Why have some countries become more unemployed than others?

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Is unemployment caused by wages?

• Unemployment has risen across EU since 2008,
• clearly due to crisis, cut in credit etc ... 
• blamed also on lack of ‘flexibility’ in labour markets, and high labour costs, 
• claimed excessive unit labour costs in some countries, solution by lower wages, thinking behind the approach of ‘internal devaluation’, and/or reduce wage costs and risks of employing, and more jobs will appear, 
• perfectly functioning labour market would presumably see new jobs appear, re-employing those from declining activities
• looks like view of ECB President Mario Draghi.
Our argument

• Working Paper (available)
• Unemployment has risen from structural factors and does not respond to wage reductions,
• data show no relationship between pay reductions and employment trends,
• method requires case studies (because we need to break down to individual sectors to follow what happens in countries),
• will present only a little of the evidence
Mario Draghi’s story

• speech of 22 August 2014, *Unemployment in the euro area*,

• ‘whereas the Irish labour market facilitated some adjustment through prices, the Spanish labour market adjusted primarily through quantities: firms were forced to reduce labour costs by reducing employment’,

• so, the unemployment in Ireland stabilised and then fell from 2011, in Spain it increased to 2013.
Mario Draghi’s figures

Unemployment

Nominal compensation per employee

Charge (pp)

Index (2008q1 = 100)
What should be compared

- First, use employment figures: discouraged workers, plus migration. Big difference; eg the ‘flexible’ US labour market worse rather than better than Europe,
- second, take account of past economic structures. Very large share of unemployment came from collapse in construction sectors,
- third do not use just aggregate figures across whole economies without looking at individual sectors, (standard theories of unemployment, a single labour market, not true, in relevant time scale),
- forth do not rely on one illustrative example alone.
Does migration matter?

Working age population (15-64), 2003=100

- Ireland
- Spain
- Italy
- Latvia
Taking account of migration

- Population change, not all due to migration,
- Ireland-Spain comparison, about half explained,
- Latvia, mention as it is even more dramatic and quoted as success for reducing unemployment (from 2010),
- very weak job growth (was some), trends like other countries, but with emigration.
Compare private sectors

Employment (15-64), 2008=100

Nominal compensation, 2008=100
Compare public sectors

Employment (15-64), 2008=100

Nominal compensation, 2008=100
Construction sectors

Employment (15-64), 2008=100

Nominal compensation, 2008=100

Ireland    Spain

Ireland    Spain
Bring in more comparisons

• Construction employment declines where it grew, depending on credit (ie not Germany),
• changes in pay vary, but no obvious link to employment which remains depressed,
• public sector, often expanding and pay often falling, plausible but weak relationship,
• manuf follows past trends, competitiveness from quality, not much link to pay.
No link, wage and employment growth

Manufacturing

- Employment in 2013, 2008=100
- Real wages in 2013, 2008=100

Countries: AT, DE, HU, MT, UK, LT, CY, HR, MT, AT, DE, HU, LU, NL, FI, LV, BE, SE, SK, RO, BG, EL, PT, EE, ES, SI, DK
Exports and modern sectors

• Export success brings some employment but usually higher pay and higher export prices,
• Ireland? computer services,
• Spain? No employment growth in high-pay, high-skill sectors,
• important distinction between countries with signs of stalled transformation towards more modern economy in ‘south’, but continues in ‘north’.
Conclusions 1

- Unemployment trends follow employment trends, but can mask the latter, eg through migration (false impression – Latvia),
- employment fell from economic crisis, esp in construction, wages - no perceptible difference,
- it fell in some public sector activities, but often increased, with wages following gvt policies,
- good employment outcomes often from public sector (eg Germany), policy choice,
- countries also recovered with high-paying activities that could compete internationally,
- low wages? only budget-constrained public sectors?
Conclusions 2

• Recovery through public spending and transforming economies,
• active labour market policies can help,
• revived investment can help,
• reducing wages and weakening labour’s market position appears, unhelpful.