

Is unemployment inevitable? A little is more than enough!

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**ETUI Conference Europe at a Crossroads: Which way
to quality jobs and prosperity?**

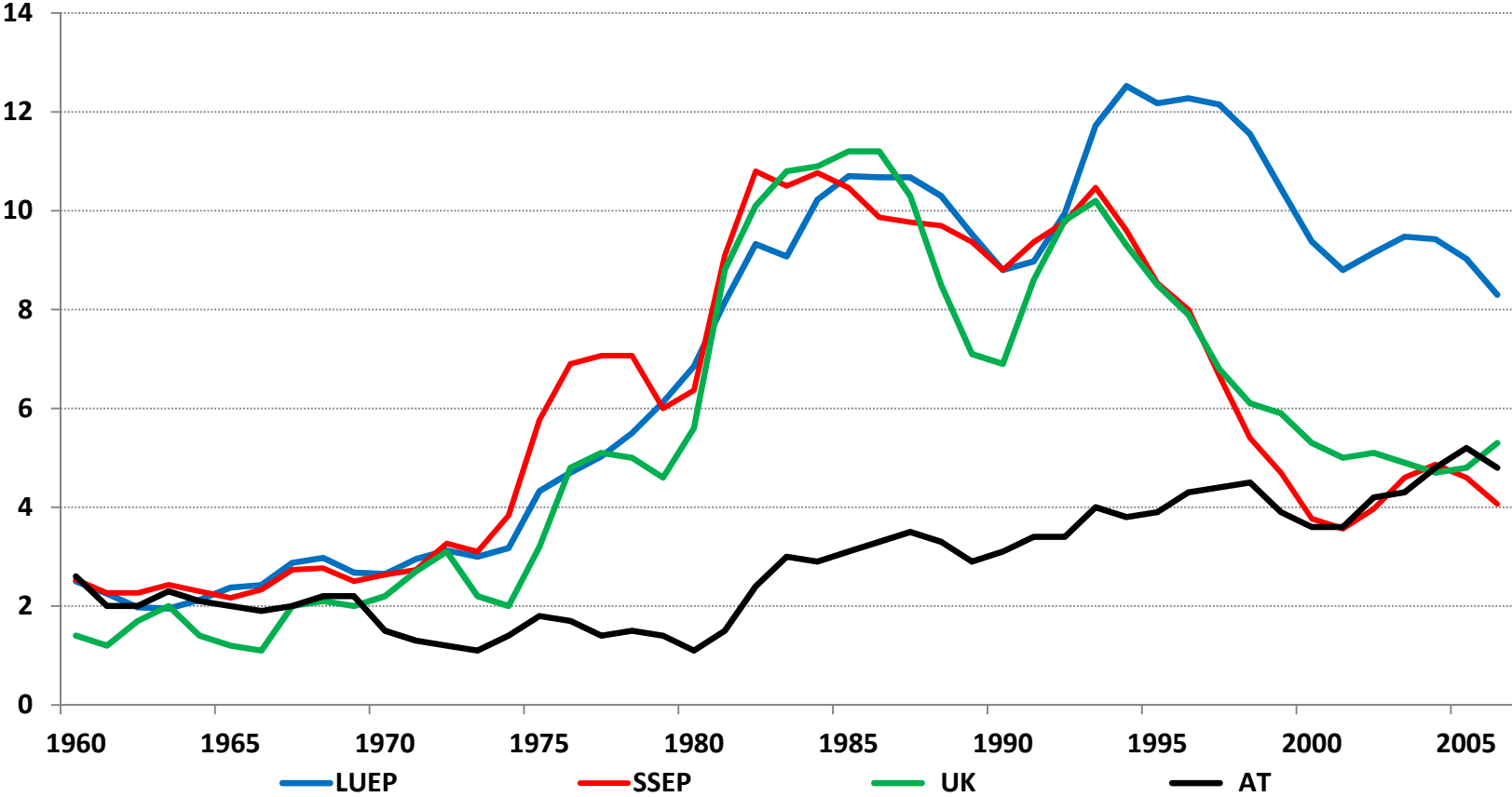
Brussels, 24-26.09.2014

Main questions addressed

Start with some stylised facts, then ...

