Observatorio
de Coyuntura
Económica
Internacional

Monographic September 2004:

Labour Market

INDEX

Authors: Vicente J. Pallardó, Nicolás Jannone, Aurelio Martínez, Antonio Cutanda, Francisco Requena, Luis M. Granero, Rosa Puertas, Mª Luisa Martí, Julia Torrecabota, Mª Jesús Herrerías and Hector Ruiz

Observatorio de Coyuntura Económica Internacional
Instituto de Economía Internacional
Universitat de València
Campus dels Tarongers
3er piso, edificio Departamental Oriental

1.- U.S.A.

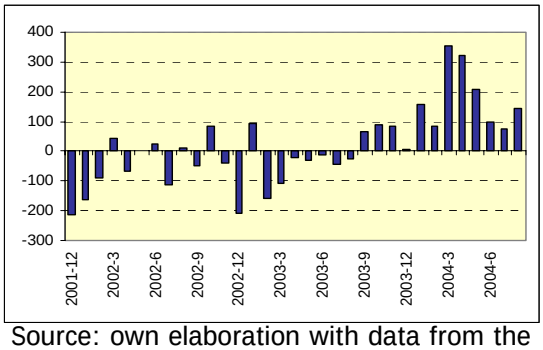
Labour market situation

Some overall figures allow the expression "jobless recovery" to be justified. This was widely used to refer to the period after the crisis in 2001[1]. Between February that same year (the month before the recession officially began) and August 2004, the US economy has destroyed one million jobs. Furthermore, after almost three years since the end of the recession, barely 600,000 net jobs have been created[2]. The situation is particularly devastating for in the manufacturing sector, which has totalled 2,600,000 jobs lost since the beginning of the recession.

This distressing panorama, in a period of extreme monetary relaxation and excessive fiscal expansion, does not come close to the promise made by the Council of Economic Advisers when the Bush administration launched the programme entitled "Jobs and Growth Plan", which augured the creation of 306,000 net jobs per month between halfway through 2003 and the end of 2004. Following many disappointments, this rate of growth was seemingly achieved from March to May this year, but since then it has dropped to around 100,000 per month (Figure 1), which are not enough to even absorb the increase in the labour force.

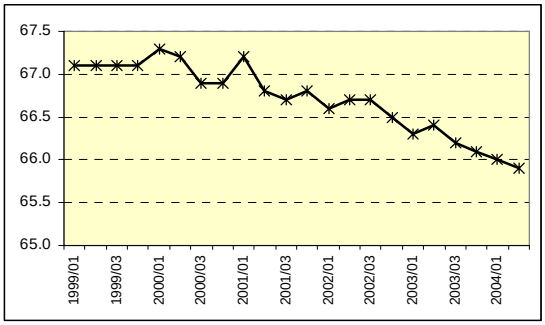
Parallel to this, the employment rate displays an uninterrupted downward trend (Figure 2) that is unheard of two and half years after the end of the recession. The combination of both factors (poor job creation and a dropping employment rate) leads to an enormous job deficit with respect to a normal labour market pattern. Recent research by such a reliable source as the Federal Reserve Bank of Boston[3] calculates it to be between 3.5 and 7 million jobs (5.2 in the most reasonable of cases).

Figure 1: Changes in non-farm payroll employment (1,000s of people; seasonally adjusted data series).



Source: own elaboration with data from the BLS.

Figure 2: Employment Rate (%; seasonally adjusted data series).



Source: own elaboration with data from BLS.

[1] In reality, the most suitable term used in our economic environment reports would still be "job-loss recovery".

[2] See the next section of this report for the comparison with preceding recoveries.

[3], "Understanding the "Job-Loss recovery", *Public Policy Brief*, nº 04-1, Federal Reserve Bank of Boston (http://www.bos.frb.org/economic/ppb/2004/ppb0401.htm)

Una curiosidad final en la descripción de este extraño comportamiento del mercado laboral: en el último año, fase en la que, con todas las limitaciones referidas, se ha creado empleo neto, más de la mitad de todos esos puestos de trabajo han sido ocupados por trabajadores de 55 años o más[4]. No se trata de un patrón habitual para cualquier economía desarrollada.

Labour market: explaining the "jobless recovery"

There have been numerous hypotheses in recent months to try and explain the "disappearance" of those million jobs. Several have been outlined in previous economic environment reports. Nevertheless, in this more in-depth look at the labour market, the best part of the theories that have been formulated are compiled and analysed as far as possible and taking into account the limited space in this report in the following section.

a.- Structural Change

The first two ideas justify the pattern of the labour market using the effects of the structural transformations in recent times in the United States as a basis.

E. Groshen and S. Potter[5] reported that the last recession was more due to structural changes – they attribute 80% of net jobs lost to this cause – than to cyclical changes, as opposed to previous recessions when job losses were more or less equally distributed between the two. If this is true, the necessary adjustments both in labour supply and also demand to face such structural changes are relatively slow and the employment recovery would be significant but delayed.

It is complicated to assess the truth of this hypothesis[6], especially because when this delayed recovery would take place is not specified. However, the extremely high number of jobs taken by the oldest age group in the labour force is not likely to be eating up employment, in particular in vanguard activities. On the other hand, when the best performing industries in 2003 are analysed (Table 1), when the economy had been on the mend for over a year, less satisfactory results are observed in those activities that are obviously cyclical (trade, construction and financial services associated to the real estate boom) or linked to the public sector in one way or another, whose performance has little to do with a structural change (work in the public sector itself, health or education). Although a more rigorous assessment would require more time, the idea of a particularly marked structural change since 2000 does not appear to be behind the "jobless recovery".

[4] The fear of health and retirement benefits being insufficient appears to be behind the effort of people in this age group to go back to work. The striking thing is how capable they are of doing so in comparison to any other age group.

[5] "Has structural change contributed to a jobless recovery?" in *Current Issues in Economics and Finance*, Federal Reserve Bank of New York.

[6] The authors themselves are explicit in pointing out some of its limitations.

b.- Offshoring

The following idea is much better known (and more widespread in other countries) than the previous theory. Moving production industries to emerging nations (particularly China and India) justifies the poor performance of employment in recent years. This is considered particularly serious as some of the jobs created abroad by US companies are not in the manufacturing sector with low qualifications, but rather in advanced services (software and communications).

Table 1: Cross-industry change in employment equivalent to full-time jobs between 2002 and 2003 (%)

All occupations	**-0.41**
Farming, fisheries and forestry occupations	-5.66
Mining	-1.79
Construction	-0.29
Manufacturing	-4.92
Computer and electronic products	-9.66
Wholesale trade	0.09
Retail trade	-0.82
Transportation and warehousing	-1.28
Information	-5.88
Finance and insurance	2.26
Real Estate and rental leasing	0.68
Professional, scientific and technical services	-0.67
Management of companies and enterprises	0.3
Administrative Services	-0.66
Educational services	2.02
Health care and social assistance	2.39
Entertainment and recreation	-1.31
Accommodation and food services	1.34
Other services (except Public Administration)	0.36
Public Administration	0.8

Source: own elaboration with data from the US Bureau of Economic Analysis (BEA).

In Table 1 we can certainly appreciate the particularly negative performance of employment in 2003 in both the industry of computer and electronic product manufacturing and also in that of information (which includes activities such as software, data processing and telecommunications, among others). However, the data has no sympathy for the previously mentioned hypothesis. The above mentioned report by the Federal Reserve Bank of Boston estimated that a loss of 1.3 million jobs between 2001 and 2003, including both those related to lower output due to the increase in imports as well as those linked to offshoring. One third of this figure corresponds to service-related activities. A study by Forrester Research calculates the total number of jobs that will be lost in service-related activities in the next decade at 3.3 million (500,000 in software).

If such data is compared to the almost one million jobs that people leave every web in the USA (normally for a better occupation) we can establish the relative (highly reduced) importance of the offshoring phenomenon. Moreover, this hypothesis ignores crucial positive aspects in this process: the advantages of cost cutting (prices) has for US businesses (consumers); the increase in demand on behalf of those countries benefitting from offshoring; and the progressive natural process of growing productivity, wages and, therefore, a decrease in the cost advantage of these economies[7].

[7] This could also be happening, for example, in IT and communication sectors in India; see Scheiber, N.: "As a center for outsourcing, India could be losing its edge", *New York Times*, May 9 2004.

c.- A question of statistics

Various alternative hypotheses to those already mentioned focus their attention on specific cyclical factors that are applicable to the current phase but not, at least initially, to the future.

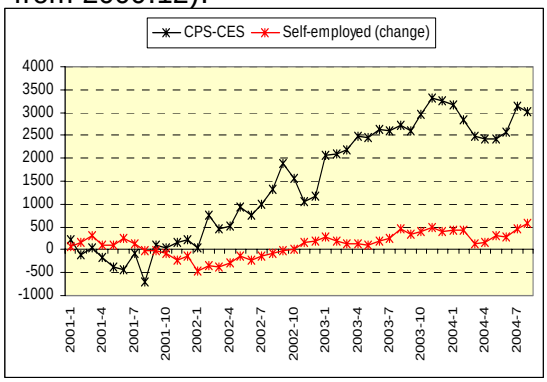
The first and least admissible of all seeks to cover up insufficient job creation by rambling on about statistical sources. Although we paid some attention to this topic in our January report, let's briefly recall that Current Employment Statistics (CES) are based on a survey on hiring carried out on 400,000 businesses and has been unanimously and historically considered the most reliable (an opinion officially shared by the US Bureau of Labour Statistics itself). The job creation data normally used is extracted from this survey. The second source is the *Current Population Survey* (CPS), a telephone questionnaire carried out on 60,000 households on their work situation. This is generally used to calculate the unemployment rate because it captures self-employed workers.

While it is true that the CES ignores these workers, it is also true that on calculating jobs, it counts those people with more than one job as various employees.

Several elements support the estimations of the CES with respect to the CPS that has been much more favourable since the beginning of the last recession (3.117 million more net jobs created!) and has been opportunely "called back to duty" by sources close to the public administration. Firstly, the BLS deems the index to be very reliable, as mentioned above. Secondly, the exaggerated fluctuations in the CPS[8]. Thirdly, the fact that its main "advantage", taking the self-employed into account", does not justify more than a marginal part of the difference with respect to the CES (Figure 3). Fourthly, and significantly, those to proclaim this explanation stopped doing so when the CPS recorded 733,000 net jobs created less than the CES for the first half of 2004.

In short, it is not particularly professional to look for a mere statistical explanation to a "jobless recovery".

Figure 3: Payroll employment: CES-CPS difference; change in self-employed workers (1,000s; data accumulated from 2000:12).



Source: own elaboration with data from the BLS.

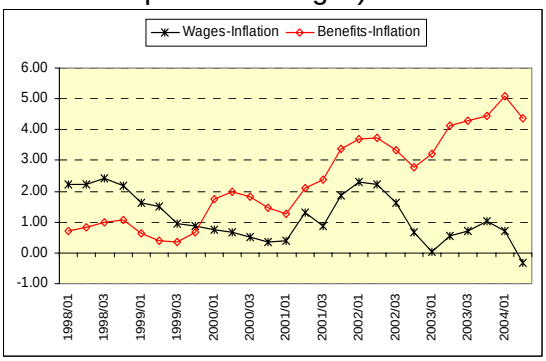
d.- Labour costs

Some (few) authors have looked towards total labour costs to explain the poor net job creation under study, although certainly not on the basis of wage growth, which in real terms has

[8] The variance of job creation data since the beginning of the recession (March 2001) to August 2004 is five times that of the CES.

been quite moderate since the end of the recession, particularly with the upturn in inflation in recent months (Figure 4). However, other payments of the labour factor (particularly those related to corporate pensions and health care) have climbed to significant levels and in recent quarters have outpaced inflation by more than four points.

Figure 4: Wages, other labour factor payments; inflation (civilian workers; 12-month percent changes)



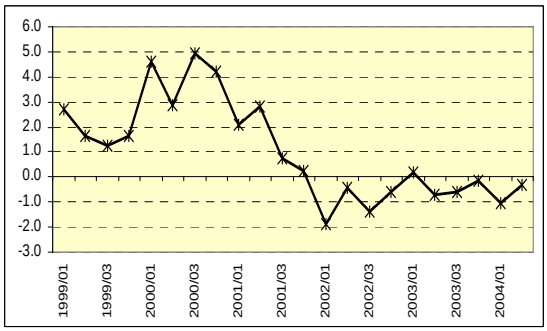
Source: own elaboration with data from the BLS

Notwithstanding, the overall weight of this component is marginal in the total cost of labour. Parallel to this, the substantial progress made in terms of productivity in recent years has resulted in an exceptionally favourable pattern in unit labour costs – two and a half years of negative growth (Figure 5). The spectacular increase in corporate profits (Figure 6) is a direct result of that progress in costs and dismantles this hypothesis as a source of the "jobless recovery".

e.- Excessive investment/early hiring

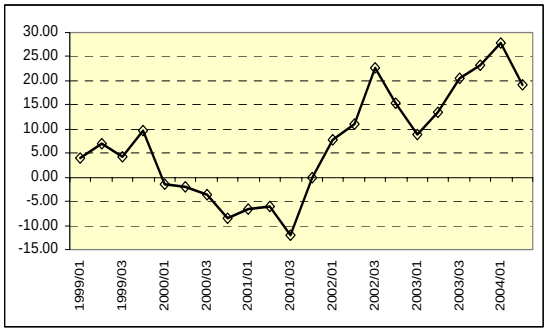
Some analysts have based their explanation for the lack of job creation on the idea that the US labour market is simply paying off the excessive investment and employment of labour on behalf of businesses in the second half of the 90s (in response to an apparently never ending expansion[9]).

Figure 5: Unit labour cost (non-farm occupations; 12-month percent changes; seasonally adjusted series)



Source: own elaboration with data from FRED II.

Figure 6: Corporate profits (12-month percent changes)



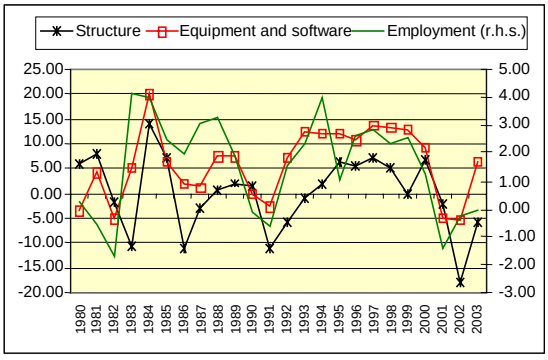
Source: own elaboration with data from FRED II.

