

**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

## Labor Market Policies and Unemployment: – A Cross Country Analysis

**Full Length Text** — Part: 6 Chapter: 6  
**Macro Only Text** — Part: 5 Chapter: 6

To Accompany "Economics: Private and Public Choice 12th ed."  
James Gwartney, Richard Stroup, Russell Sobel, & David Macpherson  
Slides authored and animated by:  
James Gwartney, David Macpherson, & Charles Skipton

[Next page](#) ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---


---

---

---

---

---



**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

## Cross-Country Variations in Unemployment Rates

◀ [Jump to first page](#) ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---


---

---

---

---

---



**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

## Cross Country Variations in Unemployment Rates

- During 1990-2006 the unemployment rates of France, Italy, Spain, and Germany were substantially higher than those of the United States and Japan (*see next slide*).
- The unemployment rate of the European countries has been near, or above, 10 percent for most of the last two decades.
- Persistently high unemployment rates are the result of long-run factors rather than short-run business conditions.

◀ [Jump to first page](#) ▶ Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

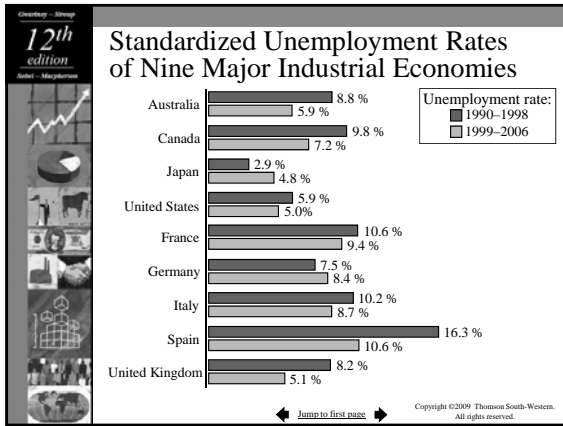
---

---

---

---

---



---

---

---

---

---

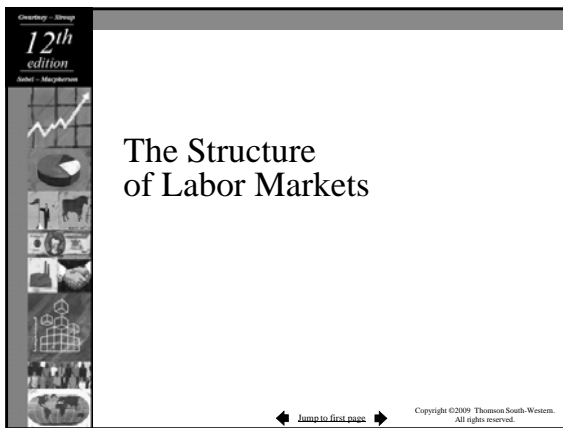
---

---

---

---

---



---

---

---

---

---

---

---

---

---

---

### Centralized Wage Setting

- Compared to the United States and Japan, centralized wage setting through collective bargaining is much more common in Europe (*except for the U.K.*) and Australia.
- When used in large and diverse labor markets, a centralized wage-setting process will push wage rates above market levels in various regions and skill categories. This will tend to cause higher rates of unemployment.

