

Labour markets: lessons from the Great Recession in 7 OECD countries

a focus on France

AIECE

21 Novembre 2011
Marion Cochard, OFCE

- **A presentation based on the update of Cochard, Cornilleau and Heyer (2010), “Les marchés du travail dans la crise”.**

- **Goals: What was the evolution of the labor market in different countries during the crisis (France, Germany, Spain, Italy, UK, USA and Japan) ?**
 - The adjustment of employment in the market is it completed ? Is it comparable to what was observed in previous crises?

 - What was the impact of « internal » flexibility ?

 - Has the crisis changed the participation behavior ?

 - A focus on France

Can we explain the evolution of employment during the crisis ? (1/11)

Private employment and growth

	France	Germany	Italy	Spain	USA	Japan	UK
Growth between Q1/2008 and the bottom point of GDP, in % (date of bottom point)	-3.9 (T1 2009)	-6.8 (T1 2009)	-6.9 (T2 2009)	-4.9 (T4 2009)	-4.7 (T2 2009)	-9.9 (T1 2009)	-6.4 (T3 2009)
Q1 2011 / Q1 2008							
GDP growth	-0.9	-0.2	-5.1	-4.0	-0.3	-5.6	-4.1
Employees in private sector, in %	-2.1	0.8	-3.9	-14.3	-6.2	-0.8	-5.5
Employees in private sector, in thousand	-353	225	-527	-2011	-7147	-373	-1 188
<i>private services</i>	-11	443	-234	-339	-3171	1208	-728
<i>Manufacturing sector</i>	-283	-256	-396	-681	-1972	-1060	-331
<i>Building sector</i>	-53	-31	-91	-1039	-2349	-521	-134

Sources : sources nationales, OCDE

- Contrasted magnitudes of the shock on production, and various reactions on the labour markets
- The manufacturing sector was heavily affected everywhere, the situation is more contrasted in other sectors

Can we explain the evolution of employment during the crisis ? (2/11)

Harmonized estimations of employment equations

$$d\log L_t = c + \sum_{i=1}^n \alpha_i d\log L_{t-i} + \sum_{i=0}^n \beta_i d\log Q_{t-i} + \sum_{i=0}^n \delta_i d\log H_{t-i} + \sum_{i=0}^n \varphi_i d\log \left(\frac{W_{t-i}}{P_{t-i}} \right) + \underbrace{\gamma \left(\log \left(\frac{L_{t-1}}{Q_{t-1}} \right) - \sigma \log \left(\frac{W_{t-1}}{P_{t-1}} \right) - \mu \log H_{L,t-1} - \beta t \right)}_{\text{relation de long terme}} + \varepsilon_t$$

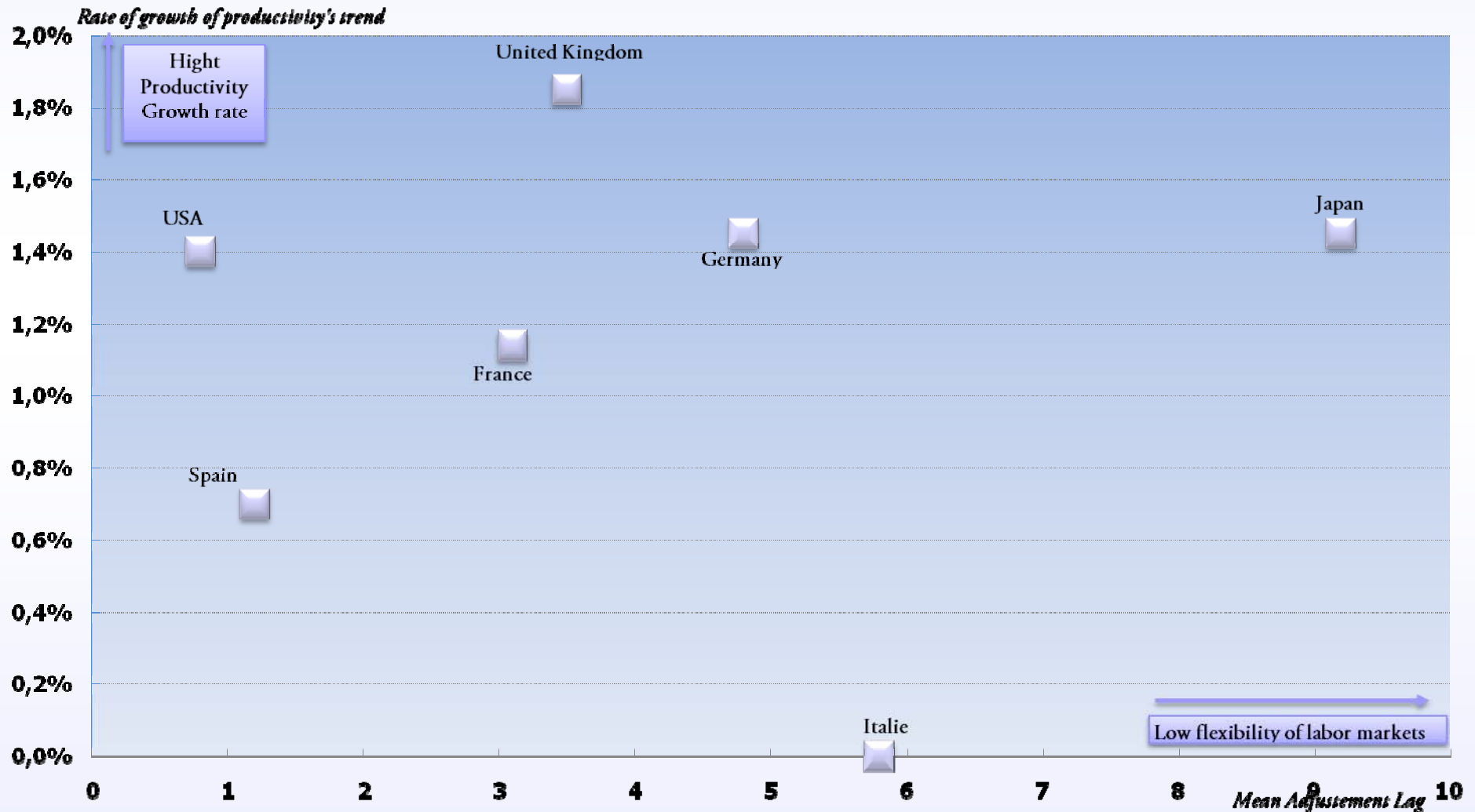
L Employees in the private sector
 Q Added Value
 HL Hours
 W Wage
 P Consumption Price

Period:
 1985-2008 except for Germany (1991-2008)