Figure 7 shows the pattern of employment and physical investment (broken down into its main categories) from 1980 to 2003. The fact that job creation during the last expansive phase was no different to that recorded in the 80s can be observed. On the other hand, despite investment rates for equipment and software being

[9] Let's go back to the 90s when some very daring texts concerning the end of economic cycles were all the rage.

particularly dynamic, the same cannot be said for investing in increasing installed capacity (structures). In this case, the progress recorded halfway through the 80s is repeated, even though its trend is slightly downward. This could even seem a modest advance given the need to offset the marked investment decreases at the beginning of the 90s (as is logical at that time of the cycle) and the very low rates, for a growing economy, in the second half of the 80s.

Figure 7: Investment and employment pattern (12-month percent changes)



Source: own elaboration with data from the BEA.

Therefore, the over euphoric performance of businesses in the second half of the 90s does not appear to be behind the "jobless recovery" either.

e.- Excessive productivity or growth defect?

After assessing all the above hypotheses to be not particularly convincing (or at least insufficient), we arrive at the centre of the best part of analysis of the "disappearance" of the five million jobs. Many analysts have attributed what Paul Krugman defined as "lump of labor fallacy", to exceptionally good productivity and deficient job creation. This idea is, in other words, that the amount of work available is limited, and if somebody is more efficient in carrying out their work, others will stop working.

In the simplest of terms:

Increase in GDP = increase in employment + increase in productivity

Of course, if the progress made by GDP is taken for granted and productivity grows a lot, employment well end up stagnating. But two questions arise: has productivity grown that much?; has it been characteristic of a period of recovery in effective GDP growth?

Historical evidence and economic analysis certainly demonstrate that parallel rises in productivity and employment are not only possible but happen regularly (which increases product to a greater extent) and that only production improvements sustain growth in the long term.

More in the short term, however, can we blame productivity for the pattern of the labour market during the current recovery/expansion?

When we analysed this question over a year ago (to compare, see our November 2003 economic environment report), we systematically responded no to all the above questions. The problem did not lie in a particularly noticeable rise in productivity, but rather in the mediocre pattern of GDP.

Four quarters later, reading the data provides a different answer...apparently. In effect, in Table 2 the pattern of these three interesting

variables 10 quarters after the last five recessions are displayed[10].

Table 2: Change in output (accumulated quarterly data), employment (accumulated) and productivity (accumulated) 10 quarters after the end of the recession (%)

End of the recession	GDP	Non-farm employment	Productivity per hour (private non-farm sector)
November 1970	1.145	8.61	10.83
March 1975	1.128	9.59	6.18
November 1982	1.148	9.78	6.50
March 1991	1.065	3.06	5.50
November 2001	1.087	0.46	11.05

Source: own elaboration with data from FRED II

In effect, the increase in productivity per hour in the current expansive period is seen to exceed that of any of the previous periods. Meanwhile, although the increase in GDP is less than in preceding cases (except after the recession at the beginning of the 90s), the gap has been reduced.

However, observe the corollary of these reflections: just when employment (albeit minimally) had begun to grow, it coincides precisely with a greater rise in productivity and, of course, in GDP (last four quarters of the 10 under consideration).

[10] The recession that ended in July 1980 has been excluded due to the fact the effects of the recession that began immediately afterwards in July 1981 were already beginning to be felt, providing a case scenario that cannot be compared to the rest.

It is, therefore, the sustained and buoyant growth in activity that leads to job creation, in accordance with the expansion. Greater productivity will not detract from employment in the short term, but will rather contribute to increases in the medium term on generating more economic growth.

f.- Uncertainty

Regardless of the conclusion that we have just drawn, it would not be appropriate to ignore a factor that analysts generally coincide on: the peculiarly negative environment of uncertainty that has resulted in businesses being more conservative when it comes to new projects and hiring new staff, despite the magnificent results in terms of profits and their healthy overall financial standing.

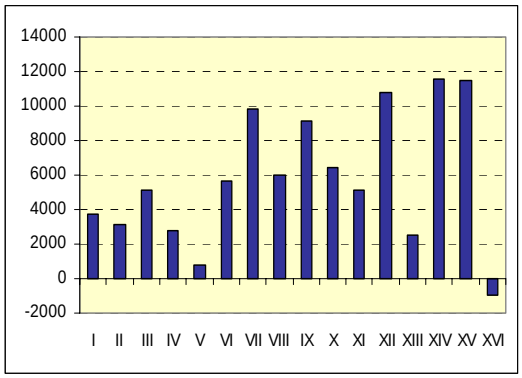
Moreover, a great deal of businesses have demonstrated a great tendency to satisfy shareholders, who are not at all satisfied with the progress of their shares over the last four-year period as a whole and do not have much faith in light of successive scandals in important. In this line, US businesses have just established an all-time record in terms of their own equity channelled to the repurchasing of their own shares.

Is it still the economy, stupid?

The truth is, beyond which of the theories analysed is the answer to the jobless recovery, that the end of this period of Republican Administration will be remembered as the first legislature to register a net loss of jobs in the history (three quarters of a century) of

the Current Employment Statistics (see Figure 8; Table 3). Is it possible that George W. Bush will be re-elected with such a shocking labour market record, despite his ferocious efforts towards macroeconomic expansion? Is this still the key electoral issue, remembering the famous phrase from Bill Clinton's first campaign, "the economy, stupid"?

Figure 8: Change in payroll employment by legislature (1,000s of employees)



Source: own elaboration with data from the BLS

Table 3: Legislatures under consideration

	TERM	ADMINISTRATION
I	1941-44	F. D. Roosevelt
II	1945-48	H. Truman
III	1949-52	H. Truman
IV	1953-56	D. Eisenhower
V	1957-60	D. Eisenhower
VI	1961-64	J. F. Kennedy / L. Johnson
VI	1965-68	L. Johnson
VII	1969-72	R. Nixon
IX	1973-76	R. Nixon / G. Ford
X	1977-80	J. Carter
XI	1981-84	R. Reagan
XII	1985-88	R. Reagan
XIII	1989-92	G. Bush
XIV	1993-96	W. J. Clinton
XV	1997-2000	W. J. Clinton
XVI	2001-03 *	G. W. Bush

* Job creation data runs up to August 2004

Source: own elaboration with data from the BLS

Vicente J. Pallardó
Valencia, September 30, 2004

2.- Euro-zone

1) The economy is becoming more and more tertiary-sector oriented, but with great differences across countries

Over the past nine years, employment in the services sector has increased its weighting in the Euro-area by nearly four points to the detriment of the remaining sectors of the economy. This sector accounted for 69.2% of total employment in 2003.

This does not mean that other sectors have registered net losses of employment in favour of the services sector, but that the latter has simply been more buoyant. All sectors, except for agriculture, generated net employment between 1997 and 2002. The industries with the greatest capacity for employment growth included real estate and business activity and high-technology services, both with growth rates above 30% for the period of reference.

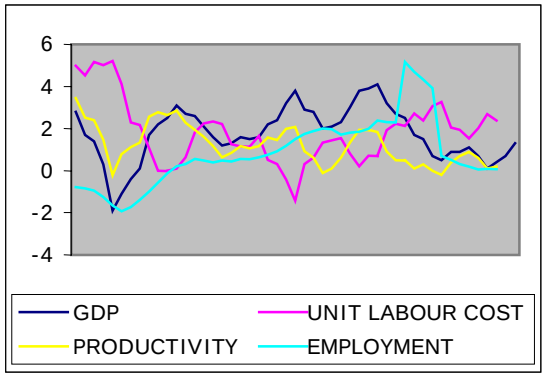
The Euro-zone labour market itself, however, is very heterogeneic. Unemployment rates range from 2.6% to 11.1%, activity rates from 61% to 78% or part-time work rates from above 40% to below 8%.

2) Favourable performance of employment in recent years, particularly in the case of women

Over the period from 1998 to 2003, net growth in employment totalled 11.5 million, which represents a 9.44% increase 60% of which is due to women entering the labour market.

As opposed to the US labour market, the years of weak economic growth in the Euro-area have meant a net loss in employment. Employment has increased significantly in the Euro-zone since 1998, but in jobs with a low level of specialization and in traditional sectors, according to Patrick Artus in his article "The Euro Zone's long-term growth strategy?"[1]. This explains the low level of growth in productivity over these years, particularly in 2001 and 2002 where growth was practically non-existent. Obviously, the low level of growth in productivity resulted in unit labour costs rising more sharply in these two years. Despite this situation favouring employment in the short term, there is no doubt that it does not lead to medium and long-term sustainability.

Figure 1: Growth rates of GDP, employment, productivity and unit labour costs in the Euro-zone



Source: own elaboration with data from the ECB

Moreover, the working age employment rate in the Euro-zone stands at 64.7% (2002), considerably less than in the USA (73%) and Japan (69%). In order to achieve the target rate of 70% in 2010 (Lisbon Agenda 2000)

[1] Flash-Research Nº 2002-126.

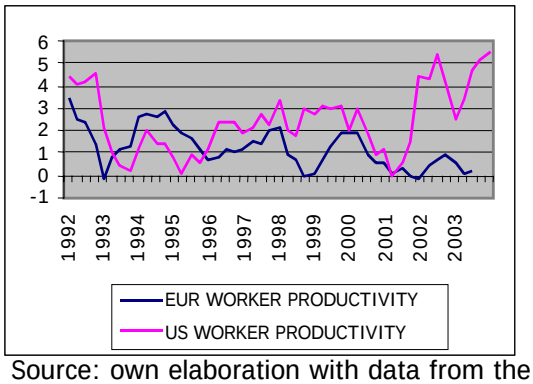
employment would have to grow on average by an annual 1.6% in the period from 2004 to 2010. Furthermore, maintaining satisfactory employment rates over time runs against the problem of an ageing population, which affects the economy's growth potential and the sustainability of pensions and other social benefits. In only 10 years' time, the population over the age of 55 will account for 64% of the population (currently 54%) in relation to the population between the ages of 20 and 55; in 2030, it will reach 104%. It is therefore necessary to review retirement systems to give an incentive to the older people with higher qualifications to remain in the labour market. Italy, for example, has carried out a reform of its pension system, which will come into force in 2008, whereby the retirement age will be progressively raised and another pension will be established to complement that offered by the public sector. In addition to this, an economic incentive (up to 50%) has been established for those people who, on reaching the age of retirement, decide to continue working until 2008.

3) Productivity growth in the Euro-zone outpaced by that of the United States since 1995

Productivity in the United States was higher than in the Euro-zone from halfway through the 19th century to 1950, which apart from the differences in economic structure and the integration advantage as a country, was due to the US taking making the most of the innovations at the beginning of the 20th century such as electricity, telephone, car, plane etc...

This delay was drastically reduced in favour of the Euro-zone from 1950 to 1995, when, on average, productivity in the Euroland outpaced that of the US.

Figure 2: Productivity growth rates per worker in the Euro-zone and the USA.



Source: own elaboration with data from the Bureau of Labor Statistics (BLS) and the ECB

However, from 1995 to 2000, productivity growth in the United States once again hit the front with a 2.5% annual growth rate in comparison to the 1.2% rate recorded in the Euro-zone. Notwithstanding, despite the differences, it is worth taking the following details into account. Firstly, the distortion caused by the growth and the high level of part-time work in the Euro-zone (16.9%) has reduced growth in productivity per worker, making productivity per hour worked a better measurement. In this case, the difference between the two growth rates is reduced to 0.5%. Secondly, expenditure on software is included in US national accounts as investment and not intermediate consumption. If this bias is corrected by using net domestic product instead of gross domestic product, the gap is even narrower. Julian Callow of CSFB estimates that the real difference between the USA and the Euro-zone over this period

would be reduced to only three decimal points.[2]

Table 1: Growth pattern of productivity in the Euro-area

	By person	By hour
1980-1989	1.7	2.3
1990-1999	1.1	1.4
1996-2003	0.8	1.2

Source: Citigroup

The gap in productivity growth widened between 2000 and 2003, with the US improving progressively to 5.6%, while the Euro-area was clearly stagnant. Maintaining such low growth rates in productivity together with the progressive ageing of the population mentioned previously makes upholding the current pension system even more serious.

4) Inherent causes of low productivity growth in the Euro-area

In light of the fact that an economy has different sectors with different levels of productivity, an overall analysis of productivity in an economy could lead us to draw inaccurate conclusions if we do not take into account the possible inter-sector effects.

For this reason, overall growth in productivity in an economy can be broken down into three factors: the effect of a structural change, the effect of growth in productivity and the effect of inter-relation.

The effect of a structural change captures the impact on productivity caused by workers moving from less productive sectors to the most productive sectors. The effect of growth in productivity represents growth without a structural change and finally, inter-relation is the effect that results from the above two factors.

Table 2: structure and pattern of labour productivity in the Euro-zone and the USA

Euro-zone	1991-95	1995-99
Effect of productivity growth	1.94	0.64
Effect of structural change	0.31	0.41
Effect of Inter-action	-0.1	-0.09
Total	2.1	1

USA	1991-95	1995-99
Effect of productivity growth	1.25	2.4
Effect of structural change	0.04	0.22
Effect of Inter-relation	-0.08	-0.06
Total	1.2	2.5

Source: OECD

If we compare the periods 1991-95 and 1995-99, a marked drop in productivity in the Euro-zone from 2.1% to 1% can be clearly observed, while in the USA, as mentioned earlier, productivity accelerated from 1.2% to 2.5%. In the European Union, the effect of structural change, that is to say, an increase in productivity due to workers moving from not very productive sectors to very productive sectors, accounted for 42.8% of total overall growth. Had it not been for this circumstance and only the increase in productivity had been taken into account, the productivity gap would have been much larger.

