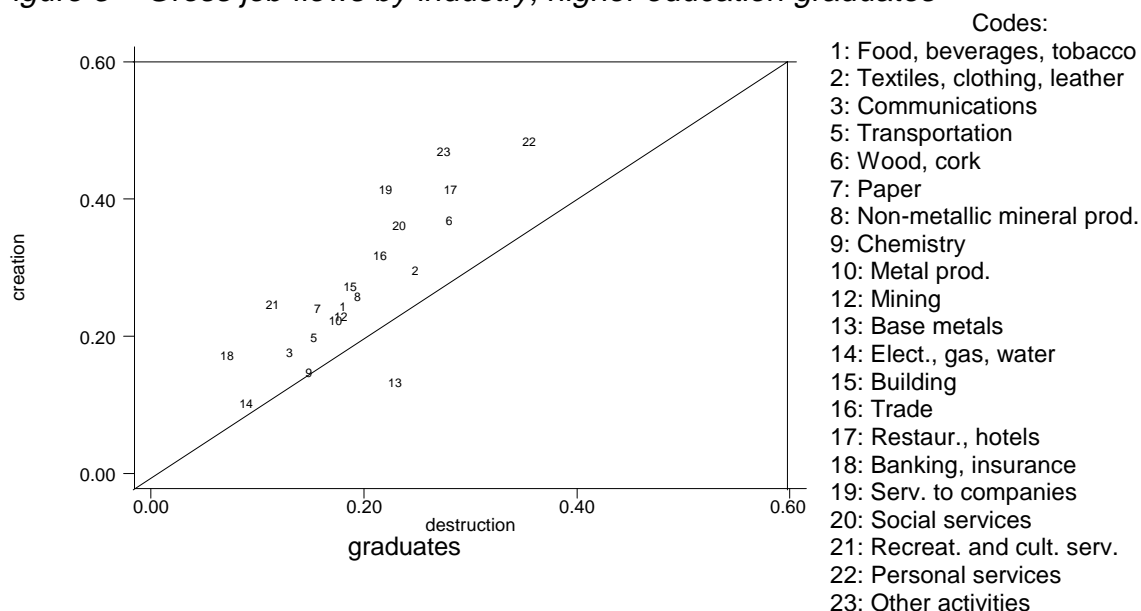
force. For undergraduates, the economy is closer to a situation where all the companies either contract or expand their employment level.<sup>1</sup>

#### 4.1. Job flows by industry: expansion of job opportunities for university graduates took place in banking without worker reallocation, and in services to companies and social services with high worker reallocation

Which were the most dynamic industries, between 1985 and 1997, in terms of job creation for university graduates? Figure 3 reports, for each industry, the average yearly rate of job creation and job destruction for university graduates.

In each of the graphs below, industries located on the diagonal did not change their overall employment level for that category of workers, since the rate of job creation was offset by an equal rate of job destruction. Industries located above the diagonal were net job creators and, symmetrically, industries below the diagonal were net job destructors. On the other hand, industries closer to the origin had lower rates of job reallocation, since both job creation and job destruction were low. On the contrary, the farther away from the origin the higher the rate of gross job reallocation in the industry, over the period under analysis.