		France	Germany	Italy	Spain	UK	USA	Japan
		Short term Dynamic						
dlog(L _{t-1})	α ₁	0,63 (4,9)	0,63 (9,4)	0,18 (2,0)	0,88 (28,3)	0,32 (3,6)	0,78 (19,5)	-
dlog(Q _t)	β ₀	0,09 (5,3)	0,10 (4,0)	0,18 (3,7)	-	0,18 (3,0)	0,17 (6,8)	0,13 (4,4)
dlog(HL _{t-1})	δ ₀	-0,11 (2,8)	-	-0,16 (-2,4)	-	-	0,22 (2,7)	-0,23 (-6,0)
dlog(W _t /P _t)	φ ₀	-	-0,09 (-2,4)	-	-	-	-	-
		Long term relation						
	γ	-0,09 (-3,2)	-0,06 (-3,0)	-0,11 (-3,5)	-0,10 (-4,6)	-0,14 (-4,0)	-0,06 (-3,0)	-0,09 (-3,5)
	σ	-0,25 (-2,1)	-0,23 (-2,0)	-0,32 (-5,6)	-	-0,22 (-2,7)	-0,38 (-4,1)	-0,28 (-2,3)
	μ	-0,52 (-5,1)	-1,39 (-9,1)	-0,69 (-3,8)	-	-0,19 (-1,9)	-0,34 (-2,1)	-0,45 (-9,5)
	1 st trend break	1998q1	2005q2	1999q3	1986q1	1988q1	1996q1	1992q1
	2 nd trend break	-	-	-	1995q1	-	2003q3	-
	3 rd trend break	-	-	-	2005q4	-	-	-
	Trend before 1 st break (en	1,8	3,5	2,2	3,1	1,3	1,2	3,5
	Trend after 1 st break (en %)	1,1	1,5	0,0	2,1	2,0	1,9	1,5
	Trend after 2 nd break (en	-	-	-	0,0	-	1,4	-
	Trend after 3 rd break (en %)	-	-	-	0,8	-	-	-
	Mean adjustment Lag / Q	3	5	6	1	3	1	9

Can we explain the evolution of employment during the crisis ? (3/11)

Structural characteristics of labor markets



Sources : OCDE, calculs OFCE

Can we explain the evolution of employment during the crisis ? (4/11)

- **Harmonized estimations of employment equations**
- **In many countries the ajustement of employment observed is lower than the theoretical one.**

Can we explain the evolution of employment during the crisis ? (5/11)

%, 2008Q1-2011Q1 **The adjustment of employment is not completed**



Sources : OCDE, calculs OFCE

Can we explain the evolution of employment during the crisis ? (6/11)

- **Harmonized estimations of employment equations**

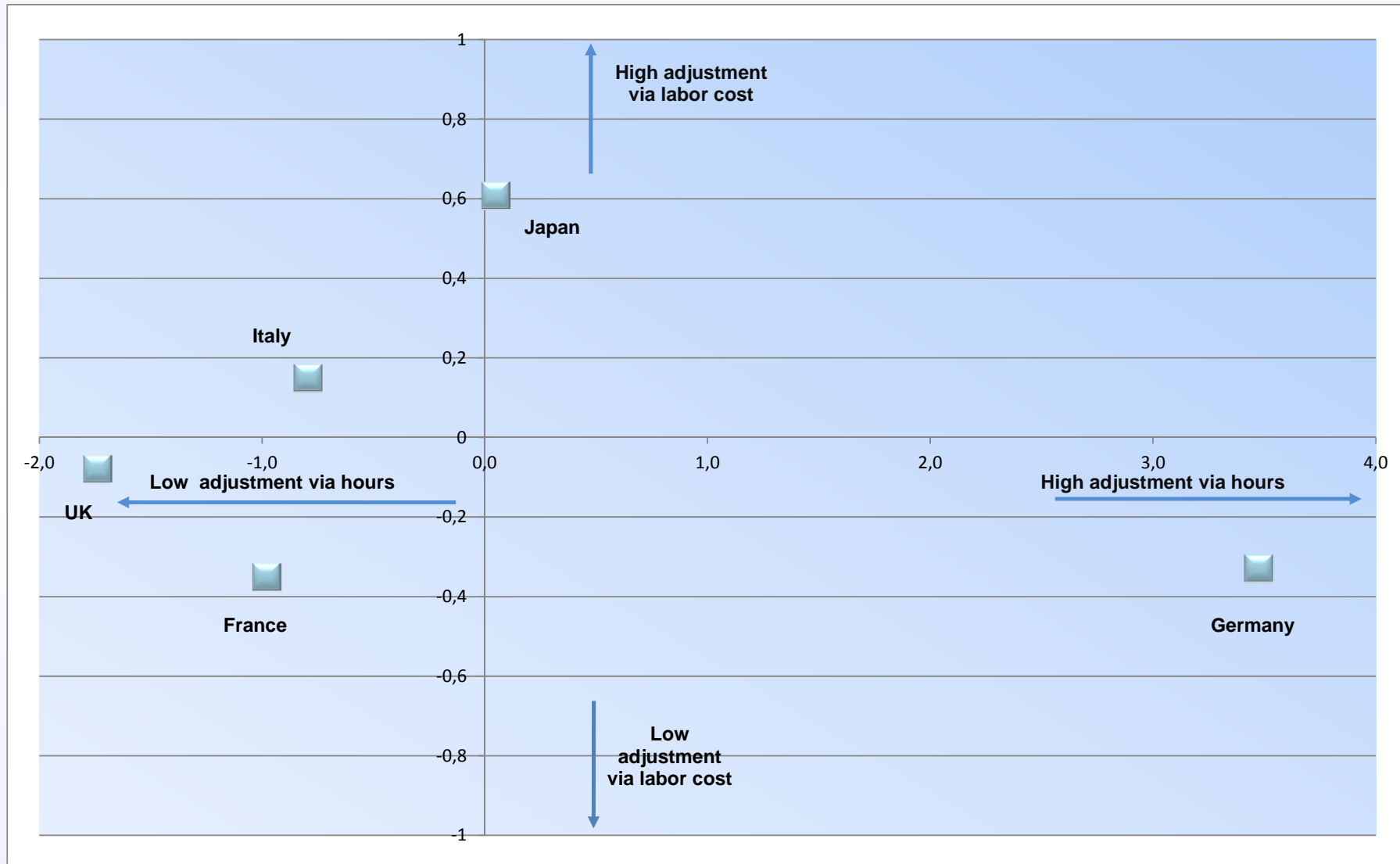
- these results allow to rank countries according to the speed of employment adjustment (MAL) and to the trend of productivity.
- In many countries the adjustment of employment observed is lower than the theoretical one.

- **The under adjustment is partly explain by the « internal » flexibility**

- In the first stage of the crisis, a large decrease of wage in Japan, and a large decrease in working hours in Germany.

