

# Building a Dynamic European Labour Market

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Jobs for Europe: The Employment Policy Conference

Brussels, 6-7 September 2012

# A dynamic labour market

A well-functioning dynamic labour market needs to deal with three challenges

- Create conditions for fast productivity growth
- Adapt to structural change with new types of jobs
- Mitigate the impact of recession on (un)employment

# Productivity growth

- The conditions for fast productivity growth and adaptation to structural change often coincide
- A lot of productivity growth comes from the creation of new jobs in new sectors of economic activity, like ICT
- The Lisbon and Europe 2020 strategies emphasise this aspect

## Recession and productivity

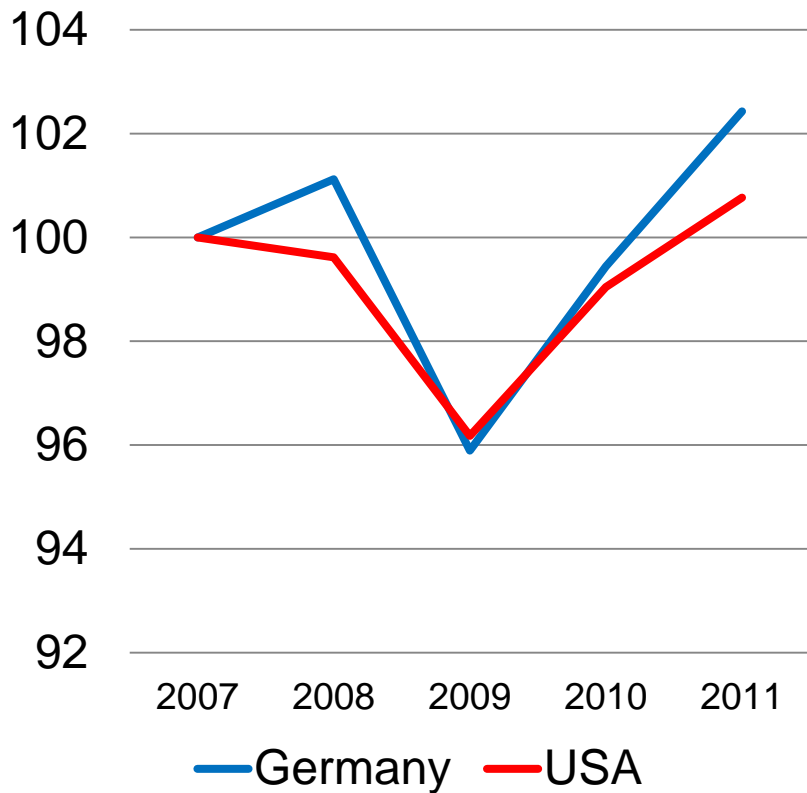
- Achieving the third objective (reducing the impact of recession on employment) often entails a fall in productivity
- But this fall is temporary; reducing the impact of recession on employment is usually good for future productivity growth because of negative factors associated with long-term unemployment
- A lot of emphasis on this in *Towards a Job Rich Recovery*