Figure 3 – Gross job flows by industry, higher education graduates



Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

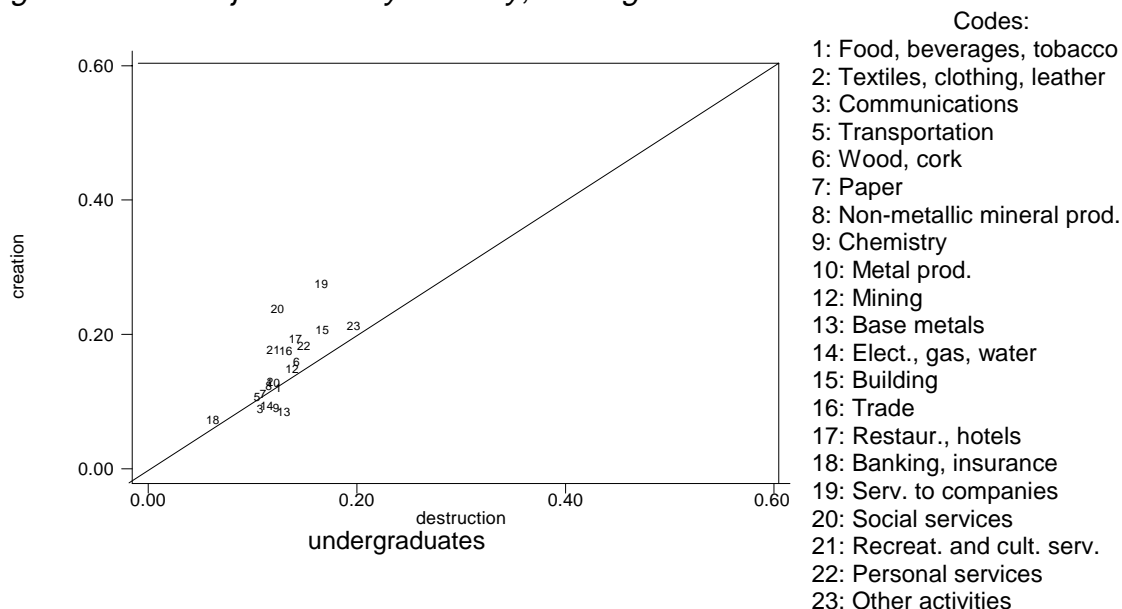
<sup>1</sup> Part of the detected homogeneity in firm behavior when it comes to job changes for the undergraduates may result from the fact that we are dealing with a broader group of workers, and therefore mechanisms of compensation within the firm may operate. Note the example of a firm that may contract its employment level for workers holding 4 years of education, while expanding it for workers with 9 years of education. In such a case, overall employment for undergraduates could remain stable, and neither job creation nor destruction would be captured.

Expansion of employment for university graduates took place across industries, with the exception of base metals, where it declined, and chemicals, where it remained roughly stable. The services have shown the largest expansion of graduate jobs, in particular services to companies, banking and insurance, recreational and cultural services. Note however that, whereas in banking and insurance expansion of employment took place with low reallocation of jobs across firms, in services to companies, on the contrary, high job creation rates coexisted with high job destruction rates. This has therefore been a more turbulent industry when it comes to simultaneous job expansion and contraction across firms, with the associated worker flows.

The most stable industries, in the sense that they present low rates of gross worker reallocation, were, besides banking and insurance, electricity, gas and water, communications, recreational and cultural services and transportation. On the contrary, the industries with higher job rotation are, apart from services to companies, social services, personal services, restaurants and hotels and the wood and cork industries.

The comparison with gross job flows for undergraduates is presented in table 4, where a few differences stand out.

Figure 4 – Gross job flows by industry, undergraduates



Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

Note first of all the higher concentration of industries close to the diagonal, indicating low rates of net job creation for undergraduate workers. In base metals, electricity, gas, water, chemicals and communications, job destruction has