Can we explain the evolution of employment during the crisis ? (7/11)

comparison of different strategies for crisis response in low adjusted countries, 2009q2



Sources : OCDE, calculs OFCE

Can we explain the evolution of employment during the crisis ? (8/11)

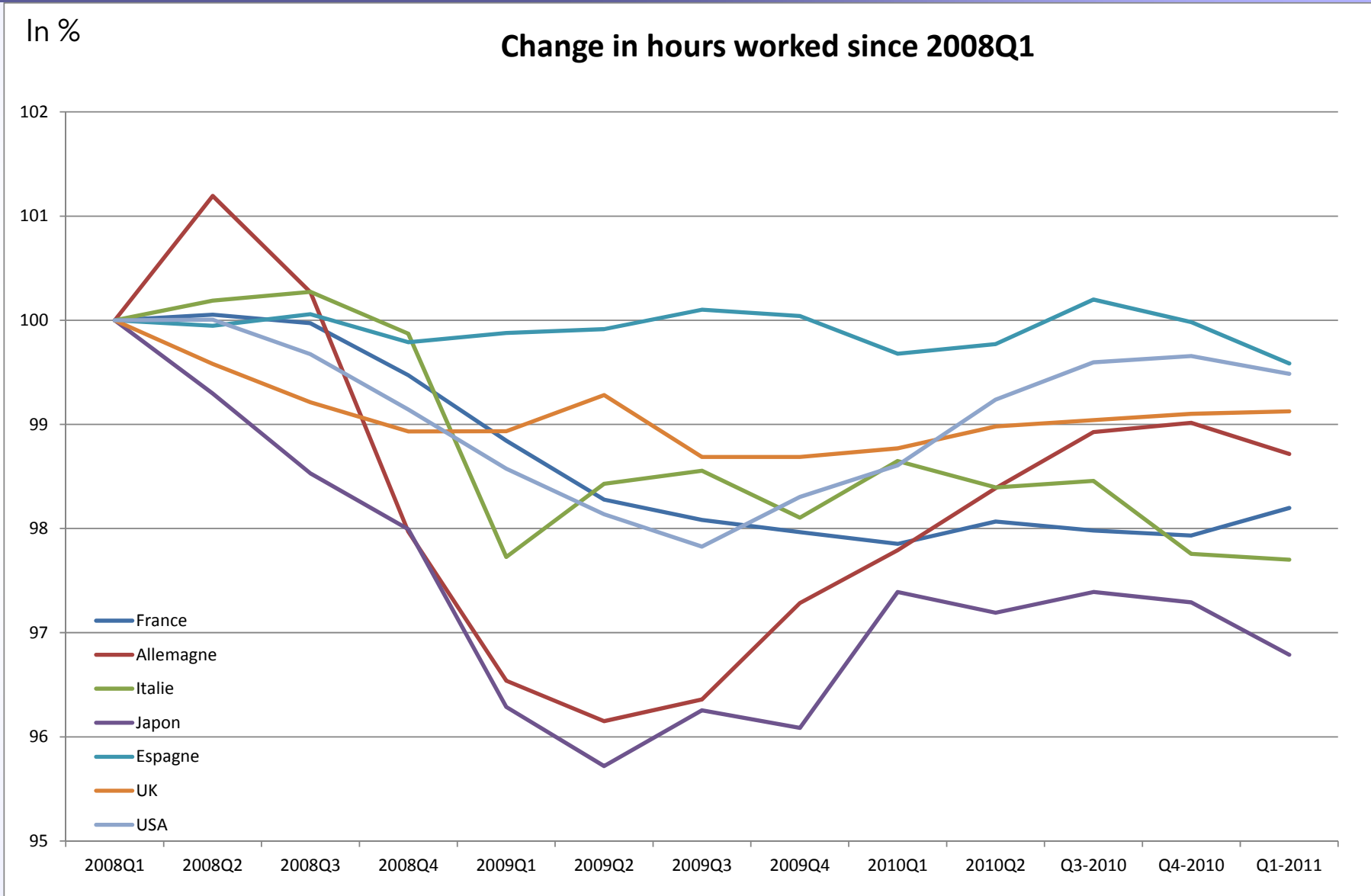
- **Estimations of harmonized equations of employment :**

- allow to rank countries according to the speed of employment adjustment (MAL) and to the trend of productivity.
- Show that in many countries the adjustment of employment observed is lower than the theoretical one.

- **The under-adjustment of employment can be explain by « internal »flexibility :**

- In the first stage of the crisis, a large decrease of wage in Japan, and a large decrease in working hours in Germany.
- After 2009, a large decrease of wage in the UK, and a decrease in working hours in France, while Germany reduced internal flexibility

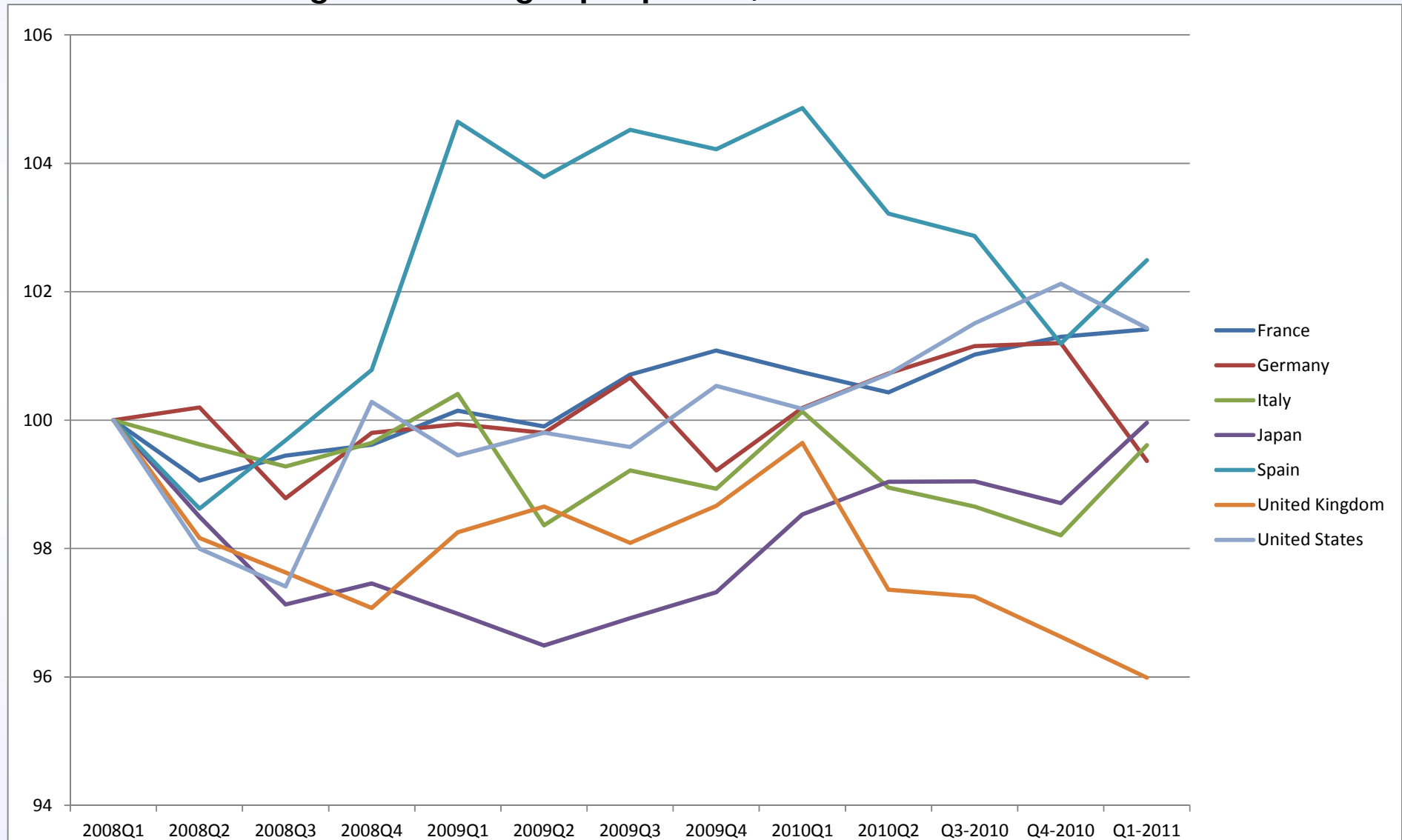
Can we explain the evolution of employment during the crisis ? (9/11)