Moreover, the superiority in terms of productivity of the US economy cannot even be attributed to the existence of

[2] The Economist. November 10th 2001.

different structures by economic sector. If a simulation were carried out whereby both economies have the same sector structure, European productivity growth would be less.[3]

As a result, the causes of the productivity gap between the Euro-zone and the United States are the following:

a) Greater use of the labour factor in relation to capital:

The International Monetary Fund deems this to be the main cause for the Euro-zone's weak productivity, on making a greater use of the labour factor due to it being cheaper and this explains the contrasting symptoms of growth in productivity and employment. Furthermore, various governments of Euro-zone member states have implemented subsidy measures in recent years with the aim of favouring employment, that have not been used in the United States and that, in the case of France and the Netherlands have meant 1.13% and 1.31% of GDP respectively. "Relatively low increases in real labour costs in the late 1990s compared to the 1980s certainly contributed to the good employment performance recorded in recent years."[4]

b) The decrease in hours worked:

Between 1990 and 2003 the average annual decrease in total hours worked in the Euro-zone was between 0.3% and 0.4%. This reduction together with a 1.2% increase in productivity per hour has led to the meagre average growth rate in productivity per worker between 1996 and 2003 of 0.8%. In the United States, on the other hand, the number of hours worked per person has gradually increased from 1990 to 2003.

The growing difference between hours worked in Europe and in the US, which is currently 15%, could be due to a preference for recreation or the existence of restrictions or taxes that can penalise work. Blanchard explains that the best part of the difference is due to a preference for recreation and only a third due to taxes. R.J. Gordon concludes that the lack of job opportunities is the main cause.[5]

Weekly hour reduction policies implemented by some countries (France and the 35-hour working week) and the expansion of part-time work has influenced the overall number of hours worked per person. With regard to part-time work, differences across countries are very significant. In the Netherlands, for example, 40% of contracts are part-time, while in Spain the figure does not reach 8%.

c) New technologies still have not spread to the entirety of production industries:

Bart van Ark (2003) demonstrated that productivity in industries of new technologies (Information and Communication Technologies or ICT) had significantly picked up speed in Europe as well as in the United States

[3] Employment in Europe 2003. European Commission.

[4] Did the pattern of aggregate employment growth change in the euro area in the late 1990s? By Gilles Mourre. WP 358/may2004 ECB.

[5] "El Observador Económico Financiero. Nº 460" july 2004.Caja Madrid.

in the period dating from 1995 to 2000. In Europe, businesses that provided services in new technologies led the way. However, while productivity growth in industrial sectors that use new technologies remained more or less stable in Europe, in the United States it trebled.

This means that even though Europe provides better services in telecommunications and computers than the United States, Europe has not been able to obtain the advantages derived from the diffusion of new technologies throughout all the sectors of the economy.

For these reasons, higher-level and ongoing training of workers and greater mobility on behalf of the most highly qualified workers would help new technologies to spread to the economy in its entirety, thereby raising productivity. Nevertheless, many things would have to change to improve productivity. The low level of ongoing training that workers in the Euro-zone receive is disheartening. Only 6.8% of workers receive this.

d) Cyclical slowdown in the economy:

When going through a period of zero or low growth and in a market where employment is highly protected, productivity growth diminishes simply due to the impossibility or the cost of adjusting staff to either maintain or increase numbers. This is the case of the Euro-zone.

5) High discrimination of women in the labour market

There are three variables that lead us to believe that the strong discrimination of women in the labour market is a reality. They are the following: wages, women's share of part-time work and the unemployment rate.

If we take wages, according to Eurostat, the salary received by a woman for the same type of job is on average 16% lower than a man's. This difference has remained practically unchanged since 1992.
As far as part-time work is concerned, marked differences between men and women are also observed. Part-time work accounts for 31.6% of total female employment, while the figure is only 5.9% in the case of men. Such an unequal situation is due, in my opinion to the secondary role played by women with children who enter the labour market with the intention of combining work with their family life.
In the same vein, the female unemployment rate (10.1% in 2003) in the Euro-zone is noticeably higher than that of men (7.8% in 2003). The same two rates in the United States, on the other hand, are practically identical.

6) The labour market is very flexible, although flexible does not necessarily imply a lack of protection or a loss of social well-being

Flexibility, according to the Philips Curve, occurs when nominal wage growth moves in line with the increase in productivity gains and when growth in nominal wages and the unemployment rate go in opposite

directions, leading to a return to full employment.[6]

As a result, the higher the rate of structural unemployment, the more rigid the labour market is.

For this reason, the greater labour rigidness in Europe has resulted in higher unemployment rates over the past 10 years than in the United States. The difference in 2003 was almost three points. 80% of unemployment in the Euro-zone is estimated to be more or less structural.[7]

The elements that can make the Euro-zone labour market more rigid are the following:

a) A lack of mobility among Euro-zone countries due to language, socio-cultural and administrative barriers with very diverse results in labour market by region.
b) The impossibility or high cost of dismissal as is the case in the Euro-zone
c) The existence of a minimum wage in the majority of countries
d) The lack of timetable flexibility. In those Euro-zone member states where timetable flexibility has been fostered to permit and promote part-time work and a variety of contracts, the unemployment rate has dropped considerably. This is the case of the Netherlands.
e) Generous unemployment benefits in terms of duration and quantity, awarded without rigor and not oriented towards jobseeking.
f) The importance of trade unions.

Now that the factors that can lead to rigidness in the labour market have been shown, we will analyse whether or not any of them significantly affect structural unemployment.

For example, trade union density and in some specifications unemployment benefits favour structural unemployment. However, whether or not there is a minimum wage (as IS the case in the majority of European countries) and job security are not linked to structural unemployment.[8] Moreover, the higher the level of unemployment, the lower wages are.

As far as the amount of job protection is concerned, calculated by the OECD,[9] the Euro-zone has an average of 2.59 in comparison to a 0.2 in the United States. In those countries where protection is greatest within the Euro-zone, temporary work is more significant, as is the case in Spain with a 31% share of total employment.

The high proportion of workers with temporary contracts in these countries could easily lead to a clear slump in overall productivity and, therefore, in the growth potential of these economies due to the lack of training that this type of worker receives.

[6] Flash-Research N 2002-46. CDC-IXIS. "Performance in terms of job creation". Patrick Artus.
[7] OECD
[8] WP81 ECB October 2001. What can changes in structural factors tell us about unemployment in Europe?. Julian Morgan and Annabelle Mourougane
[9] "0 is no protection and 5 is maximum protection"

Furthermore, the educational level or experience acquired also affects the unemployment rate. It can be empirically demonstrated that, generally speaking, the higher the level of education and/or the higher the age and therefore experience, the lower the unemployment rate.

As far as ongoing unemployment is concerned, between 1990 and 2003 this percentage has witnessed a noticeable decrease in the number of people unemployed for more than a year. In the Euro-zone the average has fallen from 47% to 39%, although this is still far from the level registered in the USA of only 11%.

Finally, let's talk about the successful Dutch model. The Netherlands, with one of the lowest unemployment rates in the Euro-zone, has been successful in finding a model that combines the flexibility of the British labour market with the protection of the German labour market. Flexibility has been obtained by means of expanding part-time work and temping agencies. Wage moderation has been achieved by the consensus between trade unions, employers and government at national level, with a very decentralised application that has allowed the country to reach unit labour costs that are lower than other European countries.[10] The Netherlands, with an unemployment rate below that of the USA and an employment rate slightly above, is the example that proves that it is not necessary to dismantle the welfare state to obtain favourable results in employment.

[10] El País. June 12 1997. "Aprender del modelo holandés." (learning from the Dutch model) Guillermo de la Dehesa.

7) The Lisbon Strategy 2000 and social policy in the European Union: difficult targets to reach

The reform carried out in the second half of the 1990s, paved the way for the Lisbon Strategy in 2000 and later, in Stockholm, a series of goals was established going towards the most competitive and dynamic knowledge-based economy, capable of sustainable economic growth with more and better jobs and greater social cohesion.

The following objectives were laid down:

- Raise the employment rate from 64% to 70%
- The female employment rate to 60%
- Employment rate of older people (55-64) of 50%
- Expenditure on R+D between 2 and 3%.

In order to achieve these goals, European governments implemented the European strategy in employment in 2003. The following goals were laid down:

- Active and preventive policies for the unemployed and the economically inactive
- Job creation promotion and enterprises
- Combat the black labour market
- Increase the number available jobs
- Promote labour adaptability and mobility
- Promote the extension of the working age
- Invest in human capital and ongoing training
- Gender equality

- Support the integration of the handicapped
- Help to correct regional imbalances
- Make work attractive and profitable

Very little progress has been made to date, and these reforms are fundamental for the European project.

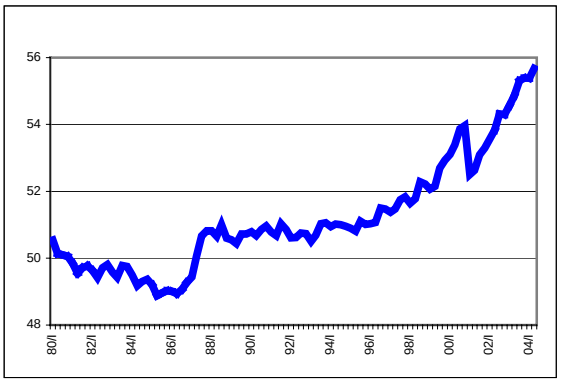
Nicolás Jannone
Valencia, September 29, 2004

3.- Spain

The basic features of the Spanish labour market that are worth highlighting are as follows:

1. **The uninterrupted growth in the employment rate**, having overcome the slump in the 70s, due to the incorporation en masse of women of all age groups into the labour market and the impact of immigration, basically made up of young people who can are capable of carrying out work.

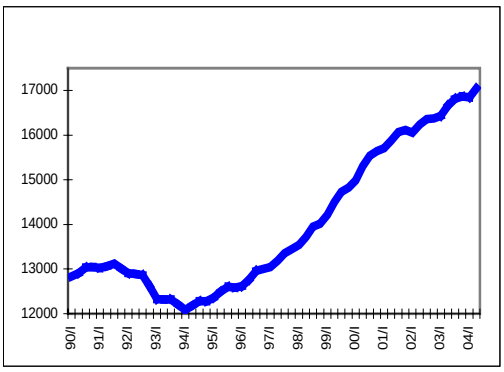
Figure 1: employment rate (%)



Source: INE

2. The second feature could be **the extraordinarily strong job creation** in recent years. Regardless of the doubts some people voice due to the methodological modifications introduced, it is very difficult to deny this success, whichever indicator we use (*Encuesta de Población Activa*[1], the social security or the national accounts).

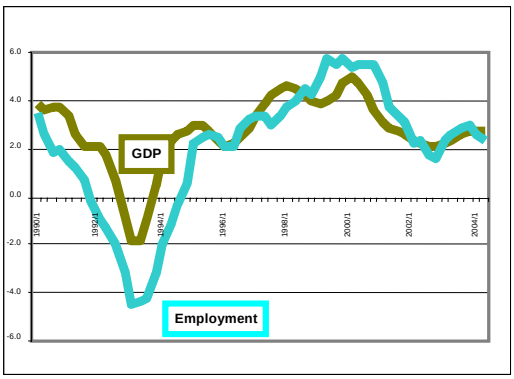
Figure 2: number of people employed (1,000s)



Source: INE

3. The third focuses on the **high job** creation **capacity per unit of output** displayed by the Spanish economy. The growth in the number of people in employment has bucked the Spanish economy's historical trend (the job creation threshold stood at 2%). Nowadays, the increase in the number of people employed outpaces GDP growth itself and over long periods of time.

Figure 3: GDP and employment growth (%)



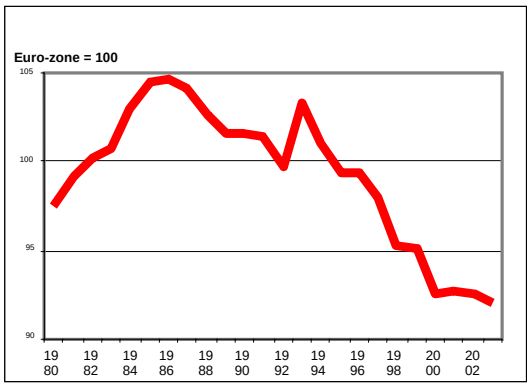
Source: INE

4. The direct compensation of the high job creation capacity per unit of output is none other than **a very low rate of apparent**

[1] Labour force survey

labour productivity and its deterioration with respect to Spain's immediate competitors in the Euro-area.

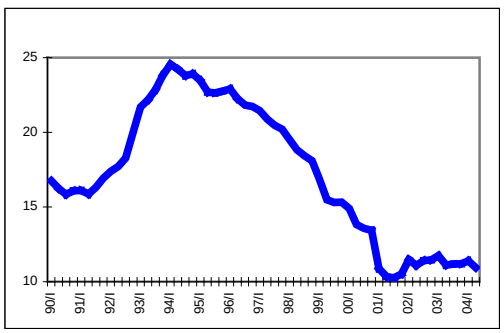
Figure 4: pattern of apparent labour productivity with respect to the average of the EU-12



Source: INE

5. The fifth feature is the almost uninterrupted **decrease in the unemployment rate** that began in 1994 and lasted until 2001. This has helped Spain's unemployment rate to converge somewhat with the average of the Euro-zone (9%), although Spain is still among the group of countries with the highest unemployment rates.

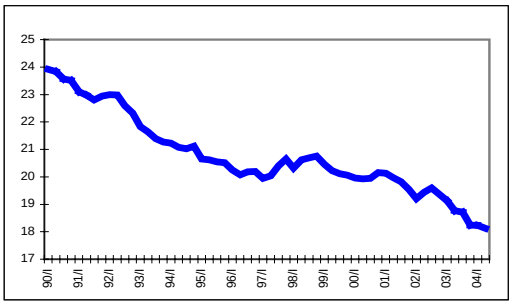
Figure 5: unemployment rate (%)



Source: INE

6. **Employment growth has not been homogeneous across sectors,** but has rather been concentrated in the construction and services sectors. Agriculture, on the other hand, continued its secular slide in terms of job and asset losses, while industry, more buoyant despite the crisis, has not maintained the same pace as other sectors and is seeing how its share of employment does not stop shrinking.

Figure 6: industry share of total employment (%)



Source: INE

Table 1: cross-sector percentage changes in employment

	June 1994	June 2004	total
Agriculture	1,156.5	908.9	-247.6
Industry	2,568.4	3,091.2	522.8
Construction	1,119.0	2,059.9	940.9
Services	7,342.2	10,990.0	3,658.8
Total	12,186.1	17,050.1	4,864.0

Source: INE

Over the past decade, the services sector has accounted for 75% of the almost 5 million jobs created, while 19% correspond to the construction sector 19%.