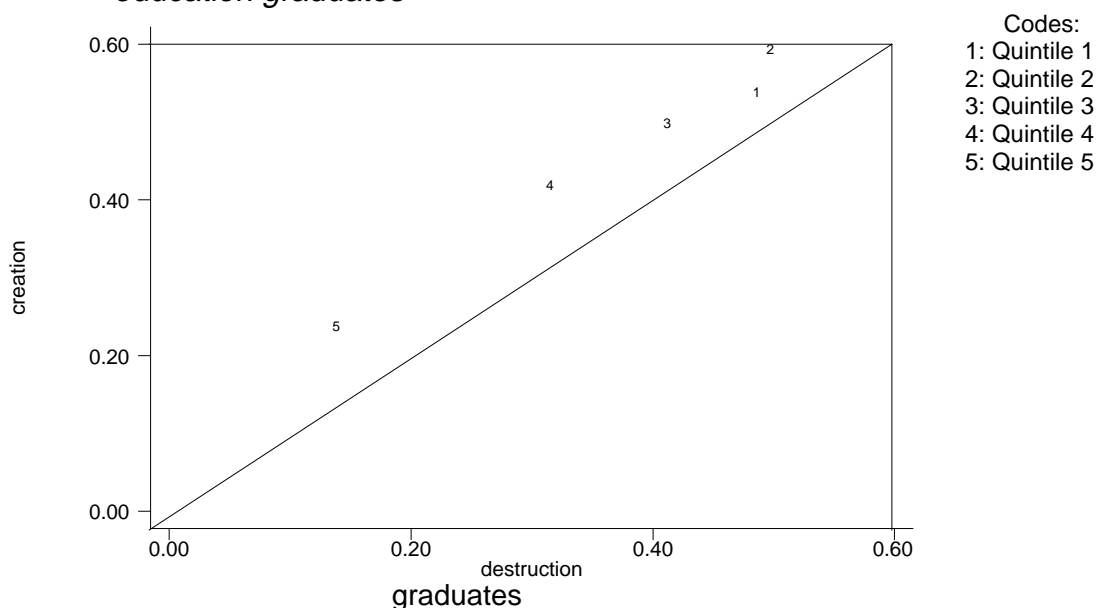
surpassed job creation. On the contrary, in services to companies and in social services, job creation took place at a fast pace, just like for graduate workers.

Job reallocation was considerably lower for workers with lower levels of schooling, indicating that net job expansion or contraction tended to result from a more uniform trend across firms than it has been the case for university graduates.

#### 4.2. Job flows according to the average wage level of the firm: more turbulence among firms paying lower wages

This section groups companies according to their average wage level, to identify the most dynamic ones at job creation (and job destruction). Firms have been grouped into five quintiles of their average wage. The lowest quintile groups the bottom 20% of the firms in the economy regarding the average wage level paid, whereas, similarly, the top quintile includes the 20% best paying firms in the economy.

Figure 5 – Gross job flows according to the average wage level in the firm, higher education graduates



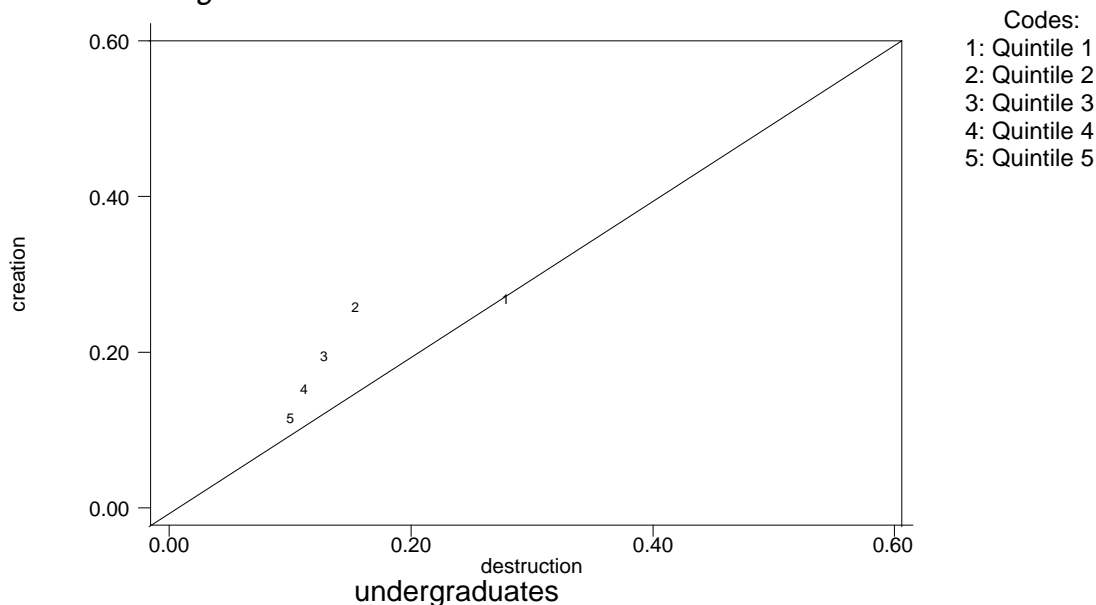
Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

Firms with lower average wages reveal high turbulence in terms of job creation and job destruction, for both graduate and undergraduate workers. On the contrary, both job creation and job destruction are lower among good paying firms, thus indicating a more stable volume of employment in the company. Better paying jobs tend to last longer.



