



# **Employment in Europe**

**XXIV National Conference of Labour Economics  
Associazione Italiana Economisti del Lavoro  
Faculty of Economics – University of Sassari  
Sept. 24-25 2009**

# Overview



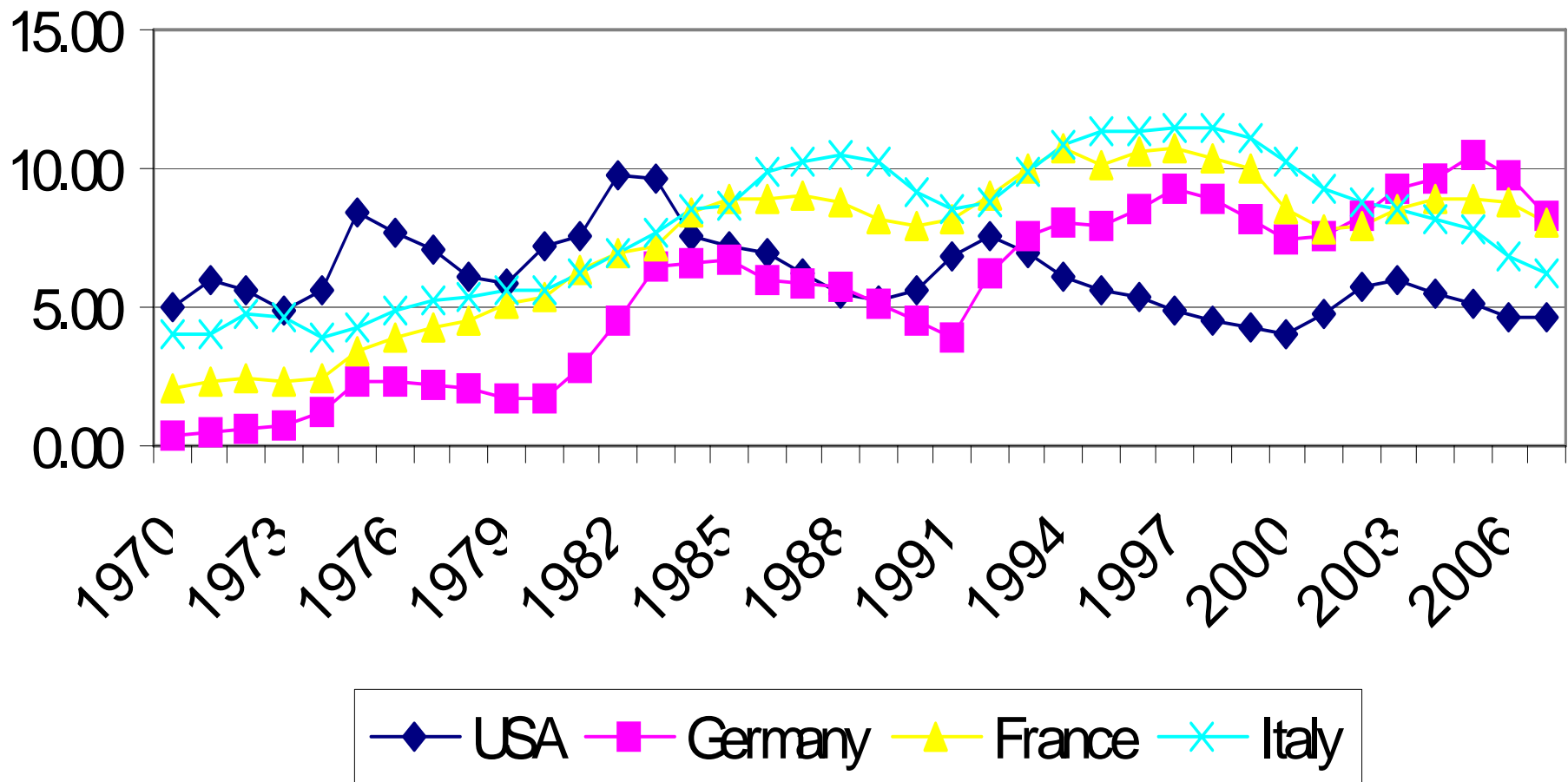
- 1. Trends in European employment and unemployment**
- 2. Five Hypotheses**
- 3. Landing on the moon? Aims of the EES**



# **1. Trends in European employment and unemployment**

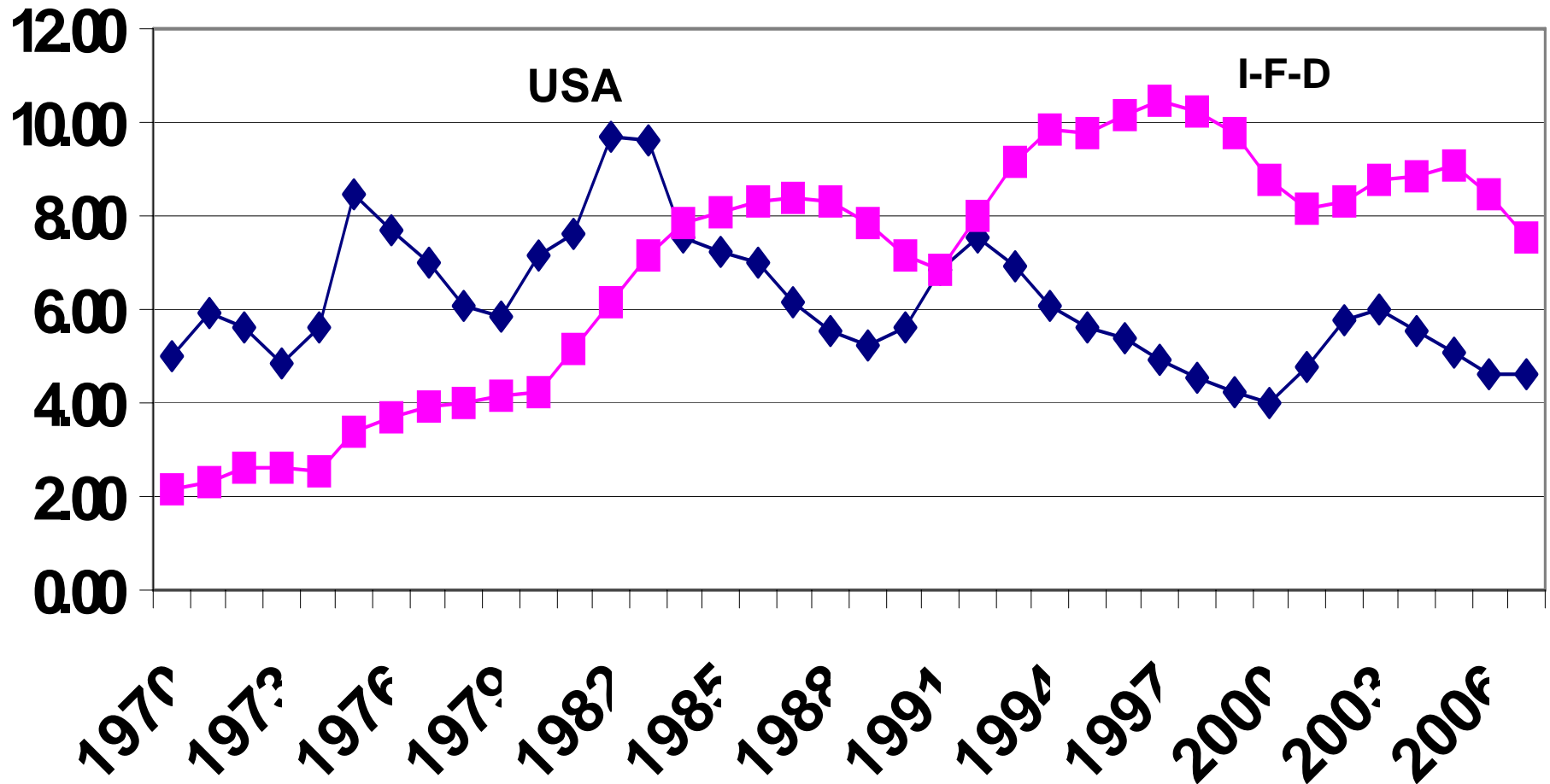
# Rising unemployment rates in EU (I-F-D)

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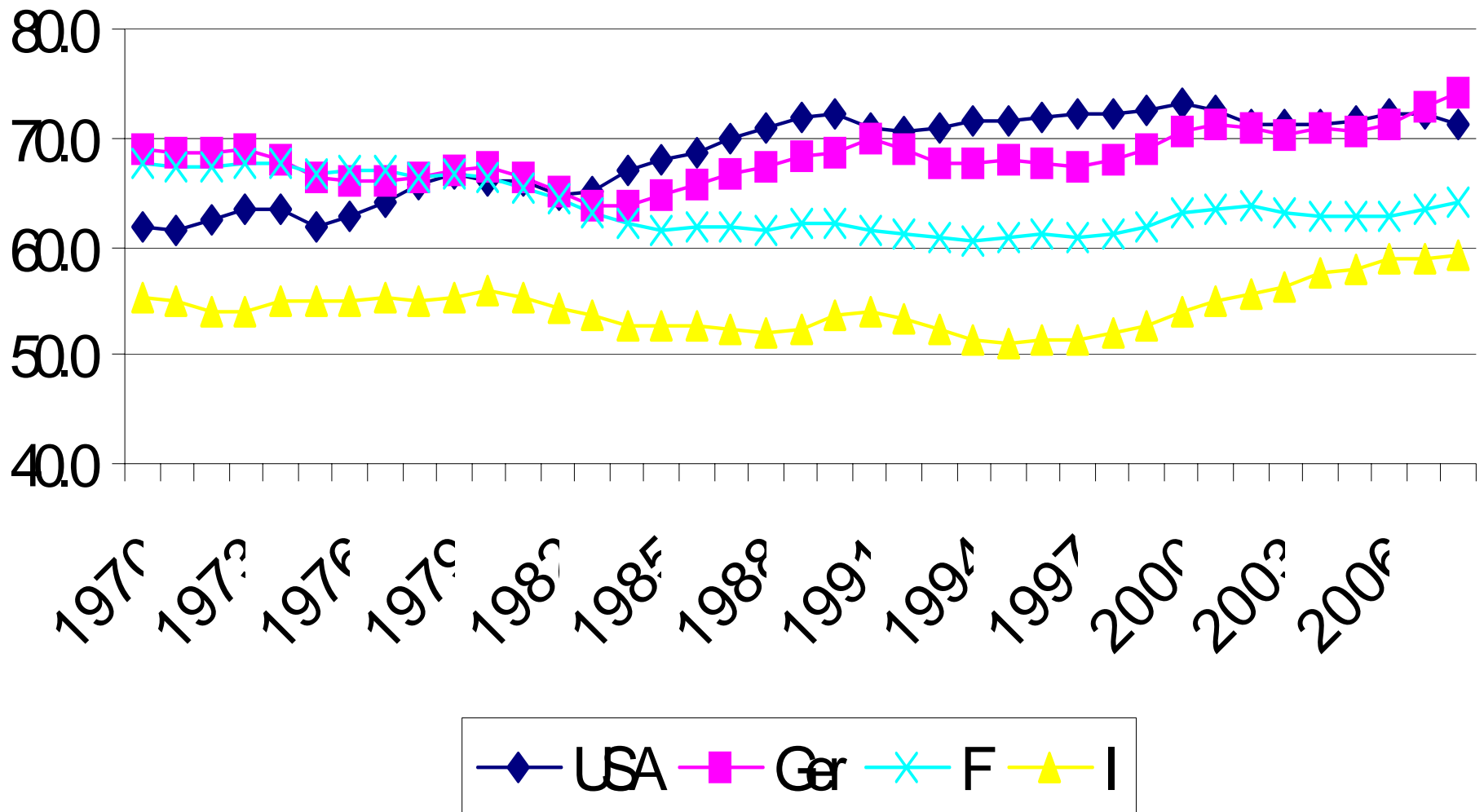
# Rising unemployment rates in EU (I-F-D)

