

The Labor Market Response to the Financial Crisis

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Impacts on Unemployment

- The Crisis 2008 had a even larger negative impacts on GDP of Japan and Germany than of USA.
- However, the rise in the unemployment rate is larger in US than in Germany or Japan.
- In terms of the unemployment rate, Japan's performance is almost the best.
 - The best player is Korea!

GDP and Unemployment

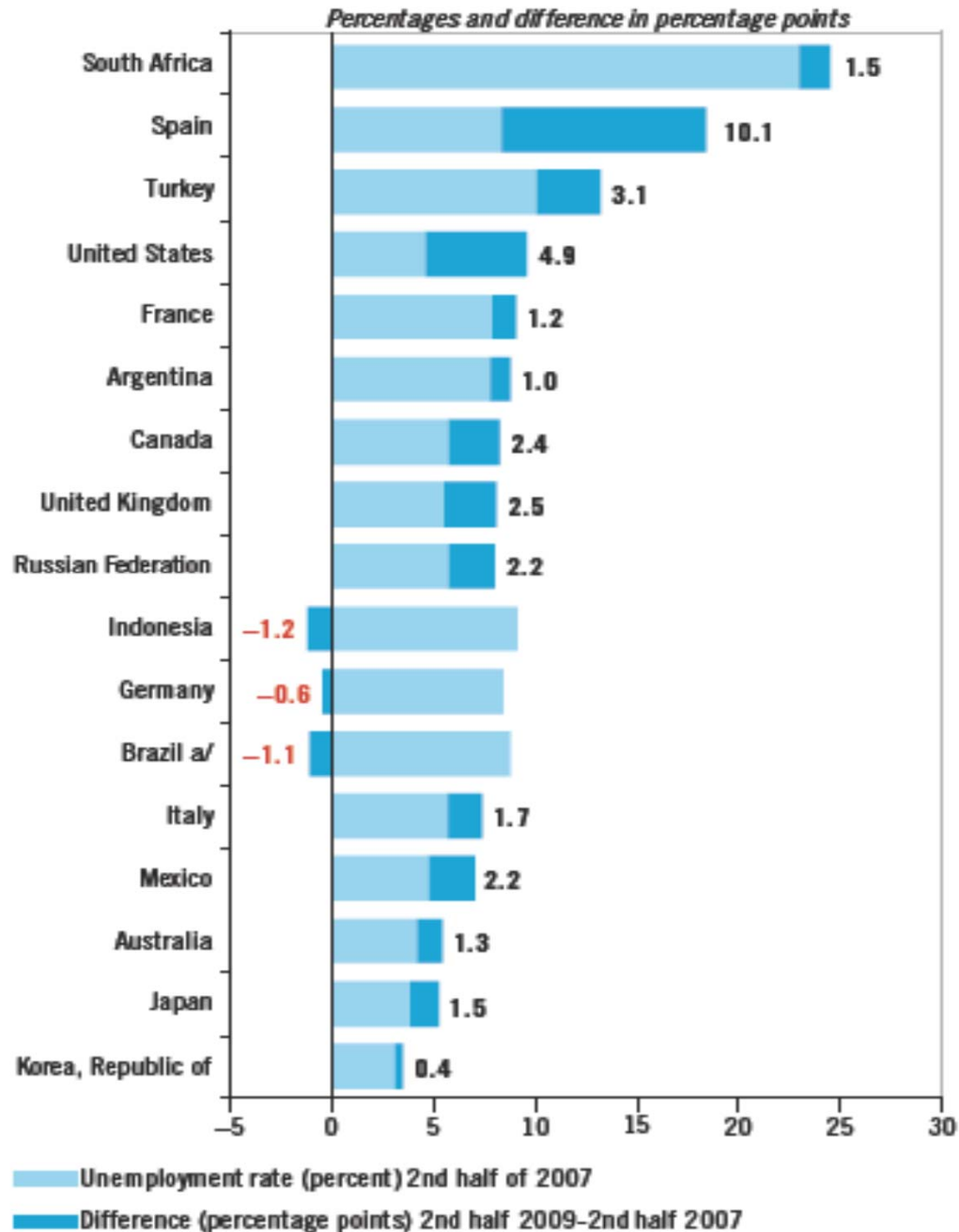
Table 1. The impact of the crisis on real GDP and unemployment: country experiences differ strikingly
Changes in GDP (in percent) vs. changes in Unemployment Rate (UR, in percentage points) in 2009