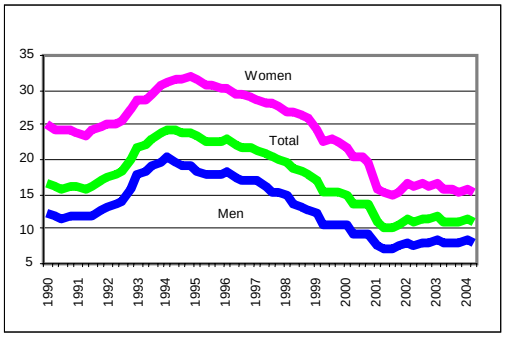
7. The **change undergone in employment structure by level of education** in recent years has been dramatic. The labour force today is made up of

two key groups: those with university qualifications (5.7 million) and those with secondary education and occupational training (9.6 million). The number of people who have only primary education (3.6 million) or are illiterate (0.07) has not stopped falling and now barely represents 19% of the labour force.

8. **Unemployment rates** also capture this change and are **higher for groups with lower qualifications**. While 25% of the population with no studies and 12.2% of the **population** with only primary education are unemployed, the rate for those with a university degree stands only slightly above 8%

9. Identical discrimination is observed in unemployment by gender, with the female rate being substantially higher, whatever level of education they have or whatever age group they belong to. So, for example, the unemployment rate for men with a university degree is 5.7%, while for women it climbs to 10.8%.

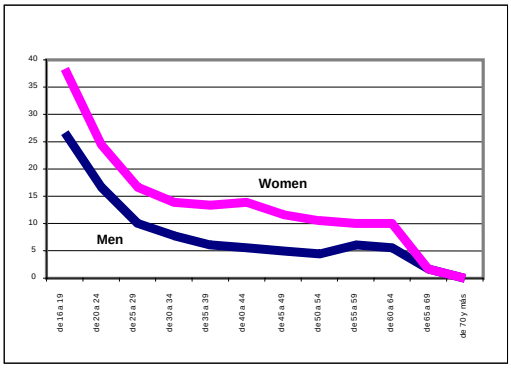
Figure 7: unemployment rates by gender (%)



Source: INE

10. **Unemployment rates are higher in younger age groups** and drop progressively as the age increases.

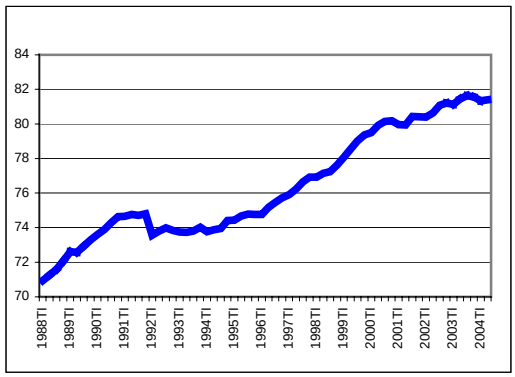
Figure 8: unemployment rates by age and gender (%)



Source: INE

11. Another feature that is converging, according to available information, with other economies is **the number of wage earners** that **has not stopped rising in recent years.**

Figure 9: wage-earner rate (%)

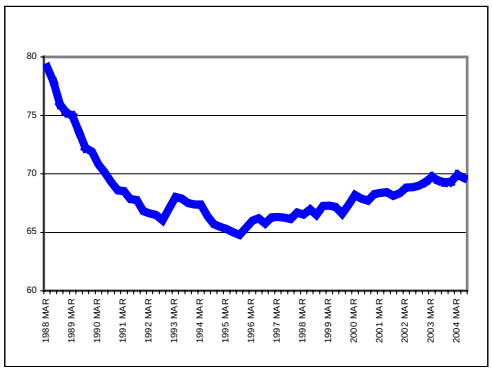


Source: INE

12. In the same line, if we look only at the proportion of temporary contracts, **a certain** improvement has been observed **in terms of job security**. In this sense, the number of wage earners with

permanent contracts has somewhat recovered in recent years.

Figure 10: Wage earners with a permanent contract (%)



Source: INE

13. One factor to also be taken into account is none other than the **tremendous growth in the foreign labour force.** In only five years the foreign labour force has increased from 1.5% to 5% of the total. To put it another way, of the five million jobs created over the past decade, 750,000 (15%) have been occupied by foreigners and the trend is becoming more and more pronounced.

14. Finally, it is worth mentioning that the drastic decrease in the birth rate, which has taken Spain to the last place in the world **ranking**, means that the labour market will not be able to guarantee the replacement of workers with Spanish nationals in the short term and foreign labour assets will be required for the market to remain calm.

In short, the labour market has experienced a fundamental upheaval, both in qualitative and quantative terms in recent years, even though many problems worthy of mention still persist. Such problems include: the still low percentage of women on the labour market (for every 100 jobs, 60 are for men and 40 for women) and the high unemployment rate for women and the younger age groups. The next few years will be crucial to identify the current trends and outline their future sustainability.

Dr. Aurelio Martínez
Valencia, September 28, 2004
Professor of Applied Economics
University of Valencia

This article is the author's personal opinion and not necessarily that of the Instituto de Crédito Oficial.

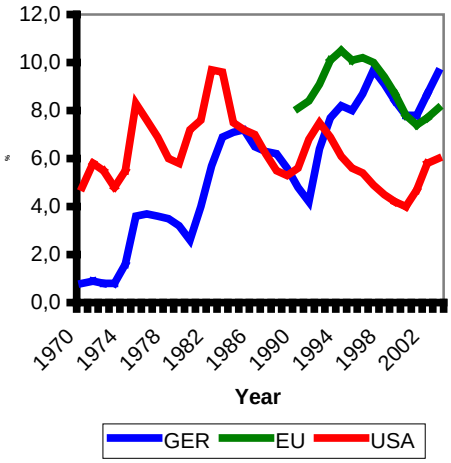
4.- Germany

1) Unemployment rate

The variable at the centre of any analysis of the labour market is the unemployment rate. In this area, the German economy is a good example of the Economic and Monetary Union, with a pattern that is opposite to that of the United States. It is a well known fact that Europe's unemployment rate (and Germany's) was lower than that of the US at the beginning of the 70s[1], but the situation was inverted halfway through the 80s and has remained unchanged since then. The European (and German) unemployment rate has shown a strong reluctance to decrease, as opposed to the flexibility displayed by the US labour market, to the extreme that economists have had to look for new models, such as hysterisis to be able to explain the phenomenon.

From this point onwards, it is worth mentioning that the labour market scenario in Germany seems to have worsened recently. The German unemployment rate, as can be appreciated in Figure 1, had always been below the European average. However, it stood above the average in 2000 and the gap has widened since then. German authorities are, therefore, right to be so worried about the pattern of their labour market.

Figure 1: Unemployment rate



One further figure reinforces the previous conclusions. If we compare the pattern of the Non-accelerating Inflation Rate of Unemployment (NAIRU) estimated by the Organisation for Economic Co-operation and Development (OECD), we can appreciate that over the two-year period from 1981 to 1983, Germany not only displayed a lower figure than France but also than the US. Well, Germany's NAIRU has almost doubled over the past 20 years, while the US NAIRU has decreased. It is also worth mentioning that despite the French NAIRU also increasing, its pattern is not as negative as Germany's (in fact it has dropped over the past 10 years).

Table 1: Estimated NAIRU

	GER	FRA	USA
1981-83	4.3	5.7	5.8
1991-93	6.6	10	5.3
2001	7.3	9.3	5.1
2002	7.2	9.2	5.1
2003	7.2	9.1	5.1
2004	7.2	9	5.1

Source: OECD Economic Outlook

[1] It is perhaps worth pointing out that, as recognised by Solow (2000), during those years US economists contemplated the European labour market with envy and studied European economic policy to analyse their application in the US.

Following this brief introduction, we will now attempt to analyse in some detail the reasons behind the different behaviour in the heart of the EMU.

2) Regional unemployment rates

The first element to be taken into account not only in the analysis of the labour market, but also in that of any aspect of Germany's economic performance, are the consequences that the reunification of East and West Germany in 1990 had. Table 2 clearly shows that the unemployment rate in East Germany more than doubled that of West Germany in 2002 (8.1% compared to 16.7%).

Table 2: Regional unemployment rates

Unemployment rate	9.4
Western regions	8.1
Baden-Würtemberg	5.5
Bayern	5.8
Bremen	12.3
Hamburg	8.9
Hessen	6.8
Niedersachsen	8.8
Nordrhein-Wetfalen	9.1
Rheinland-Pfalz	6.9
Saarland	8.7
Schleswig-Holstein	8.4
Eastern Regions	16.7
Berlin	16.9
Bradenburg	16.7
Mecklenburg-Vorpommern	17.3
Sacasen	16.4
Sacasen-Anhalt	18.5
Thüringen	14.6

In this sense, Franz and Steiner (1999) provide the following comparison of labour market indicators for the two Germanies:

Table 3: Indicators for East Germany / West Germany

	1991	1992	1994	1996	1998
W	46.7	60.7	70.5	73.6	73.9
(PY)/N	31.0	43.5	56.0	59.4	59.4
W/(PY)	150.6	139.4	126.0	124.0	124.1

These figures speak for themselves with respect to the explanation for the higher unemployment rate in the ex RDA (in 1998 labour productivity in the east was 60% of that of the West, and their wages were 74%). We can also see that in the early 1990s, indicators for the two Germanies converge, only to see this process interrupted from 1996 onwards. The fact that the figures converge at the same time the unemployment rate rises cannot be a coincidence, while the process is interrupted when the opposite occurs.

In any case, almost 15 years have passed since the reunification, which means that despite its importance, it alone cannot explain the current situation in the German labour market.

3) Activity rates

Another key variable in the analysis of the labour market is the activity rate. It is important in that the value of the labour force puts the unemployment rate figure into perspective. Data shows the well known fact that European activity rates (and also Germany's) are lower than in the US, which, together with their unemployment rate, speaks worlds of the buoyancy of the US labour market. One striking feature is that the gap between the activity rates in Europe (and also Germany) and the United States has been reduced over this period, mainly due to the difference in the number of women on the labour market being reduced.

Table 4: Activity rates by gender

	GER	EU	USA
		Total	
1983	67.5	65.2	75.2
1990	67.4	67.1	76.5
1999	71.2	69.0	77.2
2000	71.1	69.4	77.2
2001	71.5	69.4	76.8
2002	71.5	69.8	76.4
2003	71.3	70.3	75.8
		Men	
1990	79.0	79.6	85.6
1999	79.2	78.5	84.0
2000	78.9	78.6	83.9
2001	79.0	78.4	83.4
2002	78.7	78.5	83.0
2003	78.0	79.2	82.2
		Women	
1990	55.5	54.5	67.8
1999	63.0	59.5	70.7
2000	63.3	60.1	70.7
2001	63.8	60.3	71.4
2002	64.2	61.0	70.1
2003	64.5	61.3	69.7

Source: OECD, Employment Outlook

4) Employment rates

The analysis of employment rates allows us to clearly discern where the problem in the German labour market lies. This is, of course, where the superiority of the US labour market is observed, however it is measured. Nevertheless, data also clearly shows that Europe has come closer to the United States in this ambit over the period and also, however, that Germany has performed considerably worse in all areas. While the EU closes the gap with the US by 2.2 points, Germany has seen their differential rise by 0.6 points (as an excuse, one could say that Europe's starting figure was lower). A similar but more pronounced pattern can be observed in the male employment rate and the only area where Germany performs better than Europe is in the reduction of difference in female employment with respect to the United States.

Table 5: Employment rates by gender

	GER	EU	USA
		Total	
1983	62.2	59.2	68.0
1990	64.1	61.4	72.2
1999	65.2	62.6	73.9
2000	65.6	63.6	74.1
2001	65.8	64.3	73.1
2002	65.3	64.4	71.9
2003	64.6	64.8	71.2
		Men	
1990	75.7	74.2	80.7
1999	72.8	72.1	80.5
2000	72.9	73.0	80.6
2001	72.8	73.4	79.4
2002	71.7	73.0	78.0
2003	70.4	73.5	76.9
		Women	
1990	52.2	48.6	64.0
1999	57.4	53.0	67.6
2000	58.1	54.2	67.8
2001	58.7	55.1	67.1
2002	58.8	55.7	66.1
2003	58.7	56.1	65.7

Source: OECD, Employment Outlook

5) Unemployment rates by occupation and age

While the overall unemployment rate among workers between the ages of 15 and 54 reflects the overall upward trend over the period, most of which occurred in the 1990s, the unemployment rate among workers between 55 and 64 years of age, which displayed the same clearly upward pattern over the 90s, was seen to drop from 2000 onwards. We can also appreciate, moreover, the comparatively healthy situation of the German economy in terms of unemployment in 1990, apart from precisely that age group, and the serious deterioration that has occurred over the past 15 years.

Table 6: Unemployment rates by age

	GER	EU	USA
	15 to 24 years old		
1990	4.5	16.2	11.2
2000	8.4	15.6	9.3
2001	8.3	14.0	10.6
2002	9.8	14.7	12.0
2003	10.6	14.7	12.4
	25 to 54 years old		
1990	4.6	6.8	4.6
2000	7.0	7.3	3.1
2001	7.3	6.5	3.8
2002	8.1	6.9	4.8
2003	9.1	7.0	5.0
	55 to 64 years old		
1990	7.7	5.7	3.3
2000	12.3	7.5	2.5
2001	11.7	6.4	3.0
2002	10.8	6.2	3.9
2003	9.7	5.7	4.1

Source: OECD, Employment Outlook

Table 7: Activity rates by age

	GER	EU	USA
	15 to 24 years old		
1990	59.1	53.8	67.3
2000	51.5	48.4	65.8
2001	51.3	47.7	64.5
2002	49.7	47.4	63.3
2003	47.4	50.0	61.6
	25 to 54 years old		
1990	77.1	78.8	83.5
2000	85.3	82.4	84.0
2001	85.5	82.4	83.7
2002	85.8	82.9	83.3
2003	86.0	82.6	83.0
	55 to 64 years old		
1990	39.8	40.9	55.9
2000	42.9	41.4	59.2
2001	42.9	42.0	60.4
2002	43.3	43.3	61.9
2003	43.1	44.9	62.4

Source: OECD, Employment Outlook

As far as the activity rate is concerned, its age group structure shows a more favourable pattern. The activity rate in the lowest age group has dropped, as it has in Europe and the United States, albeit more pronounced in the case of Germany. This phenomenon is known to result from a delay in young people joining the labour market, which has occurred to a lesser extent in the United States. With regard to the other two age groups, the pattern has been quite the opposite. Their activity rates have increased, registering figures close to those of the US, and even bettering them over the last few years in the case of the middle age group[2].