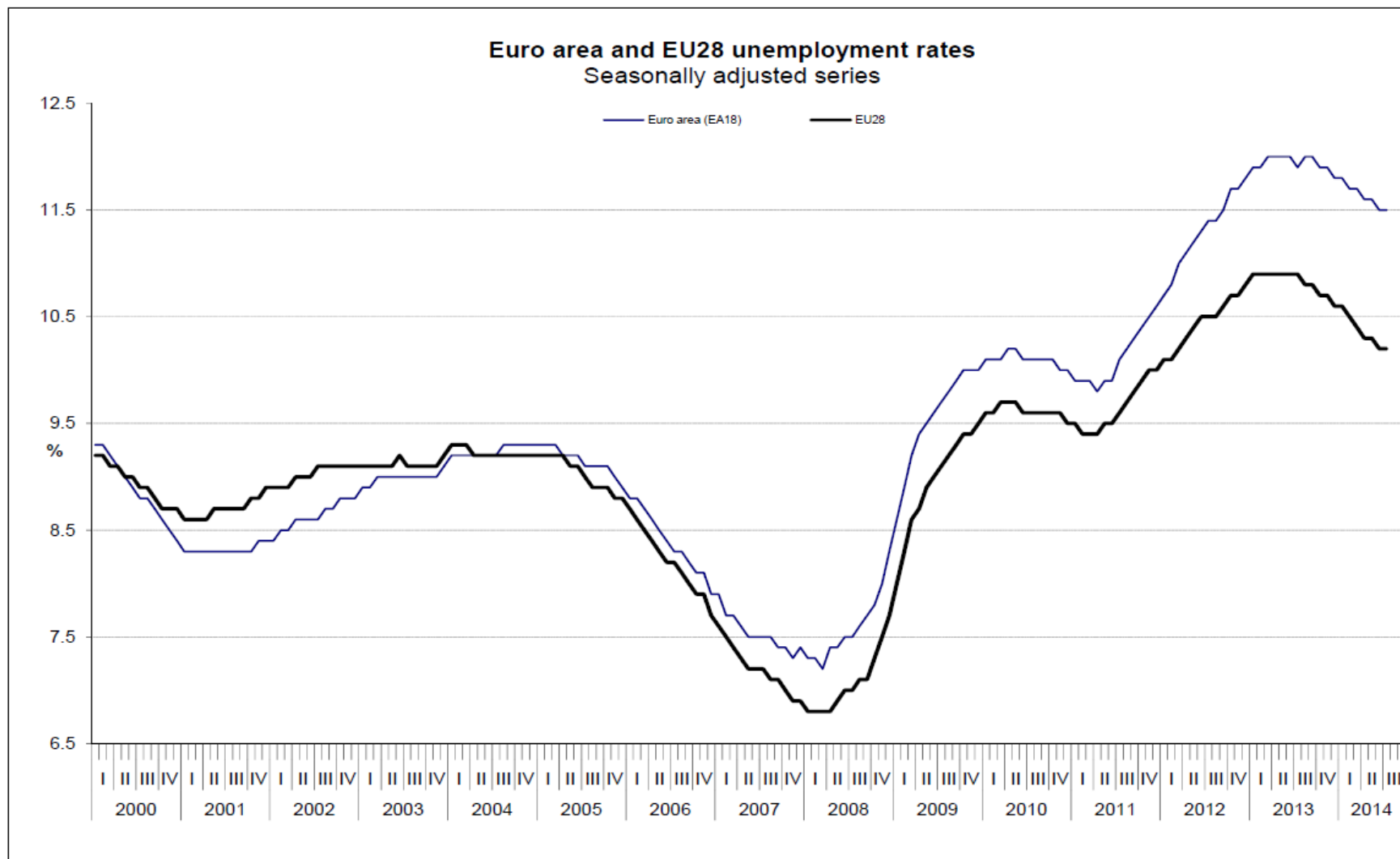
- Why must there always be some unemployment?
- Why need there not be ,too much‘ unemployment?
- Why is nevertheless unemployment so often too high?