	Decrease in UR	Slight to Moderate increase in UR (from 0 to 1.5 pp.)	Strong increase in UR (from 1.51 pp. to 3.0 pp.)	Very strong increase in UR (more than 3.0 pp.)
Slower but positive GDP growth	Indonesia	Argentina Australia Brazil China Korea, Rep. Saudi Arabia		
Moderate GDP shock (from -2.5% to 0%)		South Africa	France	United States
Strong GDP shock (from -2.51% to -4.99%)			United Kingdom Canada	Spain Turkey
Very strong GDP shock (-5.0% and less)		Italy Germany Japan Mexico	Russian Federation	

Source: OECD and ILO based on official country estimates

Notes: Figures in brackets indicate real GDP change and unemployment rate change, respectively in 2009.
 pp: percentage-point change.

Figure 1. Selected G20 countries (17 countries): unemployment rate second half of 2009 compared with second half of 2007



Unemployment Rate
2007:

US: 5%;
 Japan: 3.5%
 Germany: 10%

Unemployment Rate
2009:

US 10%;
 Japan 5%
 Germany 9%

Employment Adjustment Subsidy (EAS)

- In 2009, Japanese Government spent 653 billion yen to financially support business to temporarily layoff their employees during the recession - in the sense that a portion of the layoff benefit is paid by the government.
- EAS does not force private business to maintain employment, since it is a financial support scheme for business that will expand employment once the recession is over.

Employment Adjustment Subsidy

雇用調整助成金の支給額



Myths of EPL

(employment protection legislation)

- Japan is in the group with strong employment protection
 - *False.*
- Strong employment protection leads to a high unemployment rate.
 - *False.*
- Strong employment protection leads to a higher ratio of non-regular employment to regular one.
 - *True.*

One More Myth

- Gap in EPL between regular and non-regular employment leads to a higher rate of youth unemployment.
 - *False.*
- Source: <http://www5.cao.go.jp/j-j/wp/wp-je09/pdf/09p03012.pdf>

International Comparison of Employment Protection Legislation (EPL)