6) Impact of ongoing unemployment

Ongoing unemployment is one of the best indicators of how rigid a labour market is and the fact that it is more important in Europe is one of the most significant differences with respect to the US labour market. As far as this detail is concerned, it is enough to say that 50% of the unemployed in Germany have been in this situation form at least 12 months, in comparison to less than 12% in the case of the United States. Moreover, note that while the ongoing unemployment rate has fallen in Europe in the period under study, it has risen in Germany by almost 10 points. These figures indirectly indicate that German unemployment is suffering a serious problem of hysterisis, whose difficulties and complexity are so well known in Spain.

[2] The recent behaviour of the activity rate for the oldest age group in the United States is quite striking. Does the recent privatisation process in health and social security maybe have anything to do with this?

Table 8: Percentage of people unemployed for 12 months or more

	GER	EU	USA
1983	41.6	48.7	13.3
1990	46.8	46.9	5.5
2001	51.5	45.3	6.0
2002	50.4	41.4	6.1
2003	47.9	43.4	8.5
2004	50.0		11.8

7) Average number of hours worked per employee on an annual basis

One of the reasons most frequently provided by analysts to explain high German labour costs is the low number of hours worked. The following figures seemingly confirm this: the Germans work some 240 hours less per year than people in the US. In 2003, the average number of hours worked per employee was practically the same as in the French economy (remember the red hot debate in France over the recent legal reduction in the working week).

Table 9: Average hours worked per employee on an annual basis

	GER	FRA	USA
1979		1764	1833
1983		1672	1819
1990	1541	1618	1829
1999	1479	1547	1840
2000	1463	1500	1827
2001	1450	1477	1806
2002	1443	1459	1800
2003	1446	1453	1792

8) Part-time employment

Part-time employment's weighting is worth pointing out as being minimal, although noticeably higher among women. The US market curiously displays a lower significance of this type of work for women, although this is perhaps due to the fact that a greater number of women have been in the labour market for a longer period of time.

Table 10: Part-time employment as a percentage of the total

	GER	EU	USA
		Men	
1990	2.3	4.3	8.6
2000	4.8	6.0	7.7
2001	5.1	5.9	8.0
2002	5.2	6.1	8.0
2003	4.7	6.3	8.0
		Women	
1990	29.8	27.0	20.2
2000	33.9	30.0	18.0
2001	35.0	30.0	18.0
2002	35.3	30.0	18.5
2003	36.3	30.1	18.8

9) Conclusions

To sum up, the German labour market is suffering what we could call the "European unemployment illness", which Blanchard (2000) described as euro sclerosis, while also show signs of hysterisis at the same time. According to analysts, the rigid areas are many and wide-ranging, including the following:

- The high degree of employment protection, which is at the base of the labour market segmentation and the genesis of insider-outsider mechanisms that are very difficult to break.
- The high degree of unemployment protection, which takes away the incentive to look for work[3].

[3] The labour market reform that comes into power in January aims to tackle this problem by means of bringing the ongoing unemployment benefit in line with social assistance.

- The fact that wage negotiations are centralised means that wages are separated from the productivity of each company. In the case of Germany, this type of wage negotiation has an additional and very damaging effect, as the results spread across both East and West Germany.
- The enormous importance of Germany's welfare state, which actually makes the labour factor more expensive through the increase in taxes levied on it[4] and the establishment of certain regulations, such as the reduction of the working week[5].

In any case, experts widely agree that there is an addition element of particular significance. The limiting of competition is not exclusive to the labour market, but is also present in goods and capital markets, which are strongly regulated, thereby imposing serious restrictions on freedom of movement, as highlighted by Heckman (2002). The absence of competition in all markets is, in practice, a burden for job creation and explains the poor performance of the Germany economy in this ambit throughout the boom in the 90s. Someone so difficult to suspect of being left wing as Solow (2000) warns about the pernicious effects of economic policy that focuses on freeing up the labour market, without deregulating the rest of markets.

In short, rigidness in the labour market and the absence of competition in the rest of markets explain the persistence of a serious hysterisis problem in the Germany economy.

Bibliography:

Berthold, N. and R. Fehn (2003): Unemployment in Germany: Reasons and Remedies. CESIFO Working Paper nº 871.

Blanchard, O.J.(2004): The Economic Future of Europe. NBER Working Paper nº 10310.

Blanchard, O.J. (2000): Macroeconomía. 2nd edition. Prentice Hall.

Franz, W. and V. Steiner (1999): Wages in the East-German Transition Process –Facts and Explanations. ZEW Working Paper.

Heckman, J.J. (2002): Flexibility and Job Creation: Lessons for Germany. NBER Working Paper nº 9194.

Solow, R.M. (2000): Unemployment in the United States and in Europe. A Contrast and the Reasons. CESIFO Working Paper nº 231.

Antonio Cutanda
Valencia, September 30, 2004

[4] According to Berthold and Fehn (2002), the marginal overall tax rate (levied on income and social security) is 51.8%, compared to 32.9% in the United States.

[5] It is not all bad news in this area. For example, the best part of authorities attribute the low youth unemployment rate in Germany to the training system that allows businesses to hire young workers and pay them very low wages, in exchange for providing them with training.

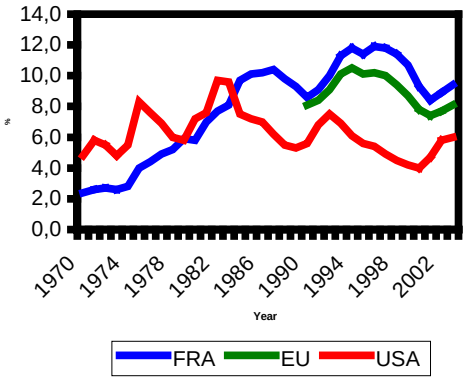
5.- France

Two phenomena in the recent history of the French labour market must be taken into account when carrying out an analysis of this situation: firstly, the excellent performance displayed by the labour market at the end of the 90s, when employment rose drastically (see Pisan-Ferry (2003) and, secondly the repercussion of the legal reduction of the working week to 35 hours that was put into practice in 2000.

1) Unemployment rates

The pattern of the French unemployment rate shows clear signs of what we have called "the European unemployment illness". The pattern since 1970s is a clear example of the repercussion of the hysterisis phenomenon, whose virulence can be appreciated when compared to the unemployment pattern in the US. As is the case in other European economies, the French unemployment rate goes from being lower than the US rate in the 60s and early 70s to being above it in the 80s and 90s. Notwithstanding, as opposed to the German economy for example, in the late 1990s a downward trend in the rate began that has been one of the most spectacular in terms of job creation alongside that occurred in Spain.

Figure 1: unemployment rate



An analysis of the Non-accelerating Inflation Rate of Unemployment (NAIRU) offers the same conclusions. The French NAIRU almost doubled in the 1980s, reaching 10% in the two-year period between 1991 and 1993. However, since then it has slowly dropped to the present figure of 9%. A 10% decrease in a variable that is normally so loathe to change is a real achievement. This becomes even clearer when compared to the contrary performance of the Germany NAIRU and also the meagre two-tenth drop in the US NAIRU in the same period.

Moreover, the fact that the unemployment rate in July was only eight tenths above the NAIRU speaks worlds of the sweet moment of the French economy, while pointing out at the same time that the effective unemployment rate does not appear to be willing to drop.

Table 1: estimated NAIRU

	GER	FRA	USA
1981-83	4.3	5.7	5.8
1991-93	6.6	10	5.3
2001	7.3	9.3	5.1
2002	7.2	9.2	5.1
2003	7.2	9.1	5.1
2004	7.2	9	5.1

Source: OECD, Economic Outlook

2) Activity rates

As expected, the French economy displays lower activity rates than the US economy. It is worth pointing out that the gap between the two has decreased slightly over this period, basically due to more French women entering the labour market. The French economy has gone from having a higher activity rate than Europe to the opposite between 1983 and 2003.

Table 2: activity rates by gender

	FRA	EU	USA
		Total	
1983	67.4	65.2	75.2
1990	66.0	67.1	76.5
1999	67.8	69.0	77.2
2000	68.0	69.4	77.2
2001	68.0	69.4	76.8
2002	68.3	69.8	76.4
2003	68.2	70.3	75.8
		Men	
1990	75.0	79.6	85.6
1999	74.4	78.5	84.0
2000	74.4	78.6	83.9
2001	74.3	78.4	83.4
2002	74.5	78.5	83.0
2003	73.8	79.2	82.2
		Women	
1990	57.2	54.5	67.8
1999	61.4	59.5	70.7
2000	61.7	60.1	70.7
2001	61.8	60.3	71.4
2002	62.1	61.0	70.1
2003	62.5	61.3	69.7

Source: OCDE, Employment Outlook

3) Employment rates

Employment rates, as is the case in the rest of European countries, register the most significant difference when compared to the US labour market. In this area, it is worth mentioning that the gap between the French and US employment rates has increased over this period, at a time when the European average has gone in the opposite direction. Both the overall rate and the breakdown into genders do not offer bad results, but the impression one gets is that not much effort has been made in this area.

Table 3: employment rates

	FRA	EU	USA
		Total	
1983	62.0	59.2	68.0
1990	59.9	61.4	72.2
1999	59.8	62.6	73.9
2000	61.1	63.6	74.1
2001	62.0	64.3	73.1
2002	62.2	64.4	71.9
2003	61.9	64.8	71.2
		Men	
1990	69.7	74.2	80.7
1999	66.8	72.1	80.5
2000	68.1	73.0	80.6
2001	69.0	73.4	79.4
2002	68.6	73.0	78.0
2003	67.7	73.5	76.9
		Women	
1990	50.3	48.6	64.0
1999	53.0	53.0	67.6
2000	54.3	54.2	67.8
2001	55.2	55.1	67.1
2002	55.8	55.7	66.1
2003	56.0	56.1	65.7

Source: OECD, Employment Outlook

4) Unemployment and activity rates by age group

The age structure of unemployment displays one significant feature of the French labour market: the high rate of unemployment among the youngest age groups. Practically all experts attribute this to impact of the French minimum wage and more and more are asking for it to be reduced or abolished.

Table 4: unemployment rates by age groups

	FRA	EU	USA
15 to 24 years old			
1990	19.1	16.2	11.2
2000	20.7	15.6	9.3
2001	18.7	14.0	10.6
2002	20.2	14.7	12.0
2003		14.7	12.4
25 to 54 years old			
1990	8.0	6.8	4.6
2000	9.2	7.3	3.1
2001	8.1	6.5	3.8
2002	8.1	6.9	4.8
2003		7.0	5.0
55 to 64 years old			
1990	6.7	5.7	3.3
2000	7.9	7.5	2.5
2001	6.1	6.4	3.0
2002	5.8	6.2	3.9
2003		5.7	4.1

Source: OECD, Employment Outlook

The age structure of the activity rate reinforces the previous conclusion, given the incredibly low rate observed among the youngest fraction of the working population (see the European average). Employers have possibly been put off offering work to this age group as a result of the artificially high labour cost due to the minimum wage. On the other hand, it is also very striking that the activity rate for the middle age group exceeds that of both Europe and the United States. This undoubtedly reflects attraction effect of existing job opportunities, which corroborates the previous analysis. Finally, the activity rate registered by the oldest age group is clearly in line with *the European illness*, and the expansion of the social welfare state.

Table 5: activity rates by age group

	FRA	EU	USA
15 to 24 years old			
1990	36.4	53.8	67.3
2000	29.3	48.4	65.8
2001	29.9	47.7	64.5
2002	30.2	47.4	63.3
2003		50.0	61.6
25 to 54 years old			
1990	84.1	78.8	83.5
2000	86.2	82.4	84.0
2001	86.3	82.4	83.7
2002	86.4	82.9	83.3
2003		82.6	83.0
55 to 64 years old			
1990	38.1	40.9	55.9
2000	37.3	41.4	59.2
2001	38.8	42.0	60.4
2002	41.7	43.3	61.9
2003		44.9	62.4

Source: OECD, Employment Outlook

5) The impact of ongoing unemployment

The hysterisis problem can be most clearly appreciated in the level of ongoing unemployment. Even though, as in all European economies, France displays a high rate of ongoing unemployment, it has been seen to fall, especially from 2000 onwards, precisely during a period of economic crisis.

Table 6: percentage of people unemployed for more than 12 months

	FRA	EU	USA
1983	42.2	48.7	13.3
1990	38.1	46.9	5.5
2001	42.6	45.3	6.0
2002	37.6	41.4	6.1
2003	33.8	43.4	8.5
2004			11.8

6) Average hours worked per employee on a yearly basis

As far as the average number of hours worked per employee is concerned, it is a well-known fact that the French economy displays a defect in this variable when compared to the United States, as is the case for the rest of Europe's economies. However, the figure is similar in Germany, although the criticism this fact provokes in the neighbouring economy is also well-known. With regard to the legal reduction of the working week applied in 2000, its impact does not appear to be particularly significant, at least when taking into account the previous pattern. The number of working hours was reduced between 1979 and 1990 by 146 hours (13/year), between 1990 and 2000 by 118 (12/year) and between 2000 and 2003 by 47 11/year)...

Table 7: average hours worked per employee on a yearly basis

	GER	FRA	USA
1979		1764	1833
1983		1672	1819
1990	1541	1618	1829
1999	1479	1547	1840
2000	1463	1500	1827
2001	1450	1477	1806
2002	1443	1459	1800
2003	1446	1453	1792

7) Part-time employment

Part-time employment is not at all widespread, although more so among women as was to be expected.

