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Structural unemployment in Europe: A bird's-eye view

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Structural Unemployment in Europe
— A Bird's-Eye View —

by
Karl-Heinz Paqué

August 1996



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Abstract

This paper presents a synoptic interpretation of structural unemployment in Europe. The paper consists of three parts. Part 1 summarises some major stylised facts of the record and the state of unemployment in Europe. In part 2, these facts are taken as the basis for a theoretical interpretation of the genesis and persistence of European unemployment. Part 3 contains policy conclusions. The main message of the paper is that the ultimate cause of European unemployment since the early 1980s is to be found in the path and pattern of structural change within an institutional framework that prevents a sufficient degree of structural wage flexibility to come about.

Keywords (Classification System, Journal of Economic Literature):

J Labor and Demographic Economics

J6 Mobility, Unemployment, and Vacancies

J60 General

J64 Unemployment Models, Duration, Incidence, and Job Search

0. Introduction

This paper is the opening statement in a conference on European Labour Markets. As such, it is bound to take a broad view and to lay the ground for further discussion during the day. With this task in mind, I will refrain from presenting any piece of original research that would necessarily divert the focus on some rather narrowly defined technical subject. I will rather try to make a rough-and-ready stocktaking of what the profession knows about structural or non-cyclical unemployment in Europe and what, on the basis of this knowledge, can or should be done about it.

The paper has three parts. In part 1, I summarise what I consider to be some major stylised facts of the record and the state of unemployment in Europe. In part 2, I take these facts as the basis for a couple of more or less controversial stories about the genesis and persistence of unemployment. In part 3, I draw a very subjective policy conclusion.¹

¹ Note that, if not otherwise specified, I will use the term 'Europe' in the meaning of OECD-Europe, meaning all European countries which are members of the OECD and which may, but need not be members of the European Community. This use of terminology has to be qualified in three respects. (i) Within the OECD, the focus will be on what may be called the 'rich core'-nations, leaving aside countries like Turkey, Greece, Ireland, Portugal and also Spain that have been (and still are) laggards in terms of economic development. In many aspects, their labour markets are not yet comparable to those of the 'mature' industrial core countries. In addition, they tend to have a rather poor data base, at least for the purpose of long-term analysis. (ii) Very small countries such as Iceland and Luxembourg are also left aside, not because they are not per se interesting, but because they tend to be too idiosyncratic, resembling in economic terms metropolitan areas rather than countries. (iii) Eastern Germany is left out because its (post-communist) labour market can only be analysed in a wider setting that covers other transformation economies as well. When speaking of Germany, we therefore mean western Germany or former West Germany.

1. Stylised Facts and Evidence

With some courageous simplifications, the major characteristics of European labour markets can be summarised in ten stylised facts, some of them straight observations, others more complex pieces of empirical evidence that have been gathered and developed in many different individual studies of labour economists and others.²

Fact 1: By post-war historical standards, unemployment in Europe is high.

This is a completely uncontroversial empirical statement that can be supported by a glance over Table 1,³ which divides the post-war period 1950-94 into four reasonably defined subperiods: 1950-59, 1960-73, 1974-82 and 1983-94. For all four periods, we are given the average unemployment rate for 16 countries, calculated as the period average of the annual OECD-standardised rate or its historical equivalent as presented by Maddison (1991). All 12 European countries experienced a rise of the unemployment rate from 1974/82 to 1983/94, the European average went up from 4.6 to 7.0 per cent. A rise of comparable magnitude in absolute terms - from 1.9 to 4.6 per cent - had already taken place from 1960-73 to 1974-82.

² Most of the relevant data on these more complex facts can be found in the issues of the OECD Employment Outlook (1993ff) and the OECD Jobs Study (1994).

³ For the annual data that underlie the following tables, see Table A1 in the appendix.

Table 1: Standardized Unemployment Rates 1950-1994

	1950-59	1960-73	1974-82	1983-94
Austria	3.9	1.7	2.1	3.7
Belgium	3.9	2.1	7.8	9.7
Denmark	4.5	1.3	7.2	8.4
Finland	1.3	2.0	4.6	7.8
France	2.1	1.9	5.4	10.1
Germany (W)	5.0	0.8	3.6	6.1
Italy	7.2	4.6	7.0	10.3
Netherlands	2.6	1.9	6.8	8.7
Norway	2.0	1.9	1.9	4.1
Sweden	1.8	1.9	2.1	3.5
Switzerland	0.0	0.0	0.3	1.5
UK	2.5	2.9	6.4	9.9
Europe (12)*	3.1	1.9	4.6	7.0
Australia	2.0	1.9	5.4	8.7
Canada	4.1	5.2	7.6	9.8
Japan	2.0	1.3	2.0	2.5
US	4.4	4.8	7.1	6.6

*arithmetic mean

Source: Maddison (1991), pp. 262-265, Table C6 (see Appendix-Table A1),
1990-94 *OECD Employment Outlook 1995*, p. 216, Table 1.

Note that, except in Australia, nothing comparably dramatic happened in the industrialised world *outside* Europe. The US-experience is particularly striking: the US-unemployment rate - which used to be 'traditionally higher' than most European rates due to the relatively high turnover and thus high frictional unemployment in American labour markets - rose only moderately, from about 5 per cent in 1960-73 to about 7 percent in 1974-94.

Fact 2: Since roughly 1983, unemployment in Europe has remained high, but did not increase anymore, at least not systematically. However, there were differentiated national developments, which do reveal a certain geographic pattern.

The first part of this fact may be surprising at least to those listening to the recurrent tune of the current policy debate in some European countries, notably in Germany, where politicians and journalists like to emphasise that the plight of the labour market has reached a historic peak and that things have become worse and worse over time. On average, this is simply not true for the last 10-12 years, as the numbers in Table 2 indicate: comparing 1994 and 1983 - both years with similar cyclical conditions (end of recession/beginning of recovery), unemployment was lower in 1994 than in 1983 for five countries and higher for six ones, with one country (Austria) experiencing virtually no change. The 'good' performers are Belgium, Denmark, Germany, the Netherlands and the United Kingdom, the 'bad' performers Finland, France, Italy, Norway, Sweden and Switzerland.

Table 2: Standardized Unemployment Rates

	1973	1983	1989	1994
Austria	1.1	4.1	3.1	4.4
Belgium	2.7	12.1	8.0	9.7
Denmark	0.9	11.4	7.8	10.1
Finland	2.3	5.4	3.4	18.2
France	2.7	8.3	9.4	12.5
Germany (W)	0.8	8.0	5.6	6.9
Italy	6.2	8.8	10.9	12.0
Netherlands	3.9	12.0	8.3	7.2
Norway	1.5	3.4	4.9	5.4
Sweden	2.5	3.5	1.4	8.0
Switzerland	0.0	0.9	0.5	3.8
UK	3.0	12.4	7.2	9.6
Australia	2.3	9.9	6.1	9.7
Canada	5.5	11.8	7.5	10.3
Japan	1.3	2.6	2.3	2.9
US	4.8	9.5	5.2	6.0

Source: Maddison (1991), pp. 262-265, Table C6, 1990-94 *OECD Employment Outlook 1995*, p. 216, Table 1.