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# Employment-population rates (15-64 years)

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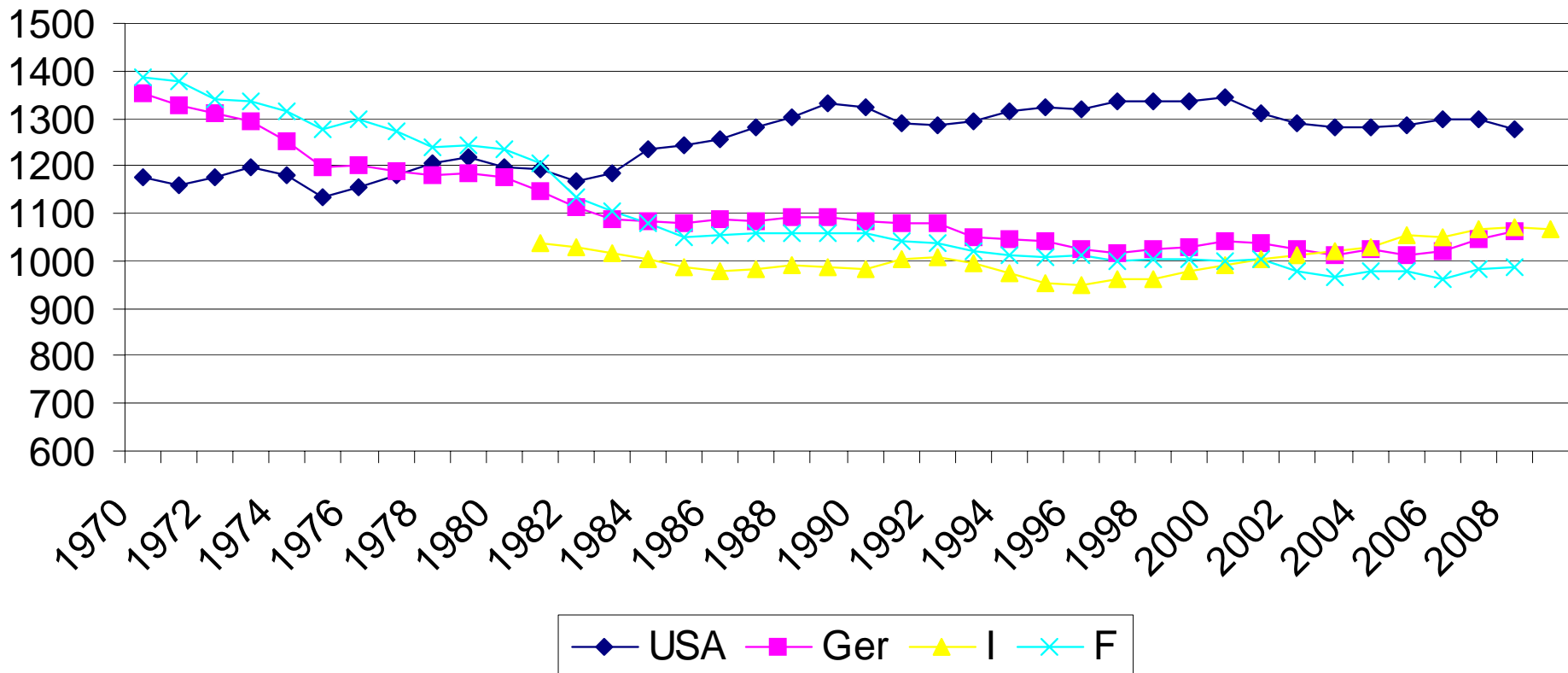
# Increasing employment gap to US

## Hours worked in the market

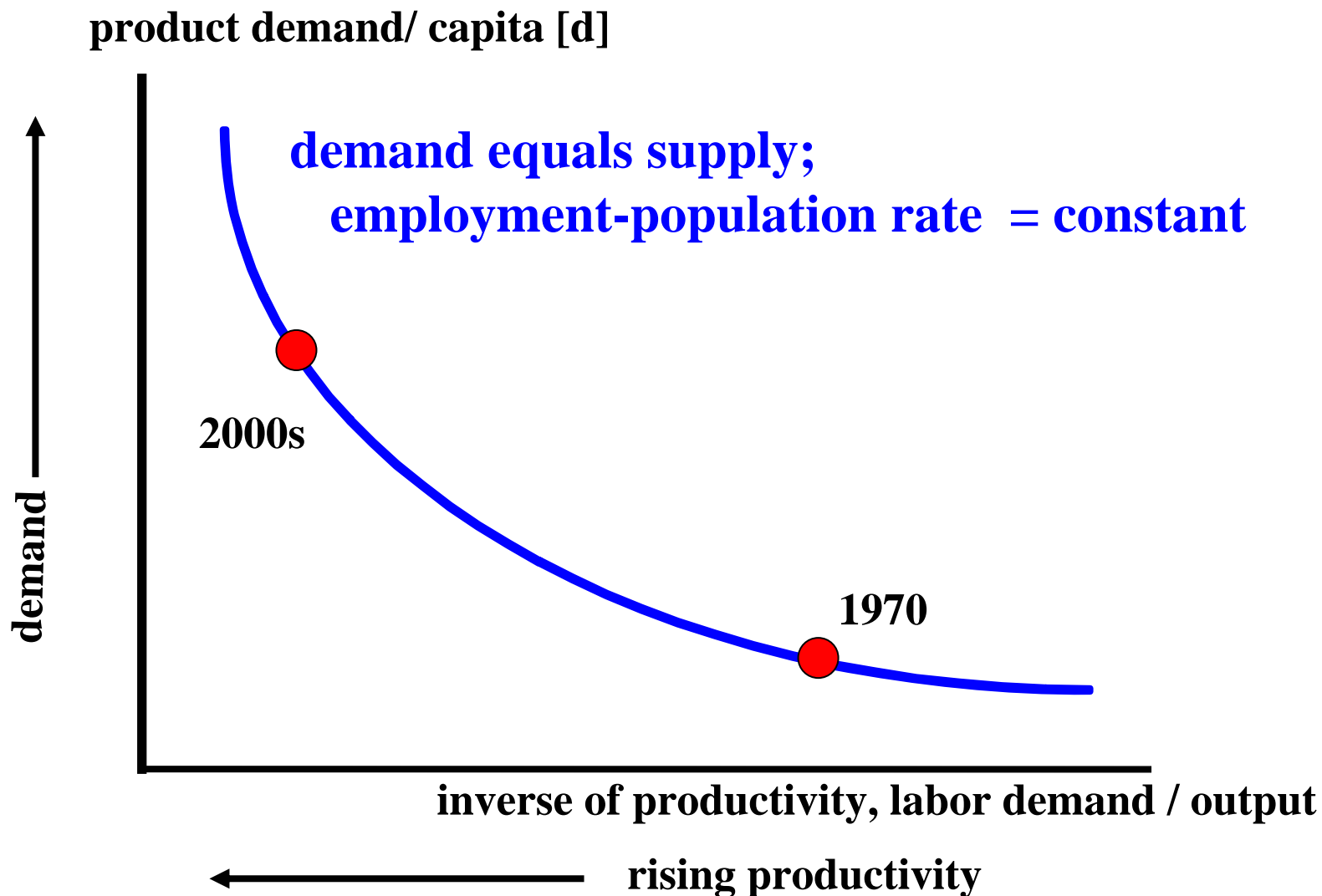
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hours worked / pop. 15-65