Table 8: part-time employment as a proportion of the total

	FRA	EU	USA
		Men	
1990	4.5	4.3	8.6
2000	5.5	6.0	7.7
2001	5.1	5.9	8.0
2002	5.2	6.1	8.0
2003	4.7	6.3	8.0
		Women	
1990	22.5	27.0	20.2
2000	24.9	30.0	18.0
2001	24.4	30.0	18.0
2002	24.1	30.0	18.5
2003	22.8	30.1	18.8

8) Conclusions

The French labour market appears to be suffering from the *European unemployment illness*. The patient has displayed a rather serious problem of hysterisis that explains the significant proportion of ongoing unemployment as part of the total. Nevertheless, the excellent performance of the labour market in the second half of the 1990s allowing unemployment to begin a downward trend, which has been interrupted by the current crisis, as well as the fact that its impact has been minimal, enable us to remain reasonably optimistic as to the hypothetical progress in the future[1].

In any case, there are still areas of doubt, such as the fact that the economic recovery is not being accompanied by sufficient job creation, which suggests that France is still a long way off achieving such a dynamic labour market as in the United States, and could also be reflecting the prevalence of a certain inflexibility that

[1] However, it could also be argued that its proximity to the value of the NAIRU means there is less room to reduce unemployment without reducing structural unemployment.

would be a good idea to minimalise. In this sense, all experts agree on the convenience of lowering the minimum legal wage in order to increase employment among young people.

As far as the legal reduction of the working week is concerned, the pattern described in this report suggests that its impact has not been significant. The pattern of the average number of hours worked has not undergone a significant change since 2000 and the poor performance of the labour market since then cannot be blamed on this factor, but rather on a generalised economic crisis. Moreover, if this pattern is compared over the same period to that corresponding to other labour markets, such as Germany, which displays a very similar average number of hours worked, the result clearly favours the French labour market.

Bibliography:

Blanchard, O.J.(2004): The Economic Future of Europe. NBER Working Paper nº 10310.

Blanchard, O.J. (2000): Macroeconomía. 2nd edition. Prentice Hall.

Pisan-Ferry, J. (2003): The Surprising French Employment Performance: What Lessons? CESIFO Working Paper nº 1078.

Solow, R. M. (2000): Unemployment in the United States and in Europe. A contrast and the Reasons. CESIFO Working Paper nº 231.

Antonio Cutanda
Valencia, October 4, 2004

6.- United Kingdom

Record! The unemployment rate stands at 2.7% (according to the claimant count) and 4.8% (according to the Labour Force Survey)

The performance of the British labour market since the beginning of 2003 can only be described as impressive. The number of people claiming the jobseekers' allowance benefit fell below one million in January 2003 and continued its decrease to 900,000 by January 2004, the lowest level since 1975. Only those over the age of 40 remember times when the United Kingdom had such low unemployment rates. The number of people unemployed today accounts for less than 3% of the labour force (2.7% in August), which can be considered as "full employment", as there is always a certain amount of frictional unemployment that is due to temporary and occupational imbalances between the supply and demand of employment.

The labour market case scenario in 2004 is very different to that of the late 80s and early 90s, when the unemployment rate stood above 10%. According to the Labour Force Survey (LFS), the number of people unemployed between April and June was 1,440,000, or 4.8% of the labour force. This figure allows us to make an international comparison and shows that the British labour market is at enjoying its best moment since 1984 and, at the same time, is significantly better than is the case in the other large European economies.

The 4.8% rate in the UK is below the average of 9.0% in the Euro-zone and the 5.4% registered by the United States. The latter is particularly striking given that the US labour market is still more flexible than the British labour market in many aspects.

By age group, it is worth highlighting the strong increase in employment of under-25-year-olds. More than 493,000 young people have entered the labour market (up to March 2004) through the New Deal (a training and job preparation programme). One of the Blair government's main achievements has been the reduction of ongoing unemployment. While in 1996 there were 489,000 over-25-year-olds that had been unemployed for more than 18 months, in 2000 the number had fallen to 164,000 and in 2003 it was only 75,300. In the same vein, the number of young people under the age of 25 unemployed for more than six months dropped from 153,000 in 1997 to 40,500 in 2003.

Record! The employment rate hits 74.8%.

And the records do not stop here. If we examine the number of people in employment, the total climbs to 28.3 million, which is an increase of 424,000 workers in two years and almost three million more than at the beginning of the 1990s. When calculated as a percentage of people of a working age, the employment rate in the United Kingdom hit a record 74.8% (June) above that in the Euro-zone and the United States.

One of the reasons behind this high employment rate is the flexibility of the labour market in terms of part-time

contracts. In the first half of 2004, 25% of people in employment were working part-time. The figure rises to 44% in the case of women in employment. In modern societies where combining work and family life is becoming more and more difficult, 82% of the women working part-time stated that they were looking for precisely that type of job.

Table 1: Part-time employment

	Employment (1,000s)	% of part-time employment	% that state they were looking for that type of job
Total			
Jan-Jul 2002	27,826	25.52	74.17
Jan-Jul 2003	28,122	25.78	74.77
Jan-Jul 2004	28,301	25.97	76.18
Men			
Jan-Jul 2002	15,037	9.80	51.46
Jan-Jul 2003	15,236	10.38	51.99
Jan-Jul 2004	15,278	10.58	54.36
Women			
Jan-Jul 2002	12,789	44.01	80.12
Jan-Jul 2003	12,886	43.99	81.13
Jan-Jul 2004	13,023	44.02	82.35

Source: own elaboration with data from ONS and LFS

Record! The number of strikes falls to only 133 in 2003

Another indicator of the favourable or unfavourable performance of the labour market is the amount of labour conflicts. Another record has been broken here. The number of strikes registered fell to 133 in 2003; another all-time record that, moreover, is a 20% decrease with respect to the previous record established in 1998 with 166.

The array of records in the labour market has coincided with continuous GDP growth since 1992, while inflation has remained low and in line with the Bank of England's target. The most important factors behind the favourable performance of the labour market include the microeconomic reform carried out by Margaret Thatcher's conservative party government (deregulation, liberalization and a restraint of trade union power) together with the stability provided by macroeconomic policy measures (independence of the European Central Bank and a moderate inflation target).

However, there are still some unsolved problems in the British labour market, which endanger the continuity of the success achieved up to 2004 and threaten to invert the trend from 2005 onwards. Firstly, there are still 7.8 million people of a working age who are not working or looking for a job. Many of these people receive some type of aid due to their inactivity or some type of social assistance, while on the other hand more than 2.1 million admit that they want to work, but for one reason or another are not actively looking for a job.

Meanwhile, the economy and the labour market are becoming more and more dependent on government expenditure and public sector contracts. Employment in manufacturing has, on the other hand, dropped by 258,000 people since the end of 2001, services in the private sector have risen moderately, whereas employment in the public sector has increased substantially.

Finally, government intervention, through a greater number of regulations in the work place as well as a larger tax burden for businesses is eroding the flexibility of the labour

market little by little. Furthermore, the danger of the public sector deficit bursting its banks results in a greater risk of a future increase in taxes and at the same time makes it more difficult for the Bank of England to curb its recent policy of interest rate hikes.

Table 2: Labour market. Unemployment

	Unemployment (LFS)		Claimant count		Ongoing unemployment	Ongoing youth unemployment
	Total 000s	Rate %	Total 000s	Rate %	Total 000s	Total 000s
1984	3,241	11.9	2,888	10.0	-	-
1985	3,118	11.3	2,997	10.0	-	-
1986	3,121	11.3	3,067	11.0	-	-
1987	3,030	10.8	2,780	9.0	-	-
1988	2,503	8.8	2,253	8.0	-	-
1989	2,093	7.3	1,768	6.0	-	-
1990	1,991	6.9	1,648	6.0	-	-
1991	2424	8.4	2,268	8.0	-	-
1992	2,796	9.8	2,742	9.0	-	-
1993	2,954	10.5	2,877	10.0	-	-
1994	2,751	9.7	2,599	9.0	-	-
1995	2,470	8.8	2,290	8.0	-	-
1996	2,343	8.3	2,088	7.0	489.0	-
1997	2,042	7.2	1,585	5.0	358.6	153.8
1998	1,779	6.2	1,348	5.0	233.1	106.8
1999	1,754	6.1	1,248	4.0	204.3	62.1
2000	1,633	5.6	1,088	4.0	163.9	46.3
2001	1,428	4.9	970	3.0	124.5	37.8
2002	1,539	5.2	947	3.0	89.8	39.2
2003	1,485	5.2	933	3.0	75.3	40.5
2004	1,440	4.8	849	2.7	78.2	42.9

Source: ONS

Note: Figure for 2004, up to June. Ongoing unemployment (over-25s that have claimed the jobseekers' allowance benefit for more than 18 months). Ongoing youth unemployment (18-24-year-olds that have claimed the jobseekers' allowance benefit for more than six months)

Table 3: Labour market. Employment

	Total economy			Manufacturing	
	Labour Force Survey			Change in Employment	Unit Labour Cost
	Activity Rate	Total	Variation		
	%	000s	000s	000s	
1984	68.8	24,078	-	-109	71.2
1985	69.6	24,429	351	-50	67.2
1986	69.7	24,562	133	-127	69.9
1987	70.4	24,926	364	-69	71.4
1988	72.7	25,834	908	36	73.2
1989	74.5	26,631	797	-14	76.8
1990	74.9	26,850	219	-110	82.0
1991	73.2	26,286	-564	-419	86.0
1992	71.2	25,641	-645	-229	86.0
1993	70.3	25,300	-341	-199	85.8
1994	70.7	25,476	176	15	86.5
1995	71.2	25,754	278	102	91.1
1996	71.8	26,020	266	65	95.4
1997	72.7	26,464	444	13	97.8
1998	73.3	26,721	257	28	101.3
1999	73.8	27,048	327	-137	101.3
2000	74.4	27,413	365	-91	100.0
2001	74.6	27,660	247	-148	101.0
2002	74.4	27,816	156	-201	103.0
2003	74.4	28,095	279	-144	101.5
2004	74.8	28,293	198	-47	-

Source: ONS

Note: Figures for 2004 up to June

Francisco Requena
Valencia, September 30, 2004

7.- Japan

Having remained at 4.6% in May and June, the unemployment rate suffered the slowdown in growth in July and slid to 4.9%. Nevertheless, the ratio of job offers per candidate continued its progress; reaching 0.83 and an average of 700,000 jobs are created on a monthly basis.

Apart from the aspects related to the moderation of the expansion, the progress of the labour market is determined by Japan's demographic framework, which has already inverted the population pyramid. Moreover, the workers with wage scales that are determined by the years of service in that post are progressively retiring and being replaced by young workers whose wage scales tend to be more flexible. In addition to the change in structure provoked by this transition, there are significant differences among wages according to the age of the worker. The wage received by a 25-year-old worker (35) who replaces a worker above the age of 59 is on 40% (25%) less than that of the worker being replaced. One consequence of this transition is a reduction in unit labour costs that, despite allowing companies to increase their profits, could mean a slowdown in the recovery of domestic demand if workers perceive that their permanent income is negatively affected. In this sense, the creation of new jobs becomes especially important in a scenario in which the percentage of part-time jobs continues to grow. By sector, the achievement of structural reform desired in services is seen to be particularly important in order to generate more employment in forthcoming years. The OECD estimates that Japan has the potential to create more than 5 million new jobs in the services sector over the next five years (8% of current employment).

Recent experience shows that the lack of reform in the services sector could seriously affect job creation in the economy as a whole. In fact, in the period from 1996 to 2000, capital in Information and telecommunication technologies contributed almost 1% to GDP growth, similar to that observed in the United States. However, the contribution of capital channelled to other sectors was only 0.3%, compared to 1.15% in the United States. Apart from this difference, Japanese GDP received the blow of the labour factor (-0.2% in Japan compared to 1.4% in the United States). By sector, the progress in services was particularly disappointing in terms of productivity. For this reason, Japan's growth will struggle to exceed a long-term growth rate of 1.5% without tackling serious reforms that allow productivity to increase in the services sector, permitting a greater degree of competition and improving the labour market's performance. By decreasing the rigidness of the labour market and balancing the banking sector a more efficient factor-allocation could be achieved that would help to raise productivity and, therefore, long-term economic growth. A simple accounting exercise on growth illustrates that the rigidness of the labour market generates labour reallocation problems that have a significant repercussion on growth in productivity (Tables 1 and 2).

Table 1: Growth in productivity

	1980-90	1991-99
Growth in productivity	3.73	2.11
Total Factor Productivity	1.63	0.84
Capital accumulation	1.72	1.21
Labour reallocation	0.38	0.06

Source: own elaboration with data from ESRI, Cabinet Office.

Table 2: Impact of distortions in the factors market on GDP

	80-85	86-91 (*)	92-98 (**)	(**)-(*)
GDP growth	3.96	4.83	1.25	-3.58
Total Factor Prod.	1.39	2.18	0.61	-1.57
Cap. accumulated	1.51	2.77	1.45	-1.32
Nº of workers	0.79	1.29	0.34	-0.95
Hours worked	0.04	-1.85	-1.12	0.73
Distorsions in the factors markets	0.23	0.44	-0.03	-0.47

Note: the period 1980-85 is considered the comparison to the bubble experienced by the Japanese economy between 1986 and 1991, and the period after the bubble, 1992-98.
Source: own elaboration with data from ESRI, Cabinet Office.

Luis M. Granero
Valencia, September 29, 2004

8.- China

China continues to see its population grow in annual terms on the base of 1.36 billion inhabitants, which means that excessive supply of labour on the market will continue to be one of the factors to hinder economic growth for quite some time. Moreover, changing from a planned economy to a market economy fuels increasing unemployment, which requires practical measures.

According to a report by the Ministry of Labour and Social Security in 2003 China achieved its objective of supplying eight million jobs during that year, with the unemployment rate at 4.3%, which was 0.3% higher than in 2002. The aim of maintaining the unemployment rate below 4.5% was nevertheless achieved.

However, data shows the reality that Social Security only covers part of the population of 1.36 billion people. There are 155 million registered pensioners, 109 million city workers with basic medical insurance and 103 million who claim the unemployment benefit[1]. Social coverage of unemployment benefits has increased and currently 28 million people who have lost their jobs, are guaranteed enough money to subsist, pensioners receive their pensions every month on time and the poor in the cities are also guaranteed a minimum amount to survive. In some rural areas a pilot programme has begun whereby old age insurance, cooperative medical insurance as well as subsidies to guarantee a minimum standard of living are being offered.

[1] Cinco dias 09-09-2004.