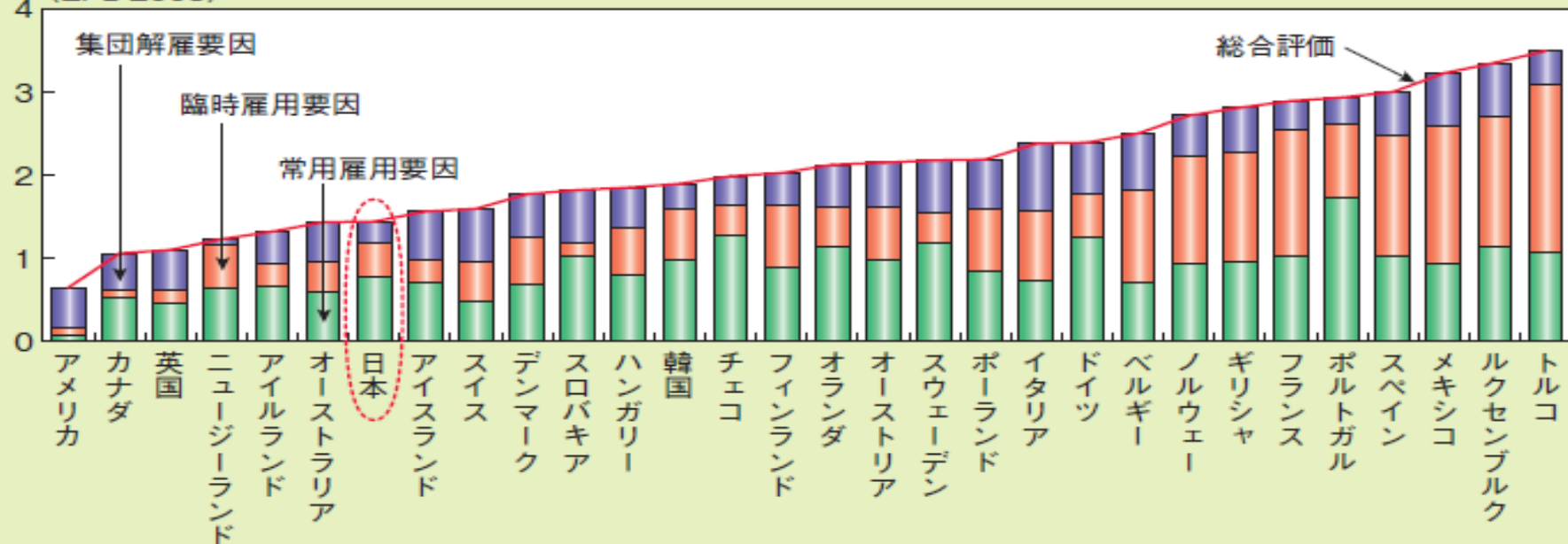
第3-1-12図 雇用保護指標の国際比較

アングロサクソン諸国は低く大陸欧州諸国は高めであるが、日本はその中間に位置

(1) OECD 諸国による雇用保護指標の比較

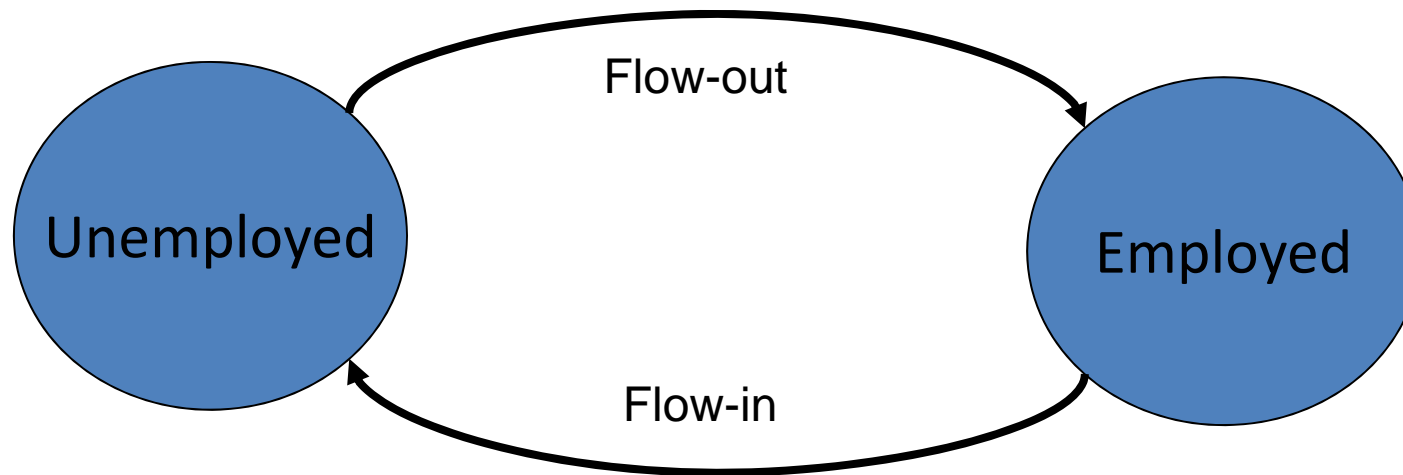
アングロサクソン系は低く欧州系は高めであるが日本は中位以下

(EPL 2008)



Japan is in the group with weak employment protection legislation.