Some pre-crisis unemployment trajectories



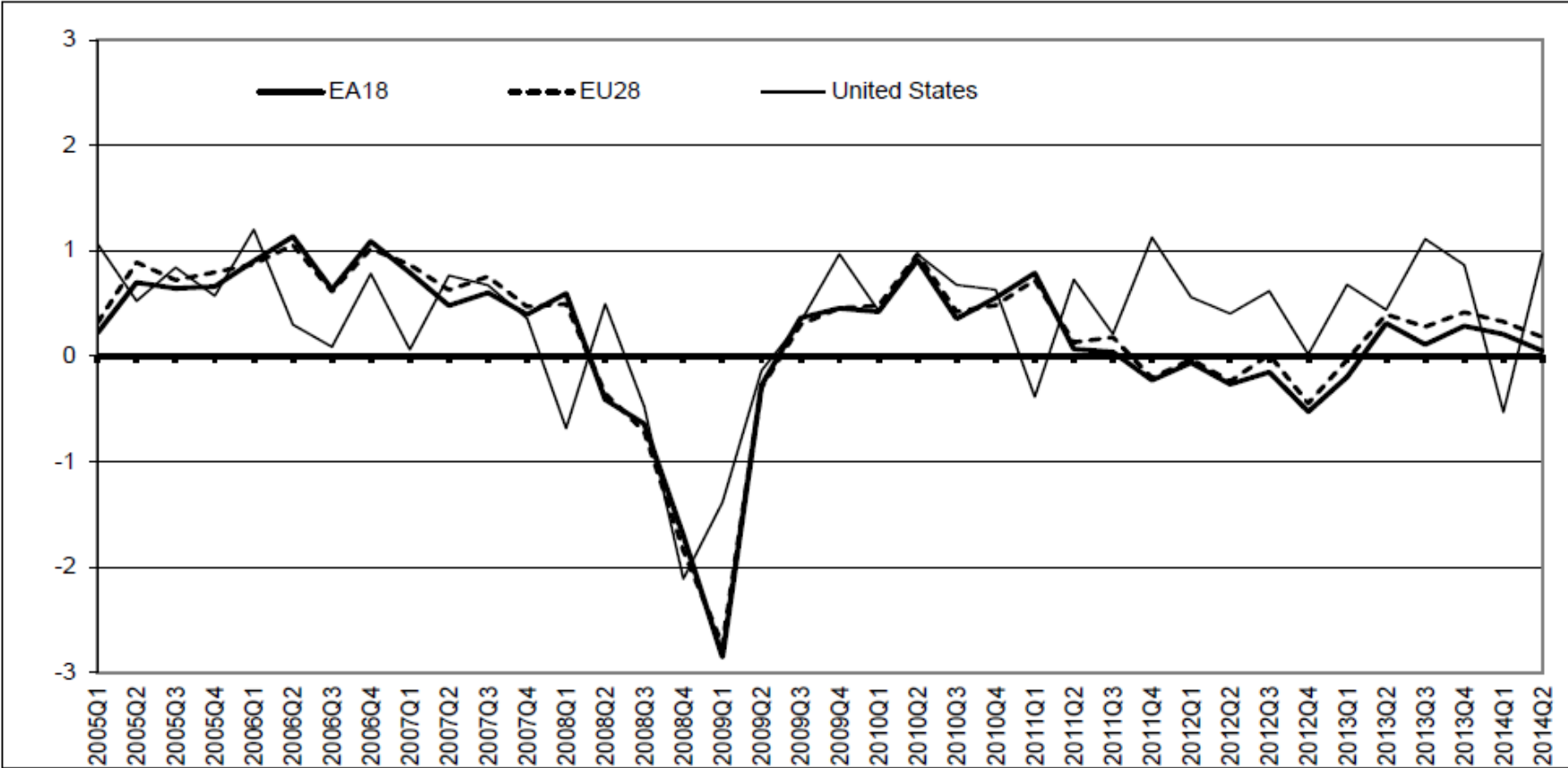
LUEP = simple average of France, Germany, Italy, Spain; SSEP = simple average of Denmark, Ireland, Netherlands

Two hikes, maybe a third?

