

# **LABOUR ECONOMICS AND THE CURRENT CRISIS\***

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## Figure 1 Factors affecting NAIRU over time and across countries

1. How unemployed people are treated

Replacement ratio	+	$(\partial u / \partial \rho = \text{about } 0.1)$
Benefit duration	+	
Benefit conditionality	-	
ALMP	-	

2. How wages are set

Union coverage	+	
Union density	-	
Coordination	-	

3. Other

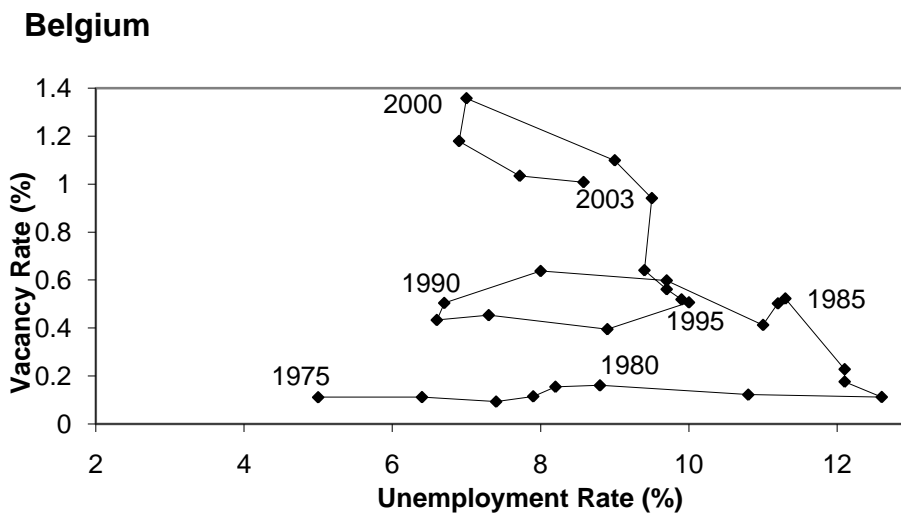
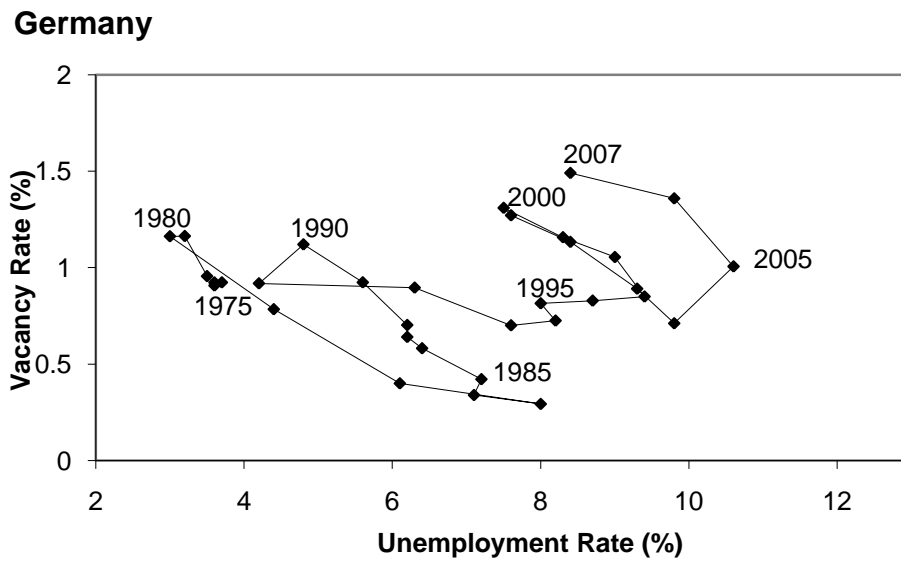
Employment protection	?	
Labour tax wedge	+	$(\partial u / \partial t = \text{about } 0.15)$

Not size of labour force

Sources: Layard, Nickell and Jackman, *Unemployment*, 2005 ed., pp xxvi – xxxviii

OECD *Employment Outlook*, eg 2006 (Bassanini)

**Figure 2 - Some high unemployment countries – during the 1990s unemployment at given vacancies did not fall (see Definitions and Sources at end)**



### Figure 3 The hiring function

(All variables normalised on labour force)

