EURO-PRODUCTIVITY AND EURO-JOBS SINCE THE 1960s:
WHICH INSTITUTIONS REALLY MATTERED?

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I. Two police cases that should be one
   A. Euro-jobs as victims: labor-econ detectives and suspects --
      (dole, minimum wage, EPL, payroll taxes, leisure preference,
      retirement and disability policy, centralized wage setting)
   B. Euro-GDP as victim: growth-theory detectives and suspects --
      (technology, education, taxes, welfare state, product-market competition)
   C. Are the job effects and productivity effects offsetting or complementary?
   D. Tentative conclusions

II. Some historical contours since 1960 (Fig. 1)

III. Better measures of labor-market institutions\(^i\)
   A. Unemployment compensation: The net reservation wage measure (Fig. 2)
   B. The strictness of EPLs (employee protection laws) (Fig. 3)
   C. Collective wage setting

IV. Better tests
   A. Why not stick to micro samples?
      (1) Set aside non-policy experiments
      (2) Even true policy experiments at the micro level
           misrepresent the macro-level results.
           (Hint: What happened to the labor demand side?)
   B. Macro-econometric panels: Still indispensable (T. 1)
   C. Simultaneity and non-linearity

   A. The basic verdicts (T. 2)
      1. Powerful control variables (macro-shocks, age distribution)
      2. Market regulations
      3. Fiscal wedges in the labor market
      4. Broader fiscal shifts
   B. Some suspects not featured here, and why not (tax mix, early retirement,
      ALMP, openness, retailing revolution, technology, education and non-
      human capital, minimum wage laws)
   C. What about fixed country effects? (T. 3)

VI. How the 1960s-1970s kept some of these secrets

VII. Conclusions

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Figure 1. Average Policies and Unemployment, 21 OECD Countries, 1960 - 2001

Panel A

Unemployment rate (%)

- Anti-competitive product market regulations
- Strictness of EPLs
- Coordinated wage setting

Year:
- 1960
- 1965
- 1970
- 1975
- 1980
- 1985
- 1990
- 1995
- 2000
Figure 1, Panel B

Unemployment rate (%, right scale)

Employment tax %

Transfers / GDP %

Unemployment compensation rate (%)


Early retirement % *

(*males 55-64, 18 countries only)
Figure 2. Unemployment Compensation 1950 - 2000

Panel A. Core EU Countries

Panel B. The Outer World

Net "reservation wage" for the unemployed as a percent of the average wage rate


Countries: NZ, OECD, Ireland, Sweden, USA, Japan
Figure 3. Employment Protection Laws 1950 - 2000

Panel A. Core EU Countries

Index of the strictness of job protection laws (0-5 scale)