Note, on the other hand, that net employment creation for university graduates took place for firms in every wage quintile, though in the group of best paying firms it required less worker reallocation.

Figure 6 – Gross job flows according to the average wage level in the firm, undergraduates



Source: Computations based on Portugal, MTS, DETEFP, *Quadros de Pessoal*, 1985-1997.

For undergraduate workers, job reallocation is generally lower than for graduates. Employment decreased slightly in the worst paying firms, with high gross job reallocation. The next group of low-paying firms presented the largest rate of net job creation for undergraduates, whereas the best paying firms, on the contrary, increased only slightly their level of employment, with low job reallocation.

## 5. CONCLUSION

Analysis of gross job creation and destruction at the firm level provides systematic information on job dynamics that cannot be captured by the evolution of aggregate employment or unemployment rates.

It is interesting to note that the rising unemployment rate for university graduates and its decline for undergraduates over the 80's and 90's provide a misleading idea of the dynamics of job creation in the Portuguese economy, as the net job creation rates point precisely in the opposite direction. Indeed, whereas the Portuguese economy kept between 1986 and 1997 a fast pace of net job creation for higher education graduates, since 1989 employment has expanded at a much faster pace for university graduates than for the rest of the labor force. Since 1993, in particular,

employment for graduates has been expanding sharply, whereas for undergraduates it stagnated.

The rise in the unemployment rate for graduate workers did not therefore result from declining demand for that group of workers. Support is not found for the simplistic view that seems to be widespread nowadays, according to which employers would no longer be willing to recruit university graduates, given the inability of the system to provide workers with adequate skills.

The labor market for graduate workers is more flexible and fluid than that for workers with lower schooling levels. Indeed, the rate of job reallocation is much higher for university graduates. Each year, a high rate of job creation for graduate workers coexists with a high rate of job destruction, indicating higher heterogeneity across firms in the evolution of employment. On average, one in four graduate workers will have to switch employer or employment status each year, just to respond to the reallocation of job opportunities across firms. That ratio is one in seven workers for the undergraduate labor force. Irrespective of the type of contract the worker holds, individuals holding a higher education diploma are asked to switch jobs more frequently just as a result of the reshuffling of employment opportunities across firms and will thus have to adapt more frequently to a changing work environment.

An analysis by industry reveals that the expansion of job opportunities for graduates was common across industries, with the exception of chemicals and base metals, and that it was particularly sharp in services to companies, banking and insurance and cultural and recreational services. However, whereas in banking simultaneous job creation and job destruction were low, in services to companies, high rates of job creation coexisted with high rates of job destruction.

Better paying firms reveal relatively more stable employment levels, presenting lower rates of both job creation and destruction. Net job creation for graduates took place across all the groups of firms, from the best to the worst paying in the economy.

## APPENDIX: DATA SET

The database *Quadros de Pessoal* gathers longitudinal information on every firm with wage earners in the Portuguese private sector. Public administration and domestic work are excluded. The coverage of agriculture is low and therefore we have excluded it from the analysis.

The Ministry assigns a unique identification number to each company when it first reports to the database. Extensive data control procedures are implemented to guarantee that a firm is not assigned a different number later on. Such procedures are based in particular on the location of the firm and on other official identification codes. It is therefore possible to track firms and compute their gross job flow.

In 1990 and 1994, methodological changes took place, which have implications for our analysis. In 1990, no worker data were gathered, and the flows reported for 1990 and 1991 are therefore the average of the flow that occurred from 1989 to 1991, their equality resulting from this methodological choice. These flows may underreport the actual flows, since firms created and out of business within the 1989-91 period are not captured in the analysis. In 1994, the data gathering process moved from March to October. The flows for 1994 therefore refer to a wider period, overstating the yearly flow.