To be sure, this picture does not look random, and - with a glance to the unemployment rates in the interim year 1989 - one is inclined to divide Europe into three 'performance groups': Scandinavia, which experienced a dramatic worsening after 1989, notably in Finland and Sweden; the Romanic countries (France, Italy), which experienced a gradual worsening all throughout; and the rest (leaving out Austria and Switzerland), which experienced some improvement, very moderate in Denmark and western Germany, more substantial in Belgium, the Netherlands and the United Kingdom.

Whatever the statistical details may be, it must be recognised that, for most European countries, the period since 1983 should not be regarded as a straight continuation of a long-term trend towards ever increasing unemployment. The only two countries where such an interpretation may make sense are France and Italy, but even the moderate increase in these countries is a long way off the sharp rise of earlier years.

Why is this fact overlooked in the public? Probably because, in the 'public mind' of most countries, the cyclical improvement around the turn of the decades has simply been interpreted as defining a new point of reference for unemployment, and from there, the following worsening looks dramatic indeed. Western Germany is a most obvious case in point: by 1991, the unemployment rate came down to 4.2 per cent, a drastic improvement vis-à-vis 1983, but maybe a cyclically unsustainable level. Today, the public recognises the worsening from this point, but there is so far no indication that this worsening leads to another step-wise increase of the (cyclically adjusted) unemployment rate to a new historical peak as it happened in the mid-1970s and early 1980s.

Fact 3: Since roughly 1983, a relatively high share of unemployment is long-term. Though high, this share has not systematically increased over time. Hence European labour markets can be considered as strongly dualized, but not to an increasing extent.

This fact is directly complementary to Fact 2: parallel to the increase of the rate of unemployment in the mid 1970s and early 1980s, the share of long-term unemployed persons increased dramatically, and remained high ever since. Table 3 shows the relevant numbers: all European countries except Denmark, Norway, Sweden and Switzerland have a high share of long-term in total unemployment, usually 30-50 percent, if long-term is defined as uncompleted spells longer than 12 months (as is done in the table). By and large, these shares have remained within the same magnitude between 1983 and 1993, although there are some minor exceptions.

In any event, the difference to North America is striking: both in the United States and in Canada, the share of long-term unemployment - how ever defined - is today very low, even considerably lower than it was in 1983. Clearly, the dualization of the labour market in 'active job searchers' and long-term unemployed persons is a European phenomenon.

Fact 4: Employment grew faster in most European countries in the decade after than in the decade before 1983, though generally slower than in the industrialised world outside Europe. Employment growth since 1983 has been quite different across European countries, with differences roughly reflecting the geographical pattern of the unemployment record over time.

Table 3: Share of Long-term in Total Unemployment (in per cent)*

	1983	1993
Austria	•	•
Belgium	65	53
Denmark	42	34
Finland	19	31
France	42	34
Germany	42	40
Italy	58	58
Netherlands	49	52
Norway	6	7
Sweden	10	11
Switzerland	•	20
UK	46	43
Australia	25	37
Canada	29	11
Japan	34	17
US	20	12

*Long-term unemployment defined as those unemployed persons that have been unemployed ('uncompleted unemployment spell') for 12 months or above.

Source: *OECD Employment Outlook 1995*, p. 219, Table Q.

By historical standards, the time since 1983 has been a period of quite fast employment growth in Europe (see Table 4). In all countries except the Scandinavian ones and Italy, employment grew faster in 1983-93 than in 1973-83. On average, the growth rate of employment was about as high as in the 1960s (0.6 per cent p.a.) and not so much lower than in the 1950s (then 0.8 p.a.).

This is, once again, a stylised fact that runs counter to popular wisdom, which likes to dwell on ideas of increasingly jobless growth. In a sense, the idea of 'jobless growth' in Europe is not only misplaced, but turns the facts upside down. This can be seen from the numbers of output, employment and productivity growth put together in Table 4. In all European countries, output (GDP in constant prices) rose slower before than after 1973; the average in the Table indicates a slowdown from 4.6 per cent p.a. in both 1950-60 and 1960-73 to 2 per cent in both 1973-83 and 1983-93. Remarkably enough, this slowdown of output growth did *not* go along with a corresponding slowdown of employment growth, which turned out to be equally fast in 1983-93 as in the 'golden' period 1960-73. The corollary of this statement is that the slowdown of GDP per worker (in constant prices) was particularly dramatic, down from 4 per cent in 1960-73 to 1.5 per cent in 1983-93. Clearly, this is not a stylised picture of 'jobless growth', but exactly the opposite, say, 'growthless employment expansion', meaning poor productivity increases going along with robust employment expansion.

To be sure, employment grew slower in the 1980s in Europe than it did overseas, notably in North America and Australia. But this difference is not really a new phenomenon: in all four periods that are shown in Table 4, North America and

Table 4: Growth of Output, Employment and Output per Worker*

	Output				Employment				Output per Worker			
	50-60	60-73	73-83	83-93	50-60	60-73	73-83	83-93	50-60	60-73	73-83	83-93
Austria	6.0	4.9	2.4	2.3	0.2	-0.3	0.5	1.2	5.8	5.2	1.9	1.1
Belgium	3.9	4.9	1.8	2.0	0.3	0.8	-0.4	0.7	2.7	4.1	2.2	1.3
Denmark	3.2	4.3	-1.5	1.9	0.8	0.9	0.0	0.7	2.4	3.4	1.5	1.2
Finland	4.9	5.0	2.7	1.1	0.8	0.3	1.0	-1.6	4.1	4.7	1.7	2.7
France	4.6	5.4	2.3	2.0	0.0	0.7	0.1	0.3	4.6	4.7	2.2	1.7
Germany	8.0	4.4	1.6	2.6	2.1	0.3	-0.3	0.9	5.9	4.1	1.9	1.7
Italy	6.1	5.3	2.9	2.1	1.1	0.6	0.7	0.5**	5.0	4.7	2.2	1.6
Netherlands	4.6	4.8	1.6	2.5	1.2	0.8	0.6	3.2**	3.4	4.0	1.0	-0.7
Norway	3.8	4.3	3.9	2.7	-0.0	1.3	1.5	0.3	3.8	3.0	2.4	2.4
Sweden	3.2	4.6	1.6	1.2	0.6	0.5	0.9	-0.6	2.6	4.1	0.7	1.8
Switzerland	4.6	4.4	0.3	1.8	1.9	1.5	-0.1	0.4	2.7	2.9	0.4	1.4
UK	2.9	3.2	1.1	2.2	0.8	0.3	-0.6	0.6	2.1	2.9	1.7	1.6
Europe (12)	4.6	4.6	2.0	2.0	0.8	0.6	0.3	0.6	3.8	4.0	1.7	1.5
Australia	4.0	5.2	2.4	3.3	1.6	2.8	0.8	2.1	2.4	2.4	1.6	1.2
Canada	4.6	5.4	3.0	2.7	1.9	2.9	2.0	1.5	2.7	2.5	1.0	1.2
Japan	8.8	9.6	3.6	3.7	2.3	1.3	0.9	1.2	6.5	8.3	2.7	2.5
US	3.3	4.0	1.8	2.8	1.2	1.8	1.7	1.7	2.1	2.2	0.1	1.1

* compound growth rates per annum; output defined as GDP at constant prices.