# Employment trends in supply–demand space



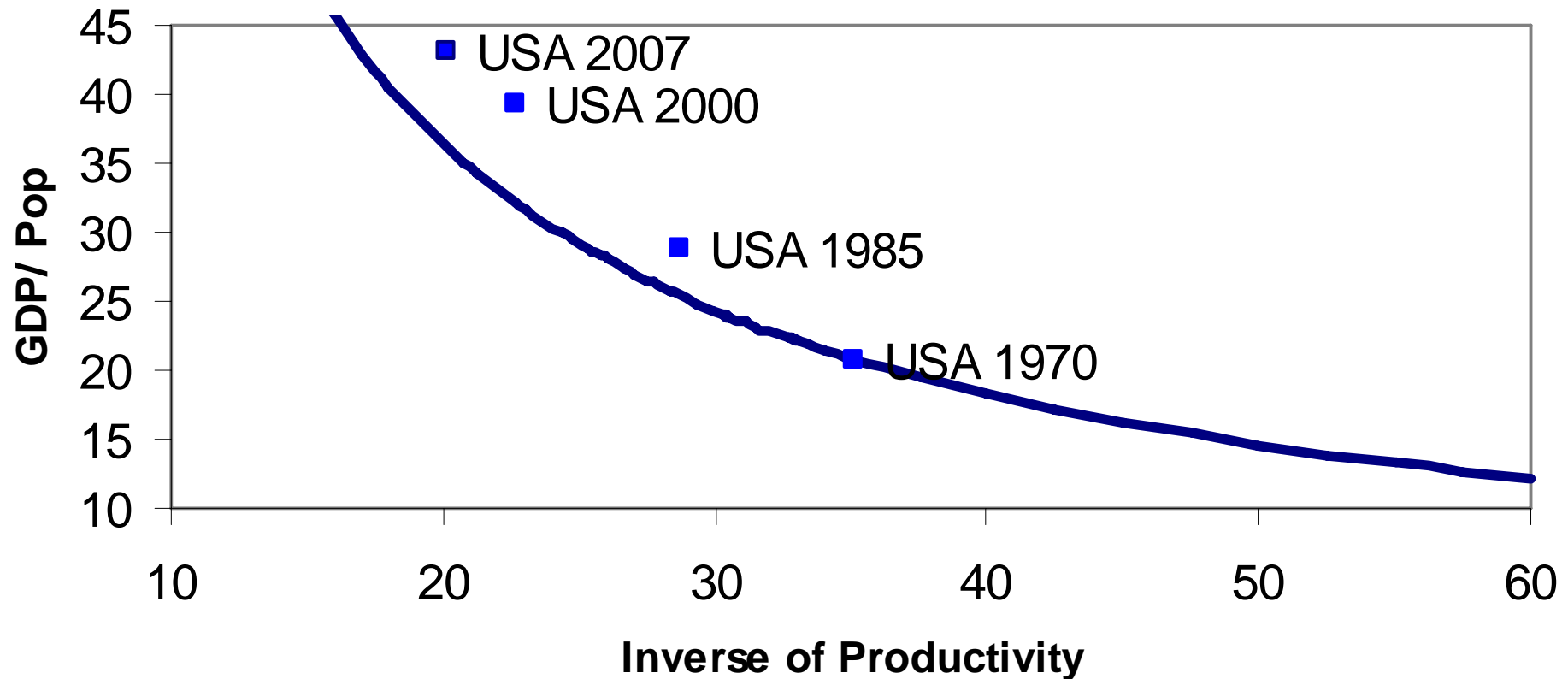


# Employment trends in supply-demand space

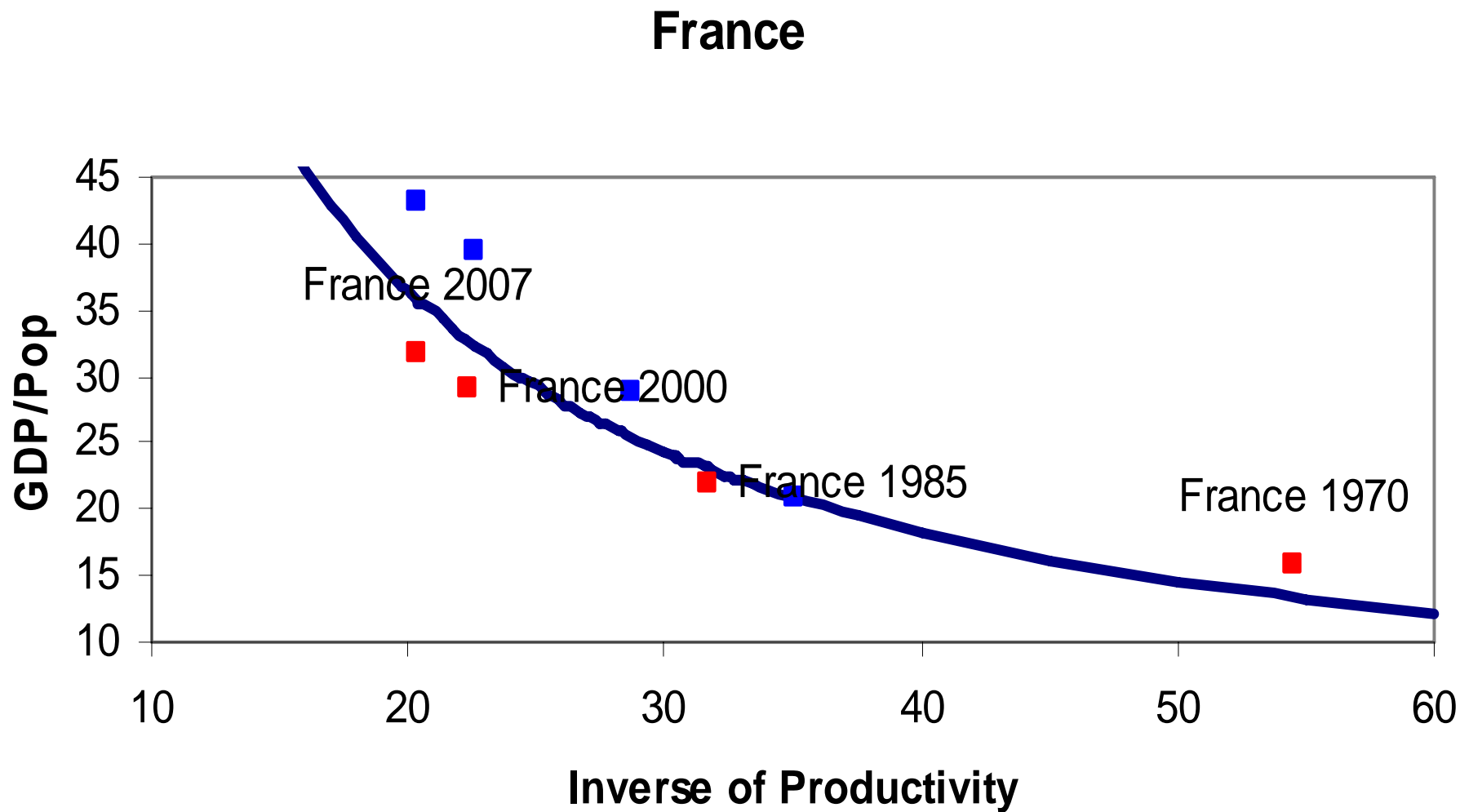
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## USA



# Employment trends in supply-demand space

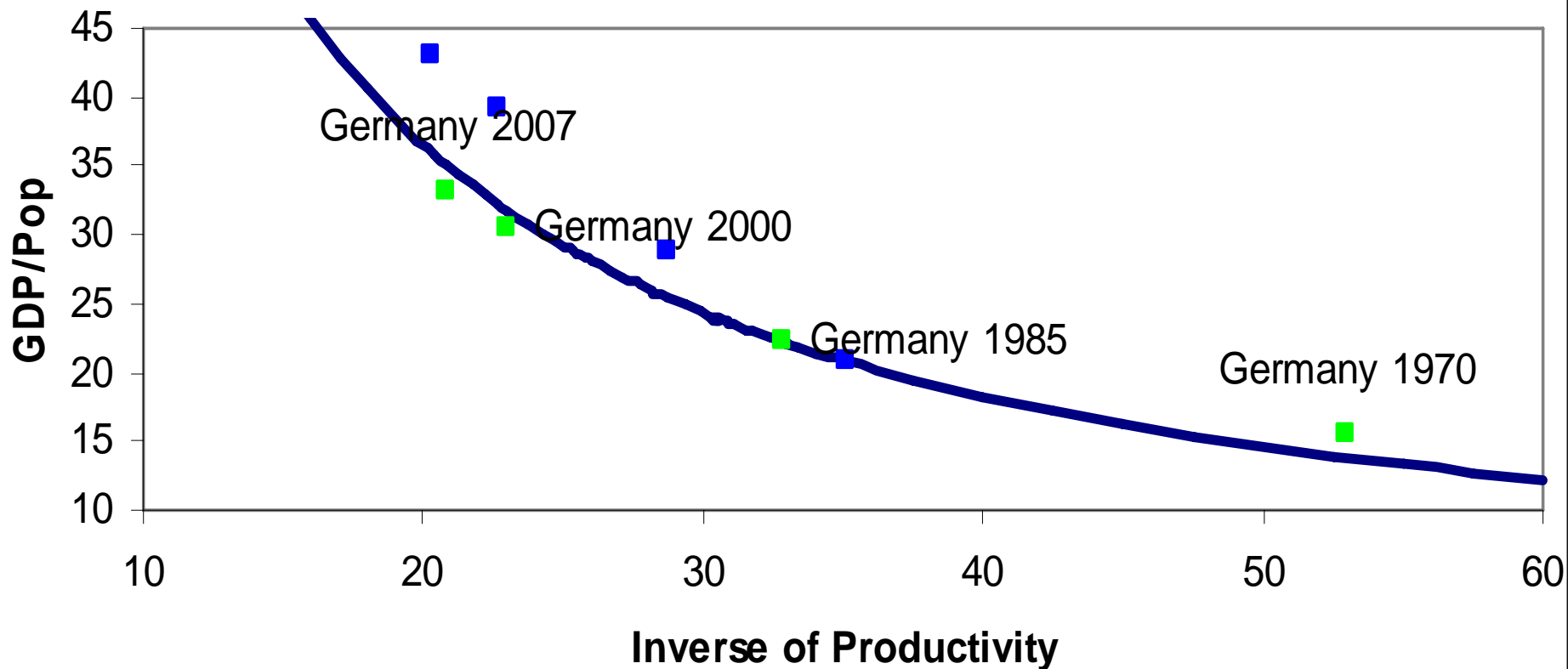


# Employment trends in supply-demand space

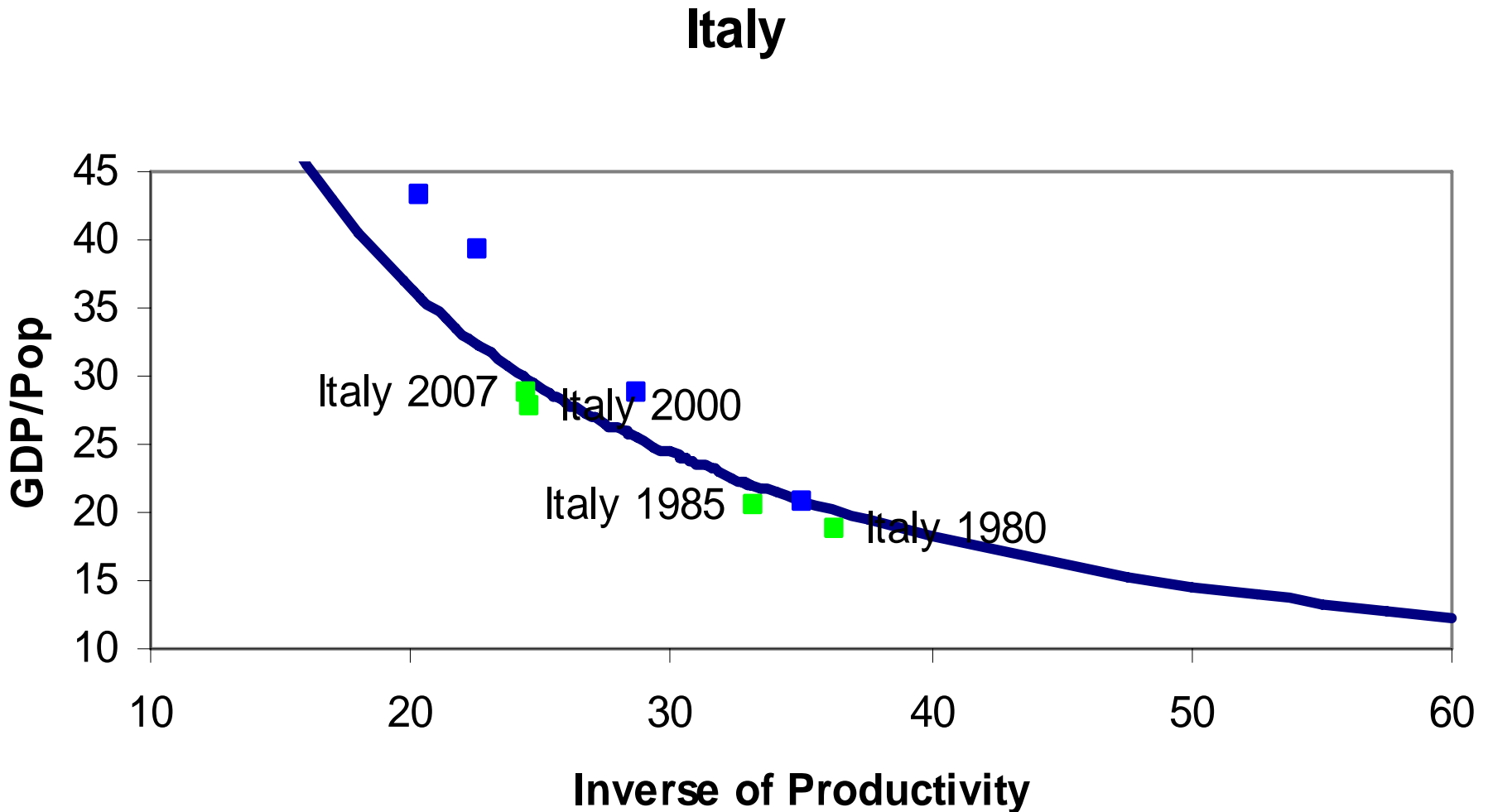
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## Germany



