

Job Markets: Europe Doesn't Have Anything to Boast About

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Europeans have defended their highly regulated and overtaxed labor markets by claiming that they produce less inequality in wages than the more free-market practices in the U.S. and Britain. They emphasize that since the late 1970s, salary rates in America and Britain for the better-educated and more skilled have climbed sharply relative to those of other workers. By contrast, the skilled-unskilled wage disparity only increased modestly in Germany, France, and most other Western European countries.

But many European nations experienced a distressing change during the late 1980s and the 1990s on the employment front: The number of persons without jobs expanded greatly. In effect, European labor markets divide workers into "insiders" and "outsiders." The insiders have jobs and are typically members of powerful trade unions. Their employment is protected by seniority, union rules, and by government regulations that limit layoffs. Because they face little competition from new entrants into the labor force or from others looking for work, wages of both skilled and unskilled insiders have risen over time at a good pace.

SKYROCKET. Outsiders, on the other hand, cannot easily get good jobs, so their incomes come mainly from Social Security and other welfare programs that are increasingly in financial trouble. Outsiders include the unemployed and persons who exit from the labor force either because they despair of finding work or are induced to leave by enticements such as generous retirement and disability benefits.

In the late 1970s, unemployment rates in most of Western Europe were below those in the U.S. While American rates have generally remained between 5% and 7%, and British rates have come down, European unemployment increased during the 1980s and skyrocketed in the 1990s. Over 11% of the labor force in the European Union is out of work. Germany, the most powerful nation there, now has a rate in excess of 12%--the highest number of unemployed since the Hitler period. The European unemployment burden is not distributed evenly among economic and demographic groups. It bears down most heavily on the backs of the young, the less educated, and women. Hardest hit are Muslim and Catholic minorities from North Africa, Turkey, and Eastern Europe. Nor is the burden short-lived: More than 30% of the unemployed have been without jobs for over a year.

The soaring number of long-term unemployed is only one dimension of the job crisis, since many Europeans have abandoned the labor force. Yet the U.S. economy has continued to add employment opportunities at a remarkable rate since the early 1980s, with nearly two-thirds of Americans over age 15 finding work. By contrast, in France, only 55% of persons in these age groups have jobs; in Germany, less than 58%. And the employment picture is still more dismal in Italy, Spain, Sweden, and several other nations in Europe.

DETERIORATING. Even the rather meager rise in European employment during the past 20 years has been artificial because the number of jobs in the private sector has hardly increased. Employment has been added mainly in government-owned industries and other state sectors that are notoriously overmanned. In the U.S. and Britain, practically all the employment growth has been in private companies, especially startups.

The situation may continue to deteriorate as Europe struggles to reduce government budgetary deficits before 1999 to the under-3% level required by the Maastricht Treaty. This may be largely accomplished by creative accounting, but there is pressure to cut staffs in the many state-run enterprises that are losing money.

In light of these trends that differentiate the relatively good fortunes of insiders from the dismal prospects of growing numbers of outsiders, it is inappropriate to call European labor markets more fair than U.S. and British markets. Measures of equity and inequality that consider both the low earnings and harmful psychological effects from not being able to find employment would rank Europe much lower than the more open and less regulated U.S. and British markets.

German Chancellor Helmut Kohl and other leading European politicians speak frequently about the necessity of raising employment. But Europe will be unable to provide many new jobs in the private sector until it levels the playing field by reducing the heavy tax and regulatory burden that is discouraging companies from adding employees.