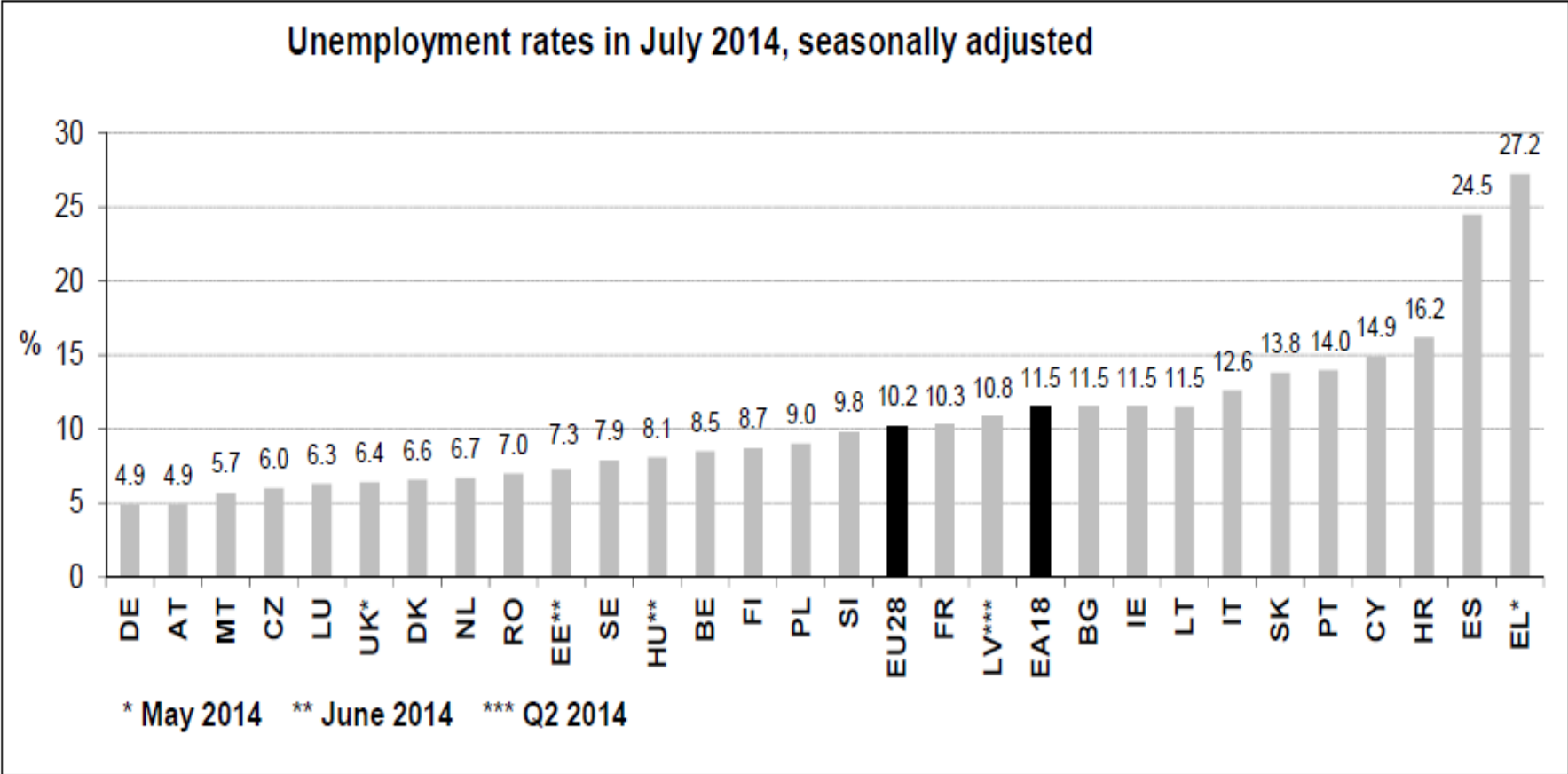


GDP – triple dip?

EU28, euro area and United States GDP growth rates
% change over the previous quarter



Unemployment – high levels but huge divergence



Unemployment necessary - micro



- Unemployment as price for efficiency and freedom
- Market vs. planned economy
- „Frictional“ unemployment
 - Short-term
- Transitional labour markets approach
 - Institutional bridges to facilitate transitions (reduce frictions)
- Perhaps 3% UR as „grease“ for labour market

Unemployment necessary - macro

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- Unemployment as „pressure gauge“ of the economy
- Restrains nominal wage demands („reserve army“)
 - Philips curve
- But also nominal price demands („Geiz ist geil“)
- NAIRU/NAWRU – right „operating pressure“ of the economy

NAIRU – standard view

- NAIRU supply-side determined
 - Institutional mix determines how much unemployment needed to restrain inflation
- Unemployment above NAIRU – cyclical (Keynesian)
 - Unnecessary: macroeconomic policy ($y = e + p$)
 - Independent central bank
 - Only automatic fiscal stabilisers
- Unemployment below NAIRU - structural
 - „It’s mostly structural“
 - Need for supply side „structural reforms“