Source : OCDE, national sources

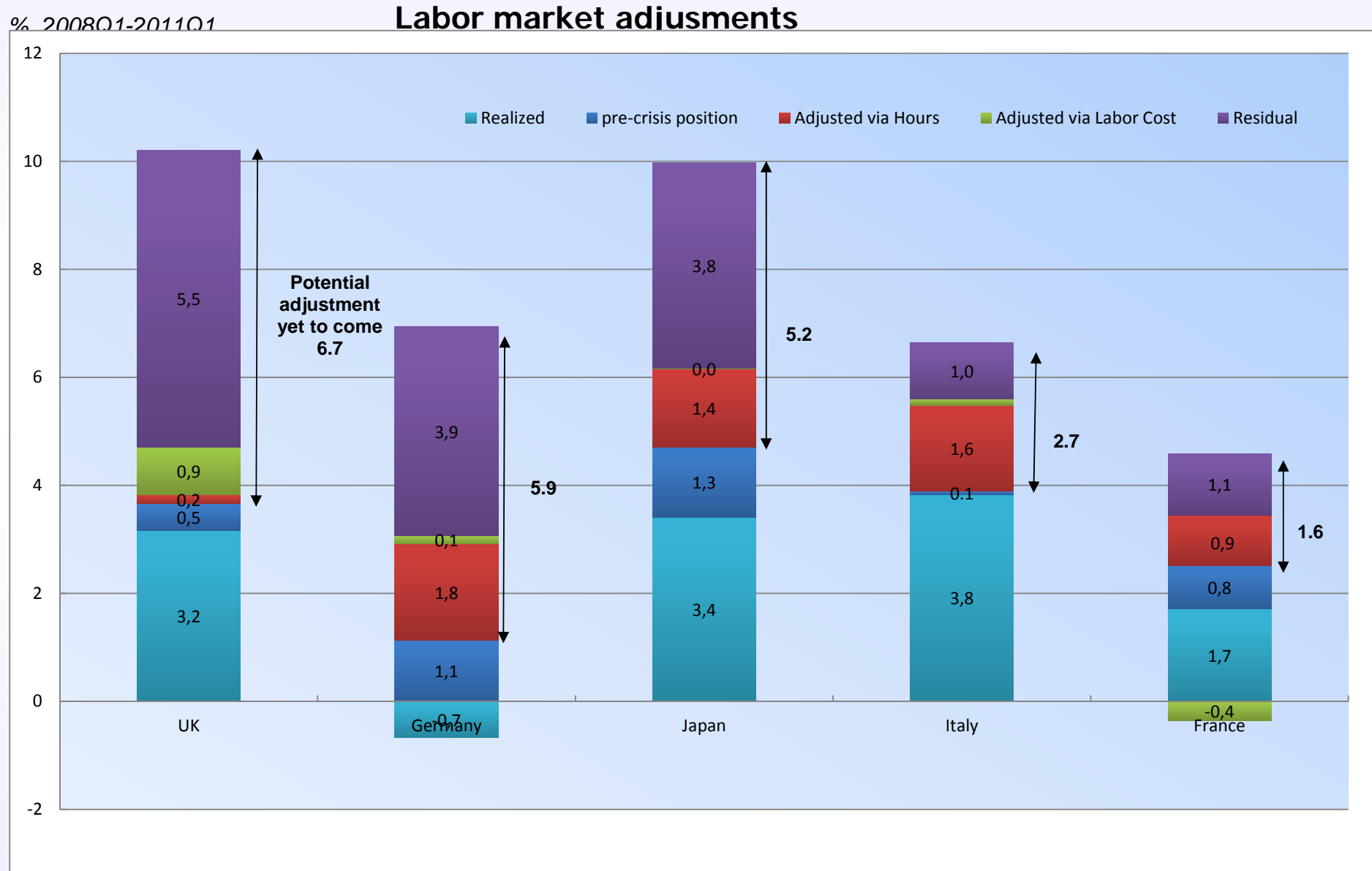
Can we explain the evolution of employment during the crisis ? (10/11)

Change in real wages per person, in %



Sources : OCDE

Can we explain the evolution of employment during the crisis ? (11/11)



Sources : OCDE, calculs OFCE

Can we explain the evolution of employment during the crisis ? (8/11)

- **Estimations of harmonized equations of employment :**

- allow to rank countries according to the speed of employment adjustment (MAL) and to the trend of productivity.
- Show that in many countries the adjustment of employment observed is lower than the theoretical one.

- **The under-adjustment of employment can be explain by « internal »flexibility :**

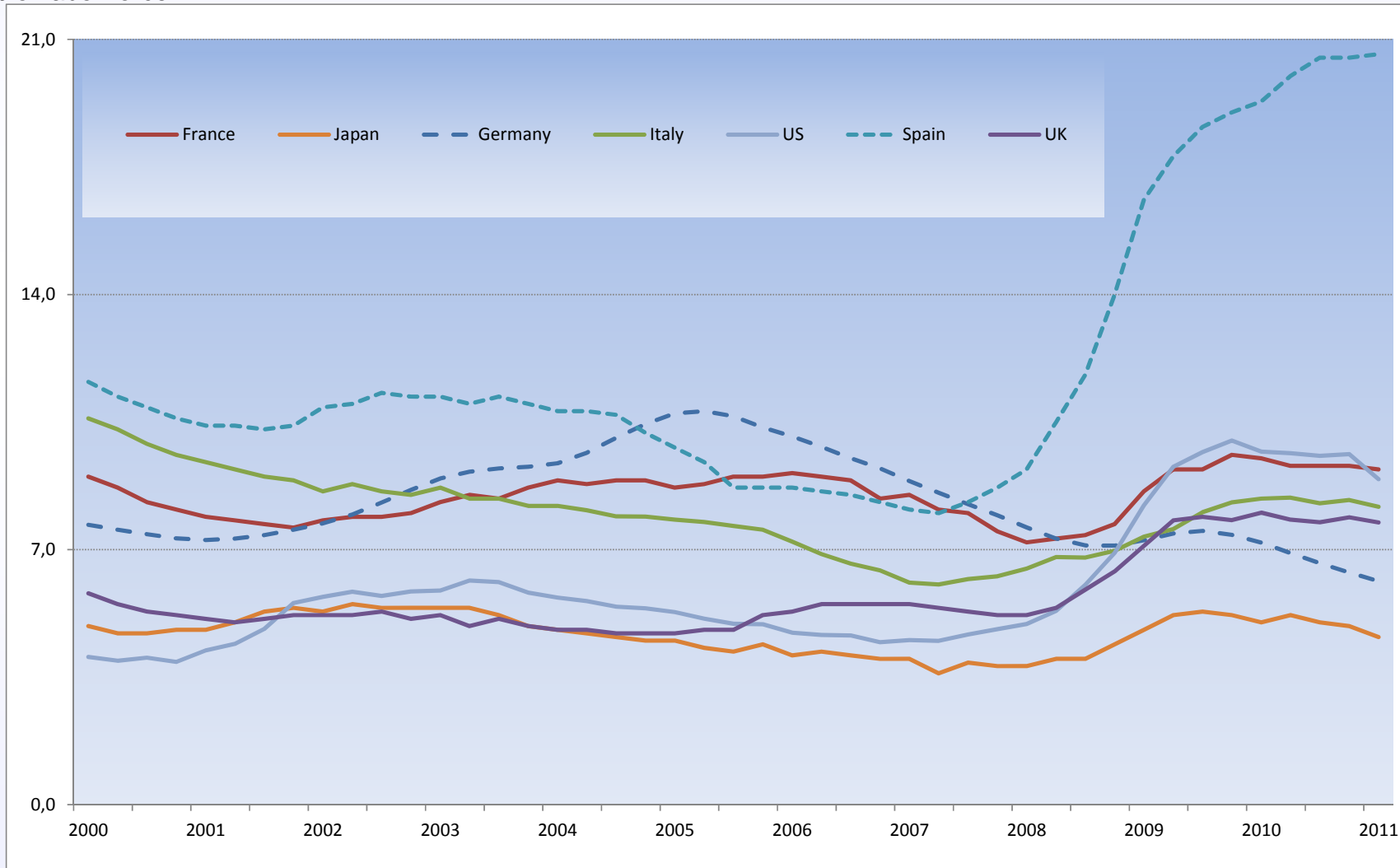
- In the first stage of the crisis, a large decrease of wage in Japan, and a large decrease in working hours in Germany.
- After 2009, a large decrease of wage in the UK, and a decrease in working hours in France, while Germany reduced internal flexibility