## REFERENCES

- Andrade, Vítor (1991), "Empresas não querem licenciados." in *Expresso, Emprego*, Caderno E. 27/7/1991.
- Andrade, Vítor (1993), "Emprego por um 'canudo'." in *Expresso, Emprego*, Caderno E. 16/10/1993.
- Andrade, Vítor S. (2000), "Empresas não querem licenciados." in *Expresso, Emprego*, Caderno E. 27/5/2000.
- Baldwin, John, Timothy Dunne and John Haltiwanger (1998) "A comparison of job creation and job destruction in Canada and United States." *Review of Economics and Statistics*, 80 (3): 347-356.
- Belzil, Christian (2000) "Job creation and job destruction, worker reallocation, and wages." *Journal of Labor Economics*, 18 (2): 183-203.
- Blanchard, Olivier and Peter Diamond (1992) "The flow approach to labor markets." *American Economic Review*, 82 (2): 354-359.

- Blanchflower, D. and S. Burgess (1996) "Job creation and job destruction in Great Britain in the 1980's." *Industrial and Labor Relations Review*, 50 (1): 17-38.
- Davis, Steven J., John C. Haltiwanger and Scott Schuh (1996) *Job Creation and Destruction*. Cambridge, Massachusetts: MIT Press.
- Davis, Steven J. and John Haltiwanger (1990) "Gross job creation and destruction: Microeconomic evidence and macroeconomic implications." *NBER Macroeconomics Annual*, 5: 123-168.
- Davis, Steven J., John Haltiwanger and Scott Schuh (1994) "Small business and job creation: Dissecting the myth and reassessing the facts." *Business Economics*, 29 (3): 13-21.
- Expresso (1989), "Nível superior em destaque." in *Emprego*, Caderno E, 15/7/1989.
- Expresso (1990), "A importância do 'canudo'." in *Emprego*, Caderno E, 13/10/1990.
- Garibaldi, Pietro and Paolo Mauro (2000) "Job creation: why some countries do better." International Monetary Fund Working Paper WP/99/109.
- Hart, Jeffrey D. (1997) *Non-Parametric Smoothing and Lack-of-Fit Tests*. New York: Springer.
- Instituto Nacional de Estatística. Serviços Centrais. *Recenseamentos da População e da Habitação. Portugal*.
- Instituto Nacional de Estatística (1994). *Censos 1991. Resultados Definitivos. Portugal*.
- Instituto Nacional de Estatística (1999). *Estatísticas do Emprego, 4º Trimestre*.
- Meek, V. Lynn and Fiona Q. Wood (1997) "The market as a new steering strategy for Australian higher education." *Higher Education Policy*, 10(3/4): 253-274.
- Mortensen, Dale T. and Christopher A. Pissarides (1994) "Job creation and job destruction in the theory of unemployment." *Review of Economic Studies*, 61: 397-415.
- OECD (1999) *Employment at a Glance Database 1999*. CD Rom. Paris: OECD.
- Teichler, U. (1999) "Higher education policy and the world of work: conditions and challenges." *Higher Education Policy*, 12: 285-312.
- Vainiomaki, Jari and Seppo Laaksonen (1999) "Technology, job creation and job destruction in Finnish manufacturing." *Applied Economics Letters*, 6: 81-88
- Williams, Gareth (1997) "The market route to mass higher education: the British experience 1979-1996." *Higher Education Policy*, 10(3/4): 275-289.



Working Papers - NIMA series

No.

