

# Why have some countries become more unemployed than others?

Martin Myant

Agnieszka Piasna

ETUI, Brussels

# 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

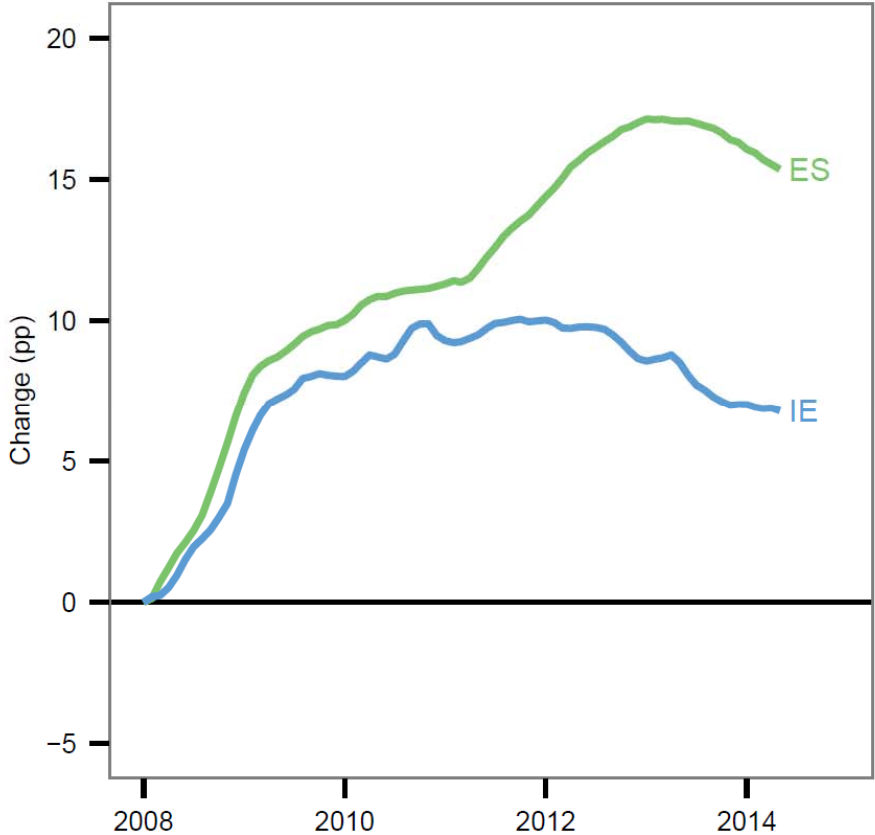
- Working Paper (available)
- Unemployment has risen from structural factors and does not respond to wage reductions,
- data show no relationship between pay reductions and employment trends,
- method requires case studies (because we need to break down to individual sectors to follow what happens in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

# Mario Draghi's story

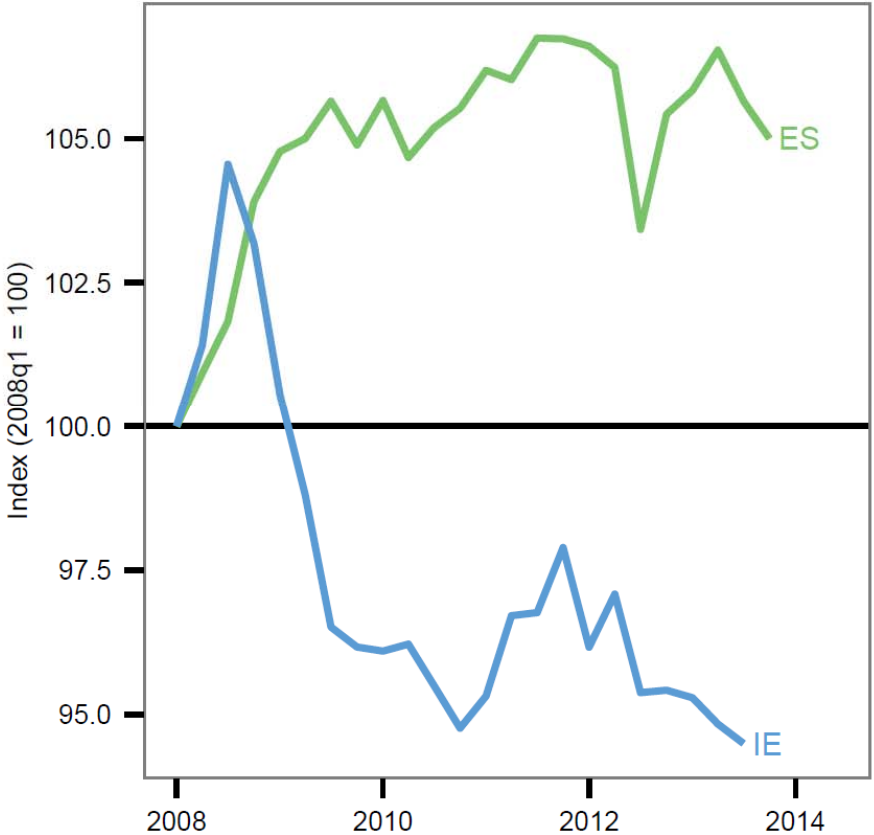
- speech of 22 August 2014, *Unemployment in the euro area*,
- 'whereas the Irish labour market facilitated some adjustment through prices, the Spanish labour market adjusted primarily through quantities: firms were forced to reduce labour costs by reducing employment',
- so, the unemployment in Ireland stabilised and then fell from 2011, in Spain it increased to 2013.