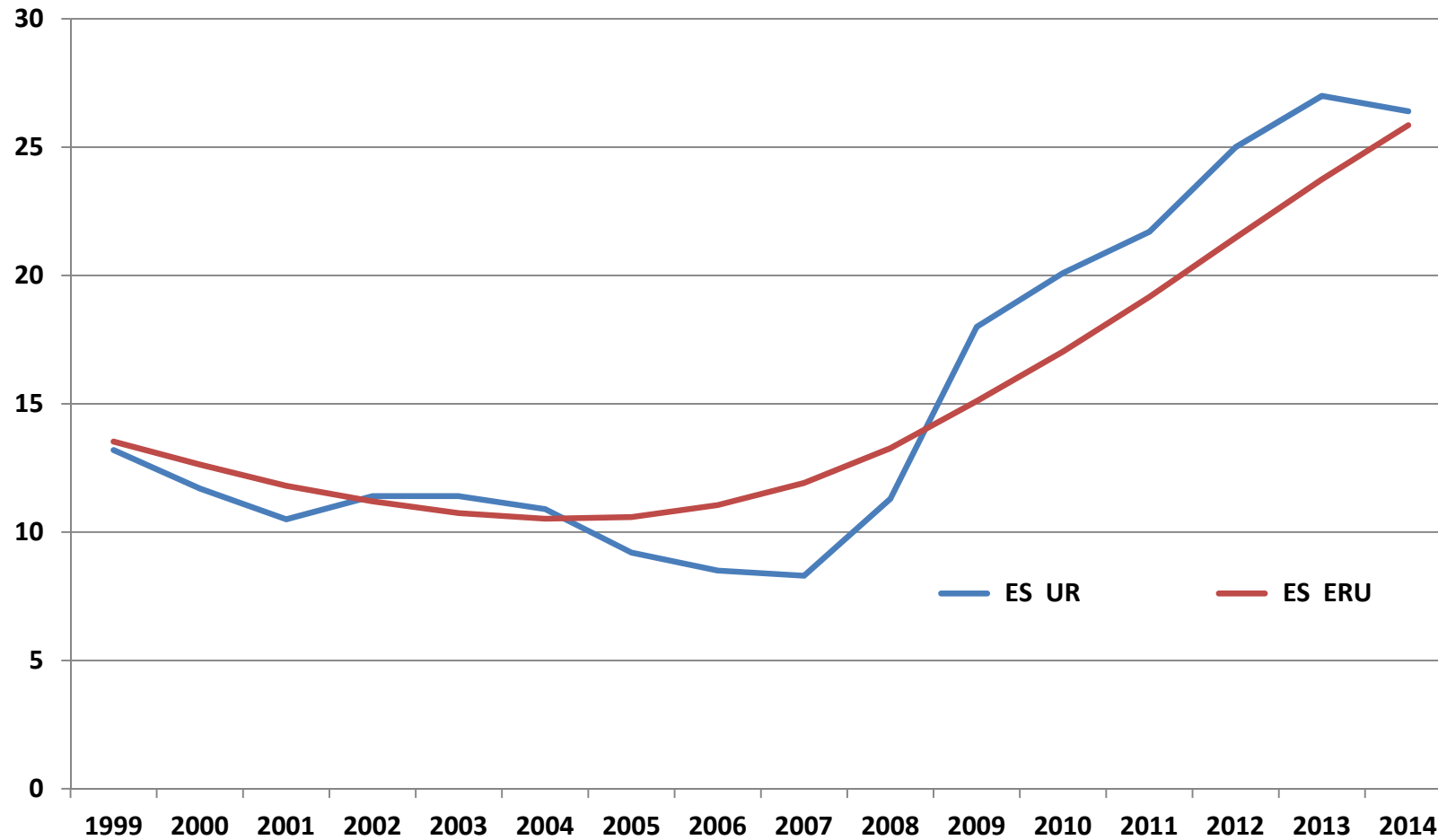
Standard view – some doubts

- Is the NAIRU really supply-side determined?
 - Changes in institutions or demand shocks
 - Breakdown of cyclical/structural distinction
 - Hysteresis (NAIRU historically determined by „memory“ of shocks)
- How effective are structural reforms?
 - How many is enough?
 - Do labour market reforms really help?

NAIRU as shock-driven moving average

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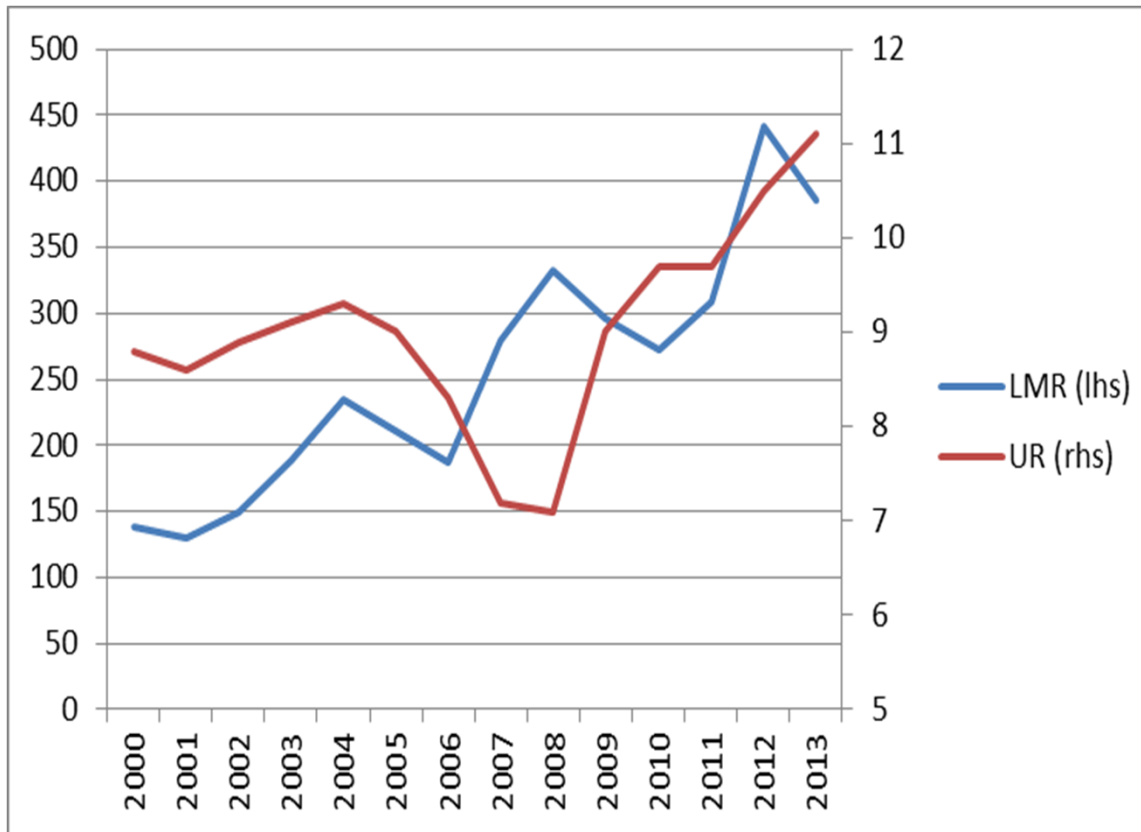
Source: AMECO database, Spain, unemployment rate and estimated NAWRU