---

---

---

---

---

---

---

---

---

---




---

---

---

---

---

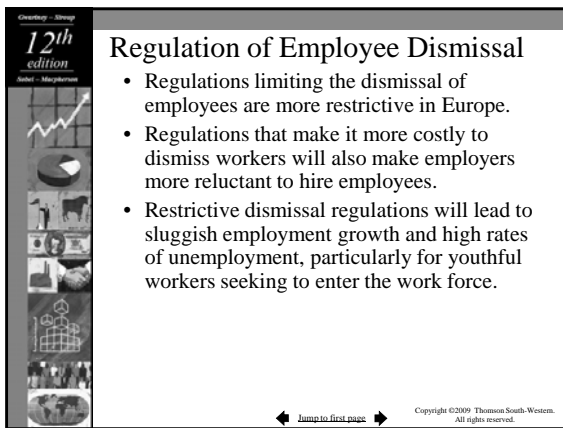
---

---

---

---

---




---

---

---

---

---

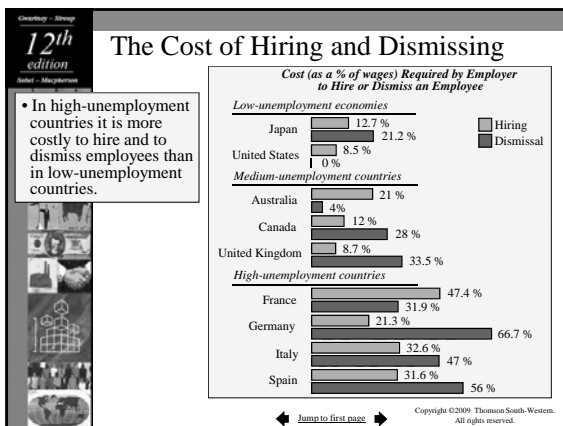
---

---

---

---

---




---

---

---

---

---

---

---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson

### Impact of Unemployment Benefits and Payroll Taxes

- High unemployment benefits will reduce the opportunity cost of job search, and thereby, cause more lengthy periods of unemployment.
- Unemployment benefits are more generous in Europe than in the U.S. and Japan (see next slide).

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---

---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson

### Average Replacement Rates

Average Gross Replacement Rate of Unemployment Benefits

Country	1980	1990	2003
<b>Low-Unemployment Countries</b>			
Japan	9%	10%	8%
United States	13%	11%	14%
<b>Medium-Unemployment Countries</b>			
Australia	24%	22%	26%
Canada	18%	19%	15%
United Kingdom	24%	16%	18%
<b>High-Unemployment Countries</b>			
France	28%	37%	39%
Germany	30%	28%	29%
Italy	11%	3%	34%
Spain	25%	34%	36%

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---

---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson

### Summary:

- Compared to France, Germany, Italy, and Spain, the labor markets of the United States and Japan are:
  - more decentralized,
  - hiring costs are lower,
  - dismissal regulations are less restrictive, and,
  - unemployment benefits are less generous.
- There is reason to believe that the labor market policies of the four European countries have contributed to their high unemployment rates.

← Jump to first page → Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---


---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson



### Labor Markets: New Zealand and the U.K. Canada and the U.S.

← [Jump to first page](#) →

Copyright ©2009 Thomson South-Western.  
All rights reserved.

---

---

---

---

---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson



### Labor Market Reforms in the United Kingdom and New Zealand

- Recent reforms in the United Kingdom and New Zealand have increased the level of competitiveness within their labor markets.
- The rates of unemployment in both countries have declined and are now significantly lower than the rates of countries that follow more restrictive labor market practices.

← [Jump to first page](#) →

Copyright ©2009 Thomson South-Western.  
All rights reserved.

---

---

---

---


---

---

---

---

12<sup>th</sup> edition  
Gwartney - Stroup  
Sobel - Macpherson



### Labor Markets in the United States and Canada

- Compared to the United States, the Canadian labor market is characterized by a larger degree of unionization, more restrictive dismissal policies, and more generous unemployment benefits.
- The data also indicate that the *natural rate of unemployment* is higher in Canada than in the United States.

← [Jump to first page](#) →

Copyright ©2009 Thomson South-Western.  
All rights reserved.

---

---

---

---

---

---

---

---

**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

**Questions for Thought:**

1. Suppose that legislation was passed requiring all employers in the U.S. to pay workers that were dismissed one week of severance pay for every year they were employed by the firm. What impact would this have on:
  - a. the dismissal rate of employees,
  - b. the productivity of employees, and,
  - c. the unemployment rate of youthful workers?
2. Do you think that the U.S. should move toward the continental European labor market model characterized by more extensive collective bargaining, greater government regulation, and more generous unemployment benefits?

[← Jump to first page →](#) Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---

---

---

**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

**Questions for Thought:**

3. Compared to the situation where a union is able to organize only a portion of the firms in an industry, how does the ability to set wages for an entire industry influence the power of a labor union? What does this suggest about the relative strength of unions in Europe versus those in the United States and Japan?
4. Explain why unemployment compensation is an indirect subsidy to employers with a less stable workforce. Is it a good idea to subsidize this type of unemployment? Why or why not?

[← Jump to first page →](#) Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---

---

---

**12<sup>th</sup> edition**  
Gwartney - Stroup  
Sobel - Macpherson

**End  
Special Topic 6**

[← Jump to first page →](#) Copyright ©2009 Thomson South-Western. All rights reserved.

---

---

---

---

---

---

---

---