** 1983-92

Source: *OECD Economic Outlook 58* (December 1995); *OECD Employment Outlook*, July 1995; Maddison (1981), various tables.

Australia had much faster employment growth (and likewise slower labour productivity growth) than the European average.

Most remarkable is the difference of employment growth performance between the various European countries in the period 1983-93, which runs roughly parallel to the record of unemployment decline: by and large, the countries with high employment growth were also the ones with declining unemployment rates.⁴ The most conspicuous case is the one of the Netherlands, where employment grew by a hefty 3.2 per cent p.a., faster than output and thus implying a decline of average output per worker.

Fact 5: In most European countries, part-time employment has grown faster than full-time employment. Part-time employment varies widely across countries, but neither its extent nor its change over time can account for much of the international differences in employment growth.

Table 5 presents the relevant statistical information: in all European countries except the Scandinavian ones (where it is traditionally high), the share of part-time in total employment increased substantially between 1983 and 1994, as it had mostly done in the ten-year period before. However, even by 1994, the national differences remained quite dramatic: roughly speaking, the 'north-western' countries of Europe had shares well above 20 percent, the 'central' countries

⁴ For the 12 European countries in the period 1983-93, the correlation coefficient between the growth rate of employment and the percentage point decrease of unemployment is 0.85; excluding the three Scandinavian countries Norway, Sweden and Finland, it is 0.67.

Table 5: Part-time as a Share of Total Employment (in per cent)

	1973	1983	1994	1994	
				men	women
Austria	6.4	8.4	10.1*	1.7*	22.8*
Belgium	3.8	8.1	12.8	2.5	28.3
Denmark	•	23.8	23.3*	11.0*	37.3*
Finland	•	8.3	8.5	6.0	11.2
France	5.9	9.6	14.9	4.6	27.8
Germany	10.1	12.6	15.1*	2.9*	32.0*
Italy	6.4	4.6	6.2	2.8	12.4
Netherlands	•	21.4	35.0	14.7	64.8
Norway	23.0	29.6	26.5	9.5	46.5
Sweden	•	24.8	24.9	9.7	41.0
Switzerland	•	•	28.9	8.8	55.4
UK	16.0	19.4	23.8	7.1	44.3
Australia	11.9	17.5	24.4	10.9	42.6
Canada	9.7	15.4	17.0	9.5	26.1
Japan	13.9	16.2	21.4	11.7	35.7
US	15.6	18.4	18.9	11.5	27.7

*1993

Source: *OECD Employment Outlook*, pp. 210-11, Table E.

(including France, but excluding Switzerland) around 10-15 per cent and Finland and Italy below 10 per cent. By and large, part-time employment remains the domain of the female labour force in most countries, though the share of part-time working men did surpass a (not insignificant) 7 per cent in half of the 12 countries.

If one excludes the Scandinavian countries from consideration, there appears to be some correlation between the share of part-time employment and the decline of unemployment in the period 1983-93 (Table 2), with the outstanding cases being the Netherlands and, to a lesser extent, the United Kingdom. With a view to overseas, this impression is reinforced because the part-time share is traditionally high in the US, and so is employment growth. However, the link is far from clear-cut: after all, neither the US nor the UK did experience a particularly strong increase of the part-time share in the last ten years, and the increase of the Dutch share is in part a statistical illusion due to changes in survey methodology. In any case, correcting the Dutch figure of employment growth in Table 4 (3.2 per cent p.a.) for the shortening of working hours due mainly to the rise of part-time work cuts it down to 2.3 per cent p.a., still a very fast growth.⁵

⁵ In the Netherlands, average hours worked per person in employment and per year declined by 0.9 per cent p.a. in the period 1983-93. See OECD Employment Outlook 1995, p. 208, Table C.

Fact 6: Among the European countries, there is a link between the degree to which industry shrank in the 1970s and 1980s and the development of unemployment: the more powerful the de-industrialisation, the more dramatic the subsequent worsening of the unemployment record.

The link between unemployment and de-industrialisation can roughly be appreciated by looking at Table 2 together with Table 6; the former shows (i.a.) unemployment rates in the years 1973, 1983 and 1994, the latter the employment share of industry and the level of industrial employment for the years 1973, 1983 and 1993. In the period 1973-83, it was only one specific group of countries - Norway, Sweden and Switzerland - which succeeded in keeping unemployment roughly constant despite a sharply decreasing share (and absolute level) of industrial employment. (The Nordic countries achieved this by heavily expanding the public sector, Switzerland by almost perfectly adjusting the labour force via migration.) If these are excluded, the correlation coefficient between the absolute change of the employment share of industry and of the unemployment rate is highly negative, -0.87 for all and -0.85 for the European countries.⁶

For the period 1983-93, the statistical link is somewhat weaker, but it still survives, with the respective correlation coefficients being -0.57 and -0.65. For this period, however, it is not anymore Norway, Sweden and Switzerland that succeed in cutting the link,⁷ but rather those countries outside and inside Europe

⁶ Always excluding Norway, Sweden and Switzerland. If these are included, the respective correlation coefficients are -0.46 and -0.32 respectively.

⁷ Including or excluding the three countries does hardly affect the relevant correlation coefficient.

Table 6: Employment in Industry

	employment share of industry (in per cent)			level of industrial employment (1973 = 100)		
	1973	1983	1993	1973	1983	1993
Austria	41	39	35	100	100	101*
Belgium	41	31	28*	100	72	70
Denmark	34	28	26	100	83	82
Finland	36	33	27	100	101	71
France	40	34	28	100	86	73
Germany	47	41	37	100	84	83
Italy	39	36	33	100	99	90
Netherlands	37	28	25*	100	80	95*
Norway	34	27	23	100	92	81
Sweden	37	30	25	100	88	69
Switzerland	45	36	33	100	80	76
UK	42	33	26	100	74	62
Europe (12)**	39	33	29	100	87	79
Australia	36	28	24	100	84	88
Canada	31	25	22	100	98	100
Japan	37	35	34	100	103	113
US	33	28	24	100	101	102

* 1992

** arithmetic mean

Source: *OECD Employment Outlook*, p. 209. Table D.

that are known for their particularly fast growth of employment in the service sector, notably the United States, the United Kingdom and the Netherlands.

Note that the 'speed' of structural change away from industry did on average slow down between the two periods under consideration, in Europe as a whole, but also in North America and Australia. This is not surprising because the period 1973-83 contains the two major oil-price shocks, which hit industry much harder than the service sector.

Fact 7: Since the early 1980s, there has been a (non-cyclical) downward adjustment of aggregate labour cost in real terms, i.e. the producer wage deflated by labour productivity, in virtually all European countries. Whatever its cause, this wage adjustment is likely to have been one of the major reasons why employment grew fast by historical standards.