Macreconomic control has not caused negative effects on the country's employment, as 5.9 million city dwellers found work in the first half of the year, according to the Ministry of Labour and Social Security. This figures means that 65% of the objective set for 2004 has already been achieved. Furthermore, policies favouring agricultural development have meant some country dwellers who had gone to the cities to look for work, are returning to the countryside. Even still, the latest statistics show that the number of farmers working in cities due to the loss of their land totals 1.4 million.

One favourable figure is that Chinese farmers recorded a spectacular increase in income of 16.1% in the first half of the 2004, the highest growth rate in eight years. With the aim of consolidating and improving the standard of living in rural areas, the government has put decided to implement the development plan for the main farming areas completely and to promote industrialisation in the poorer regions. Furthermore, livestock and fishing will also receive a boost to increase the competitiveness of their products on the world market.

At the end of June, 8.37 million people were unemployed, which is an urban unemployment rate of 4.3%. The services sector only contributes 37% of the country's total employment, the lower than the average of other developing countries.

In addition to this, Chinese business people are not willing to give up their trade advantage in labour costs and are not, therefore, in favour of the application of certificates of labour standards SA 8000, derived from the

ISO 9000 and which seeks to reduce the practice of labour exploitation. The objective is to guarantee a business' working conditions by eliminating child labour, forced labour, slavery and sexual discrimination or excessively long hours. Chinese business people see these certificates as yet another trade barrier imposed by the West in order to counter China's potential for expansion.

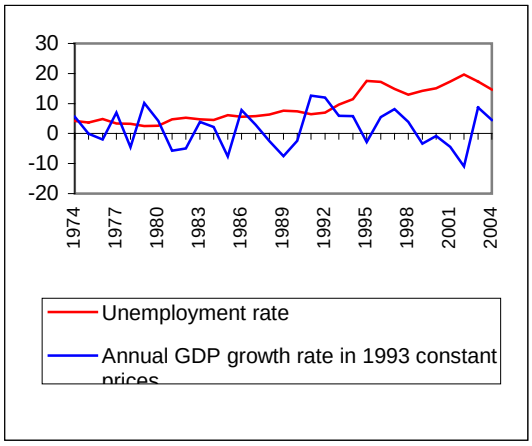
Mª Luisa Martí
Rosa Puertas
Valencia, September 29, 2004

9.- Argentina

Unemployment before the end of the 1 to 1 parity

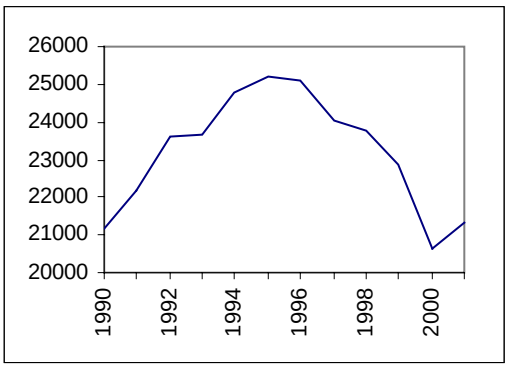
The historical data series displayed in Figure 1 show some relevant information about the unemployment pattern in Argentina over the past few decades. Unemployment was seen to be low, from an annual 3% to 5%, even during the hyperinflation between the end of 1988 and the beginning of 1990. If we take the period between 1993 and 1998 as the expansive phase of convertibility, we can see that the increasing growth rates were accompanied by an upward trend in unemployment. The reason lies mainly in the substantial increase in the labour force. This increase in the number of people entering the labour market is in line with the procyclical behaviour of the economy and lessened the effects of the good pace of job creation on the unemployment rate. Over these seven years 2,079,000 people entered the labour market, the economy absorbed 1,292,000, with 729,000 being added to the unemployment figure. Therefore, the acceleration in economic activity brought an increase in the level of employment, but is explained mainly by gains in labour productivity.

Figure 1: GDP and unemployment rate patterns



Source: INDEC and own elaboration

Figure 2: Productivity pattern

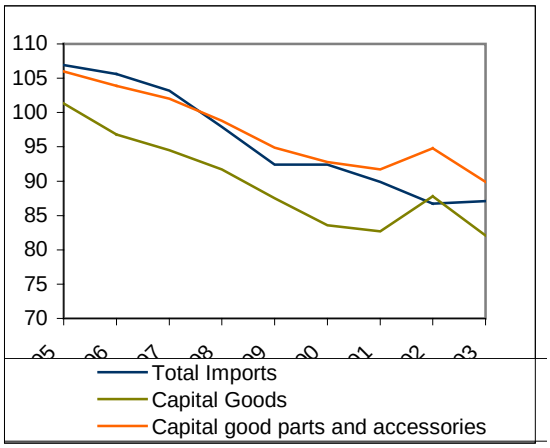


Source: INDEC, Ministry of Work and own elaboration

During the recession, associated to an erroneous exchange rate, more and more unemployment is created. The over-valued exchange rate made imports cheap (Figure 3) at the same time as real wages grew. This variation in prices relating to productive factors caused national labour to be replaced by foreign labour.

and real wages decreased by 25%. As expected, this has fostered the improvement of the main rates in the labour market. The employment rate, which has an approximately six-month lag with respect to GDP growth, has grown uninterruptedly up to the second quarter of 2004.

Figure 3: Import prices



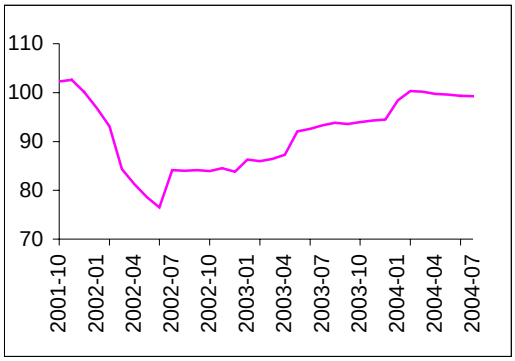
Source: MECON

In short, some responsibility for the high rates of unemployment the country is currently bearing can be attributed to the setback caused by the exchange rate.

The economy overcomes the crisis and generates employment

After the end of the 1 to 1 dollar/peso exchange rate in December 2001, the Argentinian economy, which had been in recession for three years, continued to destroy jobs until the end of 2002. In 2002, the economy began to recover

Figure 4: Real wages index (pesos)



Source: INDEC and own elaboration

Table 2: Main indicators

Rates	2003			2004	
	Q2	Q3	Q4	Q1	Q2
Activity	45.6	45.7	45.7	45.4	46.2
Employment	82.2	83.7	85.5	85.6	85.2
Unemployment	17.8	16.3	14.5	14.4	14.8

Source: INDEC and own elaboration

As can be appreciated in Table 2, the pattern of the main rates that define the labour market has been favourable, despite not capturing the tremendous buoyancy observed in the Argentinian economy over the past year and a half. The unemployment rate displays some downward resistance and a slight deterioration in the main rates over the most recent period for which we have data can also be appreciated.
Due to the lack of recent data, the analysis of employment by category is carried out using data from May 2003.

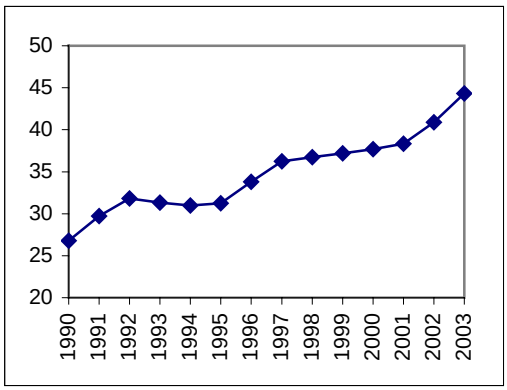
- Ongoing unemployment, defined as people who have been seeking work for more than a year, was 17.2%.
- The age group that most suffered from unemployment was that of 25 to 49-year-olds, followed by under-25s. Both age groups together account for 55% of total unemployment.
- By gender, 58.6% of people in employment were men and, obviously, the remaining 41.4% were women.
- The cross-sector analysis shows that trade and services were the sectors that employed the best part of workers (71.5%).
- By level of education, those who had only completed primary education had the most difficulty in finding a job (52.9% of the total).

The weak points in the structure of the labour market

- The black market.

As mentioned earlier, in light of the results of the permanent household survey, a favourable trend in job creation has been observed since the end of 2002. However, this survey hides one factor that casts a shadow on this optimism: the growing degree of black market labour (Figure 5).

Figure 6: Percentage of unregistered employment



Source: Ministry of Work of Argentina

In the second quarter of 2004, the number of people in employment in the country was in the vicinity of 9 million, but only 4,828,253 of them were registered by social security as workers. The workers that are not registered

come under two categories. On one hand, those who benefit from employment programmes. Among these, the *Plan Jefes and Jefas del Hogar* (male and female household managers' scheme) implemented in 2003; this scheme provides a monthly benefit of 150 pesos to those on this scheme, who account for 90% of the total number of people claiming an employment benefit. If, in the case that these plans did not exist, we considered these people to be unemployed and therefore included in the labour force, the unemployment rate in the second quarter of 2004 would have climbed to 19.1%.

The rest of unregistered employment belongs to the black market. The Ministry of Work calculates it to be 30.7% and is most widespread in construction, commerce, hotels and restaurants.

The consequences of this evasion are serious, both for the workers and for the state. Individually speaking, this implies that two and a half million people are excluded from the system and therefore have no labour rights, social security or access to loans. In aggregate terms, it negatively affects public finances and puts future retirement pensions in danger. In conclusion, the problem is alarming and combating it is, or should be, one of the main challenges of the Argentinian government's employment plans.

- High degree of under-employment.

In the second quarter of 2004, 15.2% of people in employment worked reduced hours due to causes that had nothing to do with them. If this percentage is added to the unemployment rate, we obtain the figure of 30% of the economically active population who are not happy with their work situation.

Julia Torrecabota
Valencia, September 30, 2004

10.- Brazil

A. Change in methodology

The IBGE has modified its methodology[1] in relation to the labour market, which had been used up to 2002. From this time onwards, the labour force is deemed to include all people above the age of 10 instead of the 15-year age limit previously used. For this reason, we have chosen not to carry out a historical analysis of the Brazilian labour market, as this change distorts any analysis that is carried out and we can only offer the monthly pattern from 2002 up to August this year.

B. Favourable expectations in 2004

The external sector, a decisive factor for growth and job creation

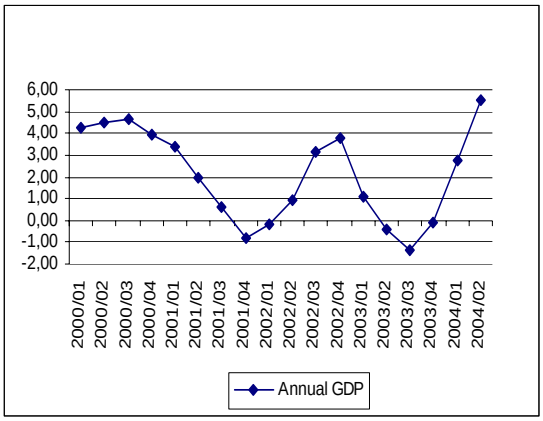
In Figure 1 we can observe the pattern of GDP between 2000 and 2004. After moderate growth above 4% in 2000, reflecting the strong growth in employment and the labour force and a moderate reduction in the unemployment rate, in 2001 there is a marked slump in the Brazilian economy, which even registered negative annual growth rates, due to both external and also internal factors. Among the former, the imbalance of the Argentinian economy and its impact above all else on export changes figured prominently, as well as the doubt created on the international scene due to the terrorist attacks in the United States, which raised uncertainty in the US economy and the world in general, which was already displaying the symptoms of an economic slowdown. As far as the domestic factors are concerned, the most worthy of mention was the taxation of electrical energy consumption, which negatively affected consumption and investment flows.

Brazil begins to recover after the above-mentioned recession, at the end of 2002. The Reial depreciates and the external sector becomes the main driving force behind the economic expansion, which contributes to the reduction in the unemployment rate during that period and the increase in the number of people employed, managing to exceed 18,000,000 in December that year. At the end of the same year, the Brazilian economy began to show signs of slump, which would hit rock bottom in 2003. This recession was characterised by the uncertainty due to the political transition, the appreciable upturn in country risk, the decrease in the availability of foreign resources and, therefore, the depreciation of the exchange rate, which began at the end of 2002. In this scenario, the Central Bank of Brazil decided to employ monetary policies to maintain price stability, increasing the overnight reference interest rate by 700bp in the fourth quarter of 2002 and a further 150bp over 2003, and in this way eliminate the uncertainty that existed at that time in particular among international investors. At the end of the first half the year, these imbalances began to diminish and a phase of steady recovery in activity began, with an increase in the demand for consumer durable goods and capital goods together with the once again

[1] Please consult this site for more information: http://www.ibge.gov.br/home/estatistica/indicadores/trabalhoerendimento/pme_nova/pmemet1.pdf

favourable buoyancy of the external sector. This year, the unemployment remained stable with an upward trend taking it to an all-time high in the period under consideration, with rates in the vicinity of 13%. Nonetheless, the number of people in employment in Brazil this year has maintained an upward growth curve, albeit more moderate than in the previous period. Meanwhile, the substantial rise in the labour force has pushed unemployment up, despite the above mentioned job creation.

Figure 1: Annual percentage change in real GDP



Source: IBGE

In 2004 after the decrease in GDP observed the previous year, Brazil has managed to grow spectacularly, reaching 5.5% in the second quarter of 2004, mainly boosted by the external sector, which continues to a decisive factor in the overall buoyancy of economic activity. The outlook for the labour market is favourable, in light of the fact that since the end of the crisis, the unemployment rate has not stopped falling and the number of people in employment in August 2004 exceeded 19,000,000 and is tending upwards, while the labour force displays similar behaviour.

Recent data

In August the activity rate stood at 57.6%, slightly higher than that registered in July (57.2%). The unemployment rate in August was 11.4%, slightly above that recorded in the previous month (11.2%), due to the increase in the number of unemployed and the labour force by 64,000 and 197,000 people respectively.

Despite the slight rise in the unemployment rate, the number of people in employment rose by 133,100 people in August with respect to July, which shows a moderate growth in employment in Brazil. The employment rate stands at 88.6% of the labour force.