Conclusion : The adjustment of employment is yet to come and could be large in the majority of countries

Unemployment and participation rates (1/6)

■ A large increase of unemployment except in Germany...

% of labor force



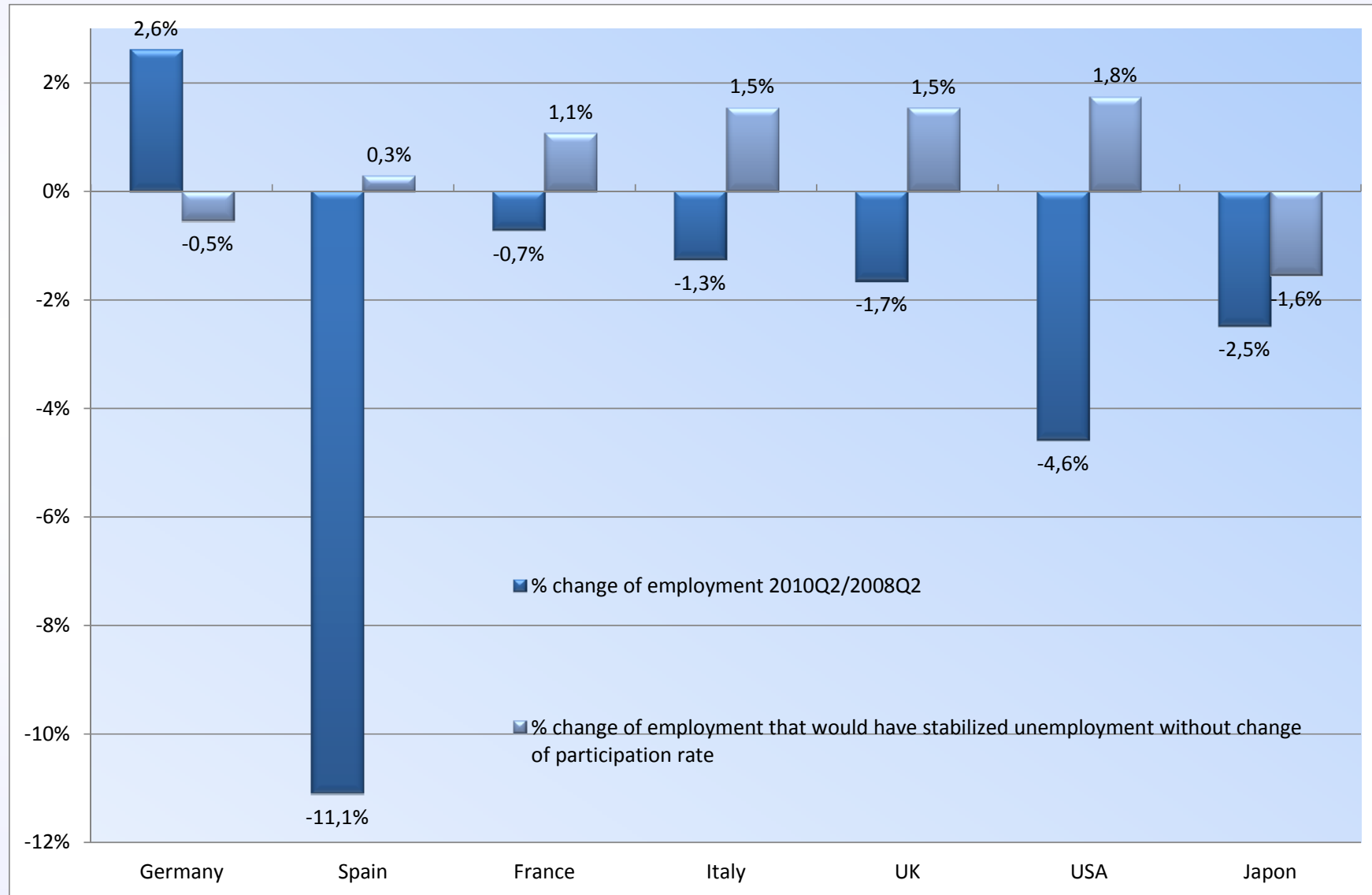
Source : LFS, OCDE

Unemployment and participation rates (2/6)

- **A large increase of unemployment except in Germany...**
- **That is not explained solely by differences in evolution of employment:**
 - The demography is very different from one country to another. Germany and Japan are characterized by a declining population.