It is a robust econometric finding that, unlike (parts of) the two preceding decades, the 1980s and early 1990s have not been a time of 'aggressive wage policies' that systematically cut into profit margins. To the contrary: wage levels rose only moderately, even after the threat of further job losses had abated in the wake of the recessions 1981-83 and 1991-93. From the mid-1980s, the wage restraint paved the ground in most countries for a gradual, but sustained employment expansion, and a similar situation may emerge in the near future.

This simple fact raises obvious questions about those prominent theories of European unemployment that focus on whatever sort of rigidity of the wage level as the main cause of unemployment, be it in the form insider/outsider-behaviour or efficiency wage setting. Apparently, collective wage agreements by unions and

employers did **not** systematically disregard the interests of outsiders, but allowed a good part of them to find jobs and thus also to exert a moderating influence on future wage claims. The most striking example for this is the West German labour market where a large number of labour market entrants with no apparent insider voice at all (baby boom youngsters, immigrants) was newly employed, a situation which resembled the integration of ethnic German refugees in the 1950s.

Fact 8: Since the early 1980s, there has been a shift of labour demand (relative to labour supply) to the disadvantage of low-skilled labour, which showed up in widening differentials between skill groups either of earnings or of unemployment rates, depending on whether collective agreements and welfare state provisions allowed for increasing wage differentiation or not.

This is a robust empirical finding, which is mainly based on the different labour market developments in North America and Continental Europe. In the United States - the prototype of a country with strongly decentralised wage bargaining and only modest unemployment support - the ratio of unemployment rates between high-skilled and low-skilled workers remained roughly constant, but the earnings differential widened considerably; low-paid workers faced an actual decline of their real wages by more than one percent per annum. Canada and Australia had a similar, though somewhat less dramatic experience.

In continental Europe, where virtually all countries have more extensive unemployment support systems and usually more centralised collective bargaining than the US, the development was exactly the reverse. In most countries, low-paid workers saw their wages increase at average growth rates so that wage differen-

tiation between skill groups remained roughly constant. In turn, unemployment of low-skilled workers - and long-term unemployment in particular - increased disproportionately. A special case is the United Kingdom, which to some extent combined the worst of both worlds: a disproportionate increase of unemployment of low-skilled workers and a widening of wage differentials, though not yet a real wage decline of low-paid workers.

Fact 9: Except in countries with highly-developed apprenticeship systems such as Austria and Germany, youth unemployment rates tend to be considerably higher than average unemployment rates. However, in many European countries, the gap has narrowed in the course of the 1980s.

While the first part of this observation is widely known and much deplored as a major labour market problem in many countries, the quite considerable improvement in the situation since the early 1980s has gone largely unnoticed. E.g., in the United Kingdom and France, two countries with otherwise very different labour market records, the ratio of the unemployment rate of persons of age under 20 years to the average unemployment rate has come down since 1983 from about 4 to 1.5 and 5 to 2.5 respectively. For persons between 20 and 25 years, the relative improvement has been less marked in most European countries, but still visible in the data.

One important reason for these improvements is likely to be found on the labour supply side: the baby boom generation has by now grown older, and the much smaller cohort of newcomers that follows is - in quantitative terms - a smaller burden to the labour market.

Fact 10: In many European countries, there has been a marked upward trend of unemployment - and of long-term unemployment in particular - among elderly workers relative to the rest of the labour force.

This well-confirmed observation⁸ suggests that there may be more to the change of the generational incidence of unemployment than mere labour supply effects. Apparently, elderly workers have an increasingly important competitive disadvantage vis-à-vis other age groups with respect to re-employment prospects. As elderly persons tend to have more 'sclerotized' human capital than younger ones, this points towards structural flexibility as being an increasingly important determinant of the probability of unemployment exit.

2. Stylised Interpretations

In the light of the facts summarised above, the basic nature of European unemployment is not very difficult to identify, though a lot of minor puzzles remain unsolved. From a bird's-eye view and with the benefit of hindsight, one may tell the story along the following broad lines.

⁸ It is particularly relevant for western Germany where an ever increasing share of long-term unemployed persons (in the early 1990s: roughly 40 per cent) had an age of 55 years or above.

• *Genesis of the Evil*

The year 1973 and the subsequent ten-year interim period up to 1983 mark a watershed in the labour market history of Europe. Until that time, structural change proceeded in virtually all countries **without** any dramatic shrinkage of industrial employment, though in most countries with a continuously declining share of industry in total employment.⁹ Between 1973 and 1983, industrial employment shrank in two major swings, following the oil price shocks and the concomitant recessions.

The significance of these events can hardly be overestimated, and it is worth recalling it at a time when this transitional period is beginning to be quietly shelved in the public mind as a part of long-past dusty history. For whatever precise economic reason, the quite abrupt, but apparently irreversible 'amputation' of a part of industry changed the structural characteristics of labour markets for a very long time, maybe for good. Since then, the standard European country has much higher equilibrium unemployment and a persistently dualized labour market with a high share of long-term unemployed persons.

Note that, at the time, there were four types of countries in the industrialised world that could at least partially avoid these unfortunate developments. First, there were those countries which, for different reasons, did not really go through a large-scale de-industrialisation: in Europe Austria and Finland, and outside

⁹ The partial exception was Germany where - due to a long-standing currency undervaluation within the Bretton-Woods system - the strongly export-oriented manufacturing sector could even increase employment in relative terms until the mid-1960s. This helped to reduce the equilibrium unemployment rate even below the (low) levels of other countries, but made the relative rise afterwards all the more dramatic.

Europe Japan. Second, there were the 'classical' Scandinavian countries Norway and Sweden, which met the shrinkage of industry with a large-scale expansion of the public sector and, in the case of Sweden, with macroeconomic attempts to insulate the country from the world-wide slump by devaluing the currency. Third, there were the United States, Canada and Australia, which experienced a fast growth of the service sector, including its low-pay low-productivity segments, which helped to mitigate - though not altogether prevent - the rise in unemployment. And finally, there was Switzerland, which 'solved' the problem by regulating migration streams and thus almost perfectly adjusting the labour supply.

Note also that not all these 'model cases' have proved sustainable over time. During the later 1980s and early 1990s, Finland, Sweden and to a much lesser extent Switzerland went through adjustment crises, which led to a rise of unemployment that, in the end, appears to be comparable to what happened before in the rest of Europe. And even Japan is currently going through its first post-war wave of de-industrialisation, and it looks likely that it will end up with significantly higher (open or hidden) underemployment than before.¹⁰

¹⁰ Of all European countries, the cases of Norway and Austria may come closest to a still-not-falsified success story: they started off as low-unemployment countries in 1973, and they still are today. For both countries, however, one has to be careful about interpreting the record. *Norway* is by far the richest European OECD-country in terms of per-capita natural resources, and it could rather easily afford an expansion of its public sector, which proved unsustainable in the case of neighbouring, but resource-poor Sweden. *Austria* may not be much different from southern Germany in terms of its industrial structure and unemployment record so that the statistically visible success may be to some extent a matter of 'geographical aggregation'.