# Mario Draghi's figures

Unemployment



Nominal compensation per employee

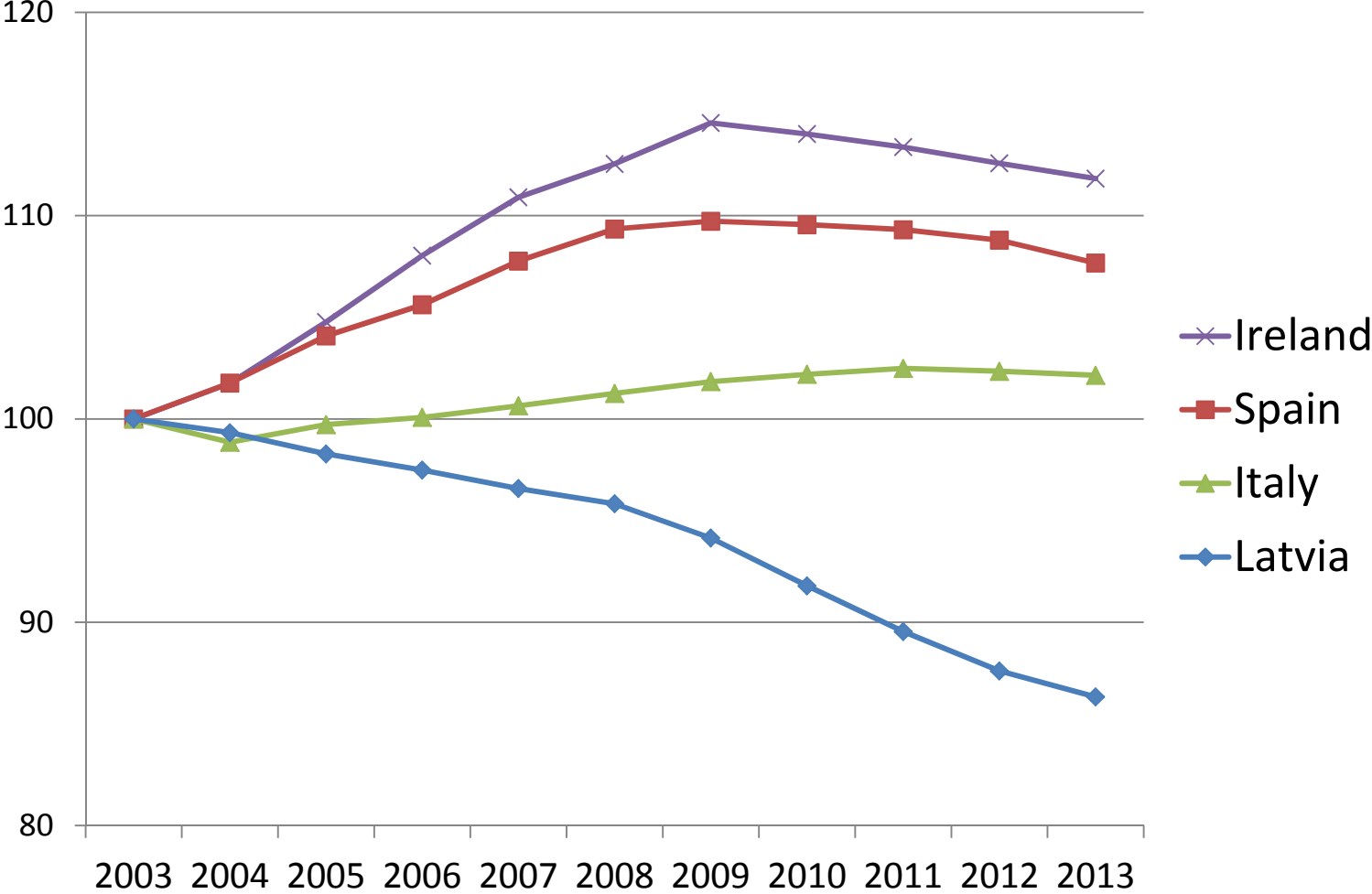


# What should be compared

- 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),