EPL and Unemployment

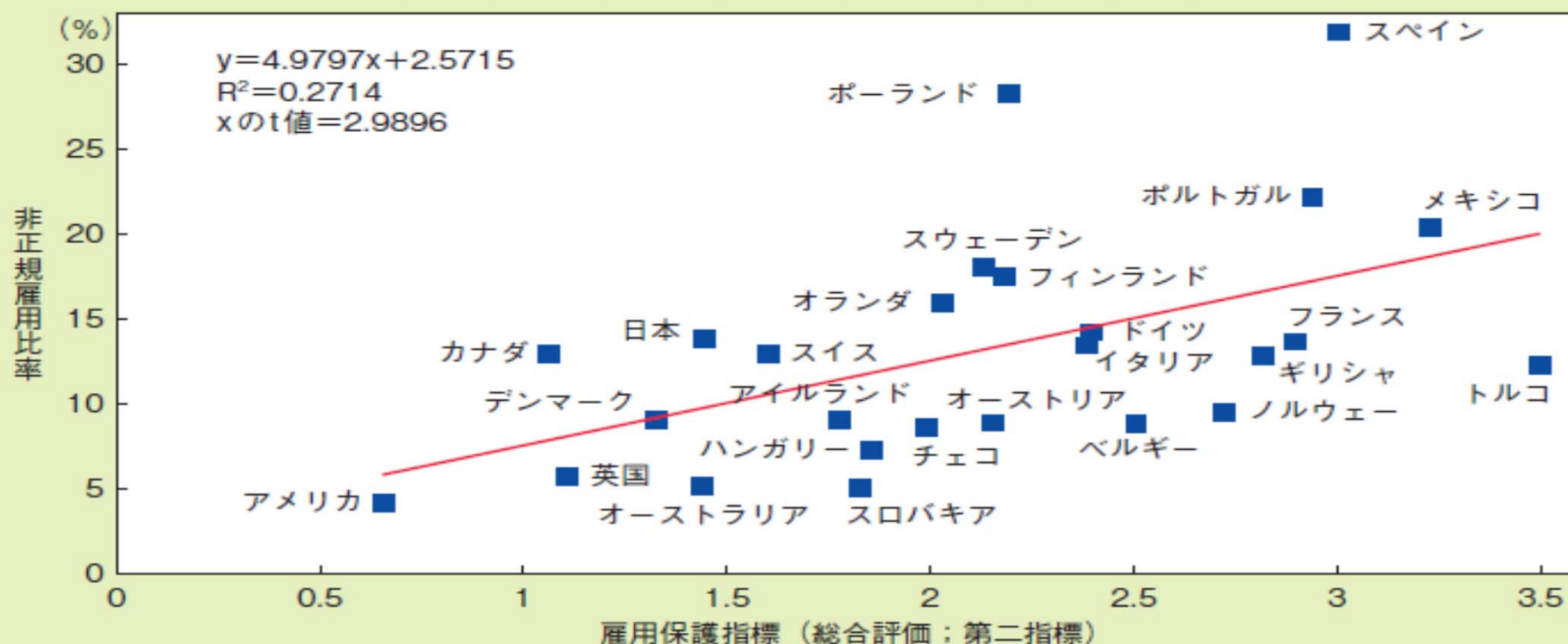


- EPL reduces the flow-in to unemployment.
- But it makes the labor market less attractive to employers, which reduces the flow-out as well.
- Therefore, the whole effect is ambiguous.