• *Persistence of the Evil*

For a long time in the 1980s, the policy discussion focused on the question whether and to what extent a more expansionary macroeconomic stance could help to reduce unemployment in Europe. This led to the fascinating question whether long-term unemployment was path dependent ('hysteretic') in the sense that long unemployment spells were themselves the ultimate reason for the dualization, or whether there were - visible or hidden - structural characteristics that made long-term unemployed persons hard to re-employ.¹¹ If hysteresis was dominant, a deliberate macro-expansion made much sense; if structural factors dominated, the main cures would have to be found on the micro side. As often in empirical research, the answers remained inconclusive: some microeconomic studies pointed towards an important role of path dependence, but a wealth of descriptive facts - some of them enumerated above in Section 1 - appeared to underline the importance of genuine structural factors.

In the short or medium run, history gave some support to the hysteresis side of the argument: the world-wide business upswing in the late 1980s and early 1990s, further fuelled in Europe by the 'German unification boom', proved more powerful than expected in reducing unemployment and also to some extent long-term unemployment. But the impact was temporary: the cyclical industrial expansion could not be turned into permanent industrial growth, and in the course of the subsequent recession, unemployment - and long-term unemployment - rose again to the prior levels (or beyond) in most places.

¹¹ For a survey of this debate as, see Layard, Nickell, Jackman (1991), pp. 256-266.

By now, the controversy has largely died down because the long-term structural factors seem to have gained the upper hand.¹² And very few economists would still place much faith into a policy strategy that focuses on deliberate macro-economic expansion as the major weapon against European unemployment. It is now widely accepted that, apart from a cyclical margin, which we have of course difficulties to quantify, we do observe *equilibrium unemployment rates* that reflect structural change in the world economy and the institutional characteristics of the labour market.

A typical interpretation of persistent structural unemployment in Europe, which roughly fits the skeleton of stylised facts we have presented above, may read as follows:¹³

The industrial shrinkage in the period 1973-83 wiped out a part of the capital stock that was complementary to the European labour force. In the subsequent process of queueing for work at a smaller capital stock, those workers with better characteristics were re-integrated whereas the others were sorted out. This process continued until a new flow equilibrium was reached; and this equilibrium was, quite naturally, a dualised labour market in which outsiders were increasingly frustrated by unsuccessful rounds of job search. The powerful cyclical recovery that began towards the end of the 1980s improved prospects - by raising the utilisation of the existing capital stock and by enlarging this very stock - but the improvement turned out unsustainable and another round of

¹² In my view, there are also major theoretical arguments in favour of the structural interpretation. See Paqué (1995), S. 186-191.

¹³ I have presented the following interpretation elsewhere, notably in Paqué (1994, 1995).

'screening out' took place in the labour market, leading back to the pre-boom dimension of underemployment and labour market dualization.

From an economy-wide standpoint, this is a story of many 'good' outsiders and a smaller number of 'bad' ones, with the former tending to find their way into employment without going through long spells of joblessness (notwithstanding the dominance of insider interests in collective bargaining!) and the latter ending up in states of long-term unemployment. Then, of course, the question arises: who are the 'good ones' and who the 'bad ones'?

Once again, the key to the answer may lie in the trend change of industrial employment: while the brunt of the job losses in the period 1973-83 hit industrial workers disproportionately, the subsequent (net) employment growth took place in service sectors. If industry is on average the sector that pays the highest 'premium' on physical work, this structural change meant a *devaluation* of the market value of unskilled labour and of everything in workers' skills that is sector-specific to industry. If, in addition, there was a trend towards 'servicification' in industry itself - meaning that physical routine work is replaced by machine activity, which is supervised and serviced by a smaller number of better-skilled workers - then the respective devaluation becomes even more dramatic. Data on changes of employment disaggregated by skill levels and branches of economic activity strongly support the view that structural change in the last two decades has gone in these directions.¹⁴

¹⁴ See for the case of West Germany, Paqué (1995), p. 173, Tab. 1.

Given these trends, there are likely to be 'good' outsiders and 'bad' outsiders. The good ones are typically those who have an up-to-date vocational qualification or training, preferably in a professional service job, who are newcomers (and thus do not yet carry the 'scars' of industrial work), and who can be expected to adjust flexibly and with high motivation to the new working environment. In turn, former industrial workers are at a competitive disadvantage, in particular when they are older or physically handicapped or have no formal qualification. Also, they tend to have higher reservation wages because they held a rather well-paid industrial job before and because they are granted more generous support by unemployment benefit systems, which make notably the duration of benefit payments depend on the accumulated length of all prior spells of employment.

In most continental European countries, these trends in the labour market did *not* lead to a corresponding wage differentiation that might have eased the re-integration of the disadvantaged outsiders. In particular, there has *not* been any widening of the wage gap between high-skill and low-skill workers as it could be observed in the United States, Canada and Australia and to some extent the United Kingdom (see Fact 8 above). The deep reason for the high degree of structural wage rigidity in continental Europe is still a matter of speculation, and it may well differ between individual countries. However, it is evident that the sample of industrialised nations which did experience greater wage differentiation does also share some common - and suggestive - characteristics: relatively decentralised wage bargaining, a relatively restrictive system of unemployment benefits, and - except for the United Kingdom - a highly elastic labour supply of unskilled workers due to immigration. Thus it is plausible to suspect that, in the continental European countries, the existence of some sort of minimum wage floor - through collective agreements and, in the last resort, through welfare benefits - prevented

the required differentiation of the wage structure to come about. (Note that, in the absence of a large-scale inflow of low-skilled workers, the market requirement for differentiation would probably have been much more moderate than in classical immigration countries like the United States, Canada and Australia.)

So much for the basic story of unemployment persistence in Europe. It is important to realise that this is, first and foremost, a story of persistence, *not* one of further increase: by and large, European labour markets were flexible enough to digest the normal pace and pattern of structural change as it took place in the period 1983-1994 *without* a further increase of equilibrium unemployment. Two elements of adjustment proved quite powerful in this respect: the 'natural' exchange of generations - older, on average less skilled workers leaving and younger, on average more skilled workers entering the labour force¹⁵ - , and the considerable flexibility of the wage *level* that could be widely observed across Europe for most of the relevant period and which helped employment to expand quite fast (see Facts 4 and 7 above). Hence there is no evidence for the 'European model' of collective bargaining plus welfare state¹⁶ to have worked badly all throughout normal conditions of structural change. However, there is evidence that this model was unable to cope with the long-term consequences of more dramatic waves of de-industrialisation: such waves appear to leave structural traces in the labour market that call for adjustments which go beyond the capacity of the system.

¹⁵ See again Paqué (1995), p. 173, Tab. 1, for quantitative evidence on this point for the case of West Germany.

¹⁶ See Emerson (1988).

To be more specific: European labour markets work reasonably well as long as there are no dramatic pressures of structural change that pull in a non-egalitarian direction. Unfortunately, the waves of de-industrialisation of the 1970s and 1980s had in the longer run precisely such non-egalitarian consequences, calling e.g. for a wage differentiation between skill groups, for a downward correction of the pay for older workers, etc. This did not happen, and so equilibrium unemployment rose, maybe for good. But the subsequent pressures of labour supply growth and structural change of labour demand at a 'normal' pace could be accommodated with 'normal' means.