# Employment trends in supply–demand space



# Trends in European employment and unemployment

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1970:

Employment (measured in persons and hours)  
roughly similar in the US and EU

Productivity lead of the US;

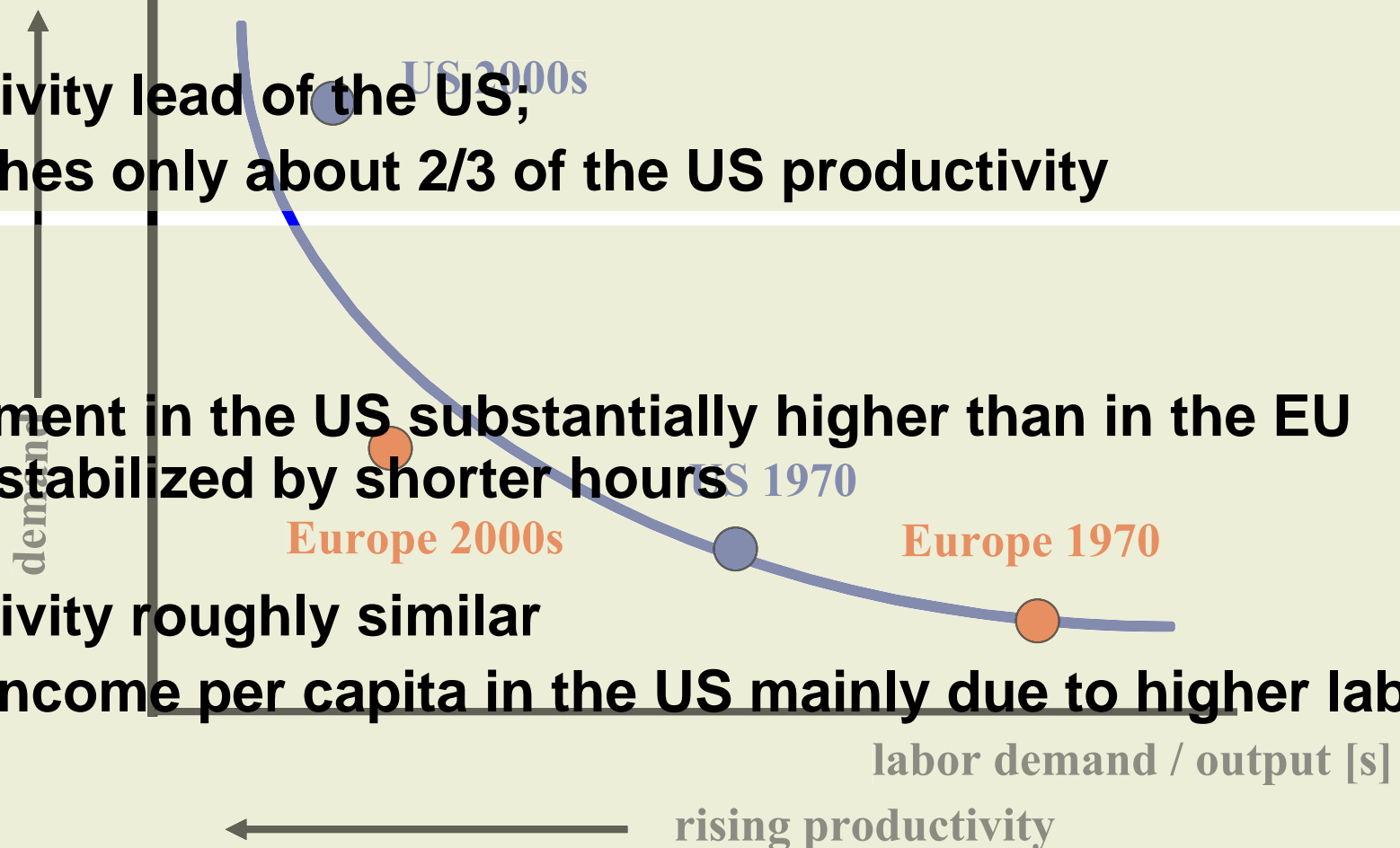
EU reaches only about 2/3 of the US productivity

2000 +:

Employment in the US substantially higher than in the EU  
E-pops stabilized by shorter hours

Productivity roughly similar

Higher income per capita in the US mainly due to higher labor input





- **Why do Americans work so much?**
- **Why do Europeans work so little?**



## **2. Five hypotheses**

- 1. Euro-sclerosis: European institutions slow employment growth (common believe, OECD)**
- 2. Preferences (Olivier Blanchard)**
- 3. Taxes (Edward Prescott)**
- 4. Division of labor; marketization (Richard Freeman/  
Ronald Schettkat)**
- 5. Macroeconomic environment (Robert Solow)  
(€sclerose)**

1

**US**



**Climbing up the stairway to higher employment requires labor market reforms  
OECD, IMF, EU, ..... Common view**

**Sclerotic labor markets in Europe  
Euro sclerosis**





- **Unemployment benefits**
- **Unions**
- **Employment protection (EPL)**
- **Compressed wage structure**
- **.....**

**Structural unemployment, natural rates, labor market reforms**

**Macroeconomic policy: “stability” (i.e., low inflation)**



- **Does a wider wage dispersion promote employment?**
- **OECD, Employment Outlook:**  
**Microanalysis does not support the conventional wisdom**  
Indeed, it appears that the majority of international studies using micro data to test whether the relative employment performance of low-skilled workers was worse in countries where the wage premium for skill was more rigid have not verified this thesis (e.g. Card et al., 1996; Freeman and Schettkat, 2000; Krueger and Pischke, 1997; Nickell and Bell, 1995).”  
**OECD: Nevertheless .....**



**Americans are workaholics,  
Europeans prefer leisure  
Olivier Blanchard (2004)**



- Shorter working hours in Europe are in line with preferences of Europeans
- problems:  
why did tastes change?  
large part of the difference is in e-pops,  
especially female e-pops

### **3. Taxes (Prescott)**



**Taxrate differential between Europe and the US „explains“ the entire difference in employment**

# G-7 Countries' Predicted and Actual Labor Supply Prescott



Country	change (%-points )	
	Tax rate 7	epop 15-65 8
	0.05	-5.3
	0.10	-6.9
Germany	0.23	-1.1
France	0.09	1.7
Italy	-0.01	0.1
Canada	0.12	-2.0
United Kingdom	-0.01	1.7
Japan		
United States		
Correlation -.21		

# Equilibrium?



**Although the rational is different**

- Blanchard argues that indifference curves are different
- Prescott argues that prices (net wages) are different

**both –Blanchard and Prescott- predict that desired and actual working time are equal.**

# Preferences of married women towards working in the market in Europe

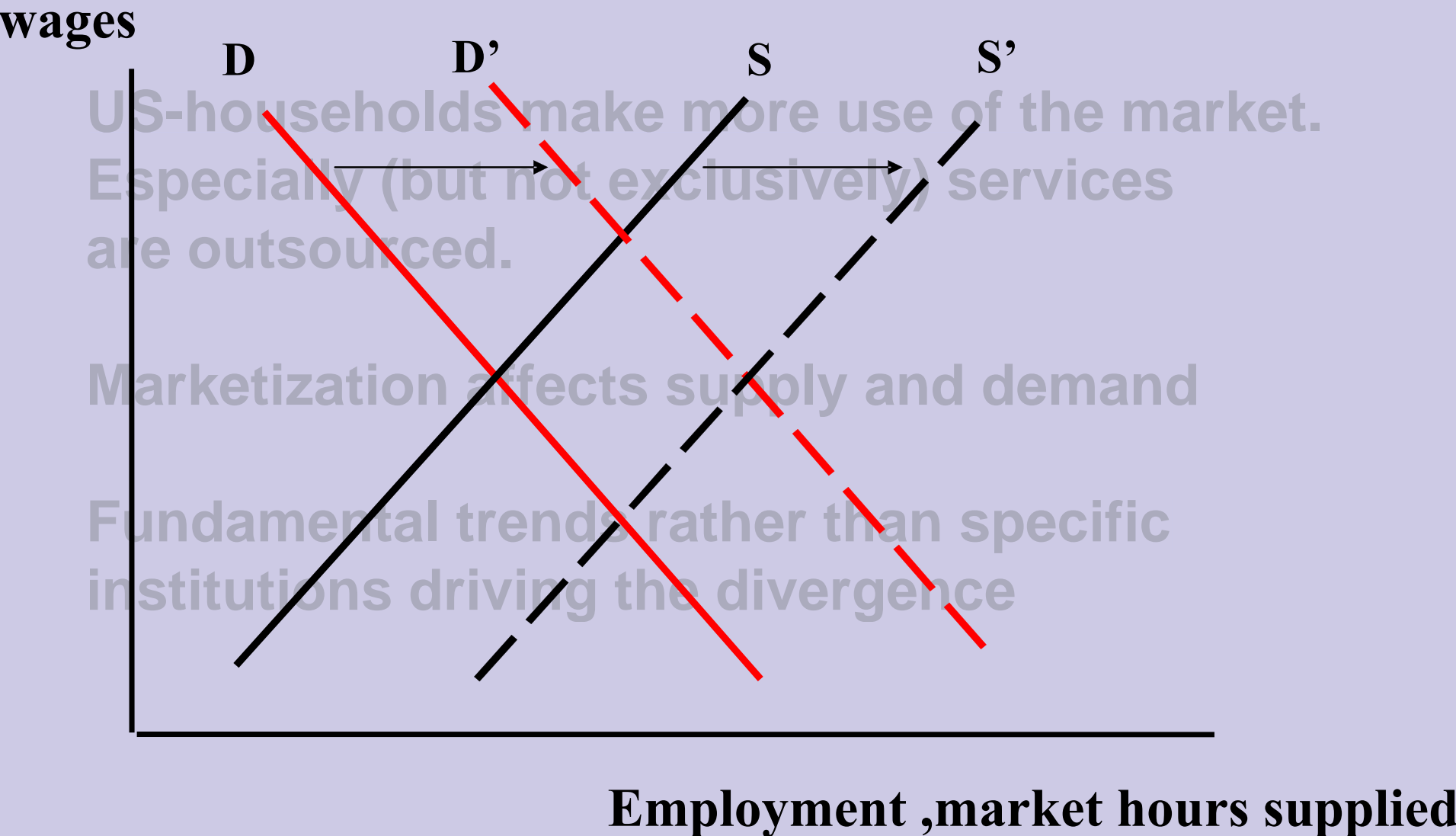
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	Husband woman full - time	WORKING woman part - time	Full-Time woman not employed	Other
	PREFERRED			
Sweden	66.8	22.2	6.6	4.4
UK	21.3	41.8	13.3	23.6
Germany	32	42.9	5.7	19.4
Netherlands	5.6	69.9	10.7	13.8
France	52.4	21.9	14.1	11.7
	ACTUAL			
Sweden	51.1	13.3	24.9	10.7
UK	24.9	31.9	32.8	10.4
Germany	15.7	23.1	52.3	8.9
Netherlands	4.8	54.8	33.7	6.7
France	38.8	14.4	38.3	8.4