EPL and Non-regular Employment

第3-1-13図 雇用保護規制の度合いと非正規雇用比率

解雇規制の強い国では非正規雇用比率が高い傾向



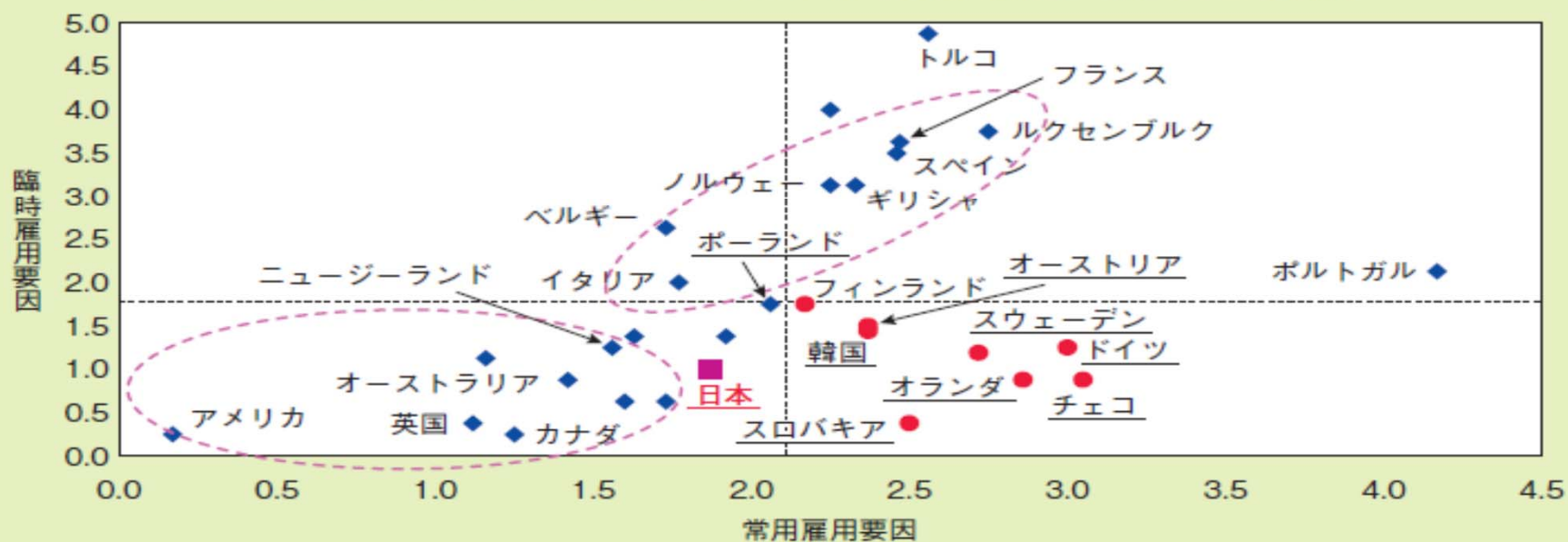
With strong EPL, the ratio of non-regular employment tends to be high.

