

Contents

Introduction by the Editors:	
A New Understanding of Labor Market Institutions –	
Layard and Nickell on Labor Economics and Policy Making	1
1 The Labor Market	8
1.1. Aggregate Unemployment	10
1.1.1. Some Basic Facts	10
1.1.2. A Labor Market Model	14
1.1.3. Unemployment and Wage Pressure	21
1.2. Influences on Wage Pressure	27
1.2.1. The Duration of Unemployment and the u/v Curve	28
1.2.2. Employment Protection	32
1.2.3. Mismatch	33
1.2.4. Benefits	36
1.2.5. Unions	38
1.2.6. Incomes Policy	42
1.2.7. Taxes and Import Prices	43
1.2.8. Conclusion	44
1.3. Relative Wage Rigidity and the Structure of Employment	44
1.3.1. Industry	44
1.3.2. Region	45
1.3.3. Skill	46
1.3.4. Age	48
1.3.5. Sex	49
1.3.6. Conclusion	51
2 Why Does Unemployment Persist?	52
2.1. Introduction and Summary	52
2.1.1. How the NAIRU is Determined	54

Contents

2.1.2.	What Stops the Wage Dropping and What Causes Persistence?	57
2.1.3.	Insider Power	57
2.1.4.	Outsider Ineffectiveness	59
2.1.5.	Some Concepts	62
2.2.	Helpful Theories of Unemployment	63
2.2.1.	Efficiency Wages	64
2.2.2.	Union Bargaining	66
3	Combatting Unemployment: Is Flexibility Enough?	71
3.1.	Country Differences	74
3.2.	Policies to the Unemployed	78
3.2.1.	Benefits	78
3.2.2.	Active Labor Market Policies (ALMP)	79
3.3.	Wage Bargaining	83
3.4.	Skills Imbalance	85
3.4.1.	Empirical Work	88
3.5.	Employment Protection	88
3.5.1.	Theoretical Background	88
3.5.2.	Evidence on Unemployment Dynamics	90
3.5.3.	Evidence on Equilibrium Unemployment	94
3.5.4.	Conclusions	95
3.6.	Taxes on Employment	96
3.7.	Work-Sharing And Early Retirement	100
3.7.1.	Theoretical Issues	100
3.7.2.	Empirical Analysis	102
3.8.	Conclusions	103
4	Labor Market Institutions and Economic Performance	104
4.1.	Introduction	105
4.2.	Economic performance	106
4.3.	Labor Market Institutions	113
4.3.1.	Taxes on Labor	113
4.3.2.	Laws and Regulations on Employee Rights	115
4.3.3.	Trade Unions, Wage Bargaining, and Minimum Wages	117
4.3.4.	Benefit Systems and Active Labor Market Policies	121
4.3.5.	Skills and Education	122
4.3.6.	Barriers to Geographical Mobility	124

4.4.	Unemployment, Growth, and Labor Market Institutions	126
4.4.1.	The Determination of Equilibrium Unemployment	126
4.4.2.	Unemployment and Growth	129
4.4.3.	Labor Market Institutions and Growth	131
4.5.	Some Summary Regressions Explaining Growth and Labor Supply	132
4.6.	Labor Taxes	136
4.6.1.	Differential Taxes	138
4.6.2.	Total Tax Rates	139
4.6.3.	Marginal Tax Rates and Progressivity	142
4.6.4.	Summary	142
4.7.	Labor Standards and Employment Protection	143
4.7.1.	Labor Standards	143
4.7.2.	Employment Protection	144
4.7.3.	Summary	147
4.8.	Unions and Wage setting	148
4.8.1.	Unemployment	149
4.8.2.	Growth	150
4.8.3.	Summary	151
4.9.	Minimum Wages	152
4.9.1.	Unemployment	152
4.9.2.	Growth	152
4.10.	Social Security Systems and Active Labor Market Policies	153
4.10.1.	Unemployment	153
4.10.2.	Summary	154
4.11.	Skills and Education	154
4.11.1.	Summary	163
4.12.	Conclusions	164
5	Unemployment: Macroeconomic Performance and the Labor Market	166
5.1.	The Determinants of Equilibrium Unemployment	166
5.2.	Evidence on the Factors Influencing Equilibrium Unemployment	169
5.3.	Our Original Policy Conclusions and How Things Have Changed	172
5.4.	Explaining Changes in Unemployment in OECD Countries: Overview	175

5.5.	Specific Changes in Labor Market Institutions and their Impact on Unemployment	183
5.5.1.	The Unemployment Benefit System	183
5.5.2.	Systems of Wage Determination	187
5.5.3.	Employment Protection	190
5.5.4.	Labor Taxes	190
5.5.5.	Labor Market institutions and the Successes and Failures of the 1990s	191
5.5.6.	Summary and Conclusions	194
5.6.	Unemployment, Inactivity, and Happiness	194
5.7.	Last Words	195
6	Policies For Full Employment	197
6.1.	The Lump-Of-Labor Fallacy	199
6.2.	Unemployment When Vacancies Abound	202
6.3.	How Unemployed People Are Treated	203
6.3.1.	Benefit Conditionality	206
6.3.2.	Active Labor Market Policy	207
6.3.3.	Additionality	208
6.4.	Older Workers	210
6.5.	Mothers	211
6.6.	Wage Flexibility And Regional Unemployment	211
6.7.	Employment Flexibility	213
6.8.	Conclusion: Flexibility Is Not Enough	214
7	A Final Note: Unemployment and the Current Recession	215
7.1.	The Job Guarantee	218
7.2.	The Psychic Cost of Unemployment	220
	Notes	221
	References	230
	Index	242
	About the Authors and the Editors	252