Are 3500 LM reforms not enough?

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Gesamtergebnis
Austria		14	5	12	8	7	8	3	9	16	12	7	8	14	18		141
Belgium		9	13	10	9	11	13	12	9	25	7	18	21	38	34		229
Bulgaria					8	11	9	13	4	16	6	16	9	13	11	1	117
Croatia														2	10	2	14
Cyprus		2	1	4	4	2	1	5	3	8	9	5	11	11	5		71
Czech Republic		11	3	2	5	17	7	7	11	10	3	8	11	10	4	1	110
Denmark		3	1	5	6	8	4	2	1	15	5	7	8	12	6		83
Estonia		3	2			5	4		3	24	13	6	9	12	4		85
Finland		10	14	8	7	15	5	6	3	14	12	9	4	14	10		131
France		4	6	5	4	11	19	14	9	22	14	3	9	15	19		154
Germany	1	7	13	8	11	11	4	8	7	24	10	4	11	7	8		134
Greece		7	4	5	5	10	3	3	3	25	8	25	26	32	26	2	184
Hungary		4	2	2	5	7	14	6	11	18	17	10	23	15	11		145
Ireland		8	5	3	1	7	7	10	7	11	14	11	11	8	14		117
Italy		11	6	11	14	6	8	8	25	16	5	15	11	49	21		206
Latvia		1	6	7	6	5	5	12	23	6	8	12	7	19	20		137
Lithuania		5	2	8	8	10	6	6	10	6	15	12	22	13	11		134
Luxembourg		3	2	5	1	4	8	3	7	9	5	12	2	2	6		69
Malta				5	3	10	11	4	14	3	6	4	3	8	8		79
Netherlands		5	6	5	4	9	14	6	17	6	5	5	2	7	8		99
Poland		3	2	14	12	15	5	2	16	8	7	5	5	13	18	3	128
Portugal		3	4	3	9	9	4	5	17	13	43	17	9	26	16		178
Romania					9	3	14	8	9	4	8	11	18	5	11		100
Slovakia		3	4	2	9	8	3	3	11	5	10	8	18	23	15		122
Slovenia		2	3	1	3	4	4	1	8	1	10	11		5	21		74
Spain		11	17	17	16	9	14	23	19	6	7	15	28	46	25		253
Sweden		7	6	6	5	8	15	15	12	8	14	9	4	9	10		128
United Kingdom		3	3	2	17	13	2	2	12	13	23	8	19	13	15		145
Gesamtergebnis	1	139	130	150	189	235	211	187	280	332	296	273	309	441	385	9	3567

Source: LABREF database

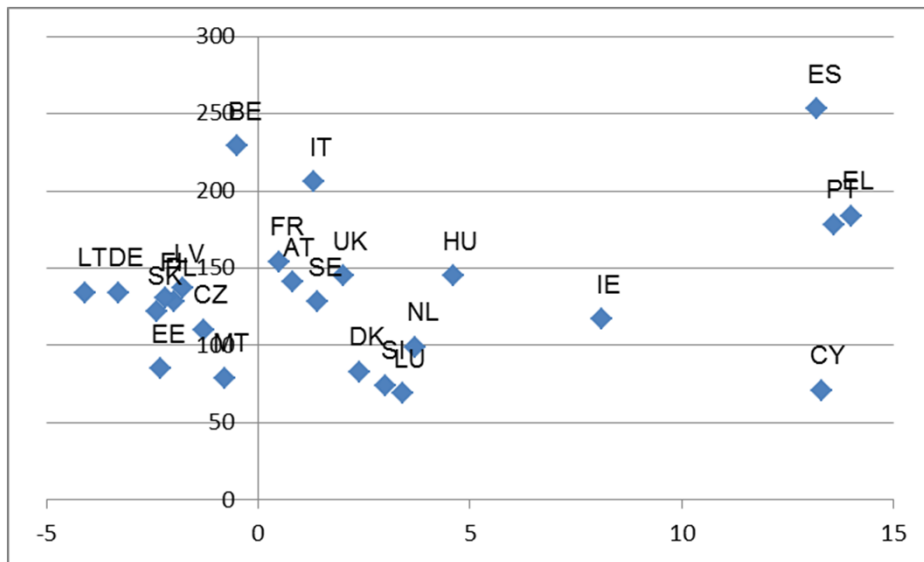
More reforms = more unemployment?