## 4. Marketization (Feeman/ Schettkat)

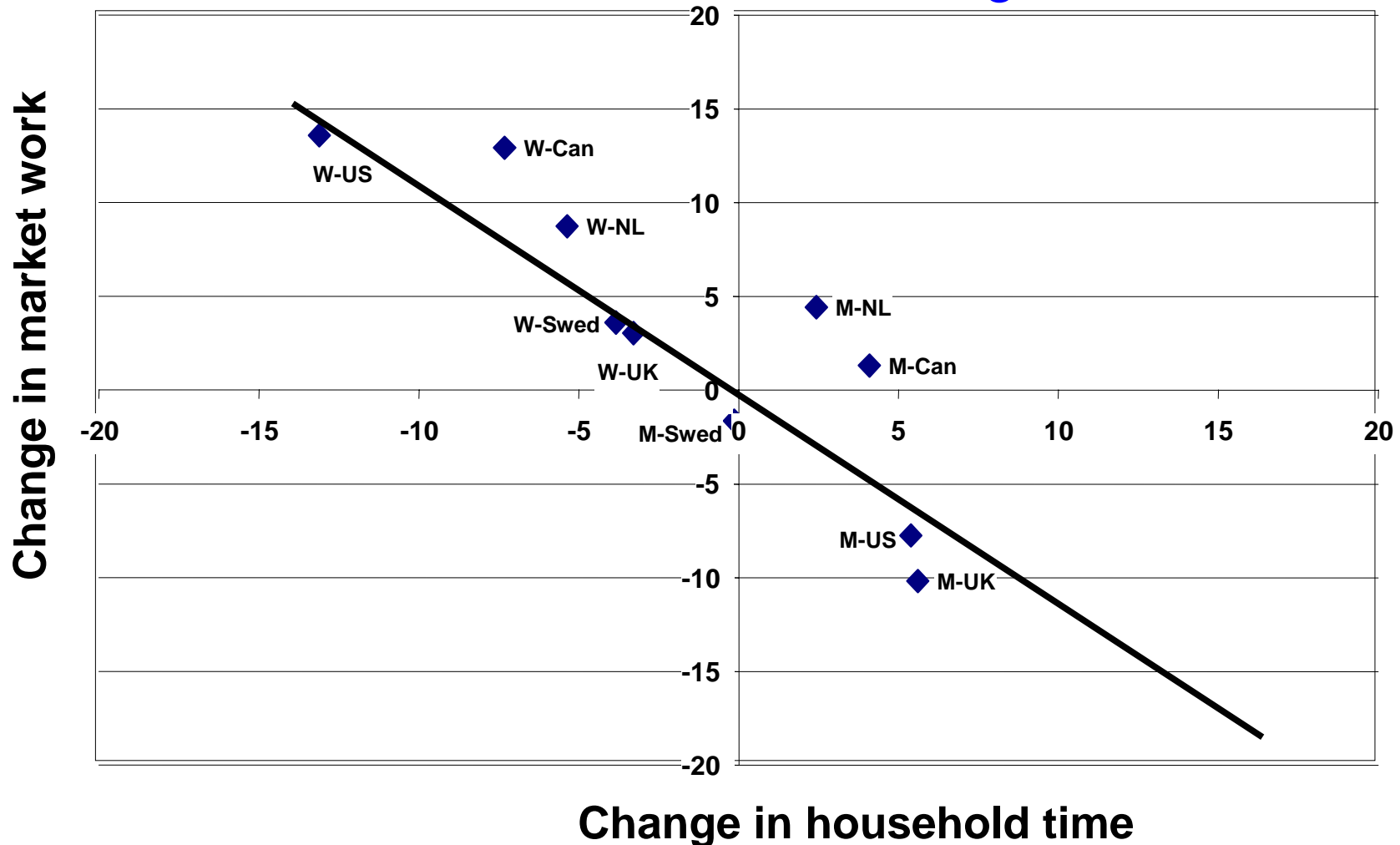


# Changes in market hours, change in hours of household production

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change in market hours =  $.95 - 0.97 * \text{change in household hours}$