- fourth do not rely on one illustrative example alone.

# Does migration matter?

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

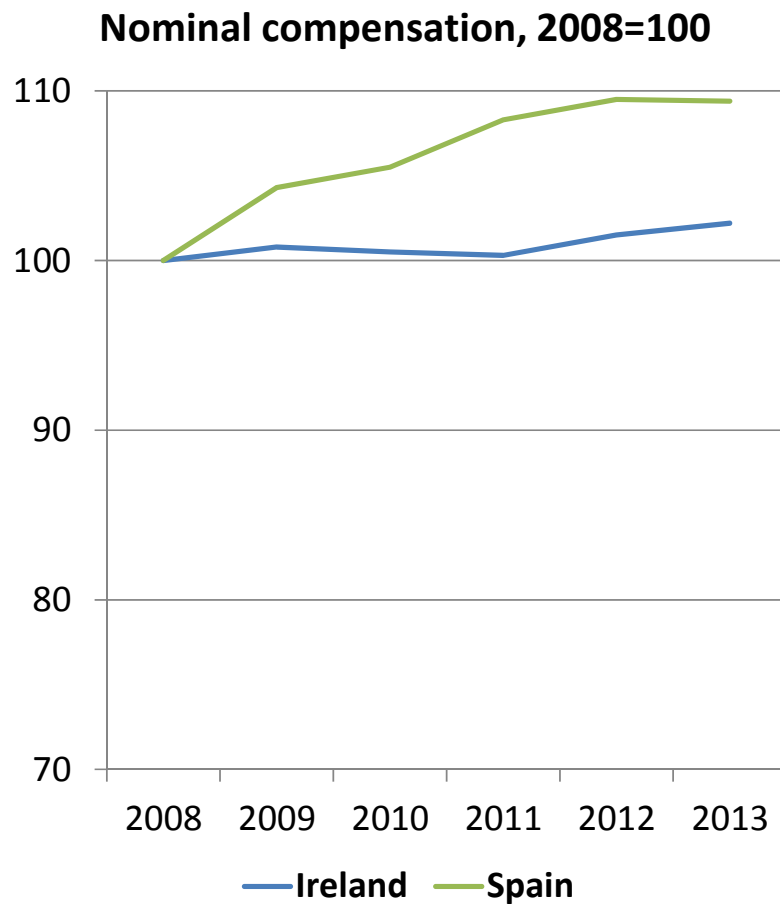
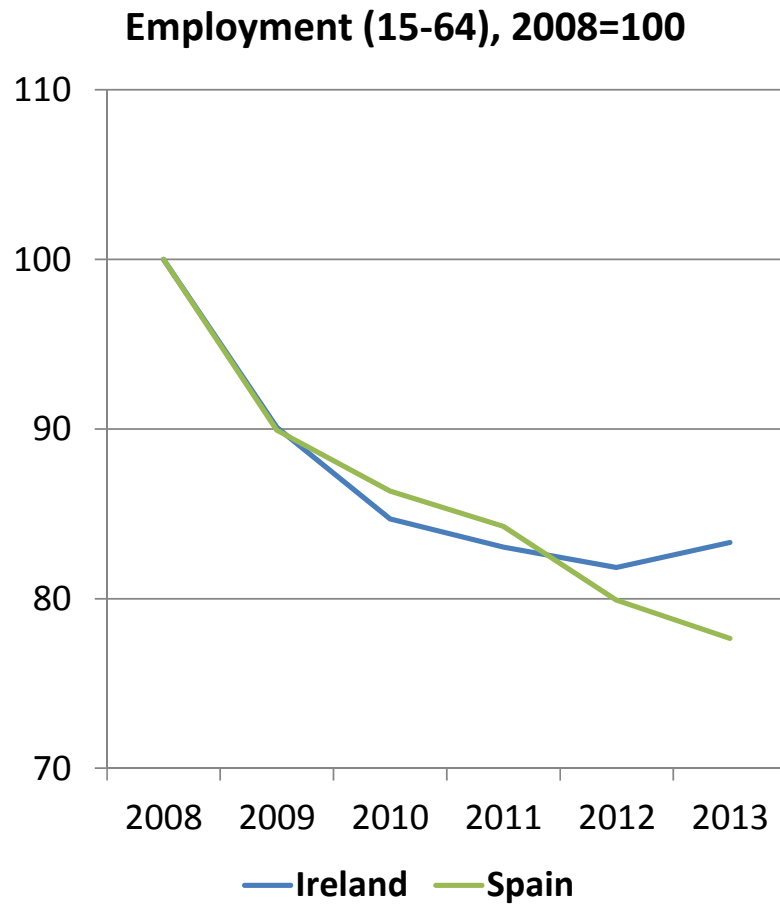