So much for the general diagnosis, which appears to be relevant for basically all European countries. The emerging significant national differences in labour market developments are harder to explain, and many puzzles remain. On top of these stands the 'employment miracle' of the Netherlands (see Table 4), which virtually no observer would have forecast at the beginning of the period. Apparently, the Netherlands have managed to have a very fast growth of jobs in the low-productivity segment of the economy, faster even than the United States; and this growth turned the Netherlands from a high- into a low unemployment economy by European standards, though it did not mean that the country could return to the rates of joblessness that prevailed in the 1960s and early 1970s. Be that as it may, the case remains somewhat mysterious.

Other comparative performances are easier to explain. Especially the largest countries - Germany, the United Kingdom, France and Italy - fit rather nicely into the general pattern. All four had roughly the same trend increase of labour productivity (1.6-1.7 per cent) so that the national differences of employment growth can be accounted for by the differences of output growth - highest in

Germany followed with a distance by the United Kingdom, Italy and France. For the former two, this meant a moderate decrease, for the latter two a moderate increase of equilibrium unemployment. The specific 'Romanic' problem of still rising unemployment after 1983 thus shrinks to a general problem of economic growth, which may well be dominated by issues outside the labour market.

• *Future of the Evil: Speculative Thoughts*

If one searches for the deeper 'exogenous' reasons for the devaluation of unskilled labour in virtually all industrialised countries over the last two decades, two major forces come to mind: *globalization* and *technological progress*. The former means that a growing group of newly industrialised and developing countries reached a level of industrialisation, technical standards and labour skills that made them successfully compete in the markets for labour- and (physical) capital-intensive production and increasingly also in the lower market segments of human-capital intensive goods. The latter means that technological progress in industry has been labour-saving in the sense that it remained persistently profitable to replace manpower by modern (physical) capital equipment. Which of the two forces dominated so far is a matter of dispute,¹⁷ which appears to be most relevant for some major issues of trade policy vis-à-vis the Third World, but much less so for a speculative assessment of future trends in the labour market. After all, the speed and the shape of technological progress is itself to a large extent the (endogenous) outcome of a competitive race on all levels - encompassing growing intra-industry trade within and between industrial

¹⁷ See, e.g., the summary assessments in the OECD Jobs Study (1994), Chapters 3 and 4, pp. 77-168.

countries as well as growing inter-industry trade between industrial and developing countries. Hence the process of globalization in a broader sense - meaning the world-wide trend towards the integration of product and service markets, which in turn is fuelled by the (technology-induced) decline of transportation and communication costs - may well be the right driving force to be identified behind the secular changes in virtually all labour markets of western industrial countries.

For the future, it is hard to imagine a change or a significant slowdown of this trend towards globalization in the broadest sense, not least because major population giants of the Third World - notably China and India - are now embarking on the way that a few much smaller Asian countries have gone through during the last three decades. Hence the process may well speed up and further accentuate structural change in the rich countries.

Beyond this very general trend, however, we know very little. In particular, we have virtually no idea whether structural change may return to anything like the dramatic industrial shrinkage that happened in the period 1973-83, or continue to follow the much more moderate and smooth path that could be observed over the more recent period since 1983. In the former case, a further ratcheting-up of European unemployment rates would be much more likely than in the latter. Sure enough, dramatic supply shocks like the oil-price hikes in two decades ago appear to be much less likely today. But history has a habit of taking economists, politicians and the public by surprise as to the ultimate causes and time-series structure of 'shocks'.

3. Ideas on Policy

How could Europe improve its unemployment record? Once again with a courageous simplification, one may distinguish two ways to achieve this: (i) more employment through faster economic growth and (ii) more employment at any given growth path.

As to the first way, past experience has clearly shown that economic growth is far from jobless, provided that collective wage agreements do not systematically strangle its employment effects. Hence a policy stance that is good for economic growth should also be good as a means to fight unemployment. What such a policy stance might entail is a vast subject, which we cannot tackle in this paper. To some extent, leaving it aside is justified because past experience also shows that even a forceful growth push with considerable employment expansion is no sufficient cure for the dualization of the labour market in 'high-productivity insiders' and 'low-productivity outsiders': e.g., even after the unification boom had run its course in Germany, unemployment remained much higher than it was two decades earlier.

Therefore, we focus on the second way: more employment at a given growth path. In this respect, the starting-point for any policy reform proposal should be the recognition that those countries which have been rather successful in reducing unemployment and avoiding or at least mitigating a dualization of their labour markets did allow a low-productivity segment to grow in their economies. In fact, there is nothing in the statistical picture of the industrialised world which may suggest that unemployment - and notably long-term unemployment - could be reduced without some significant growth of low wage employment.

Given this fact, the core question for a prototype European government may become: How can we allow a low-productivity segment to grow without undermining what may be called the philosophy of our 'European Model' of the welfare state? If one of the core principles of this philosophy can be seen in providing all citizens who have lost their job with a minimum of subsistence that is not intolerably far below their prior standard of living, then a kind of minimalist reform of the system may take about the following shape.¹⁸

As ever, unemployed persons receive unemployment benefits (contribution- or tax-financed), with replacement ratios as they apply today. For a first stage of unemployment (say, one year), the criteria of acceptability of job offers remain the same as in most current systems in Europe, i.e. the unemployed person is still free to search exclusively 'in the neighbourhood' of his/her prior wage and working conditions and to turn down any offers of jobs with substantially inferior remuneration. If still unemployed after the first stage, the person is still entitled to receive unemployment support, again with today's replacement ratios applying. However, he/she is *not* entitled anymore to turn down *any* emerging job offer at whatever wage, provided he/she is physically able to do the job. On the other hand, he/she is entitled to receive financial compensation for any net income loss incurred by accepting a job: if the wage of the job is below the level of unemployment aid he/she obtains at the time of the offer, the person receives a government *matching grant* that makes up the difference, preferably even somewhat

¹⁸ I have developed the following reform proposal in somewhat more detail elsewhere (see, e.g., Paqué 1994, pp. 19-28). Note that the proposal was originally designed with the institutional setting of Germany in mind. However, as it is presented here, it is likely to be applicable to other European countries as well.

more to give the person a stronger incentive to include lower wage jobs into his/her range of search.

The rationale of this matching grant is basically the same as the idea of various employment subsidy schemes that have recently been put forward:¹⁹ if the philosophy of the welfare state requires that part of the devaluation of manpower and human capital in the course of structural change is to be socialised, then it should be done by subsidising *states of employment* and not states of (long-term) unemployment.

There are basically three popular strands of arguments against such a reform, which will be briefly summarised (and answered) below. The first argument says in essence that there is no real potential for low-productivity job growth in most European countries because actual vacancy statistics do not indicate an excess demand for this type of work. In my view, this is a misreading of facts: once potential employers know that welfare state legislation is such that no supply of (domestic) labour is forthcoming at low wages, they simply do *not* post vacancies. In other words: the real test is not whether vacancies are posted today in the given institutional framework, but whether they would be posted once wages are low in the relevant segment. To be sure, the experience with low-productivity job growth in the United States and maybe also the Netherlands is encouraging in this respect.