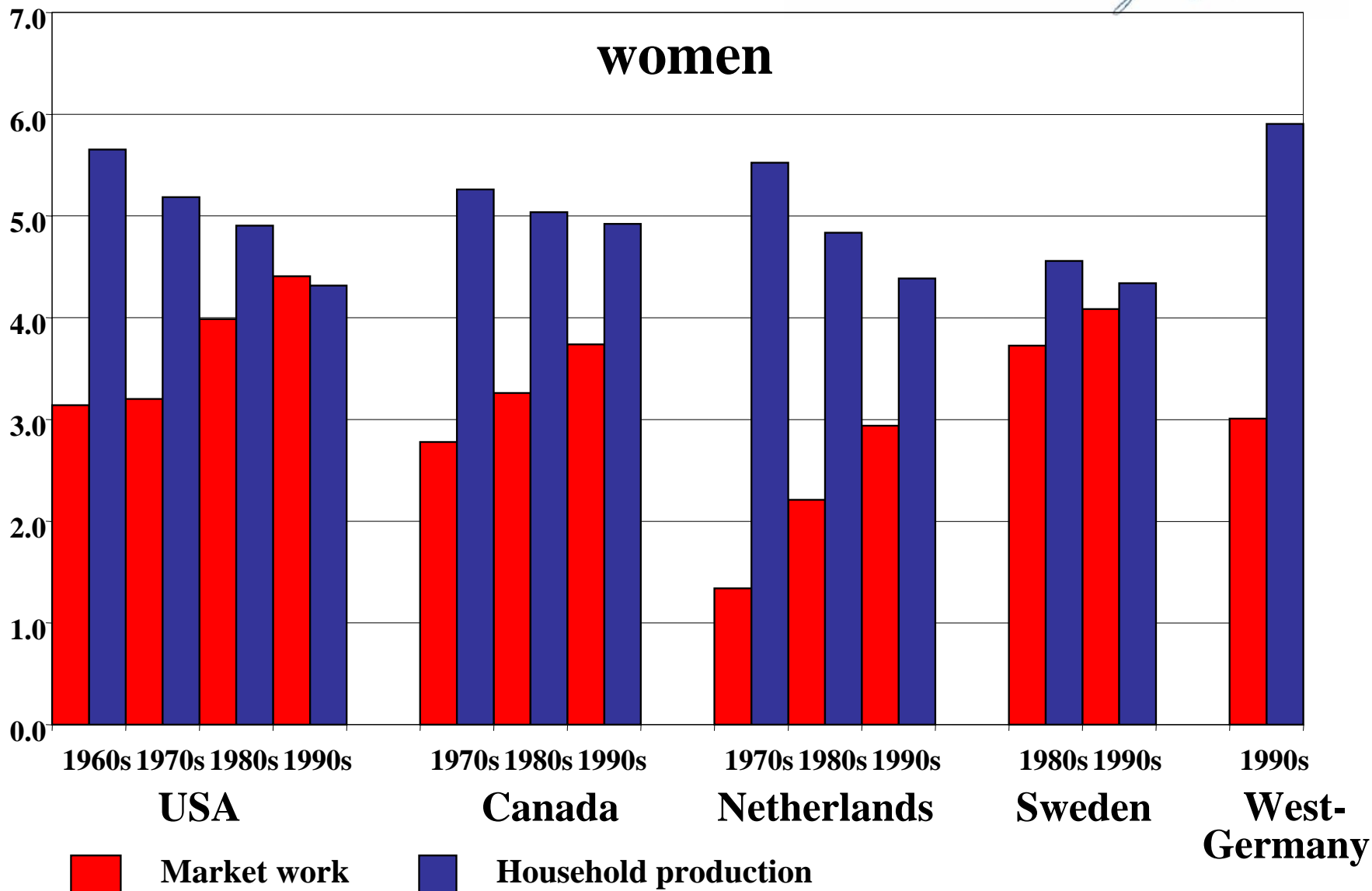


# Hours in market work and in household production women 25-54 years (hours per day)

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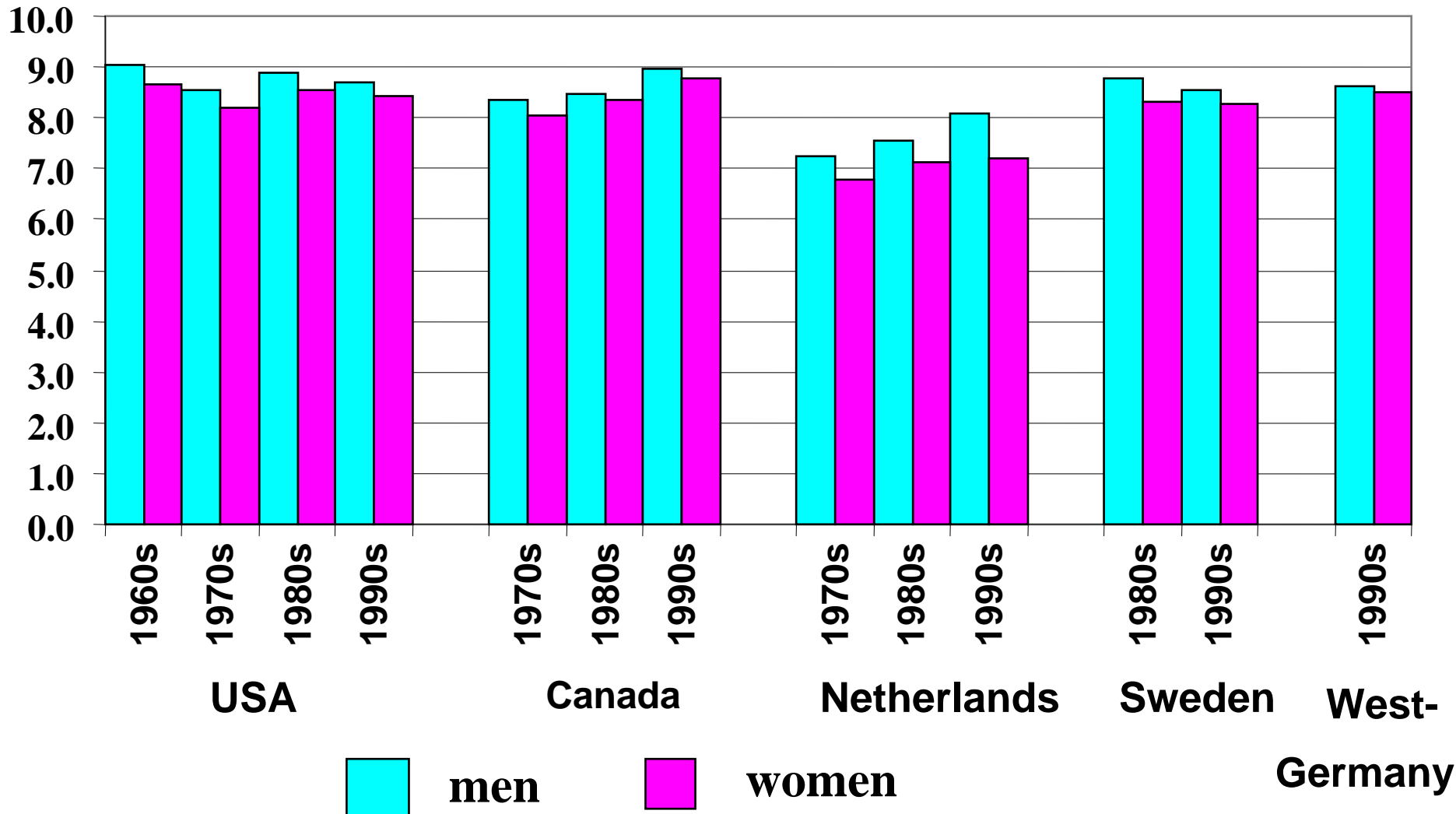


women



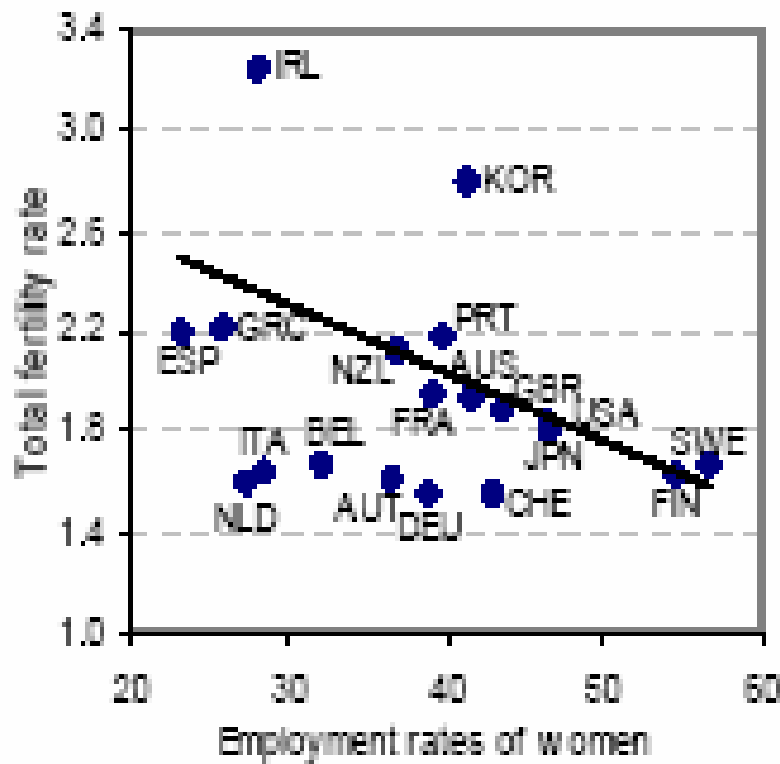
**Overall hours worked market work  
plus household production  
men, women, 25-54 years (hours per day)**

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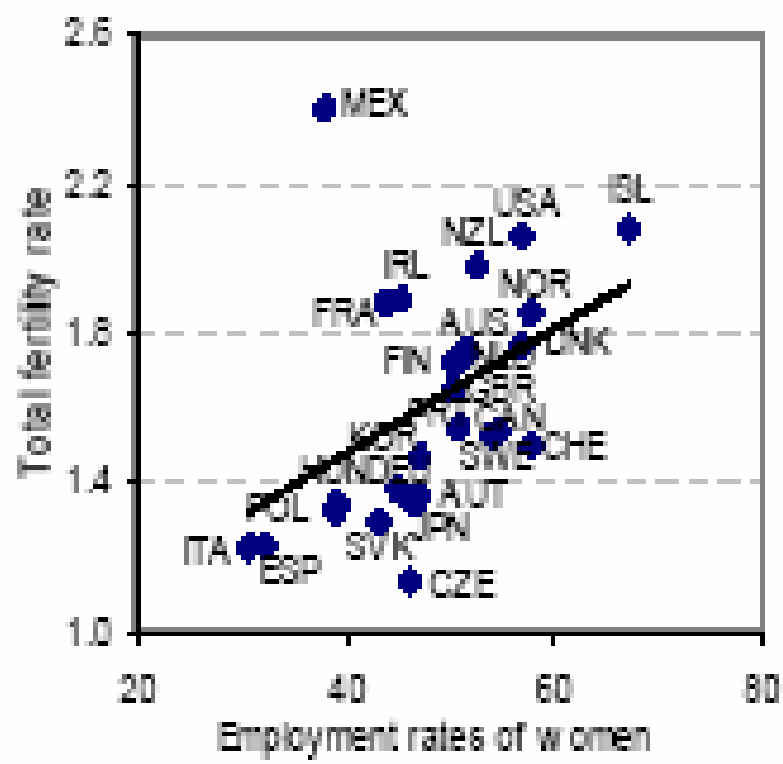


# Cross-country relation between female employment population rates and total fertility rates, 1980 and 2000 (OECD)

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1980



2000

# Share of women with tertiary education, by cohorts, 2000



## Tertiary Education

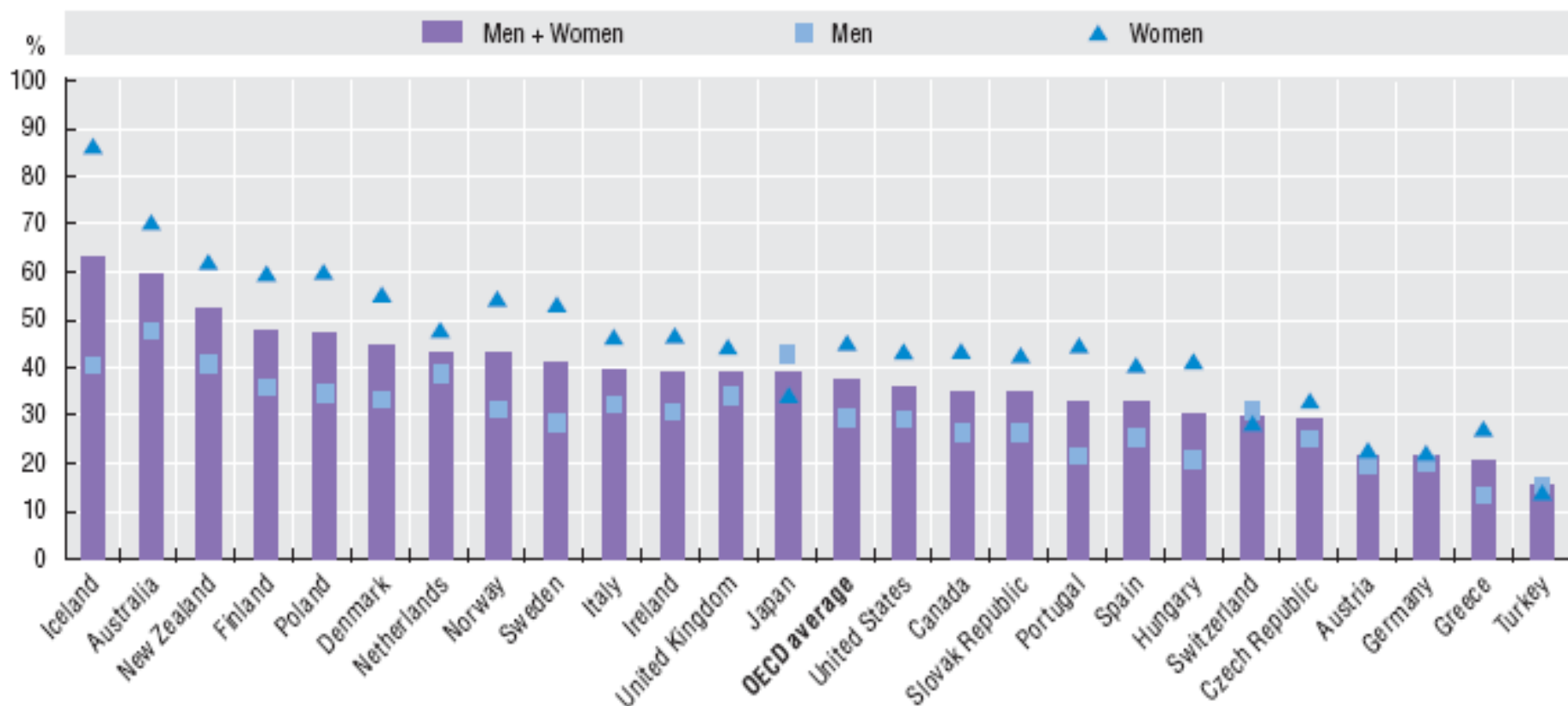
Born	25-34 1965-74	35-54 1945-64	55-64 1935-1944	Total
United States	53.4	50.0	45.0	50.3
Germany	45.8	39.1	29.3	38.7
Netherlands	50.5	41.8	37.5	43.9
Sweden	53.1	53.8	51.3	53.2
United Kingdom	46.8	47.0	36.2	45.6
OECD				

