


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 11th ed.”
James Gwartney, Richard Stroup, Russell Sobel, & David Macpherson
Slides authored and animated by:
James Gwartney, David Macpherson, & Charles Skipton

[Next page](#) ➡


Copyright ©2006 Thomson Business and Economics. All rights reserved.



Cross-Country Variations in Unemployment Rates

◀ [Jump to first page](#) ▶

Copyright ©2006 Thomson Business and Economics. All rights reserved.

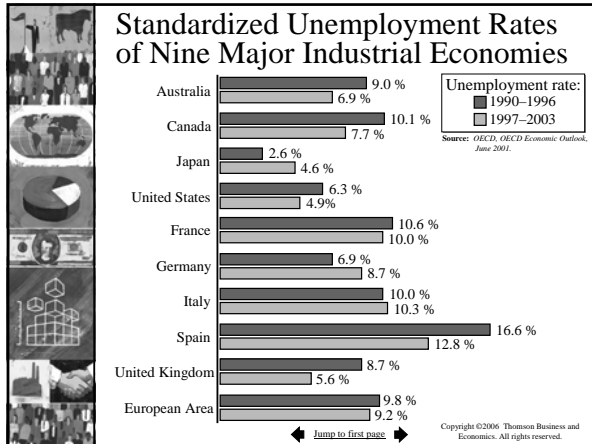


Cross Country Variations in Unemployment Rates

- During the last decade, the major European economies, Australia, and Canada have each experienced persistently high unemployment rates.
- In recent years, the unemployment rate of the European Union has been about twice that of the United States.

◀ [Jump to first page](#) ▶

Copyright ©2006 Thomson Business and Economics. All rights reserved.



The Structure of Labor Markets

◀ Jump to first page ▶

Copyright ©2006 Thomson Business and Economics. All rights reserved.

Unionization and Centralized Wage Setting

- Compared to the United States and Japan, centralized wage setting through collective bargaining is much more common in Europe 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.

◀ Jump to first page ▶

Copyright ©2006 Thomson Business and Economics. All rights reserved.

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.

[Jump to first page](#) Copyright ©2006 Thomson Business and Economics. All rights reserved.

Average Replacement Rates

Average Gross Replacement Rate of Unemployment Benefits

Country	1980	1990	1999
Low-Unemployment Countries			
Japan	9%	10%	12%
United States	11%	15%	14%
Medium-Unemployment Countries			
Australia	22%	26%	25%
Canada	25%	28%	36%
United Kingdom	24%	17%	18%
High-Unemployment Countries			
France	30%	37%	37%
Germany	29%	28%	30%
Italy	1%	3%	20%
Spain	28%	33%	31%

[Jump to first page](#) Copyright ©2006 Thomson Business and Economics. All rights reserved.

Summary:

- Compared to the United States and Japan, the labor markets of Europe, Australia, and Canada are characterized by:
 - centralized wage-setting processes,
 - more restrictive dismissal regulations, and,
 - high unemployment benefits.
- There is reason to believe that these policies have contributed to the high unemployment rates of these economies.

[Jump to first page](#) Copyright ©2006 Thomson Business and Economics. All rights reserved.



Labor Markets: New Zealand, United Kingdom, Canada, and the U.S.

◀ [Jump to first page](#) ▶

Copyright ©2006 Thomson Business and Economics. All rights reserved.




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 ©2006 Thomson Business and Economics. All rights reserved.




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 ©2006 Thomson Business and Economics. All rights reserved.



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 European labor market model characterized by more extensive collective bargaining, greater government regulation, and more generous unemployment benefits?


[Jump to first page](#) Copyright ©2006 Thomson Business and Economics. All rights reserved.



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 ©2006 Thomson Business and Economics. All rights reserved.



**End
Special Topic 6**

[Jump to first page](#) Copyright ©2006 Thomson Business and Economics. All rights reserved.