The second argument points to the negative 'signalling effect' involved in accepting a low-wage job: once an unemployed person accepts a job with a much lower

¹⁹ See, i.a., Phelps (1994), Snower (1994).

pay than his/her previously held one, he/she indicates his/her loss of human capital to potential employers, thus worsening the individual labour market prospects for the future. In my view, this argument is not convincing either: empirical evidence shows that it is precisely the state of long-term unemployment that is particularly damaging to one's human capital. While there is hardly any direct comparable evidence on whether the 'stigma' is greater in long-term unemployment than in (possibly temporary) low-wage employment, common sense and casual observations would clearly suggest that the persistent state of joblessness is worse.²⁰

The third strand of arguments concerns more practical issues: subsidising a relatively small part of total employment is somewhat more complicated than providing benefits to a well-defined group of registered unemployed persons. In this respect, three issues deserve particular attention: (i) the time horizon of employment subsidisation and its costs, (ii) the lack of incentives for job change within the low-wage segment of the labour market, and (iii) the potential for a joint misuse by employer and (prospective) employee.

Ad (i): To be a valuable instrument to create a market for low-productivity labour on unlimited contracts, it is important that the matching grant be given for a long, preferably an *unlimited* period of time. On first glance, this seems to imply an unbearable burden for the government budget because the average length of a (subsidised) employment spell of a formerly long-term unemployed person should be many times longer than the average remaining spell of (fully financed) unem-

²⁰ Also, casual exchanges with managers from personnel departments strongly support this point.

ployment that the person would have otherwise spent in unemployment; what the government saves in unemployment aid would thus be vastly overcompensated by what is to be spent on matching grants. However, on second glance, this seemingly plausible argument is largely unfounded because it neglects the incentive to accept a high-wage job - i.e. a job with a wage above the critical threshold of unemployment aid - that should work *equally* in both systems: each (unsubsidised) job that is attractive enough to leave the state of long-term unemployment is also attractive enough to leave the state of (subsidised) employment because, by construction of the subsidisation, the reservation wage of the same person is likely to be the same in both worlds. Only if one were to introduce implausibly high costs of changing jobs compared to taking up a job after a spell of unemployment (or some other 'biased' assumption)²¹ could the above argument claim more than *prima facie* plausibility. Hence, if anything, the matching grant scheme is likely to be the fiscally cheaper system because, at roughly the same number of government subsidy recipients, the matching grant per person is lower than the respective unemployment aid.

Ad (ii): Nevertheless, the matching grant system has a labour allocation problem of its own *within* the newly created segment of low-wage labour, i.e. of labour paid less than the unemployment aid threshold. Competition for low-wage labour may drive up its market wage and thus open up better-paid, but still low-wage job slots not only for the still long-term unemployed, who have no free choice any-

²¹ For example the assumption that the search intensity of long-term unemployed persons is higher than that of an already employed person receiving the same net income so that the latter is less likely to 'notice' the emerging better-paid job opening. Given the notoriously low search intensity that could be empirically observed for long-term unemployed persons in the past, this assumption is very implausible indeed.

way, but also for those already employed and receiving a matching grant; however, these have no pecuniary incentive to change jobs or to bid for higher pay on the plant level, at least as long as the market wage on offer does not rise above the wage plus matching grant that they currently receive. In fact, the market only 'works' from the labour demand, not from the labour supply side; and there is no way how the market could by itself make the subsidy burden shrink.

There are basically two potential (non-exclusive) ways out of this problem. The first and probably most fool-proof way is to make the paying of the matching grant contingent upon the readiness of the subsidised employee to accept any better-paid job (and conversely to reject any worse-paid job) or alternatively to negotiate a higher wage with the current employer. Practically, this could be done by leaving the subsidised employees registered at the public job centres, subjecting them to an analogous code of acceptability as the unemployed, and possibly authorising private commercial employment agencies to watch the labour market for superior low-wage job alternatives open to the subsidised employees. The second way would be to give low-wage employees a stronger search incentive, e.g., by reducing the matching grant by less than the realised wage gain. However, such a strategy has its natural limits because it also gives some 'perverse' incentives: it would become attractive to deliberately start with the worst-paid job and then move up by job changes so as to 'privatise' part of the self-created potential for social gains; and after such a 'privatisation', there would also be an unwelcome incentive to stay in the range of subsidised employment instead of searching for unsubsidised jobs above the unemployment-aid threshold. This is why the private gains would have to remain within reasonably narrow bounds and allowed to accrue only for a very limited period of time, say, a few months after a job change.

Ad (iii): There is the possibility of a cartelisation of potential employer and employee at the expense of the government: in private arrangements, they may agree to set the wage below the person's marginal product so as to maximise the share of the person's income that is covered by the matching grant. Again, the remedy lies in the competitive bidding for low wage labour from the demand side: if, for whatever reason, an employer/employee-cartel sets the wage well below the market level, then it is very likely that better-paid job offers for the respective employee will emerge in due course and push the wage up again, thus leading back to the solvable problem of making subsidised labour move from worse to better paid jobs (see (ii) above).

Similarly, it has been argued - and allegedly supported by empirical evidence - that there tend to be large dead-weight losses involved in employment subsidy schemes because, typically, a large part of all employers who cash in subsidies for hiring long-term unemployed persons would have hired them anyway; in the same vein, there is supposed to be a strong substitution effect in the sense that employers have an incentive to replace unsubsidised workers by subsidised ones, thus in effect reducing labour costs at the expense of the taxpayer without increasing employment.²² Even if one were to accept this empirical evidence, which is mostly based on rather small-scale case studies with many conceptual problems, it is hard to see how the mischief could be more than a short-run problem within out matching grant system: if, as the evidence seems to suggest, long-term unemployed persons are after all relatively good substitutes for

²² See the survey on various empirical studies of employment subsidy schemes in OECD Employment Outlook (1993), pp.63-4.

employed workers, then competitive pressures will push up their wages in the way described above and thus reduce the extent of subsidisation.