Unemployment and participation rates (3/6)

Change of employment and unemployment stabilization, 2008q1-2011q1, in %



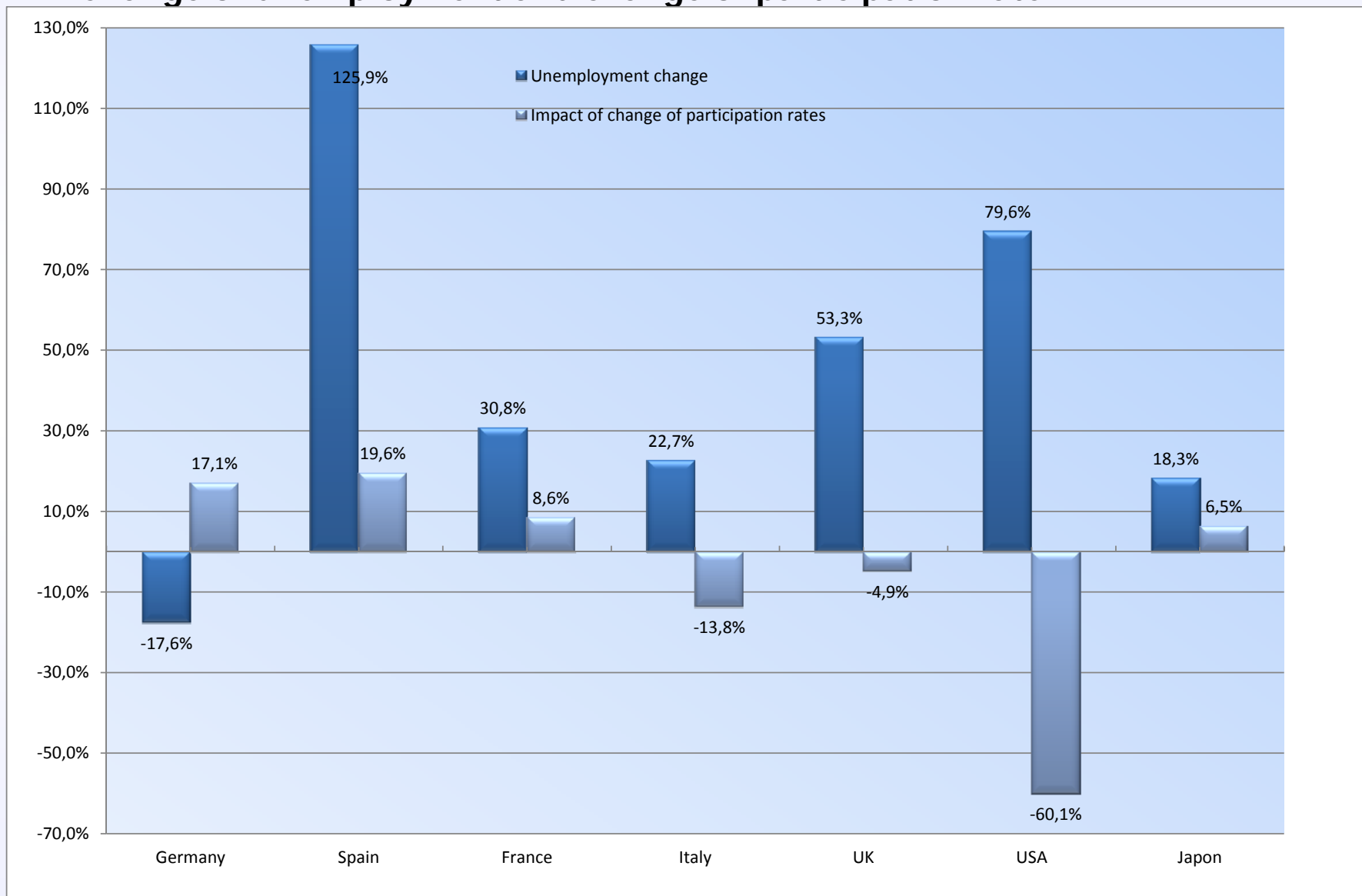
Sources: European countries : Eurostat, LFS ; USA: Bureau of Labor Statistics ; Japan : Statistics of Japan.

Unemployment and participation rates (4/6)

- **A large increase of unemployment except in Germany...**
- **That is not explained solely by differences in evolution of employment:**
 - The demography is very different from one country to another. Germany and Japan are characterized by a declining population.
 - The mechanism of the « discouraged worker » is particularly intense in Italy, UK and United States.

Unemployment and participation rates (5/6)

Change of unemployment and change of participation rate



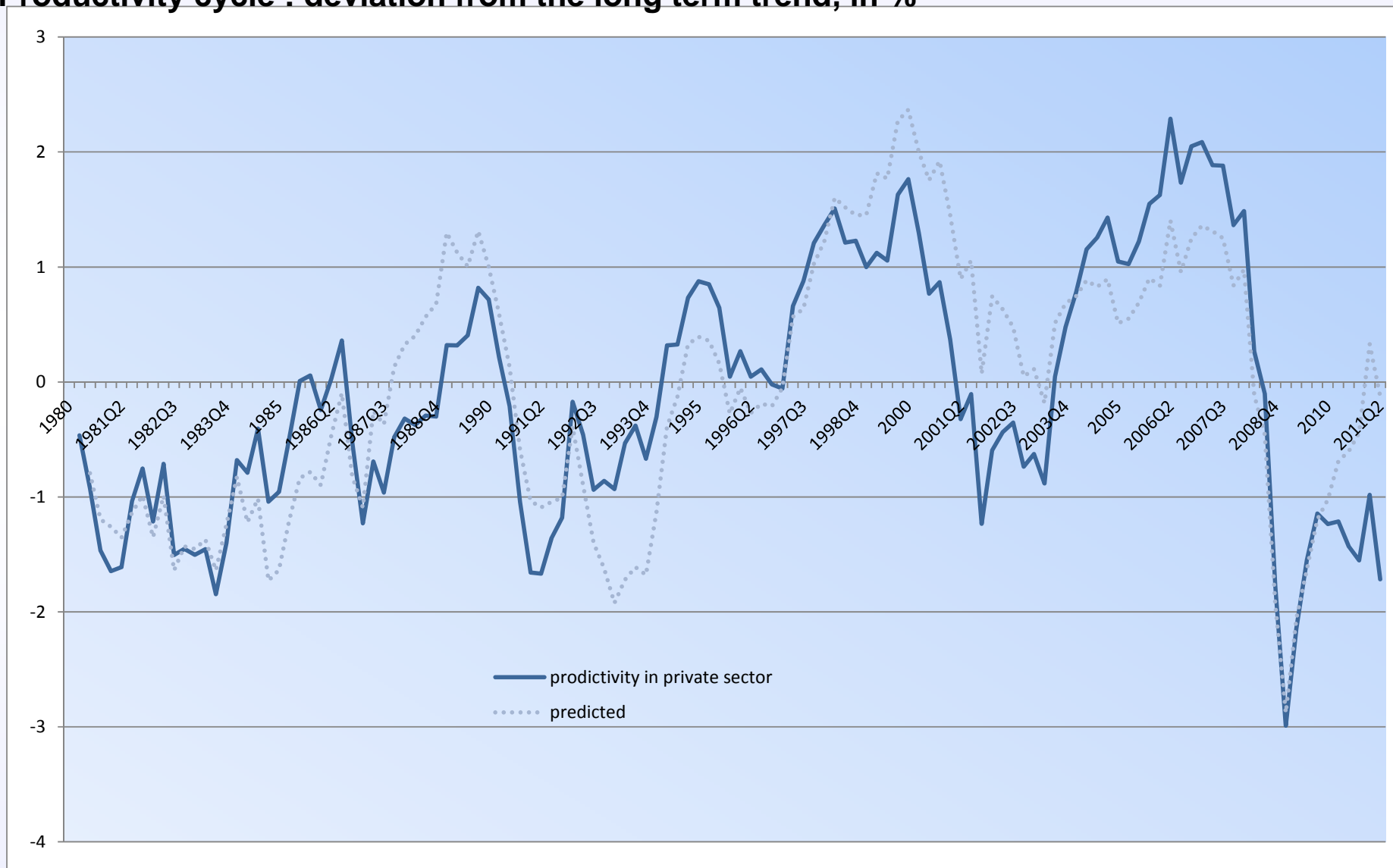
Sources: European countries : Eurostat, LFS ; USA: Bureau of Labor Statistics ; Japan : Statistics of Japan.