# Jobless and job rich recoveries

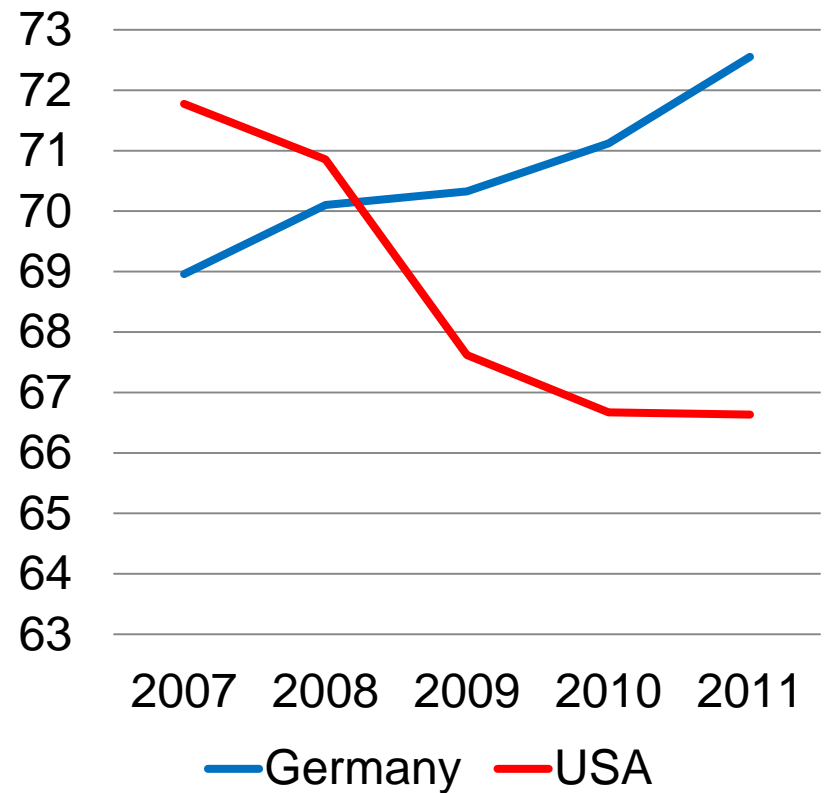
- With **jobless** recoveries the response of employment to GDP rise is delayed. The initial gains in GDP are due to productivity gains
- With **job-rich** growth GDP expands through employment gains and productivity initially falls
- Need to be careful not to rely too much on job-rich recoveries for sustained output growth; good only as an anti-recession policy
- Contrast Germany and the United States