Gap in EPL between Regular and Non-regular Employment

第3-1-15図 常用雇用と臨時雇用の保護程度の差と失業リスク

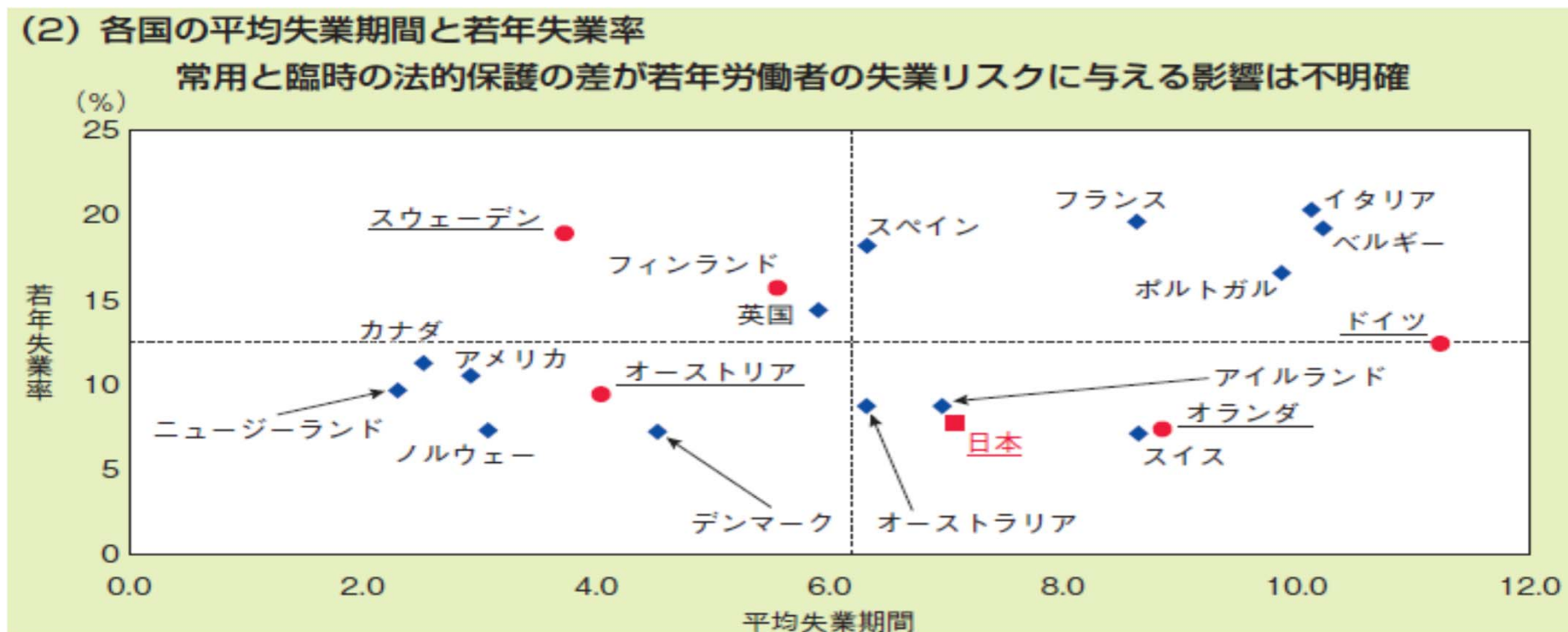
(1) 各国の雇用保護指標の常用雇用要因と臨時雇用要因

アングロサクソン諸国は両方とも低く、大陸欧州諸国は両方とも高い



Those countries with red points have strong EPL both in regular and non-regular employment. Japan is in the group with weak EPL in both the categories.

Gap in EPL does not matter



The red points of Figure (1) are scattered in Figure (2), which implies that there is no significant influence of the gap in EPL between regular and non-regular employment on youth unemployment rate and the duration of unemployment.

GDP is not a good measure of business cycle

- Narayana Kocherlakota, President of Fed Minneapolis, argues:
 - *Unemployment rate should replace GDP as an appropriate measure of business cycle.*

Aggregate risks should be shared evenly by all people

- *For example, consider the latest recession. During the four quarters from June 2008 through June 2009, per capita gross domestic product in the United States fell by roughly 4 percent.*
- *In a model with no asset market frictions, all people share this proportionate loss evenly and all lose two weeks' pay. Such a loss is certainly noticeable.*
- *However, I would argue that it is not a huge loss.*
- *Put it this way: This scale of loss means everyone in the United States ends up being paid in June 2009 the same (inflation-adjusted) amount that they made in June 2006.*

Imperfect Insurance

- *However, the models with asset market frictions (combined with the right kind of measurement from microeconomic data) make clear why the above analysis is incomplete.*
- *During downturns, the loss of income is not spread evenly across all households, because some people lose their jobs and others don't.*
- *Because of financial market frictions, the insurance against these outcomes is far from perfect (despite the presence of government-provided unemployment insurance).*

Concentration of risks is bad

- *As a result, the fall in GDP from June 2008 to June 2009 does not represent a 4 percent loss of income for everyone.*
- *Instead, the aggregate downturn confronts many people with a disturbing game of chance that offers them some probability of losing an enormous amount of income (as much as 50 percent or more).*
- *It is this extra risk that makes aggregate downturns so troubling to people, not the average loss.*

Unemployment rate is a better measure

- *This way of thinking about recessions changes one's views about the appropriate policy responses.*
- *Good social insurance (like extended unemployment benefits) becomes essential.*
- *Using GDP growth rates as a way to measure recession or recovery seems strained. Instead, unemployment rates become a useful (albeit imperfect) way to measure the concentration of aggregate shocks.*