- **A large increase of unemployment except in Germany...**
- **That is not explained solely by differences in evolution of employment:**
 - The demography is very different from one country to another. Germany and Japan are characterized by a declining population.
 - The mechanism of the « discouraged worker » is of particular intensity in Italy, Japan and United States.
 - Detailed analysis of the European countries allow to distinguished three situations :
 - Germany: Decrease of participation of youth, Increase of participation of older people. Low demographics pressures and stability of employment \Rightarrow decrease of unemployment
 - Italy, and UK: Decrease of participation rate (except older people), insufficient to limit the increase of unemployment. The spanish situation is the same for men, while women participation rate is still increasing.
 - France: No reduction of participation rates, and large increase for the older people \Rightarrow Increase of unemployment

- **Concerning perspectives :**
 - The financial situation of companies is greatly deteriorated

A focus on France (2/9)

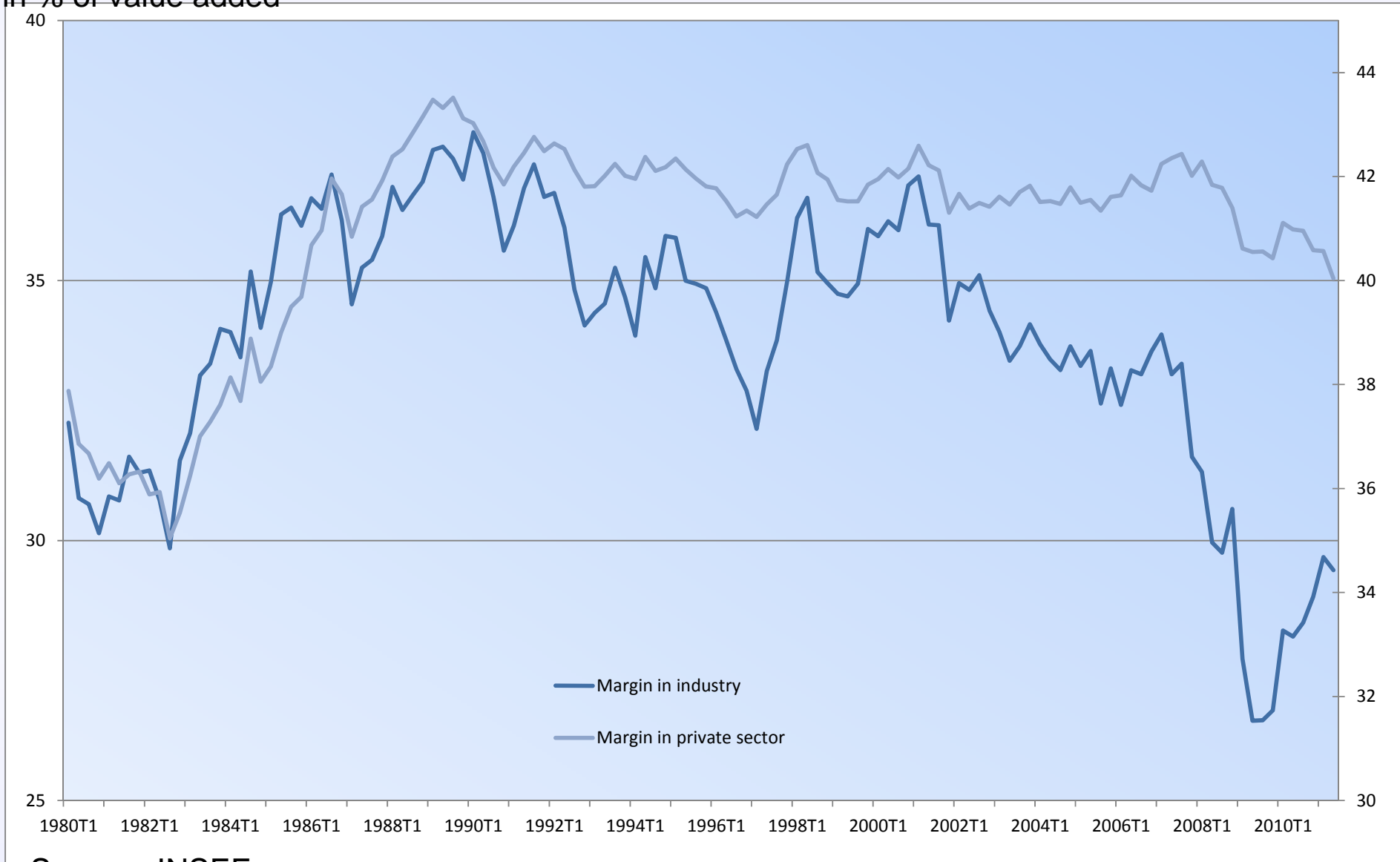
Productivity cycle : deviation from the long term trend, in %



Source : INSEE, calculs OFCE

A focus on France (3/9)

