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Employment performances in Europe : the conditions of success[2]

The economic performances of Europe as a whole are very poor during the last cycle : the average unemployment rate has increased from 8 % of the labour force in 1990 to 10,9 % in 1998. These performances are of course diversified, but only four countries managed to lower their unemployment rate over the period : Denmark (- 2,7 points) Ireland (- 3,6) Norway (- 1,9) and Netherlands (- 0,9). Other indicators confirm this success, and that is why these four countries have been chosen (and named *Top4*), in addition to United Kingdom where the unemployment rate decreased bythree points since 1992.

The decomposition of performances underlines the weak incidence of demographic factors. *Top4*'s unemployment decreases in spite of a labour force which grows faster than the average. It is only in Denmark and United Kingdom that the recession of the unemployment rate can be partially explained by the slow down of the labour force.

The European countries do not show important differences in the evolution of labour productivity. The countries which obtain better results do not benefit from an “ enrichment of the job content of growth ”, except United Kingdom between 1987 and 1991.

The performances of *Top4* in terms of job creations correspond mainly to a differential of growth in their favour. Between 1991 and 1997, average annual growth was 1,7 % in the European Union and 3,2 % in *Top4*. More generally, the 1990-1998 cycle is characterized by a stronger correlation than during the previous cycle between growth and job creations.

The institutional characteristics of labour markets (regulation of employment, system of collective bargaining, existence and relative level of a minimum wage, configuration of working time, active employment policies) do not show any similarity between the *Top4* countries and United Kingdom distances itself very sharply on all these aspects. With the exception of the systems of collective bargaining, no strict relation can be established between institutional aspects and employment performances. Finally, there is no specific behavior of these countries as far as the adjustment of wages and employment is concerned.

The contribution of the foreign trade occupies an important place in the higher growth of *Top4* countries. They have a much higher degree of openness, and their share in total European exports has increasing. But this result does not rest, except in the case of Ireland, on a particular effort of wage moderation or on a real depreciation of the currency. The exports of these countries have notably “encroached” on the share of German exports which abruptly fell at the time of the unification. They also took advantage of the resumption of energy exports after the Gulf War.

The nature of performances suggests a size effect : each of these small countries manages to catch an extra market share relatively small in absolute terms, but important in relation with their size.

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[2] This note synthetizes the main results of a report drawn up in the IRES for the Conseil d'Analyse Economique: Michel Husson, Annie Jolivet and Christèle Meilland, *Performances d'emploi en Europe : les modalités du succès*, Juin 1999. It will be sent on inquiry.

This finding leads to an examination of regional performances. The regions where the unemployment rate decreased during the considered period draw clearly a double front. The first front groups together Ireland, the Wales and the North of England : unemployment rates fall appreciably, but from upper levels in the average. The second front groups together Norway, Denmark, two nearby German regions (Schleswig-Holstein and Hamburg) and Netherlands. In this zone, unemployment rates have decreased from already moderate levels.

The achievements of *Top4* countries are not based on a greater flexibility of their labour markets. The job content of growth evolve as the European average, the proportion of part-time work is certainly higher but has not increased more quickly, and the same can be said of the recourse to definite duration jobs, the evolution of wage or of the wage share. The working time is decreasing a little faster than in the rest of Europe but this differentiation is not very marked.

Instead of a link between wage moderation and achievements in terms of job creations, we find an inverse correlation between employment and profit share : the unemployment rate has increased rather faster in the countries where the recovery has been stronger. However the *Top4* countries represent an exception to this last principle since they managed to put off unemployment while restoring very strongly their profitability with regard to the rest of Europe. The reason is that this increase of the profit has not been obtained by a slowdown of the wage share especially marked, but because of an improvement of the efficiency of the capital. The *Top4* countries obtain the same labour productivity with a capital-labour substitution much less marked, hence borrowing one of the main features of the US model.

All these observations lead to an econometric modelization which allows to materialize some results that can be summarized as follows : (1) the relative achievements in terms of employment depend mainly on growth, on the profitability (negatively) and on capital per head ; (2) these determinations are stronger, and more significant during the last cycle, characterized notably by a closer link between employment and growth ; (3) the relative achievements of *Top4* can be explainded mainly by a faster and more capital saving growth ; (4) this interpretation is coherent with the relative performances recorded in Japan and in the United States with regard to Europe.

One can see a strong differentiation between the two last cycles. The eighties are marked by a deep reorganization of labour markets in Europe, which explains a relative disconnection between employment and growth, especially striking in United Kingdom, with the rise of independent labour. In the nineties, the cycle goes back to a narrow regulation of employment by growth. It seems that the specific means to create more jobs for a given rate of growth have been exhausted by each country.

The achievements of the *Top4* countries are the result of an opportunist growth stimulated by the fall of German exports and by a mode of profit restoring compatible with the growth of internal markets. This configuration differs for example from Italy which realized good export performances by mean of temporary manipulation of the exchange rate or by methods unfavourable to employment. In Italy, the wage share has brutally decreased from 73 % in 1991 to 66,5% in 1995, and this fall has depressed domestic demand and therefore employment.

Moreover, each of the *Top4* countries has mobilized specific advantages, for example foreign investment and European structural funds in the case of Ireland, energy resources and their niche markets. It seems therefore difficult to interpret the achievements of *Top4* countries as the successful application of a greater flexibility of labour markets, since they mainly result from the ability of these small countries to catch a fraction of European growth which has been insufficient to stabilize the global European unemployment rate during the recent cycle.

If this interpretation is correct, it is then necessary to infer from it that models – if it can be talked of models – are not transferable because they ultimately result from a diversion of the growth which is not based on a qualitative change in the global competitiveness of these countries. Rather than the efficiency – in terms of job creations– of flexibilized labour markets, the analysis of the achievements of the*Top4* countries underlines the relative exhaustion of the advantages which can be expected from such policies and, consequently, the necessity to set up the macroeconomic conditions of a more steady growth in Europe as a whole.