# Graduation: young women > young men



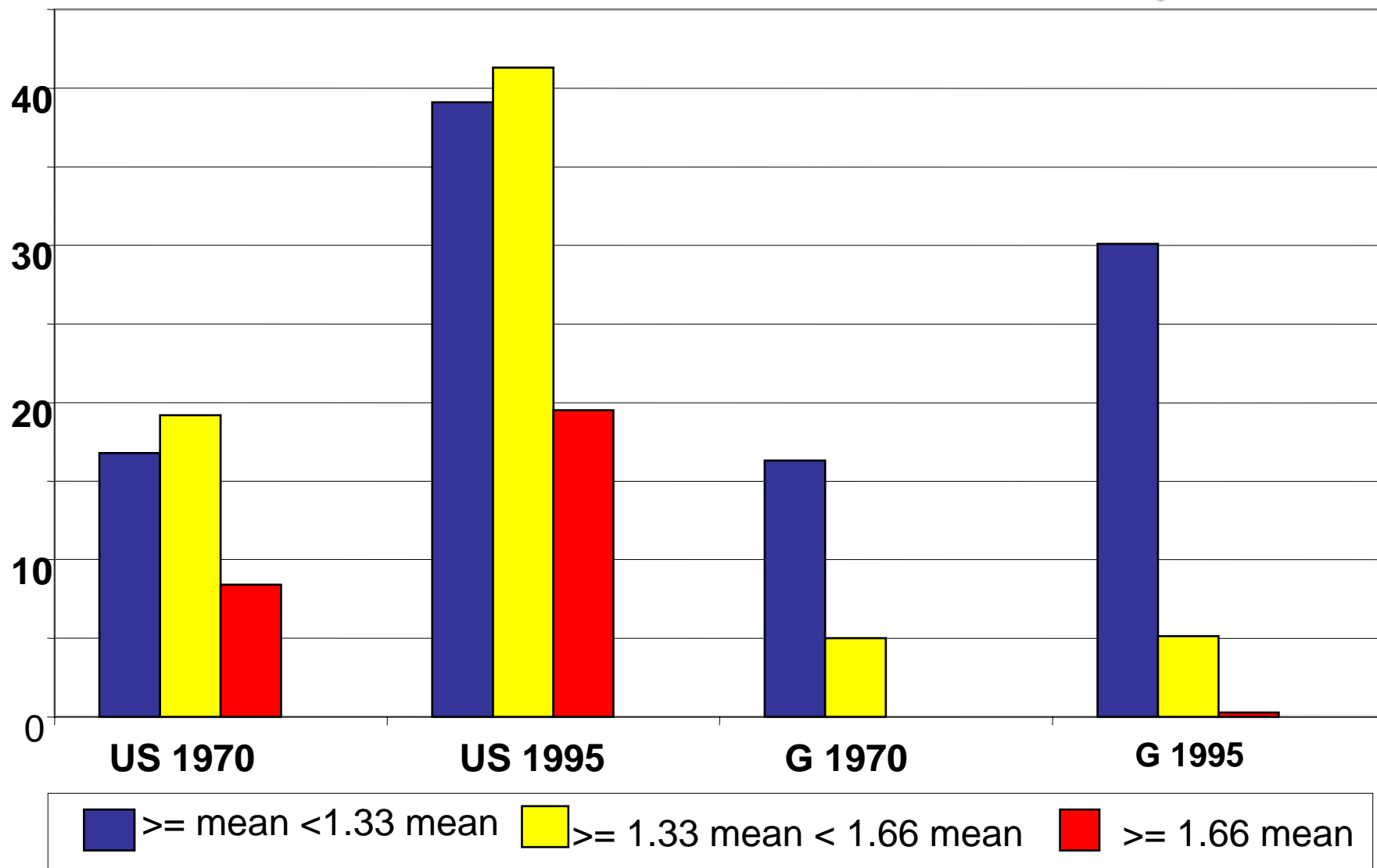
Figure 1.8. Graduation rates from university-level education by gender, 2006

This figure shows the percentage of young men and young women who are first-time graduates from university-level education. On average, about 45% of young women graduate at this level in OECD countries against about 30% of young men.



# The Share of Women in Higher Wage Groups, US-GER

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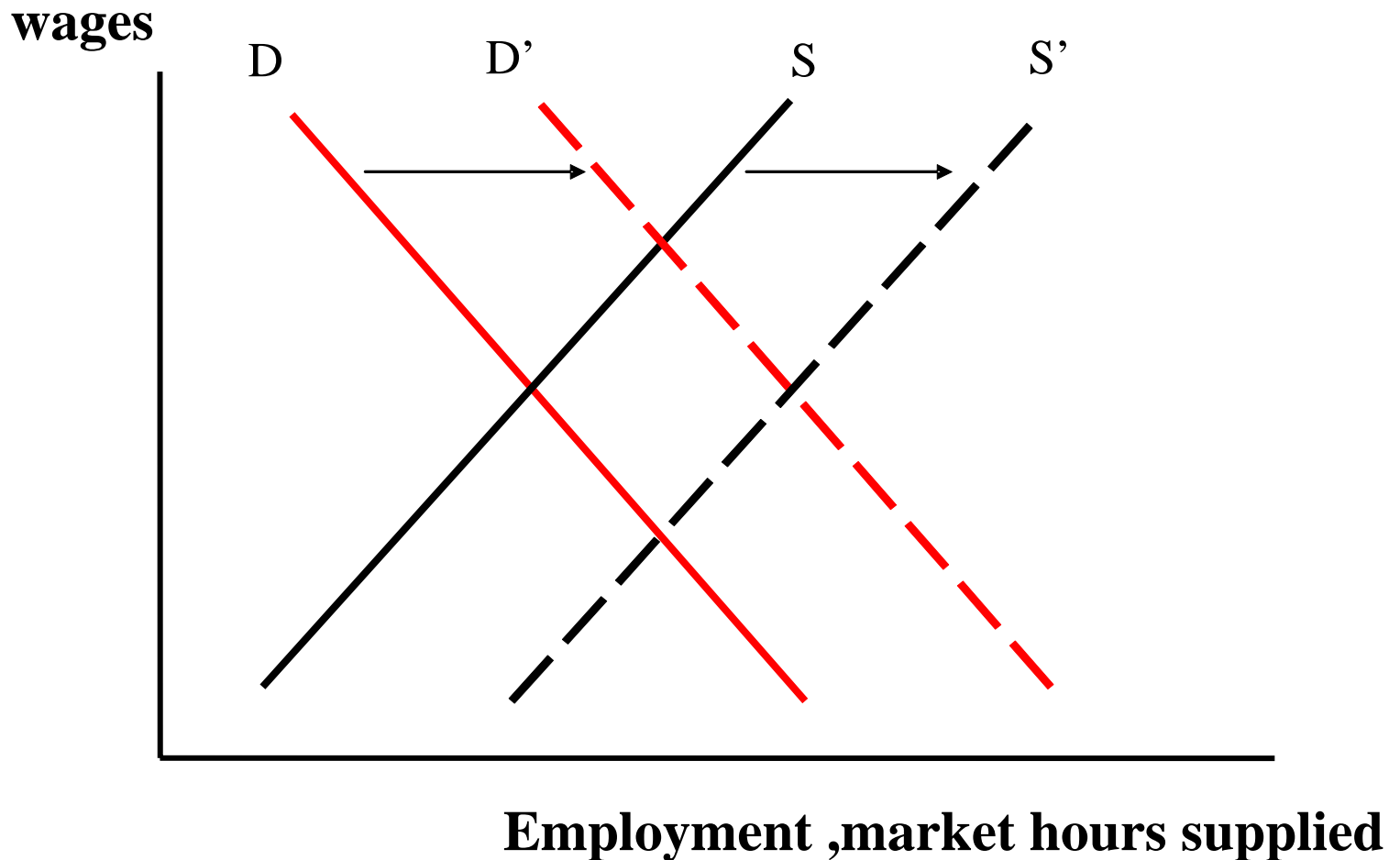


Source: computations based on the CGAS, Freeman/ Schettkat



# Marketization shifts supply and demand curves

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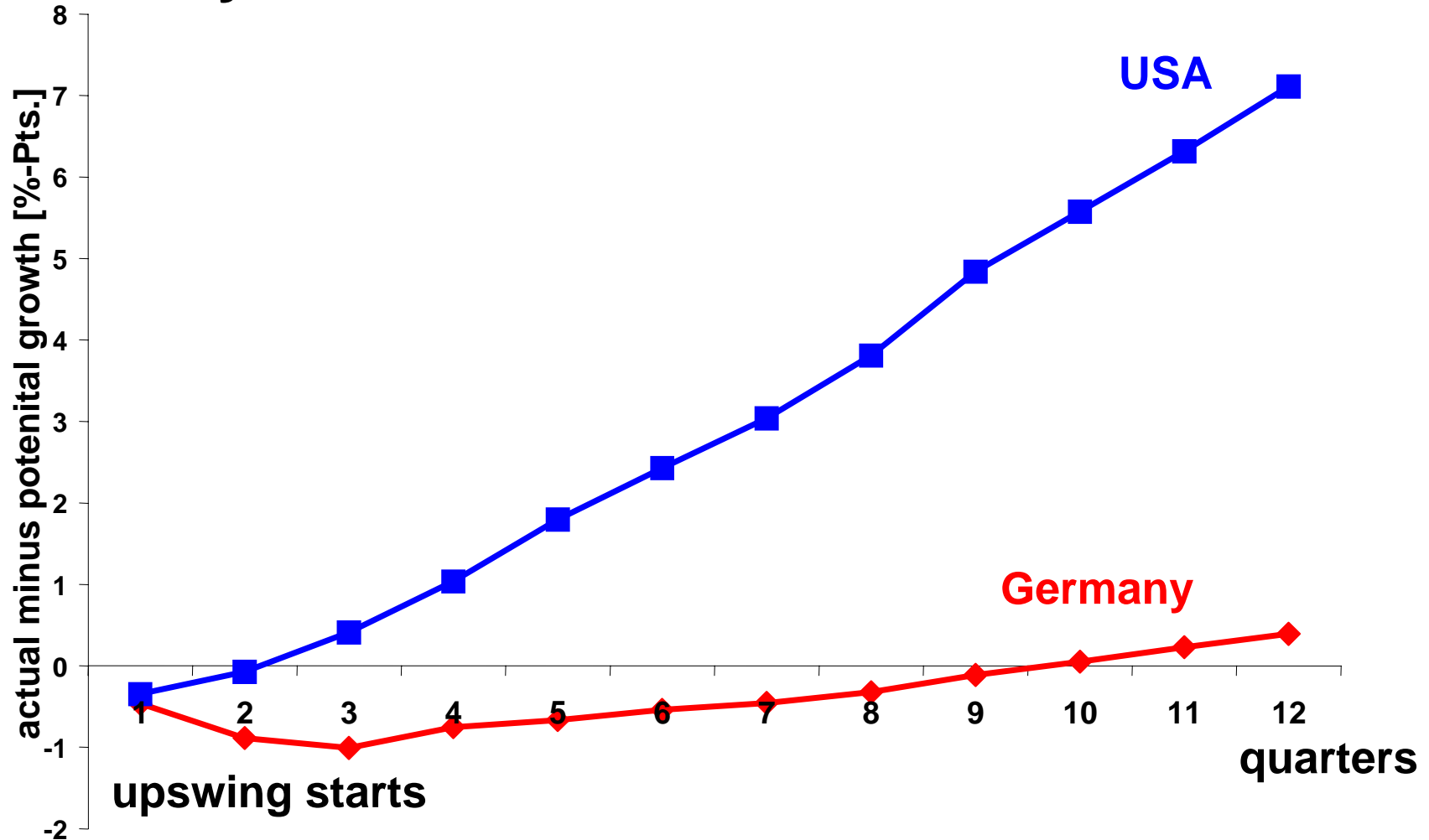
# 5 Macroeconomic policy