# Taking account of migration

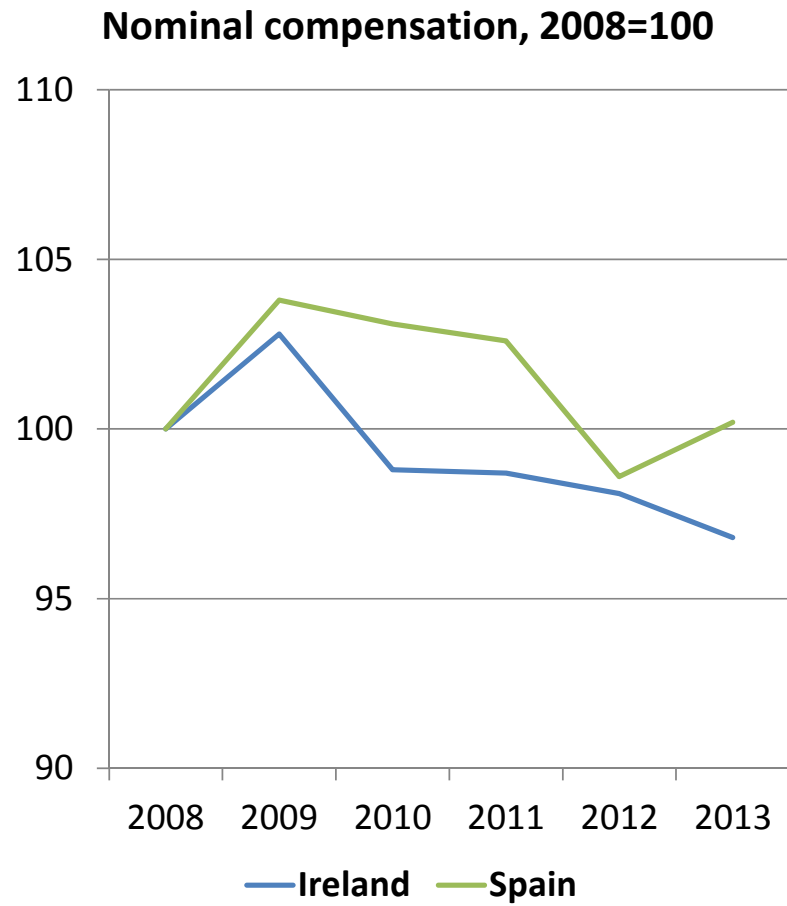
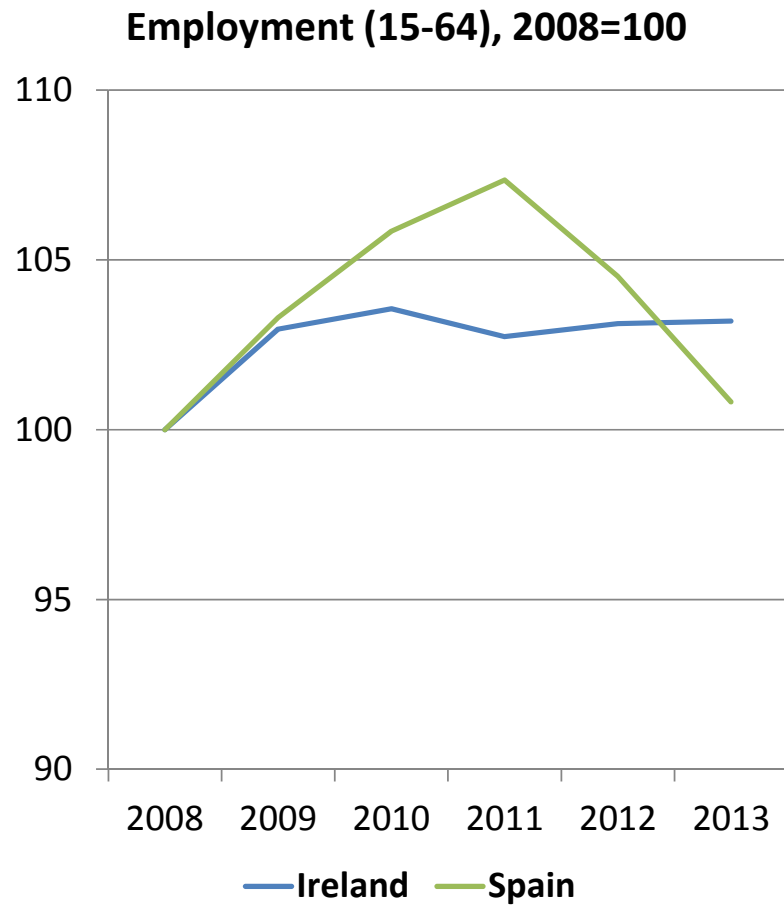
- Population change, not all due to migration,
- Ireland-Spain comparison, about half explained,
- Latvia, mention as it is even more dramatic and quoted as success for reducing unemployment (from 2010),
- very weak job growth (was some), trends like other countries, but with emigration.