# Germany and United States: contrast jobless and job rich recovery

## GDP (index)

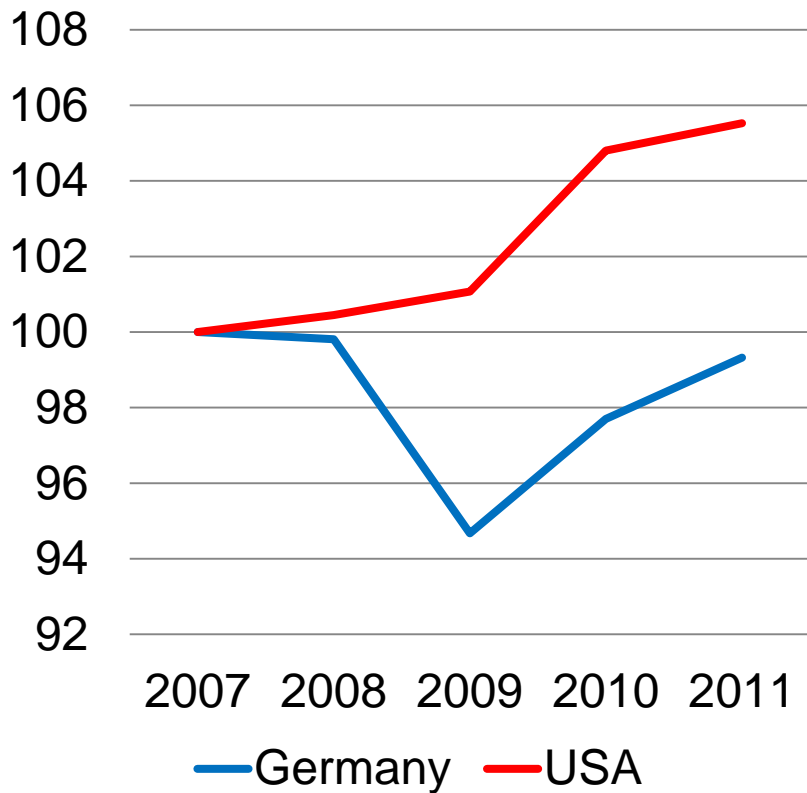


## Employment rate

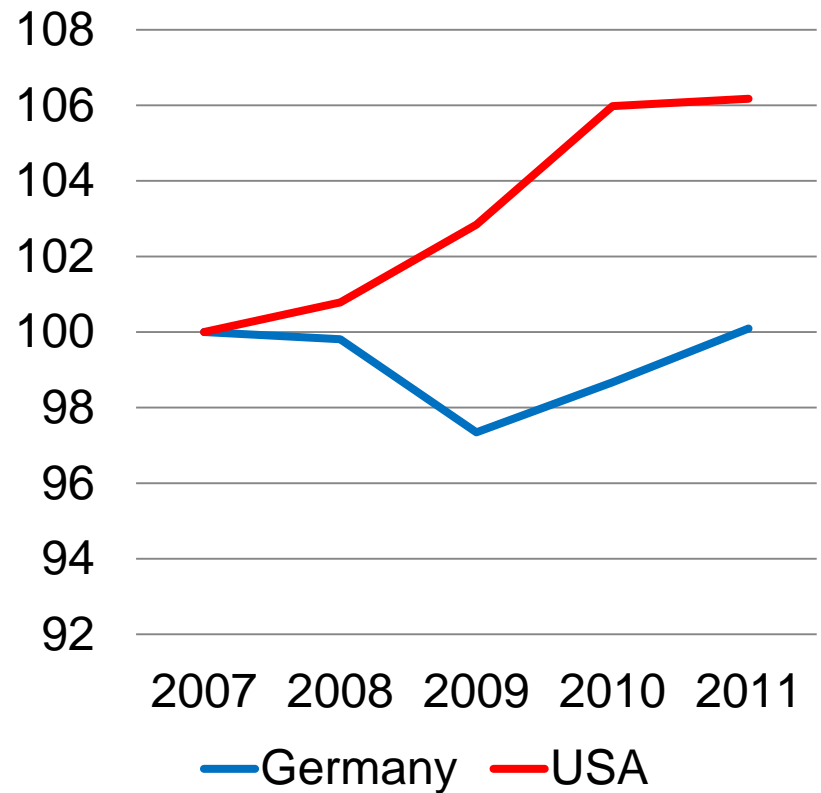


# Germany and United States

## Worker productivity



## Hourly productivity



# Evidence that flexibility helps in job rich recovery

- A lot that is good in German labour markets in this recession can be attributed to the reforms of 2002-05 which created a more employer-friendly environment
- The British labour market is coping better in this recession than in the 1979-81 one, because it is now more flexible
- Spain is badly off because its labour market is rigid (at least, was rigid when it entered recession).
- US is not doing as well this time because of new supply-side rigidities; extension of passive support measures and fall in labour mobility



## Is flexibility enough?

- In addition, labour markets need policy support: the depth and duration of current recession will lead to long-term unemployment
- Experience with the recession of the 1980s and long-term unemployment shows that some work in recession is better than no work, even if productivity suffers
- Without additional support Europe will miss out in productivity gains associated with structural change and competitiveness will fall

# Supply or demand policies?

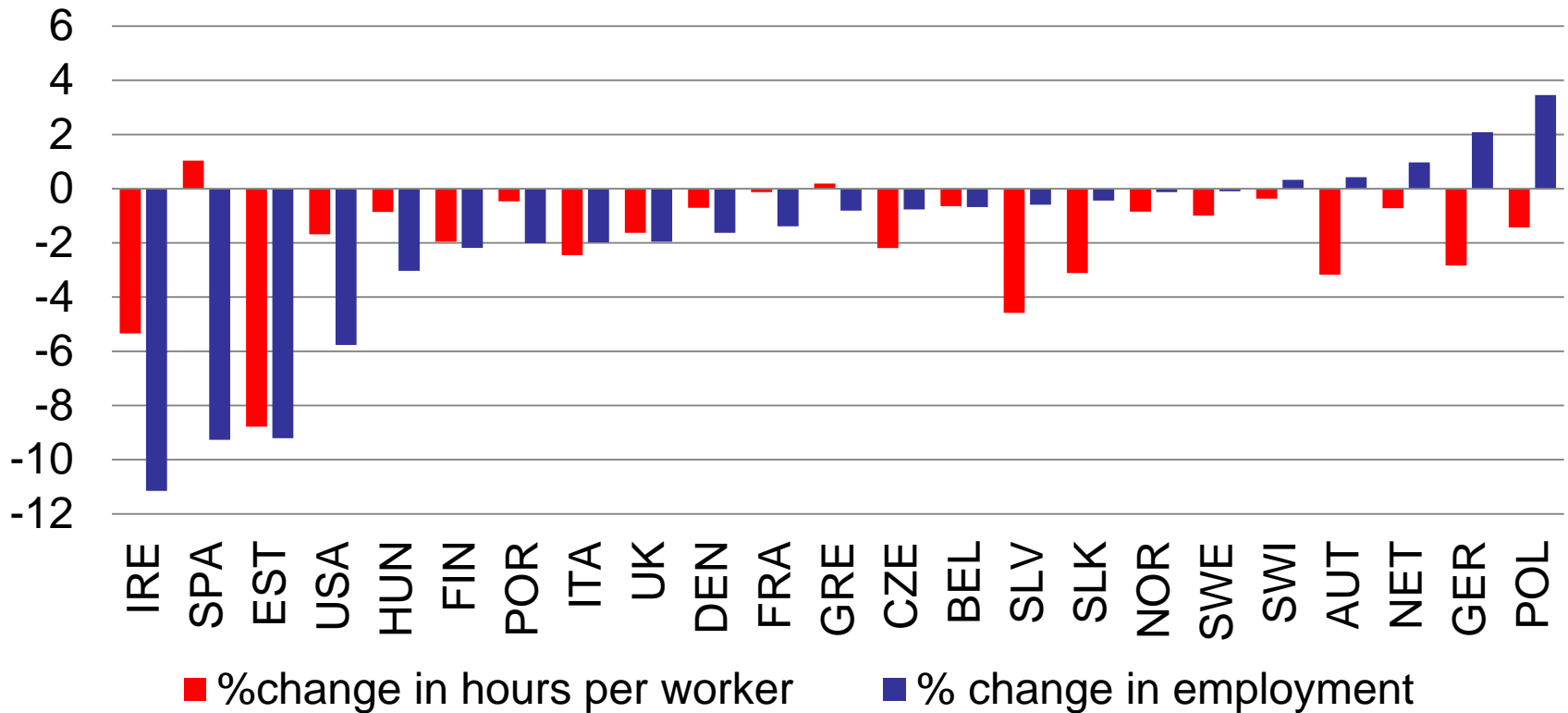
- Both help but once flexibility is achieved, demand policies (addressed to job creation incentives) help more in recession
- Subsidies for: job creation, especially for disadvantaged groups; wages; short time; start-ups by unemployed
- Fiscal cost is very small if budgeting is done over 2-3 years and not year by year
- One effect of subsidisation of short time follows:

# Split of labour input between hours and persons

Percentage changes, 2007-09



# % change in employment and hours 2007-09: European Union



## Supply policies?

- Supply policies also help, the usual run discussed by OECD and applied in many countries (job search assistance, temporary replacement jobs etc.)
- Key to changing global conditions is skill guidance and lifelong learning – must be done at school before employment or arranged by firms
- Better cooperation between local employers and secondary schools about curriculum essential

# Enhancing *Towards a Job Rich Growth*

# I. Job creation in different flexicurity systems

- Anglo-Saxon system of high flexibility and low security gives high employment and fast adaptation to new conditions at the cost of wage inequality and insecurity
- Nordic system of flexibility and high security also leads to high employment, mainly in state-supported jobs, at the cost of high taxation; a lot of state-provided security
- Southern European system of low flexibility and moderate security through transfers least favourable to employment and adaptation to new structural conditions
- To achieve flexicurity southern countries need to increase flexibility and pass more protection from family and employer to the state

## II. What type of jobs?

- Commission emphasis on green jobs, ICT and health welcome, but each for different reasons
- In contrast to health, green jobs and ICT will not increase **net** job creation by much. ICT too small and green jobs will destroy “dirty” jobs
- Both are important for productivity growth, competitiveness and the environment



# European jobs shortfalls

- Most job shortfalls in Europe are in jobs that provide services to the public, and to a lesser extent companies.
- The main shortfalls in sectors serving the public are
  - Health
  - Education
  - Retail trade
  - Hotels, restaurants, catering
  - Car sales, maintenance etc.

# Business services and incentives

- Compared with the US there are also shortages in finance and business services of all kinds
- More flexibility and better employer incentives could create jobs in retailing, horeca, and motor services, which could employ a lot of youths and women
- Low minimum wages essential (and desirable)

### III. EU-wide migration?

- Well-known that Europeans do not like moving
- No need to try and encourage it – remove barriers but leave it up to the individual
- Better to encourage cross-border investments, by creating business-friendly environments and allowing firms to take advantage of wage differentials
- E.g., encouraging foreign (EU) investment in Greece currently much more preferable to encouraging Greeks to move elsewhere in the EU

# Conclusions

- Flexicurity helps create conditions for job-rich growth in a dynamic economy
- Employment growth is not a substitute for productivity growth except for brief periods coming out of recession
- Other policies also needed to restore employment fast
- Emphasise job creation in other services too, not only health (although health is most important)