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# Cumulated growth rate differentials (actual minus potential growth) in upswings, Germany, USA

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# Eurosklerosis

through the design of macroeconomic  
Institutions in Europe?

€sklerosis ?



### **3. Landing on the moon? Aims of the EEC**

**most dynamic and competitive knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion, and respect for the environment (Lisbon agenda 2000)**

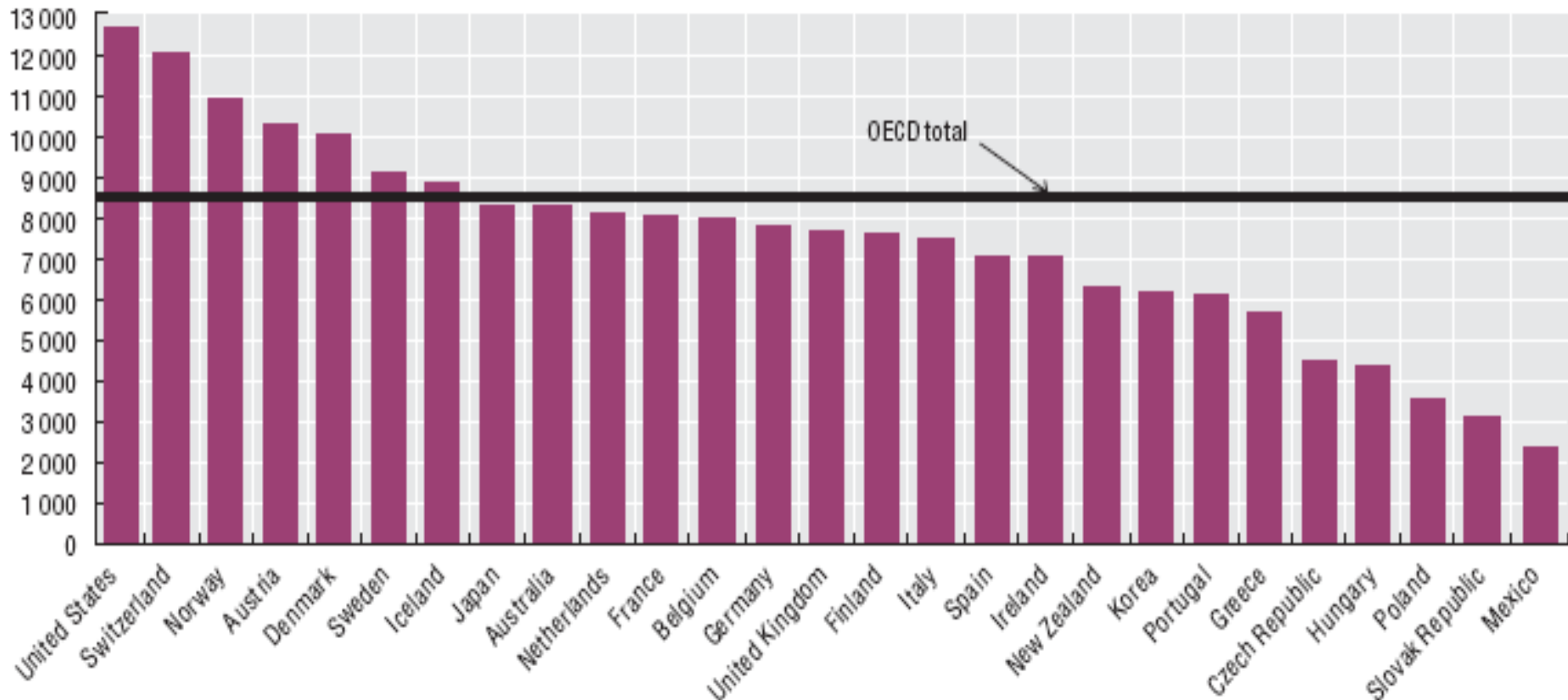
# Knowledge based economy?



Figure 3.1. Annual expenditure per student, 2005

This figure shows how much is spent annually (on educational institutions) per student between primary and tertiary education; this data give a sense of the cost per student of formal education.

USD converted using PPPs





- **Economic and monetary union (EMU)**  
Treaty of Maastricht (1991, Dec.)  
convergence criteria, European Monetary Institute (EMI),  
European Central Bank (ECB, 1998), EURO 1999
- **Stability and Growth Pact (SGP)**  
Treaty of Amsterdam (1997, June)  
(balanced budgets, excessive deficits procedure,  
coordination of economic policy)  
including employment title
- **European Employment Strategy (EES)**  
Luxembourg (1997, Nov.)  
Lisbon agenda (2000, March)  
relaunch of „Lisbon process“ (2005)

# Spirit of EU policies



- **Supply-side measures are sufficient**
- **Economic policy largely left to individual countries (OMC)**
- **Lower taxes stimulate growth and employment**
- **Monetary policy neutral**



# Presidency Conclusions Luxembourg (1997)



- „With regard to the **macro-economic context**, it is essential for the Union to pursue a policy of growth geared to **stability, sound public finances, pay restraint and structural reforms.**“(10)
- **Introduction of the euro will provide a permanent framework of stability conducive to growth and employment.**  
(11)

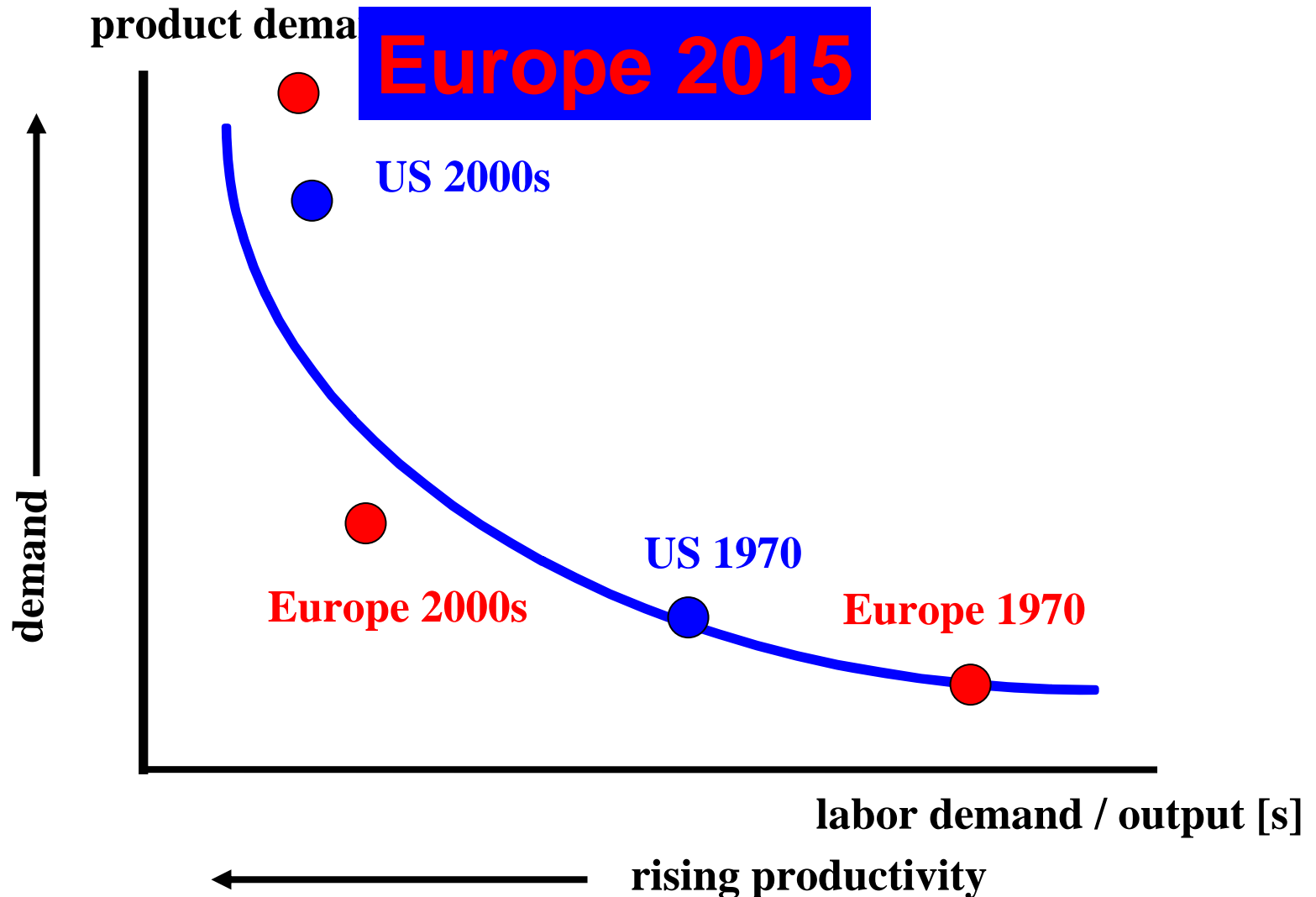
# New growth model (Madrid 2010?)



- High participation basis for welfare states
- Markets have two sides (Marshall)  
developing demand: green industries
- Rethinking public policy: education, child support  
(integration, fair chances); social policy
- Macroeconomic coordination
- Integrating monetary policy into the dialog

# Trends in European employment and unemployment

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**Grazie**