# Compare private sectors

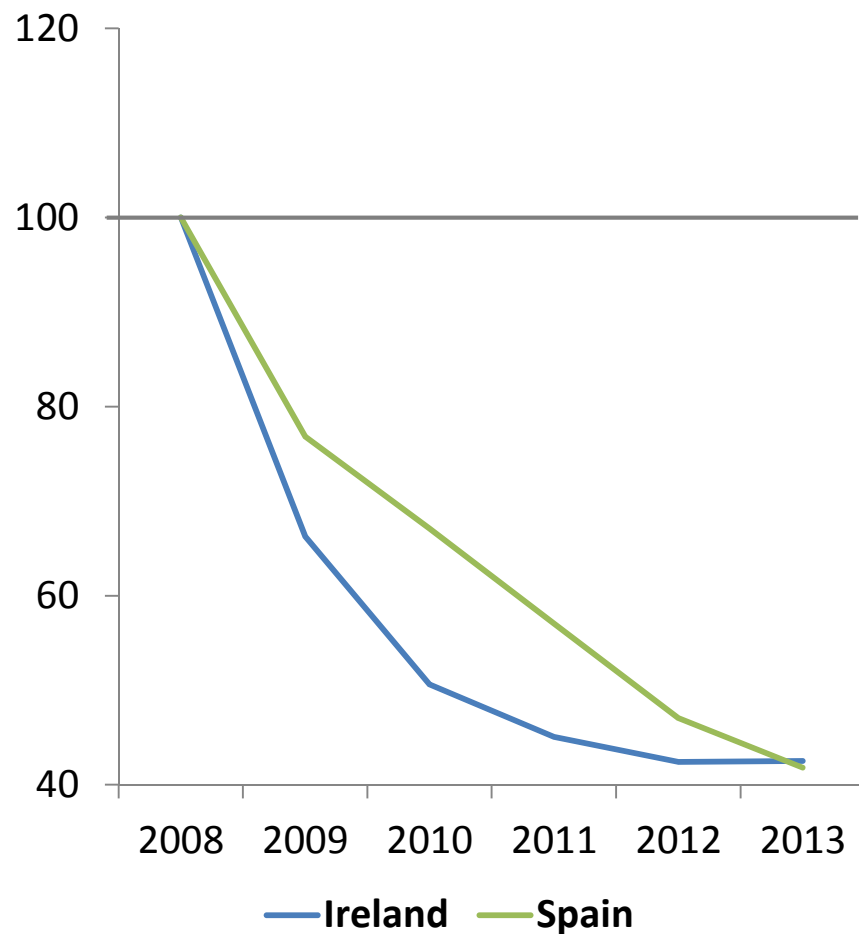


# Compare public sectors



# Construction sectors

Employment (15-64), 2008=100