Labor Market Debate

John Quiggin VS Brian Caplan

The Labor Market Rigidity and Unemployment

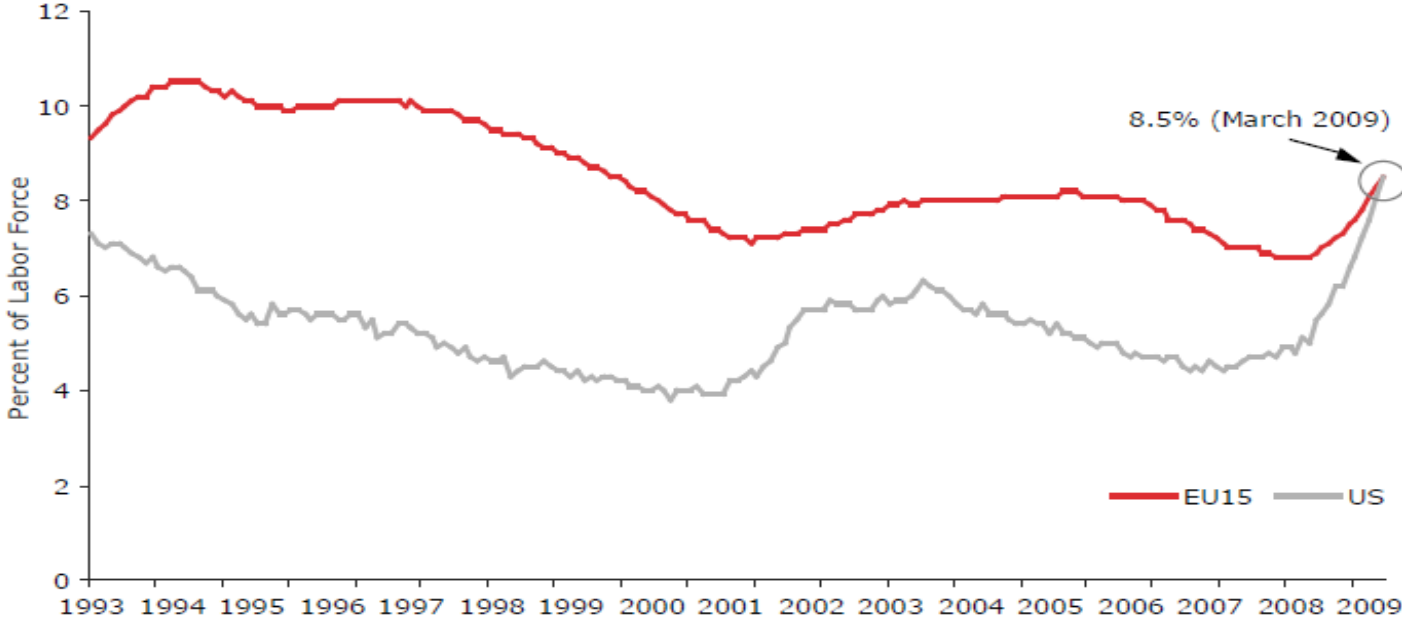
- Since Lazear (1990), the leading view says that a more flexible labor market creates more jobs than a more rigid one.
- The labor market rigidity means:
 - Higher unemployment benefits
 - Stricter employment protection
 - Less flexible wage adjustment

Europe V.S. America

- A consequence of the labor market rigidity is a higher average unemployment rate with less job loss during recessions.
- The American labor market has:
 - Advantage: a higher average unemployment rate
 - Flaw: less stable employment
- The advantage of the US labor market seems to be lost in the current crisis.

U.S. Unemployment Now As High as Europe (Schmidt, Rho, and Fremstad)

FIGURE 2
Unemployment Rate in the United States and EU-15, 1993-2009



Source: Eurostat (2009).

Bet with Bryan Caplan, Year 2 (2011 update)

- *Back in 2009, I made a [bet with Bryan Caplan](#), with the winning condition for Caplan being that “the average Eurostat harmonised unemployment rate for the EU-15 over the period 2009-18 inclusive should exceed that for the US by at least 1.5 percentage points.*
- *The EU-15 average rate was slightly below the US rate for 2009, and slightly above the US in 2010, so, for the first two years, the difference averages out to near zero.*
 - <http://crookedtimber.org/2010/12/04/bet-with-bryan-caplan-year-2/>

My bet with Bryan Caplan (2012 update)

- First the numbers. Until now, I've been consistently ahead. [EU-15](#) and [US](#) unemployment rates were very close during 2009 and 2010. A gap has opened up in the last few months and is now about 1.5 per cent. Given the dismal prospects for the EU economy in the coming year, and the likelihood of some kind of recovery in the US, I expect to be losing ground on the bet this year, and probably for a couple of years after that.
 - <http://johnquiggin.com/2012/01/17/my-bet-with-bryan-caplan-update/>