$$H = f(V, cU) \quad (\text{constant returns})$$

H = hiring = (in equilibrium) separations

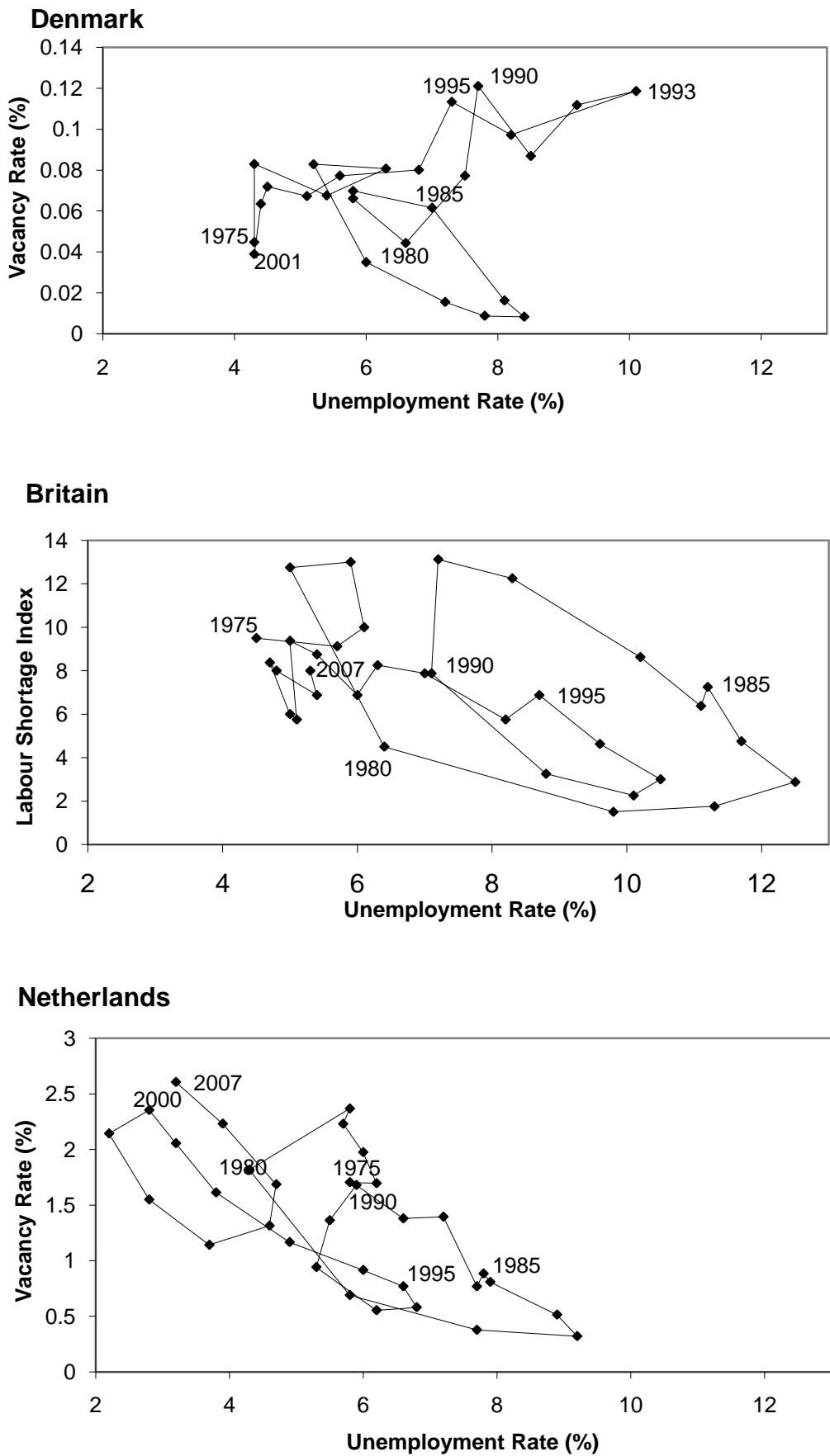
V = vacancies

U = unemployed

c = average “effectiveness” of unemployed

If U rises with given H, V, then c has fallen.

**Figure 4** Some low unemployment countries – during the 1990s unemployment at given vacancies fell (see Definitions and Sources at end)



## **Figure 5 Good policies towards unemployed people**

See

OECD, *Labour Market Policies and the Public Employment Service*, 2001

1. Benefit and job search at same office
2. Regular attendance, personal advisor and action plan
3. Accept any job (after some period)
4. A maximum period before an offer of activity must be made (and accepted)
5. Find jobs for redundant workers before they become unemployed (if possible)

**Figure 6**  
**Effects on happiness (0-10)**

	Fall in happiness (points)
<b>Income</b>	
Family income down 33% relative to average	.2
<b>Family</b>	
Divorced (rather than married)	.5
Separated (ditto)	.8
Widowed (ditto)	.4
Never married (ditto)	.45
Co-habiting (ditto)	.2
<b>Work</b>	
Unemployed (rather than employed)	.6
Job insecure (rather than secure)	.3
Unemployment rate up 10 percentage points	.3

Source: R. Layard, *Happiness – Lessons from a new science*, 2005 (Penguin), p.64

**Figure 7**

**Change in life-satisfaction (0-10)  
(Males aged 20-64)**

		<u>Position this year</u>		
		Employed	Unemployed	Inactive
<u>Position last year</u>	Employed	-	-1.2	-0.4
	Unemployed	1.1	-	0.4
	Inactive	0.6	-0.5	-

Source: Winkelmann and Winkelmann, *Economica* (1998). Based on German SOEP

On screening effects see Clark et al *Economica*, 2001.

**Figure 8**

**Effects on average life-satisfaction (1-4).  
European countries (1975-91)**

Unemployment	-2.8 (s.e 0.6)
Inflation	-1.2 (s.e. 0.3)

Source: Di Tella et al, *American Economic Review*, March 2001

## Definitions and Sources

### Unemployment

OECD Standardised rates.

For Germany, data before 1991 multiplied by 1991 rate for Germany divided by 1991 rate for West Germany.

### Vacancies

Belgium:

*Source:* Statistical Office of Belgium, updated for 2002 and 2003 using OECD Main Economic Indicators.

*Def:* Vacancies notified to ONEM and remaining unfilled at end of month.

Denmark:

*Source:* Danish Ministry of Labour.

*Def:* Vacancies of over one week unfilled at end of week.

France:

*Source:* INSEE Quarterly Industry Survey

*Def:* % of firms saying they have hiring difficulties.

Germany:

*Source:* From 1991 OECD Main Economic Indicators. Before 1991, Federal Institute of Labour, using data for West Germany multiplied by 1991 rate for Germany divided by 1991 rate for West Germany.

*Def:* Vacancies of over a week reported to employment agencies and unfilled at end of month.

Netherlands:

*Source:* From 1988 OECD Main Economic Indicators. Before 1988 Statistics Netherlands (CBS).

*Def:* Unfilled vacancies at end of month.

UK:

*Source:* CBI Industrial Trends Survey.

*Def:*  $\frac{1}{2}$ (% of firms report shortages of skilled labour + % of firms reporting shortages of unskilled labour)