Table A1: Standardized Unemployment Rates 1950-1994

	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Italy	Japan	Netherlands	Norway	Sweden	Switzerland	UK	USA
1950	1.5	3.9	5.0	3.6	4.0	1.0	2.3	8.2	6.9	1.9	2.8	1.2	1.7	0.0	2.5	5.2
1951	1.3	3.5	4.4	2.4	4.6	0.3	2.1	7.3	7.3	1.7	3.2	1.5	1.6	0.0	2.2	3.2
1952	2.2	4.7	5.1	2.9	5.8	0.4	2.1	7.0	7.8	1.9	4.9	1.6	1.7	0.0	3.0	2.9
1953	2.5	5.5	5.3	2.9	4.4	1.5	2.6	6.2	8.1	1.7	3.5	1.9	1.9	0.0	2.6	2.8
1954	1.7	5.0	5.0	4.5	3.8	1.0	2.8	5.6	8.3	2.2	2.3	1.8	1.8	0.0	2.3	5.3
1955	1.4	3.6	3.9	4.3	4.5	0.4	2.4	4.3	7.0	2.5	1.5	1.6	1.8	0.0	2.1	4.2
1956	1.8	3.4	2.8	3.3	5.1	2.2	1.8	3.4	8.7	2.3	1.0	1.9	1.6	0.0	2.2	4.0
1957	2.3	3.2	2.3	4.5	4.9	2.2	1.4	2.9	7.0	1.9	1.5	2.1	1.7	0.0	2.4	4.2
1958	2.7	3.4	3.3	6.9	4.5	2.2	1.6	3.0	6.0	2.0	3.0	3.3	2.0	0.0	3.0	6.6
1959	2.6	3.1	4.0	5.8	3.1	2.1	1.9	2.0	5.2	2.2	2.1	3.2	1.8	0.0	3.0	5.3
1960	2.5	2.3	3.3	6.8	2.1	1.4	1.8	1.0	3.9	1.7	1.2	2.3	1.7	0.0	2.2	5.4
1961	2.3	1.8	2.5	7.0	1.9	1.2	1.5	0.7	3.4	1.4	0.9	1.8	1.5	0.0	2.0	6.5
1962	2.2	1.9	2.1	5.8	1.6	1.3	1.4	0.6	2.9	1.3	0.9	2.0	1.5	0.0	2.8	5.4
1963	1.8	2.0	1.7	5.4	2.1	1.5	1.3	0.7	2.5	1.2	0.9	2.4	1.7	0.0	3.4	5.5
1964	1.6	1.9	1.3	4.3	1.2	1.5	1.1	0.6	3.9	1.2	0.8	2.1	1.6	0.0	2.5	5.0
1965	1.5	1.9	1.5	3.6	1.0	1.4	1.3	0.5	5.0	1.1	1.0	1.7	1.2	0.0	2.2	4.4
1966	1.7	1.7	1.6	3.3	1.1	1.5	1.4	0.6	5.4	1.3	1.4	1.6	1.6	0.0	2.3	3.7
1967	1.8	1.8	2.3	3.8	1.2	2.9	1.8	1.7	5.1	1.3	2.8	1.5	2.1	0.0	3.4	3.8
1968	1.7	1.6	2.7	4.4	1.6	3.9	2.1	1.2	5.3	1.2	2.5	2.2	2.2	0.0	3.3	3.5
1969	1.7	2.0	2.1	4.4	1.1	2.8	2.3	0.7	5.2	1.1	1.8	2.1	1.9	0.0	3.0	3.5
1970	1.6	1.4	1.8	5.6	0.7	1.9	2.4	0.6	4.9	1.1	1.6	1.5	1.5	0.0	3.1	4.9
1971	1.8	1.3	1.7	6.1	1.1	2.2	2.6	0.7	4.9	1.2	2.3	1.5	2.5	0.0	3.8	5.9
1972	2.6	1.2	2.7	6.2	0.9	2.5	2.8	0.8	6.3	1.4	3.9	1.7	2.7	0.0	4.0	5.5
1973	2.3	1.1	2.7	5.5	0.9	2.3	2.7	0.8	6.2	1.3	3.9	1.5	2.5	0.0	3.0	4.8

Table A1 ctd./...

	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Italy	Japan	Netherlands	Norway	Sweden	Switzerland	UK	USA
1974	2.6	1.3	3.0	5.3	3.5	1.7	2.8	1.6	5.3	1.4	4.4	1.5	2.0	0.0	2.9	5.5
1975	4.8	1.8	5.0	6.9	4.9	2.2	4.0	3.6	5.8	1.9	5.9	2.3	1.6	0.4	4.3	8.3
1976	4.7	1.8	6.4	7.1	6.3	3.8	4.4	3.7	6.6	2.0	6.3	1.8	1.6	0.7	5.6	7.6
1977	5.6	1.6	7.4	8.0	7.3	5.8	4.9	3.6	7.0	2.0	6.0	1.5	1.8	0.4	6.0	6.9
1978	6.2	2.1	7.9	8.3	8.3	7.2	5.2	3.5	7.1	2.2	6.2	1.8	2.2	0.3	5.9	6.0
1979	6.2	2.1	8.2	7.4	6.0	5.9	5.9	3.2	7.6	2.1	6.6	2.0	2.1	0.3	5.0	5.8
1980	6.0	1.9	8.8	7.4	6.9	4.6	6.3	3.0	7.5	2.0	6.0	1.6	2.0	0.2	6.4	7.0
1981	5.7	2.5	10.8	7.5	10.3	4.8	7.4	4.4	7.8	2.2	8.5	2.0	2.5	0.2	9.8	7.5
1982	7.1	3.5	12.6	10.9	11.0	5.3	8.1	6.1	8.4	2.4	11.4	2.6	3.2	0.4	11.3	9.5
1983	9.9	4.1	12.1	11.8	11.4	5.4	8.3	8.0	8.8	2.6	12.0	3.4	3.5	0.9	12.4	9.5
1984	8.9	3.8	12.1	11.2	8.5	5.2	9.7	7.1	9.4	2.7	11.8	3.1	3.1	1.1	11.7	7.4
1985	8.2	3.6	11.3	10.4	7.3	5.0	10.2	7.2	9.6	2.6	10.6	2.6	2.8	0.9	11.2	7.1
1986	8.0	3.1	11.2	9.5	5.5	5.3	10.4	6.4	10.5	2.8	9.9	2.0	2.7	0.8	11.2	6.9
1987	8.0	3.8	11.0	8.8	6.9	5.0	10.5	6.2	10.9	2.8	9.6	2.1	1.9	0.7	10.3	6.1
1988	7.2	3.5	9.7	7.7	7.2	4.5	10.0	6.2	11.0	2.5	9.2	3.2	1.6	0.6	8.5	5.4
1989	6.1	3.1	8.0	7.5	7.8	3.4	9.4	5.6	10.9	2.3	8.3	4.9	1.4	0.5	7.2	5.2
1990	6.9	3.2	7.2	8.1	8.1	3.4	8.9	4.8	10.3	2.1	7.5	5.2	1.5	0.5	6.9	5.4
1991	9.5	3.5	7.2	10.3	8.8	7.5	9.4	4.2	9.9	2.1	7.0	5.5	2.7	1.8	8.8	6.6
1992	10.7	3.6	7.7	11.3	9.4	13.0	10.4	4.6	10.5	2.2	5.6	5.9	4.8	2.9	10.1	7.3
1993	10.8	4.2	8.6	11.2	10.2	17.7	11.6	6.1	10.2	2.5	6.2	6.0	8.2	3.7	10.5	6.7
1994	9.7	4.4	9.7	10.3	10.1	18.2	12.5	6.9	12.0	2.9	7.2	5.4	8.0	3.8	9.6	6.0

Source: 1920-38, 1950-89 *Maddison* (1991), pp. 262-5, Table C.6; 1990-94 *OECD Employment Outlook 1995*, p. 216, Table 1.

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