1. Lígia Pinto , Glenn Harrison, *Multilateral negotiations over climate change policy*, May 2000
2. Paulo Guimarães, Douglas Woodward, Octávio Figueiredo, *A tractable approach to the firm location decision problem*, May 2000
3. Miguel Portela , *Measuring skill: a multi-dimensional index*, September 2000
4. Rosa Branca Esteves , Paulo Guimarães, *Price discrimination and targeted advertising: a welfare analysis*, November 2000
5. Anabela Botelho , Lígia Pinto , *Has Portugal gone wireless? Looking back, looking ahead*, December 2000
6. Pedro Barros, Clara Dismuke , *Hospital production in a national health service: the physician's dilemma*, December 2000
7. Anabela Botelho , Mark A. Hirsch, Elisabet E. Rutström, *Culture, nationality and demographics in ultimatum games*, December 2000
8. Miguel Portela , *The impact of segregation on wage inequality: a look at recruitment and pay policies at the firm level*, January 2001
9. Pedro Portugal, Ana Rute Cardoso, *Disentangling the minimum wage puzzle: an analysis of job accessions and separations from a longitudinal matched employer-employee data set*, April 2001
10. Ana Rute Cardoso, Priscila Ferreira , *The dynamics of job creation and destruction for University graduates: why a rising unemployment rate can be misleading*, May 2001
11. Octávio Figueiredo, Paulo Guimarães, Douglas Woodward, *Asymmetric information and location*, July 2001
12. Anabela Botelho , Lígia Pinto , *Hypothetical, real, and predicted real willingness to pay in open-ended surveys: experimental results*, September 2001
13. Anabela Botelho , Lígia Pinto , Miguel Portela , António Silva, *The determinants of success in university entrance*, September 2001

14. Anabela Botelho , *Strategic behavior at trial. The production, reporting, and evaluation of complex evidence*, September 2001
15. Paulo Guimarães, *The state of Portuguese research in economics: an analysis based on publications in international journals*, September 2001
16. Anabela Botelho , Glenn Harrison, Marc Hirsch, Elisabet E. Rutström, *Bargaining behavior, demographics and nationality: a reconsideration of the experimental evidence*, December 2001
17. João Cerejeira da Silva , *Identification of the Portuguese industrial districts*, February 2002
18. Octávio Figueiredo, Paulo Guimarães, Douglas Woodward, *Modeling industrial location decisions in U.S. Counties*, April 2002
19. Aslan Zorlu , Joop Hartog, *The effect of immigration on wages in three European countries*, October 2002
20. Elvira Lima , David K. Whynes, *Finance and performance of Portuguese hospitals*, February 2003
21. Aslan Zorlu , *Do ethnicity and sex matter in pay? Analyses of 8 ethnic groups in the Dutch labour market*, June 2003
22. Cécile Wetzels , Aslan Zorlu , *Wage effects of motherhood: a double selection approach*, June 2003
23. Natália Barbosa , *What drives new firms into an industry? An integrative model of entry*, October 2003
24. Elvira Lima , Teresa Josefina Lopes Esquerdo , *The economic costs of alcohol misuse in Portugal*, October 2003
25. Anabela Botelho , Lúgia Pinto , Isabel Rodrigues , *How to comply with environmental regulations? The role of information*, October 2003
26. Natália Barbosa , Helen Louri, *Corporate performance: does ownership matter? A comparison of foreign - and domestic - owned firms in Greece and Portugal*, October 2003
27. Anabela Botelho , Lúgia Pinto , *Students' expectations of the economic returns to college education. Results of controlled experiment*, December 2003

28. Paula Veiga , *Income-related health inequality in Portugal*, July 2005
29. Anabela Botelho , Glenn Harrison, Lúcia Pinto , Elisabet E. Rutström, *Testing static game theory with dynamic experiments: a case study of public goods*, November 2005
30. Anabela Botelho , Glenn Harrison, Lúcia Pinto , Elisabet E. Rutström, *Social norms and social choice*, November 2005
31. Anabela Botelho , Glenn Harrison, Lúcia Pinto , Elisabet E. Rutström, Paula Veiga , *Discounting in developing countries: a pilot experiment in Timor-Leste*, November 2005
32. Paula Veiga , Ronald P. Wilder , *Maternal smoking during pregnancy and birthweight - A propensity score matching approach*, January 2006

---

The Working Papers of the Applied Microeconomics Research Unit (NIMA) can be downloaded in PDF format from <http://nima.eeg.uminho.pt>

---