in % of value added

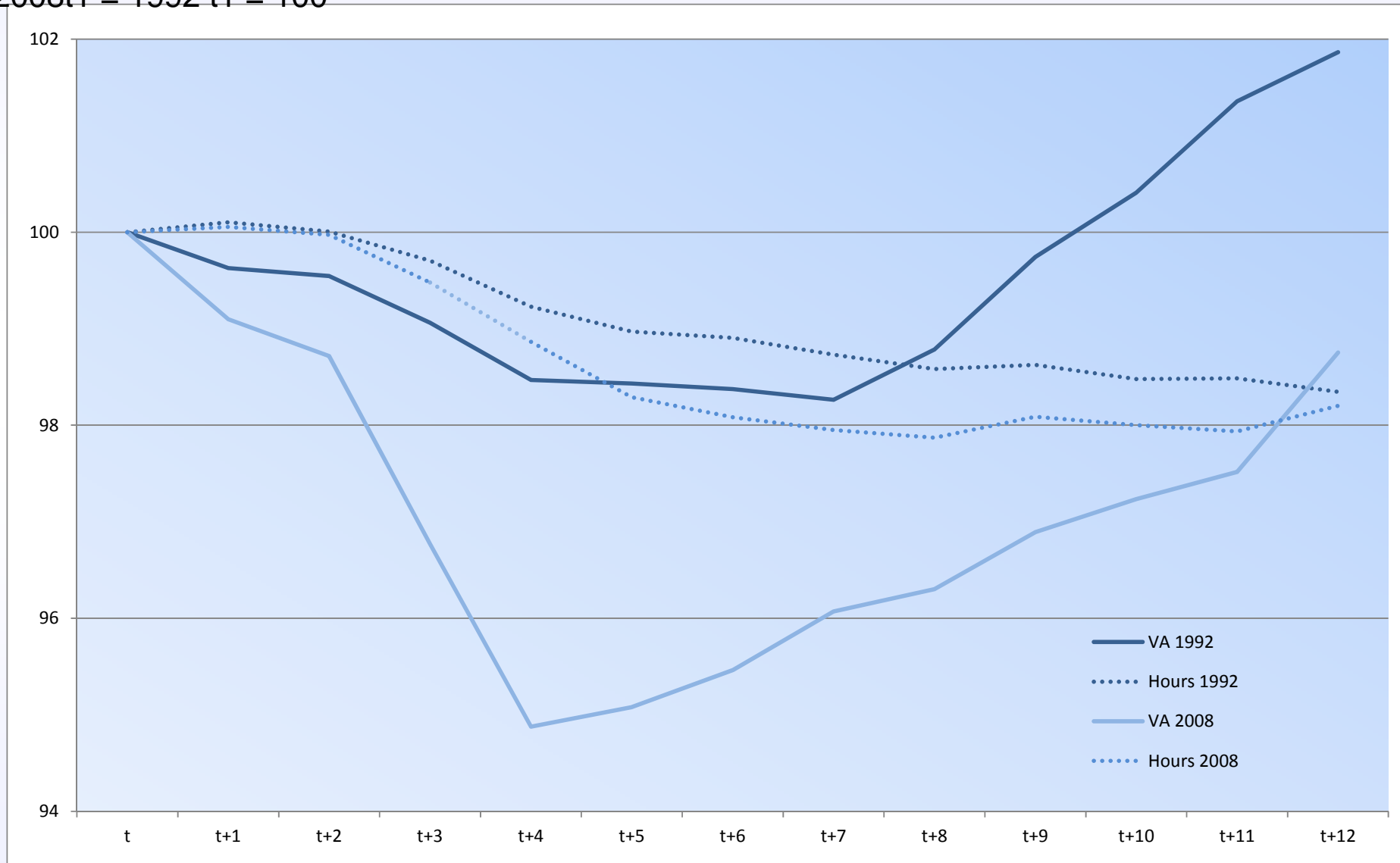


Source : INSEE

- **Concerning perspectives :**
 - The financial situation of companies is greatly deteriorated
 - There is not much to expect from the employment policy
- **economic policies out of step with the economic situation**
 - Working time: tax exemption for overtime vs incentive to short time employment

A focus on France (5/9)

2008t1 = 1992 t1 = 100



Source : INSEE

- **Concerning perspectives :**
 - The financial situation of companies is greatly deteriorated
 - There is not much to expect from the employment policy

- **economic policies out of step with the economic situation**
 - Working time: tax exemption for overtime vs incentive to short time employment
 - Supported employment in the nonprofit sector: a delayed reaction ... and probably insufficient

A focus on France (7/9)



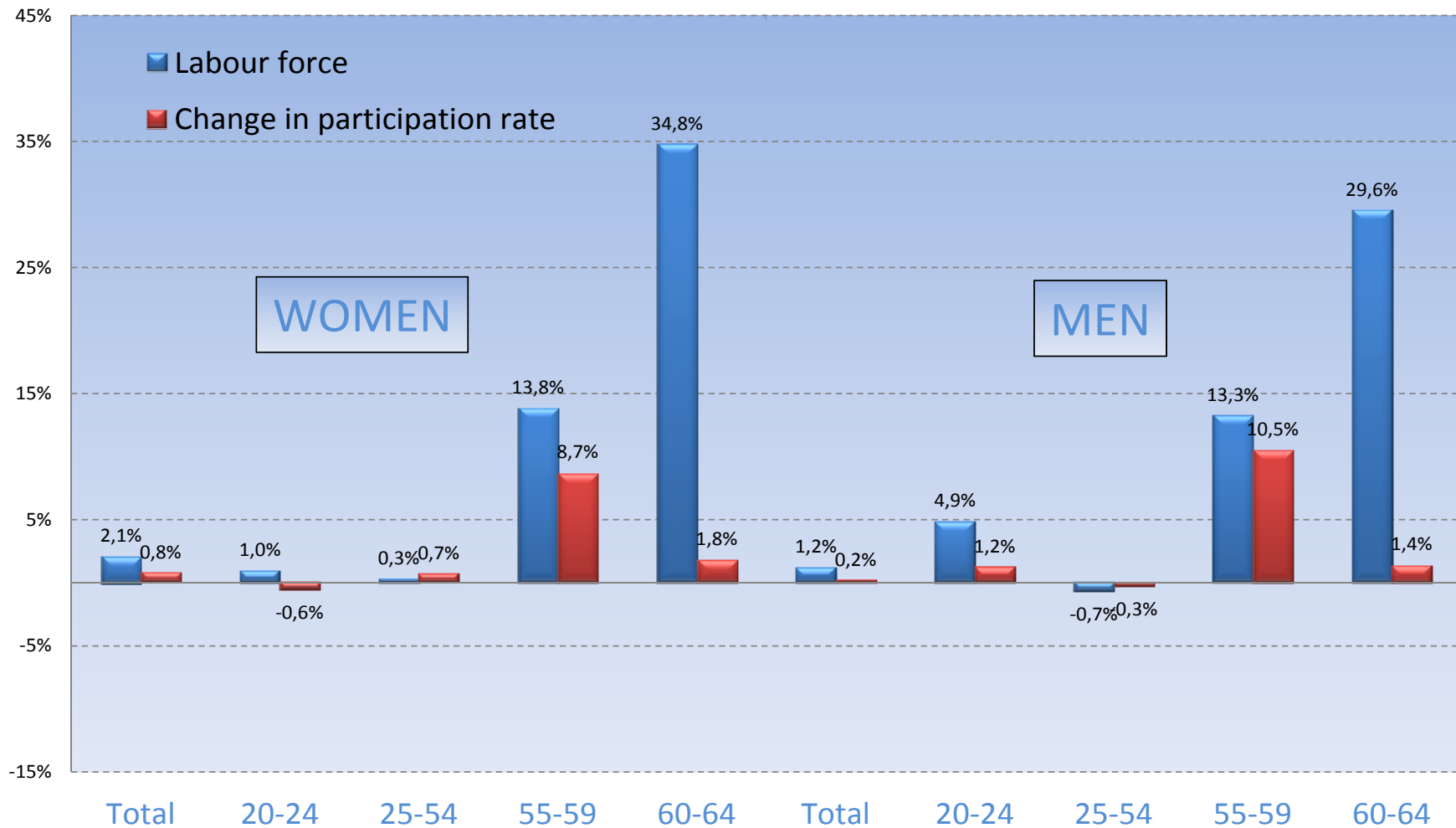
Source : DARES

- **Concerning perspectives :**
 - The financial situation of companies is greatly deteriorated
 - There is not much to expect from the employment policy

- **economic policies out of step with the economic situation**
 - Working time: tax exemption for overtime vs incentive to short time employment
 - Supported employment in the nonprofit sector: a delayed reaction ... and clearly insufficient
 - A reform of early retirement and pension which increased the workforce of 120,000 people each year during the crisis.

Conclusion: The low involvement of the employment policy has contributed to the overall deterioration of the labor market.

Change in labour force 2008T1-2011T1 France



Source : Eurostat

Conclusion

- **Good news: Taking into account the magnitude of the shock on production, the reactions of labor markets were very smooth ; Except in The USA and Spain**
- **Bad news: it means that an important adjustment of employment is yet to come and that the majority of countries start from a degraded situation, and thus won't be able to absorb the same way a new production shock**