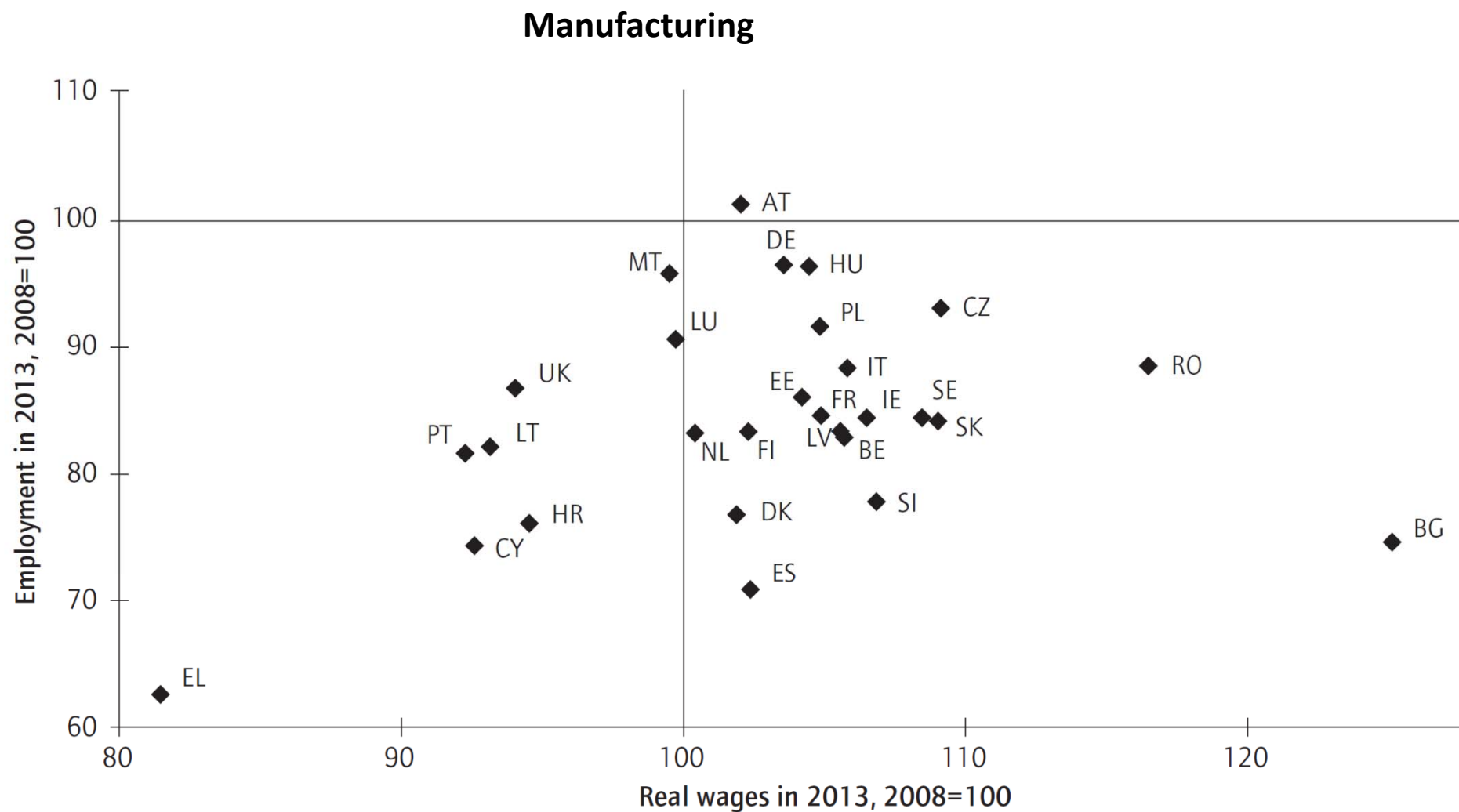
Nominal compensation, 2008=100



# 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



# 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.