With regard to the real average pay in Brazil, we must underline the fact that the annual percentage change has not dropped below 2% since 2002, despite GDP registering negative annual real growth rates as low as -1.38% in 2003. From the first quarter of this onwards, when Brazil's economy began to recover, growth rates of up to 3.6% in real annual wages in some sectors have been recorded, demonstrating the fact that the country is on the right track.

In Table 1 we can appreciate the real annual percentage change in wages for each of the sectors. The group to register the highest increases was the self-employed, with a 3% increase in August, followed by the private sector (2.4%) and the public sector (2.3%). The average for the country as a whole was 2.5%.

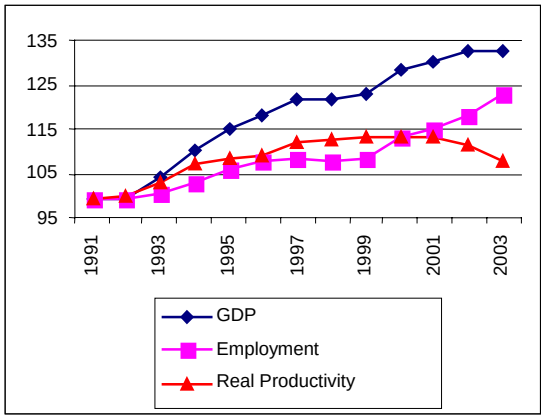
Table 1: Annual percentage change coefficients for real wages by sector and in total

Months	Real mean wages-public sector	Real wages-private sector	Real wages-self-employed	Real mean wages-total
Jan-04	2.4	2.3	3.0	2.2
Feb-04	2.6	2.5	2.8	2.5
Mar-04	2.7	2.4	3.6	2.3
Apr-04	2.4	2.3	3.6	2.3
May-04	2.6	2.4	3.1	2.3
Jun-04	2.3	2.6	3.0	2.5
Jul-04	2.4	2.5	3.0	2.5
Aug-04	2.3	2.4	3.0	2.5

Source: IBGE

Finally, real productivity2 can be observed in Figure 2, where two clear stages can be appreciated. The first phase goes from 1991 to 1999 when GDP and the employment rate grow parallel to each other and productivity growing at a sustained rate up to 1997. From that year up to 1999, GDP slows down due to the sluggishness in the employment rate and productivity. In 2000, the second phase begins that is characterised by growth in the number of people in employment, which outpaces that of GDP, and a decrease in productivity. Growth in GDP in quarter terms has outpaced that of employment, so we can expect productivity to grow this year, after falling for three years in a row[3].

Figure 2: Index of real productivity 1991-2003



Source: IBGE and own elaboration

Mº Jesus Herrerías
Valencia, September 30, 2004

[2] Employment and GDP are expressed as an index where 1991=100. We have eliminated the people between the age of 10 and 15 from the employment data corresponding to 2002 and 2003 to make the data series homogeneous. Nevertheless, according to IBGE, they are included in the labour force.

[3] This issue will be studied in more depth in future reports.

11.- Mexico

Regulated labour market

In Mexico, the figure corresponding to registered employment is normally taken from the IMSS. The workers registered there are classified into two categories: permanent and termporary.

Permanent workers are those registered by their companies for more a period of at least one month, and temporary workers are those that have worked at least 12 consecutive working days or 30 working days with interruptions over a two-month period and for one sole employer.

In the following table, net job creation in the regulated sector over the past seven years can be observed.

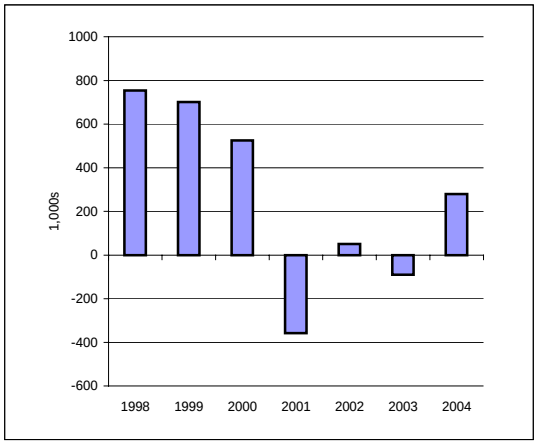
Between 1998 and 2000, 1,979,000 net jobs were created at an annual average of 659,000.

Table 1: net job creation* (1,000s of people)

Year	Total	Permanent	Temporary
1998	753.4	303.5	449.9
1999	700.5	488.1	212.5
2000	525.1	397.4	127.6
2001	-358.6	-313.1	-45.5
2002	51.0	19.7	31.3
2003	-90.4	-97.2	6.8
2004	279.7	192.2	77.0

Workers registered at the IMSS (Mexican Institute of Social Security). Between 1998 and 2003, the figure refers to the end of the period. For 2004, figures correspond to the comparison between August and last December.
Source: based on the statistics appendix of the *IV Informe de Gobierno*

Figure 1: net job creation. 1998-2004.



From 2001 onwards, the labour market has faced serious problems. In the period between 2001 and 2004, this year is undoubtedly the best. This period displays negative figures which are a long way off satisfying the demand for employment and are certainly not tackling the backlog created over the past few years. In this period of reference, there has been a net loss of regulated employment, as August ended with a deficit of slightly more than 118,000 jobs.

The data in the following table show the incipient recovery in employment in 2004, where, if we compare the figure at the end of August this year to that corresponding to December last year, 279,000 net jobs have been created, of which 192,000 are temporary and 77,000 are seasonal.

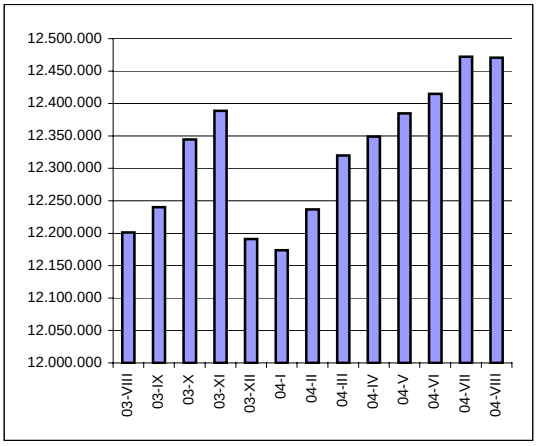
However, if we compare August to July, a decrease of 1,237 in overall employment is observed, caused by a drop in seasonal work, which could be part of the reason behind the increase in the unemployment rate in August.

Table 2: workers registered at the IMSS. 2003-2004*

Month	Total	Permanent	Temporary
2003			
Aug.	12,201,236	10,607,033	1,594,203
Sept.	12,239,929	10,640,480	1,599,449
Oct.	12,344,395	10,705910	1,638,485
Nov.	12,388,943	10,741,997	1,646,946
Dec.	12,190,792	10,635,811	1,554,981
2004			
Jan.	12,173,496	10,598,724	1,574,772
Feb.	12,236,861	10,637,840	1,599,021
Mar.	12,319,815	10,689,228	1,630,587
Apr.	12,348,741	10,713,708	1,635,033
May	12,384,729	10,747,593	1,637,136
Jun.	12,414,814	10,767,492	1,647,322
Jul.	12,471,730	10,797,790	1,673,940
Aug	12,470,493	10,799,289	1,671,204

*Figures at the end of each month.
Excludes the groups with optional insurance policies, students and voluntary continuation. Source: STPS[1] with data from IMSS

Figure 2: Workers registered at the IMSS. 2003-2004.



It is estimated that by the end of the year, around 400,000 official jobs will be created, which means 100,000 jobs per 1% of GDP growth.

[1] Mexican Secretariat of Work and Social Services

However, it is worth pointing out that there is no clear relationship between these two indicators, as, for example, in 2002, with a GDP increase of 0.7%, 51,000 jobs were created, while in 2003 the growth rate was 1.3%, with a total loss of 90,000 jobs.

Unregulated sector of the economy

When the official labour market does not provide job opportunities, people seek refuge in the unregulated sector of the economy.

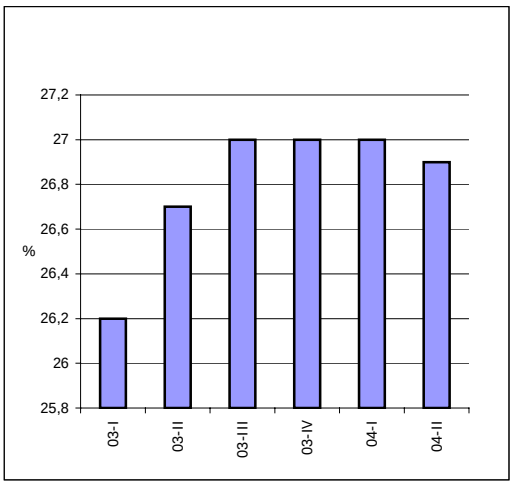
The INEGI defines the Employment Rate in the unregulated sector of the economy as the percentage of the population in employment that works in micro businesses which do not belong to the farming and fisheries sector or have no name or register, in addition to those working for micro businesses that are registered, but without being under contract and are therefore without access to social security. The quarterly employment rate has been around 27% over the past four quarters, which is quite high.

Table 4: employment rate in the unstructured sector of the economy. 2003-2004

Quarter	Rate
03-I	26.2
03-II	26.7
03-III	27.0
03-IV	27.0
04-I	27.0
04-II	26.9

Source: INEGI

Figure 3: Employment in the unregulated sector of the economy. 2003-2004

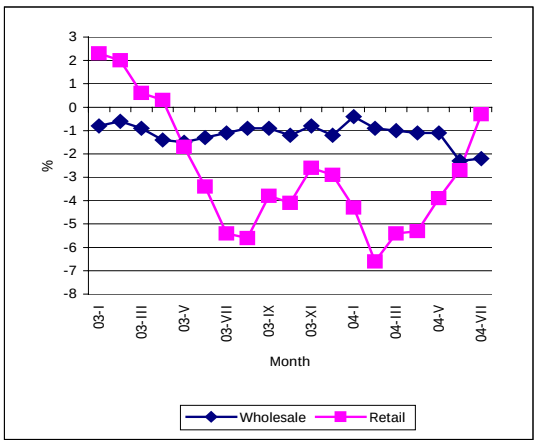


Employment by sector:

Trade

The latest figure corresponding to July shows that employment in retail trade had decreased by 0.3% in relation to the same month the previous year; wholesale trade also registered a drop of 2.2%. It is worth mentioning that wholesale trade has not registered a positive figure in all of 2003 or the first seven months of 2004. The same has occurred in retail trade since May 2003.

Figure 4: employment in trade. 2003-2004

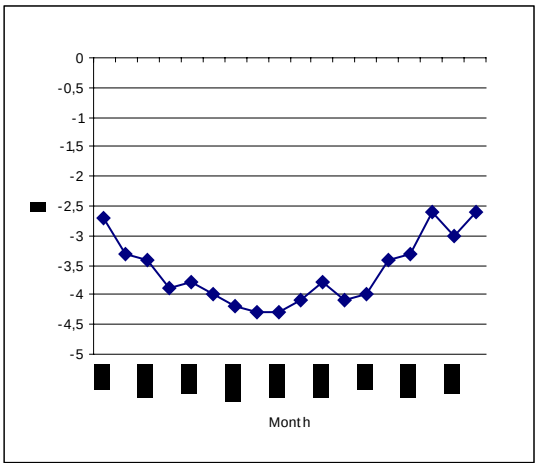


The seasonally adjusted indicator indicates that the number of workers in retail trade rose by 0.32%, while in wholesale trade the increase was 0.07% in July, with respect to previous month. Over the period from January to July this year, the number of workers employed in retail trade fell by 4.1% and in wholesale trade by 1.3%.

Manufacturing sector

As in the trade sector, there are also problems in the manufacturing sector in terms of employment. The last figure corresponds to June this year and shows a 2.6% drop with respect to the same month the previous year.

Figure 5: employment in the manufacturing sector. 2003-2004



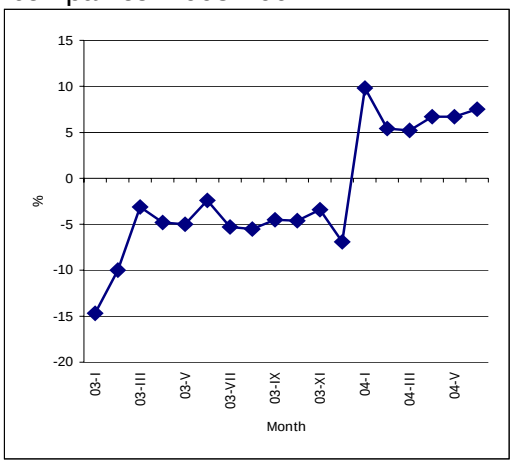
The index has not registered positive data in all of 2003 or in the first six months of 2004. From January to June this year, employment fell by 3.2%. Seasonally adjusted data also offers a decrease of 0.16% in June with respect to the previous month.

Construction companies

This is one of the few sectors that have managed to create employment, as its

annually adjusted rates have shown positive figures over the first half of the year, as opposed to the previous year when negative figures were observed throughout. The most recent figure, corresponding to June this year displays a 7.5% annual increase, in other words, in relation to the same month the previous year.

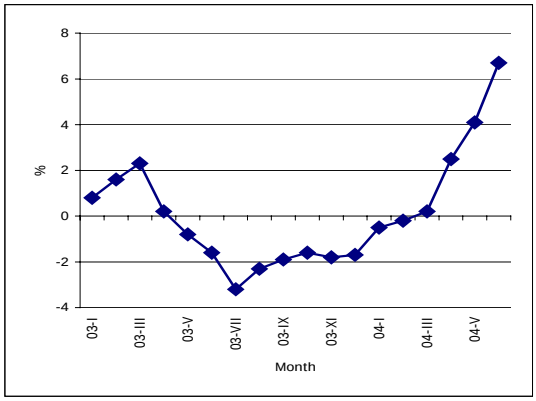
Figure 6: Employment in construction companies. 2003-2004



Cross-border export assembly plants

The employment index for staff employed in cross-border assembly plants has shown some signs of recovery since March this year, when positive figures were recorded for the first time since January 2003.

Figure 7: Employment in cross-border assembly plants. 2003-2004



The latest available figure corresponds to June and indicates growth of 6.7% with respect to the same month in 2003, employing 1,128,324 people. Over the past 18 months, June was the best month in terms of job creation in this important industry within the country.

Héctor Ruiz
Toluca, Mexico, September 27, 2004