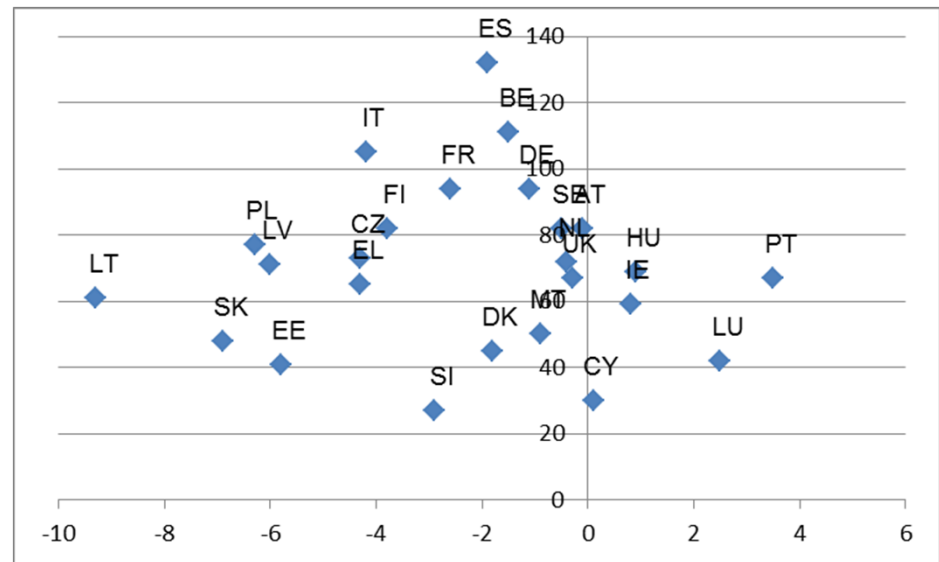
- Positive correlation not „serious“ of course
- But still casts doubt on efficacy and relevance of LM reforms
- Especially if NAIRU moves with actual UR

No correlation between LMR and change in unemployment

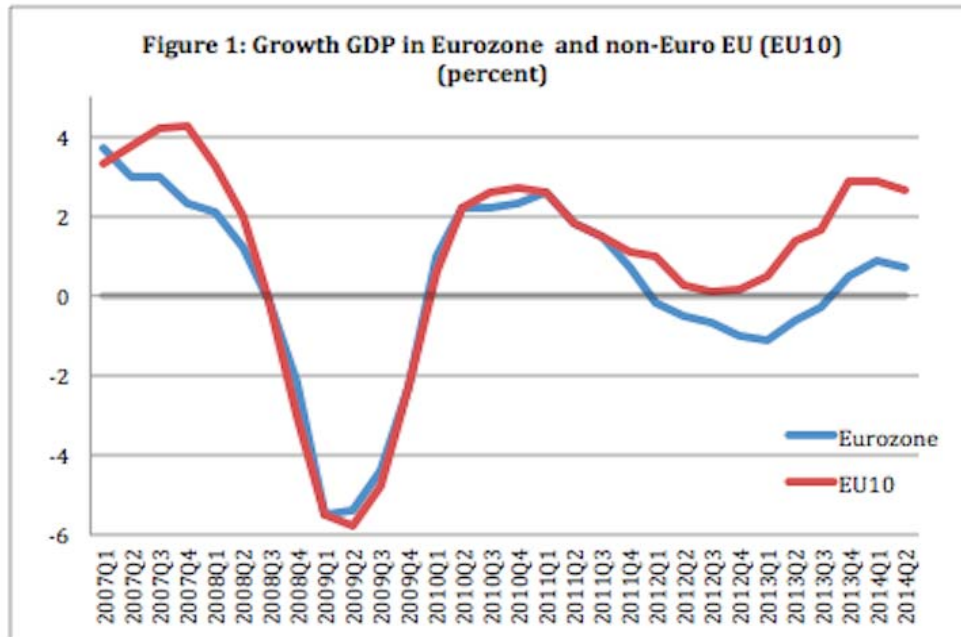
LABREF/dUR 99-14



LABREF/dUR 99-08



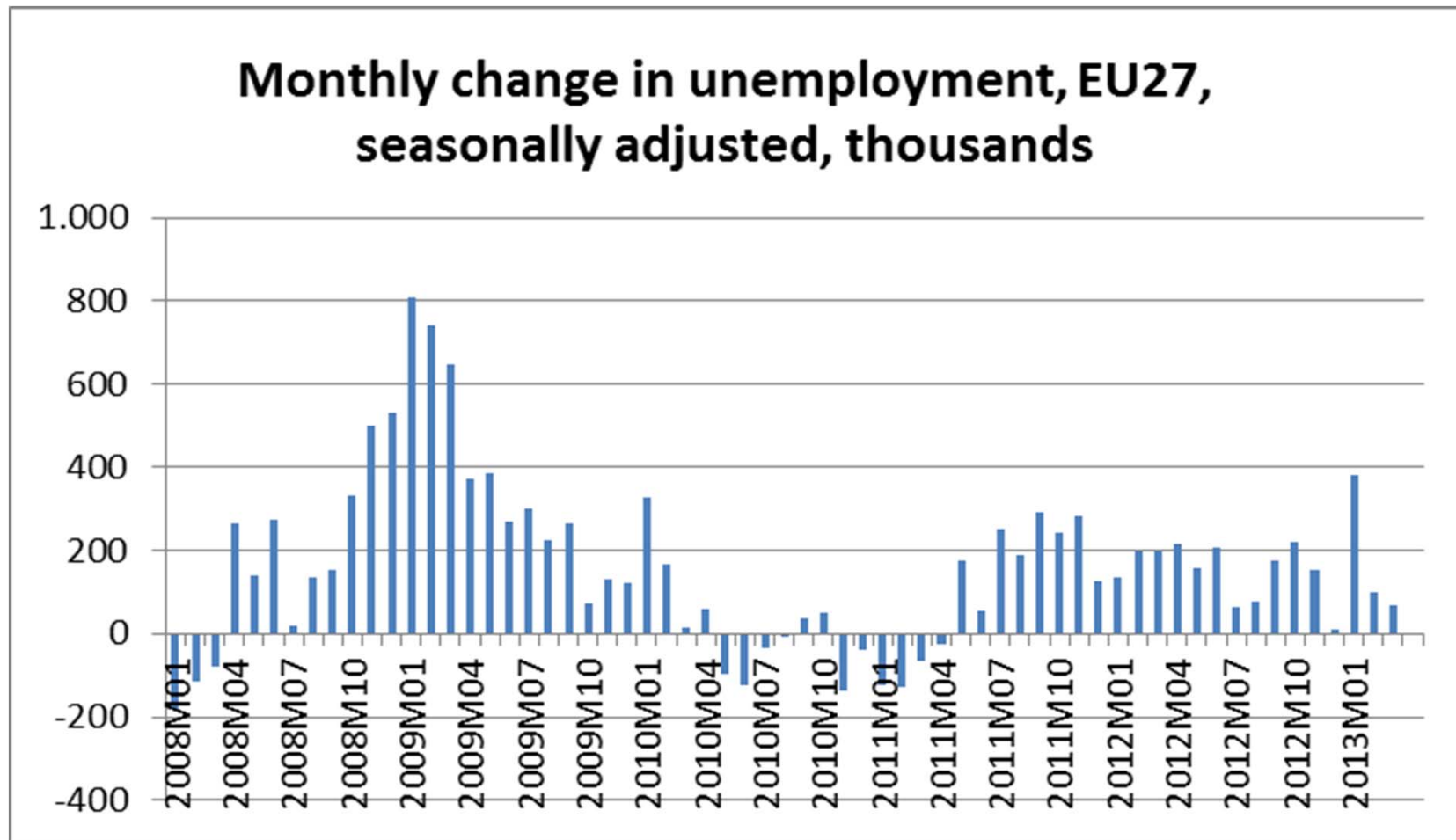
It's macroeconomic policy, stupid!



- Almost identical performance of euro and non-Euro EU countries until 2011
- Widening gap thereafter
- Nothing to do with „structural“ reforms
- Failure of macroeconomic governance

Graph source: Paul de Grauwe 2014

It's macroeconomic policy, stupid! (2) – snatching defeat from victory



Conclusions

- Low levels of unemployment are inevitable in a market economy
- Sustained mass unemployment is not inevitable – but it is a risk
- The efficacy of „structural“ reforms is vastly overstated
 - Best do structural reforms in upswing
- Effective use of macroeconomic policy is key
- Countries and regions that cannot or do not deploy macroeconomic policy suffer high unemployment
- This can become persistent („structural“) through hysteresis effects, although these can (slowly) be reversed.